

Report on Corporate Governance and on degree of compliance with the Self-Governance Code for Listed Companies

Sabaf's corporate-governance system is in line with the principles indicated in the Self-Governance Code for Listed Companies (Codice di Autodisciplina delle Società Quotate), relevant recommendations made by CONSOB (the Italian listed company and stock-market surveillance commission), and with the best national and international practices. The purpose of this report, prepared as per the guidelines issued by Borsa Italiana SpA on February 12th 2003, is to provide a detailed illustration of the company's corporate-governance choices.

Composition and role of the Board of Directors

The Board is responsible for defining the strategic guidelines for operations and development of the company and group. In addition, the Board of Directors ascertains the adequacy of the company's organisational and administrative set up and watches over general business progress, paying special attention to situations featuring potential conflict of interests. To this end it specifically takes into account information received from the Chief Executive Officer and from the Internal Control Committee.

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

Giuseppe Saleri – Chairman

Gianbattista Saleri – Deputy Chairman

Angelo Bettinzoli – Chief Executive Officer

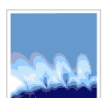
Alberto Bartoli – Executive Director

Erminio Bonatti – Non-executive and Independent Director

Leonardo Cossu – Non-executive and Independent Director

Franco Carlo Papa – Non-executive and Independent Director

During 2002 the Board held seven meetings, and a similar number meetings are foreseen in 2003. The executive directors were always present at board meetings, whilst, on average, 80% of the non-executive



directors were present. No minimum number of Board meetings is statutorily established, but the Board at least meets once a quarter to approve relevant periodical financial statements.

It is company practice that, when Board meetings have been called, members of the board and statutory auditors are provided beforehand with the documentation and information necessary to enable them to express a knowledgeable opinion on the matters that they are called upon to examine.

The Articles of Association require that directors report to the statutory auditors in a timely manner, either at board meetings or directly, verbally or in writing, and in any case at least quarterly, 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 featuring a potential conflict of interests.

Powers of the Board of Directors

The Board of Directors is vested with the widest possible powers of ordinary and extraordinary management. It thus has full faculties for accomplishment of the corporate purpose, excluding only those that, by law, are strictly the prerogative of shareholders' meetings.

Based on the decision taken by the Board of Directors on May 12th 2000, besides the matters laid down in Article 2381 of the Italian Civil Code the Board also has the exclusive power to decide on the purchase and sale of equity investments, property assets and own shares, the hiring of managers or promotion of others to that status, approval of the corporate budget, the taking out of loans and opening of lines of banking credit, giving guarantees, and on transactions with related parties, as well as on those transactions that are individually over the limits set in the mandates given to individual directors, as detailed below.

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for running the company according to the strategic guidelines defined by the Board of Directors. The CEO co-ordinates all corporate functions, assuring a swift decision-making process, together with efficient and transparent management. The CEO is vested with ample delegated powers concerning all operational areas of the company, within the limit of €1,032,914 per individual transaction.



The CEO reports to the Board at least on a quarterly basis on activities performed and provides a qualitative and quantitative description of any atypical or unusual transactions, or transactions with related parties.

The Chairman and Deputy Chairman

The Chairman calls meetings of the Board, co-ordinates Board activity and guides proceedings in its meetings. In the case of his impediment, the Deputy Chairman performs his functions.

The Chairman and Deputy Chairman are vested with ample delegated powers within the limit of € 516,457 per individual transaction. These powers have been delegated to the Chairman and Deputy Chairman to assure more streamlined management and are specifically designed that there are never any management "hiatuses" if the CEO is unable to exercise his functions.

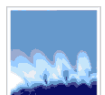
Non-Executive Independent Directors

The wide Board representation of non-executive independent directors - to whom a major role is attributed both within the Board of Directors and within the Committees set up within the Board – is designed to assure supremacy of the overall corporate interest in all decisions, aiding the match between the interests both of all shareholders and of all other stakeholders.

As regards evaluation of independence, Sabaf SpA has immediately complied with the revised version of the Self-Governance Code and with the objective criteria laid down by Borsa Italiana SpA in the Stock Market Regulation (Regolamento di Borsa) and related Instructions for companies listed in the STAR (high-quality small/medium caps) segment.

This means that directors rated as independent are those who:

- a) Do not perform – either directly, indirectly or on behalf of third parties – nor have they recently performed business transactions with the company, its subsidiaries, executive directors or with the company's controlling shareholder of an entity such as to impair their independence of judgement
- b) Are not owners – either directly, indirectly, or on behalf of third parties – of equity investments of an entity such as to enable them to exercise control or considerable influence over the company, nor are they members of shareholders' pacts for control of the company
- c) Are not immediate relatives of the company's executive directors or of subjects in the situations indicated under letters a) and b) above.



For the purposes of evaluating independence, this means that transaction taken into consideration are also those between: (a) on the one hand, the director, his immediate family, professional partnerships in which the director is a partner, companies controlled – even if indirectly – by the director or his immediate family, and companies in which such subjects are directors or managers and (b) on the other hand, Sabaf SpA, the shareholders who, even if indirectly, control it, and its executive directors or the companies controlled, even if indirectly, by such subjects.

Significant transactions, in the context concerned, do not include those settled at going market rates and that are not such as to affect directors' independence of judgement. Transactions in any case deemed to be significant are:

- a) Transactions of a commercial nature completed in the current and previous year that exceed 5% of the supplier or beneficiary company's sales
- b) Professional services rendered in the current and previous year that exceed 5% of the director's income or € 200,000
- c) Employment relationships and executive directorships occurring in the three previous financial years, regardless of the remuneration received.

"Immediate family" is considered to consist of the spouse not legally separated, blood relations and relations by marriage within the second degree.

When nominations are lodged for directorship appointments, each candidate's personal and professional resumé is accompanied by an indication of his/her eligibility to be considered independent.

Every six months, when interim and year-end financial statements are approved, each director defined as independent provides the Board of Directors with a written declaration confirming, or otherwise, continued existence of the requisites for independence.

Based on the information supplied by those concerned, the Board of Directors collectively assesses each director's independence, ascertains any changes occurring, and promptly discloses them to the market.



Other offices held by directors

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

- Giuseppe Saleri is Chairman of the Board of Directors of Giuseppe Saleri Srl, the financial company that controls Sabaf SpA
- Angelo Bettinzoli is a non-executive independent director of Gefran SpA, a company listed on the Italian stock exchange
- Leonardo Cossu is a director of the financial companies HIG SpA and Coba Srl, and a standing statutory auditor of Banca Valori SpA and of the financial companies Finber SpA, Laribell Srl, Cofin SIM SpA, and IBS Investimenti SpA.

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.

On February 14th 2003 a Nominations Committee was elected, consisting of Giuseppe Saleri, Leonardo Cossu and Franco Carlo Papa, to perform preliminary screening of possible candidacies to be submitted to the controlling shareholder. More specifically, the committee has the task of identifying potential candidates, classifiable as independent, that have distinguished themselves in the corporate world and in area concerning corporate social responsibility. Final assessment of the names to be submitted to the shareholders' meeting is the prerogative of the controlling shareholder. In February and March 2003 the committee screened a number of candidacies in view of the forthcoming renewal of the Board of Directors.

Directors' remuneration received is decided on a fixed basis and is detailed in the supplementary notes to year-end financial statements. A significant part of the remuneration received by the CEO Angelo Bettinzoli, the executive director Alberto Bartoli, and by the other members of top management is linked to the achievement of specific objectives, as detailed in the Directors' Report on Operations accompanying year-end financial statements.



A Compensation Committee exists, consisting of three directors: Gianbattista Saleri, Erminio Bonatti and Leonardo Cossu. The Compensation Committee makes proposals to the Board of Directors as regards the CEO's compensation and, based on the CEO's input, proposals regarding the criteria for the compensation of the Company's management team. At the beginning of 2003 the committee met to define guidelines for a new incentive compensation scheme for the company's directors and management team. This will be discussed at a future Board Meeting.

The internal control & audit system

The internal control & audit system of Sabaf SpA and of its subsidiaries consists of the combination of rules, procedures and organisational facilities designed to assure – with a reasonable degree of certainty – achievement of the following objectives:

- Adequate control of corporate risks
- Effective and efficiency operational business processes
- Protection of asset integrity
- Complete, reliable and timely accounting and management information
- Compliance of business conduct with laws, regulations, and corporate directives and procedures.

The internal control & audit system plays a fundamental role in Sabaf's corporate-governance system and is characterised by the strong commitment of the company's corporate bodies and by the major involvement of all staff.

Role of the Board of Directors

The Board of Directors holds ultimate responsibility for the internal control & audit system. More specifically, the Board of Directors watches over general operational progress, assesses the business risks submitted to it for examination by the CEO and by the Internal Control & Audit Committee, and checks the adequacy of the general organisation and administrative set-up of the company and group. The Board of Directors is of the opinion that the current system of internal control & audit is able to guard against the risks typical of the activities performed by the company and its subsidiaries, and to monitor the business and financial position of the company and of the group.



Role of the CEO

The CEO has the responsibility of identifying the main business risks and of submitting them to the Board of Directors. To this end, the CEO defines procedures for management of the internal control & auditing system and appoints an internal auditor.

Role of the Internal Control & Audit Committee

The Internal Control & Audit Committee:

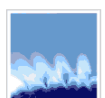
- Assists the Board of Directors in periodical evaluation of the adequacy and effective operation of the internal control & audit system
- Performs guidance functions concerning the internal control & audit activity
- Assesses the internal auditor's work plan and activities
- Evaluates, together with the Administrative Director and independent auditors, the adequacy of accounting standards and policies applied and the uniformity of accounting standards and policies applied by consolidated companies
- Assesses the proposals made by independent auditing firms for award of the independent auditing assignment, the work plan prepared for the independent audit, the results presented in the report and in any recommendation letter.

The Internal Control & Audit Committee consists of three non-executive directors: Erminio Bonatti, Leonardo Cossu and Franco Carlo Papa. During 2002 the Committee constantly monitored updating and implementation of the risk management plan and analysed the results of the internal auditor's work, reporting back on this to the Board of Directors. During 2002 the Internal Control & Audit Committee met six times.

Role of the Internal Auditor

The task of the Internal Auditor is to:

- Assist the CEO in the design and management of the internal control & audit system
- Plan internal auditing activities
- Check that procedures in place for management of major risks are applied.



For this task, the Internal Auditor does not report to any of the heads of the operating areas on a line basis, but directly to the CEO. He reports back on his work to the Internal Control & Audit Committee and the Statutory Auditors' Committee.

We are currently implementing a 3-year internal audit plan, the objective of which is monitor activities in all processes considered to be critical.

In performing his task, the Internal Auditor draws on the support of an outside auditing firm different to the one used for independent auditing of year-end financial statements. This support concerns:

- Definition of internal auditing guidelines
- Assistance in the implementation of new internal auditing methods and tools
- Analysis of critical business processes
- Performance of procedure-conformance tests.

The role of employees

All group employees, according to the tasks assigned to them in the organisation, ensure effective functioning of the internal control & audit system, as part of their accountabilities in the achievement of objectives.

Transactions with related parties

Transactions with related parties are the sole prerogative of the Board of Directors, with no limits on amount.

Related parties are defined as being:

- a) The subjects that control, are controlled by, or are subject to common control with, Sabaf SpA
- b) The members, also on an indirect basis, of accompanying pacts under Article 122, paragraph 1 of Italian Legislative Degree no. 56/98, concerning exercise of voting rights, if the total shareholdings belonging to such pacts add up to control of the company
- c) Subjects associated with Sabaf SpA and those exercising considerable influences over Sabaf SpA, as per Article 2359, paragraph 3, of the Italian Civil Code



- d) Subjects attributed with powers and responsibilities concerning exercise of the functions of administration, management and control within in the issuer, taking these to mean directors, standing statutory auditors, general managers (if appointed) and managers or function heads vested with powers conferred by the Board of Directors
- e) The immediate family of the individual persons coming under letters a), b), c) and d), i.e. those persons potentially able to influence them or be influenced by them in their dealings with Sabaf SpA, including cohabiting partners. In any case "immediate family" is taken to mean the not-legally-separated spouse, plus blood relations and relations by marriage within the second degree
- f) Subjects controlled by the individual persons coming under letters a), b), c), d), and e) or over which the individual persons coming under letters a), b), c), d), and e) exercise considerable influence
- g) The subjects the majority of whose directors are the same as those of Sabaf SpA.

An internal procedure is in place that establishes the operational methods for ongoing updating of the list of related parties and for control of transactions undertaken.

It is the Internal Auditor's responsibility to co-ordinate collection of the information needed to identify and update the list of related parties.

Based on the list of related parties, and in collaboration with the Administration function, the Internal Auditors checks that transactions undertaken with related parties by Sabaf SpA have been authorised beforehand by the Board of Directors.

In addition, the Internal Auditor, in concert with the CEO and Administrative & Financial Director of Sabaf SpA, assesses whether transactions with related parties come into the category of those governed by Article 71/2 of the CONSOB Regulation for Issuers (Regolamento Emittenti) (i.e. transactions that, by virtue of their subject matter, entity, approach and completion timing, might affect protection of corporate assets or the completeness and accuracy of information, including that of an accounting nature). If the outcome of such evaluation is affirmative, the Internal Auditor makes arrangements for public disclosure as required by current rules and regulations.

During FY2002 no transactions took place with related parties, apart from those with subsidiaries and



associated companies indicated in the directors' report accompanying year-end financial statements.

Treatment of confidential information

An internal procedure is in place for the treatment of confidential information. This procedure identifies the CEO as the person responsible for managing confidential information and for disclosure of pricesensitive news.

In brief, this procedure requires that:

- Directors and statutory auditors of Group companies maintain the confidentiality of 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", also requiring that the recipient to maintain such confidentiality
- Special attention be 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
- Transmission of documents by e-mail has to be protected by passwords communicated only to those who need to know them for work reasons.

The procedure also defines the ways in which price-sensitive news is to be divulged, i.e. via press releases in compliance with relevant legal and regulatory requirements

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

Internal Dealing code

In December 2002 the Board of Directors of Sabaf SpA approved the group's Code of Conduct for Internal Dealing. The code has been in force since January 1st 2003.

The Code of Conduct envisages that Sabaf SpA advise the market of financial transactions concerning the shares of Sabaf SpA completed by the people defined as "Important Persons" of the Sabaf Group (a) on a quarterly basis for transactions the entity of which, even if cumulative, amounts to at least € 25,000 and



(b) on an immediate basis for transactions the entity of which exceeds € 100,000. Such filings must also concern exercising of stock options or of option rights.

The Code prohibits execution of any transaction by such persons on the days between the date when meetings are convened of the Boards of Directors of Sabaf SpA and/or of its main subsidiaries to approve actual P&L and balancesheet results and/or budgets and plans and the date when such meetings are actually held. The Board of Directors has also reserved the faculty of applying further prohibitions or limitations in given periods.

For the purposes of this Code, Important Persons for the Sabaf SpA Group are taken as being:

- The directors, standing statutory auditors and general manager (if appointed) of Sabaf SpA
- The administrative & finance manager, the commercial manager, and the investor relator of Sabaf SpA
- The directors and general managers (if appointed) of the main subsidiaries of Sabaf SpA.

For the purposes of this Code the Main Subsidiaries of Sabaf SpA are those controlled companies consolidated on a line-by-line basis and that, based on the last approved year-end financial statements, meet at least two of the following criteria:

- Total assets in excess of € 7.5 million
- Net equity in excess of € 7.5 million
- Total revenues in excess of € 15 million.

The Board of Directors of Sabaf SpA can in any case decide, giving reasons for its decision, to include in and/or exclude given subsidiaries from the list of the main subsidiaries, regardless of the existence or otherwise of the requisites indicated above.

Investor relations

A special function has been set up to deal with investor relations. The function's task is to (a) actively foster dialogue with private shareholders and institutional investors and (b) encourage ample and ongoing coverage of Sabaf by financial analysts.



During 2002 the company met analysts and fund managers in Milan, London, Paris, Frankfurt, Zurich, Rotterdam, and Brussels. A total of over 100 meetings took place. The company also took part in presentation of annual and interim results by STAR (high-quality small/medium caps) companies in Milan and London. In addition, it organised a company visit on May 16th 2002 to present the company's new industrial site in Ospitaletto to the financial community.

Shareholders' meetings are also an occasion to communicate company information to shareholders. Because of this the company encourages and desires strong participation by shareholders at shareholders' meetings.

The Company has endowed itself with a Regulation for Shareholders' Meetings, which were approved at the AGM held on 4 May 2001. This is intended to assure orderly proceedings at shareholders' meetings.

Statutory Auditors

The Articles of Association envisage that the Statutory Auditors' Committee be appointed on the basis of lists presented by shareholders. Lists can be presented by shareholders who collectively hold shares representing at least 3% of share capital with voting rights at ordinary general meetings. The lists presented have to be lodged at the Company's head office at least ten days prior to the date of the meeting on first call. It is shareholders' practice to submit these lists together with each candidate's curriculum vitae.

Ospitaletto, March 18th 2003

The Board of Directors

