CORPORATE GOVERNANCE REPORT

pursuant to Article 124 *bis* Consolidated Law on Finance (TUF), Article 89 *bis* Consob Issuers Regulation and Article IA.2.6 Stock Market Regulation Instructions

Issuer: SABAF S.p.A.
Web site: www.sabaf.it

Reporting period: 2007 financial year
Report approval date: March 28th 2008

CONTENTS

GLOSSARY

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

Code: the Corporate Governance Code of listed companies approved in March 2006 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A.

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

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

Amending Decree: Legislative Decree 303 of December 29th 2006.

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

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

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

Stock Market Regulation Instructions: the Instructions of the Regulation of Markets Organised and Managed by Borsa Italiana S.p.A.

Savings Law: Law 262 of December 28th 2005.

Manual: the Corporate Governance Manual approved by the Board of Directors and adopted by Sabaf S.p.A.

Stock Market Regulation: the Regulation of Markets Organised and Managed by Borsa Italiana S.p.A.

Consob Issuers Regulation: the Issuers Regulation published by Consob pursuant to Resolution 11971 of 1999.

Consob Market Regulation: the Market Regulation published by Consob pursuant to Resolution 16191 of 2007.

Report: the corporate governance report that companies are required to prepare pursuant to Article 124 *bis* TUF, Article 89 *bis* Consob Issuers Regulation and Article IA.2.6. of the Stock Market Regulation Instructions.

Company: Sabaf S.p.A.

By-laws: the by-laws of Sabaf S.p.A.

TUF: Legislative Decree 58 of February 24th 1998 (Consolidated Law on Financial Intermediation).

1. ISSUER PROFILE

Sabaf's entrepreneurial model is rendered explicit in our 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 adopted corporate governance model is based, in the first place, on the decision to achieve strict separation of the interests and choices of the key shareholder (the Saleri family) from the interests and choices of the Company and Group, consequently entrusting corporate management to managers not forming part of the key shareholder.

Expansion of the shareholder base following 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 comply consistently with applicable corporate governance recommendations and best practices represent the subsequent steps taken by Sabaf towards compliance of its corporate governance system with a model whose benchmark is that directors act in the Company's interest and in view of creating value for all shareholders.

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect of shared values, set at the head of the creation of value, are able to orient decisions in a manner consistent with corporate culture and contribute significantly to assuring the Company's sustainable long-term growth. To this end Sabaf has created and published a Charter of Values (available in the Sustainability section of the website, www.sabaf.it) which is considered to be the governance tool via which the Board of Directors renders explicit the Company's values, standards of conduct, and commitments vis-à-vis all stakeholders – shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.

The Sabaf Management and Control Model

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

- a Board of Directors responsible for management of Company operations;
- a Board of Statutory Auditors responsible for supervising:
  - compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities;
  - the adequacy of the Company's organisational structure, internal control system, and administrative/accounting system;
  - the procedures for effective implementation of the corporate governance rules envisaged in the Code;

- the Shareholders' Meeting, which is responsible for resolving:

- on an ordinary basis, approval of the annual report and accounts, appointment and dismissal of directors and statutory auditors, their compensation and their responsibilities;
- on an extraordinary basis, amendments to the By-laws, and the appointment, substitution and powers of liquidators.

2. INFORMATION on OWNERSHIP STRUCTURE (pursuant to Article. 123 *bis* TUF) at March 28th 2008

a) Structure of share capital

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

The Extraordinary Shareholders' Meeting of August 2nd 2007 resolved to increase the share capital through a rights offering payable in cash on a severable basis, pursuant to Section 2441(4)(2) Italian Civil Code, excluding pre-emption rights, from Euro 11,533,450 to a maximum of Euro 12,133,450, through issuance of a maximum of 600,000 ordinary shares with a par value of Euro 1.00 each, with additional paid-in capital servicing a maximum of 600,000 non-transferable options, valid for subscription of ordinary shares, granted on a gratuitous basis to certain directors and employees of the Company as part of the stock option plan resolved by the Ordinary Shareholders' Meeting on August 2nd 2007. The capital increase may be subscribed in one or more tranches starting from August 3rd 2010 and ending on December 2nd 2010. Upon expiration of this deadline, the share capital will be considered increased by an amount equal to the subscriptions collected up through that date. A detailed description of the characteristics of the stock option plan is found in the disclosure prepared pursuant to Article 84 bis of the Consob Issuers Regulation and available on the Company website at
http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/stockOptions/documentoinformativo_ENG.pdf.

b) Restrictions on transfer of shares

There are no restrictions on the transfer of shares.

c) Major shareholders

On the basis of the disclosures made pursuant to Article 120 TUF, the equity interests exceeding 2% of the share capital at the reporting date are as follows:

Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SapA	55.299%	55.299%
Bestinver Gestion SGIIC SA	Bestinver Gestion SGIIC SA	5.327%	5.327%
Pendoli Anna	Pendoli Anna (usufruct)	3.902%	3.902%
National Fiduciaries SpA	Nazionale Fiduciaria SpA (fiduciary management)	3.902%	3.902%
Sycomore Asset Management SA	Sycomore Asset Management SA	3.362%	3.362%
Columbia Wanger Asset Management LP	Columbia Wanger Asset Management LP	2.367%	2.367%

d) Shares granting special rights

No shares granting special rights of control have been issued.

e) Employee shareholdings: mechanism for the voting of shares

No special mechanisms for the voting of shares by employee shareholders are envisaged.

f) Restrictions on voting shares

There are no restrictions on voting shares.

g) Shareholder agreements

A shareholders agreement is in effect at Giuseppe Saleri S.a.p.A., the controlling company of Sabaf S.p.A. This agreement was made by Cinzia Saleri, born in Brescia on December 18th1961, Gianbattista Saleri, born in Brescia on November 13th1963, Ettore Saleri, born in Brescia on April 24th 1973, Giuseppe Saleri, born in Lumezzane on August 21st 1931, Flavio Gnecchi, born in Brescia on March 15th1956 and Mario Mazzoleni, born in Milan on January 24th 1957. This agreement was notified, deposited and published pursuant to the law. It regards the entire shareholdings owned by each of these individuals in Giuseppe Saleri S.a.p.A., totalling 100% of the share capital. The main purpose of the shareholders agreement is to co-ordinate management of the equity investment in Sabaf S.p.A.

h) Appointment and substitution of directors and amendments to by-laws

On June 26th 2007, the Extraordinary Shareholders' Meeting amended the By-laws in accordance with the provisions of the TUF, as amended by the Savings Law and the subsequent Amending Decree. The rules governing the appointment and substitution of directors were amended in accordance with these statutes, as illustrated below.

The current by-laws envisage that the Board of Directors be appointed on the basis of lists submitted by shareholders who, either individually or jointly with other shareholders, own at least 2.5% of the shares that may voted on shareholders' meeting resolutions for appointment of members to the management bodies, or the other shareholding established by Consob in its own regulation, according to the capitalisation, outstanding shares and ownership structure of the Company.

In the notice of call of the Shareholders' Meeting convened to resolve on appointment of directors, shareholders are asked to deposit their candidate lists at the registered office of the Company, together with the curriculum vitae of each candidate and complete information regarding:

- the personal and professional characteristics of the candidates indicated in the submitted lists, and any certification of their being qualified as independent members pursuant to Article 147(1) TUF and Article 12 of the by-laws;
- the statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that they are not ineligible or incompatible for any reason under the law, the By-lawsor other measures applicable to their respective positions.

The shareholders' must deposit the lists at least fifteen days before the date of the Shareholders' Meeting. The lists, complete with the candidates personal information and professional qualifications, are promptly published on the Sabaf web site.

The following procedure applies to the election of directors:
- as many directors as the directors to be elected minus one are drawn from the list that received the majority of votes by shareholders;
- according to the progressive number envisaged by the list itself, the remaining director is taken from the list that received the second-highest number of votes and that is not connected in any way, directly or indirectly, with the list that received the highest number of votes.

The lists that did not receive a percentage of votes equal to at least half of what was required by the By-laws are not counted towards allocation of the directors to be elected.
At least one member of the Board of Directors, or at least two if the Board of Directors has seven seats pursuant to resolution by the Shareholders' Meeting, must satisfy the requirements of independence set out in the laws and regulations applicable to the statutory auditors of companies listed on Italian regulated markets.

If the candidates elected in accordance with the foregoing procedures do not satisfy the minimum number of independent directors in accordance with the Company By-laws, the non-independent candidate(s) that came in last place according to the progressive order of the list receiving the highest number of votes shall be replaced by the unelected independent candidate(s) included on the same list and in accordance with that list's progressive order.

If a single list is submitted, or if no list is submitted, or if the full Board of Directors is not being elected, the Shareholders' Meeting shall resolve in accordance with the legally envisaged majorities.

If one or more director seats should become vacant during the financial year, the other directors shall fill them with new members, in a resolution approved by the Board of Statutory Auditors. If the Board of Directors was elected according to voting lists, the Board of Directors shall replace it, when possible, by appointing persons according to the progressive order of the list on which the former director(s) was/were elected and that are still eligible and willing to accept the position. If an independent director should vacate his seat, he shall be replaced, if possible, by appointing the first of the independent candidates not elected with the list on which the former director was elected. If this is not possible, the Board of Directors shall co-opt him without list restrictions. The co-opted directors hold office until the next Shareholders' Meeting.

If a majority of director seats should be vacated, those remaining in office must call the Shareholders' Meeting for replacement of the former directors. The term of those directors appointed by the Shareholders' Meeting shall expire at the same time as that of those already in office when they were appointed.

If all director seats should be vacated, the Shareholders' Meeting must be urgently called by the Board of Statutory Auditors in order to appoint the entire Board of Directors. In the meantime, the Board of Statutory Auditors may perform ordinary administration.

Without prejudice to the limits imposed by law, the Board of Directors may resolve on the following matters:

- the establishment or closing of branch offices;
- transfer of the registered office within the territory of Italy;
- merger in the cases envisaged in Sections 2505 and 2505 bis Italian Civil Code, including the provisions governing demerger in Section 2506 ter Italian Civil Code;
- reduction in share capital if a shareholder withdraws;
- amendments to the by-laws in accordance with laws and regulations.

However, the Board of Directors may resolve at any time to remit the resolutions envisaged hereinabove to the purview of the Shareholders' Meeting.

The Shareholders' Meeting has the prerogative of deciding on amendments to the by-laws other than those indicated hereinabove, as envisaged by law.

i) Delegations of authority to increase share capital and authorisations for purchase of treasury stock

The Board of Directors has not been delegated to increase the share capital pursuant to Section 2443 Italian Civil Code and may not issue financial instruments representing equity in the Company.

The Shareholders' Meeting has not authorised the purchase of treasury stock pursuant to Sections 2357 et seq. Italian Civil Code.

l) Change of control clauses

Sabaf S.p.A. and its subsidiaries are not party to agreements that become enforceable, are amended or are extinguished if control of the contracting company changes.

m) Termination benefits for directors in the event of resignation, dismissal or termination of relationship following public offer to buy shares

No agreements have been made between the Company and directors that envisage termination benefits in the event of resignation or termination/dismissal without cause or if the employment relationship is terminated following a public offer to buy shares.

3. COMPLIANCE

In 2006 Sabaf S.p.A. adopted the new Corporate Governance Code and initiated the process of assessing and implementing its recommendations.
The Board of Directors of Sabaf S.p.A. confirmed the Company's adoption of the Code 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. The Corporate Governance Manual, which can be consulted in the Corporate Governance section of the Company website at www.sabaf.it, was adopted by resolution of the Board of Directors on December 19th 2006 and updated on August 2nd 2007. The Manual is complete with a number of operating guidelines designed to assist the Sabaf Board of Directors, Board of Statutory Auditors, Internal Control and Audit Committee and Supervisory Committee in properly discharging their duties.

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

4. MANAGEMENT AND CO-ORDINATION

Although Sabaf S.p.A. is controlled by the company Giuseppe Saleri S.a.p.A., the Board of Directors holds that the Company is not subject to management and co-ordination by the parent company, since the Board of Directors of Sabaf S.p.A. enjoys complete operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the statutory financial statements and, obviously, in the event of violation of the law and/or the By-laws. Furthermore, the parent company's By-laws explicitly state that it does not manage and co-ordinate the operations of Sabaf S.p.A.

5. BOARD OF DIRECTORS

5.1. MEMBERSHIP

The Shareholders' Meeting held on April 28th 2006 appointed the Board of Directors that holds office until shareholders' approval of the FY2008 annual report and accounts. The Board of Directors has 11 members, the majority of which (6) do not have executive authority.

The Chairman Giuseppe Saleri, the Vice-Chairmen Gianbattista Saleri and Ettore Saleri are members of the family that controls the Company. The Chief Executive Officer Angelo Bettinzoli has pursued his professional career at Sabaf, where he has worked for almost 40 years. After accumulating important professional experience in various sectors, the Chief Financial Officer, Alberto Bartoli, has worked for Sabaf since 1994.

The non-executive directors represent a cross-section of professional backgrounds:

- Leonardo Cossu is a professional accountant
- Franco Carlo Papa is an independent professional specialising in corporate governance, finance and business development and past president of AIAF-Associazione Italiana Analisti Finanziari (Italian Financial Analysts Association)
- Salvatore Bragantini is a former commissioner of CONSOB
- Alberto Federico Giua is professor of Product Innovation and Development at the Università Cattaneo in Castellanza
- Raffaele Ghedini is an independent professional specialising in scientific and technological research, training and consultancy
- Flavio Pasotti is a businessman and Chairman of Apindustria Brescia

Name	Position	Director since	List	Exec	Non - exec	Indep.	Indep TUF	% BoD	Other posi-tions
Saleri Giuseppe	Chairman	04/28/06	n/a	X				100%	1
Saleri Gianbattista	Vice-Chairman	04/28/06	n/a	X				100%	0
Saleri Ettore	Vice-Chairman	04/28/06	n/a	X				87.5%	0
Bettinzoli Angelo	CEO	04/28/06	n/a	X				100%	1
Bartoli Alberto	Director	04/28/06	n/a	X				100%	0
Cossu Leonardo	Director	04/28/06	n/a		X		X	100%	6
Papa Franco Carlo	Director	04/28/06	n/a		X	X	X	75%	6
Bragantini Salvatore	Director	04/28/06	n/a		X	X	X	75%	5
Giua Alberto Federico	Director	04/28/06	n/a		X	X	X	62.5%	0
Ghedini Raffaele	Director	04/28/06	n/a		X	X	X	87.5%	0
Pasotti Flavio	Director	04/28/06	n/a		X	X	X	87.5%	0

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 Giuseppe Saleri SapA, the financial company that controls Sabaf S.p.A.;

- Angelo Bettinzoli is an independent director of Gefran S.p.A.;

- Leonardo Cossu is a director of Leonessa Fiduciaria Srl, Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and statutory auditor of Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A., and Infracom Italia S.p.A.;

- Franco Carlo Papa is an independent director of DMT S.p.A., director of IGI SGR S.p.A. and Gecofin S.p.A., Chairman of the Board of Statutory Auditors of Metalwork S.p.A., and statutory auditor of Arnoldo Mondatori Editore S.p.A. and Servizio Titoli S.p.A.

- Salvatore Bragantini is Chairman of PROMAC S.p.A. and I2 Capital Partners SGR, a director of IW Bank S.p.A., Unicredit Banca Mobiliare S.p.A. and Interpump Group S.p.A.

Name	Position	EC	% EC	NC	% NC	CC	% CC	ICAC	% ICAC
Saleri Giuseppe	Chairman	n/a	n/a	n/a	n/a				
Saleri Gianbattista	Vice-Chairman	n/a	n/a	n/a	n/a				
Saleri Ettore	Vice-Chairman	n/a	n/a	n/a	n/a				
Bettinzoli Angelo	CEO	n/a	n/a	n/a	n/a				
Bartoli Alberto	Director	n/a	n/a	n/a	n/a				
Cossu Leonardo	Director	n/a	n/a	n/a	n/a	P	100%	P	100%
Papa Franco Carlo	Director	n/a	n/a	n/a	n/a			M	100%
Bragantini Salvatore	Director	n/a	n/a	n/a	n/a			M	75%
Giua Alberto Federico	Director	n/a	n/a	n/a	n/a	M	33%		
Ghedini Raffaele	Director	n/a	n/a	n/a	n/a	M	67%		
Pasotti Flavio	Director	n/a	n/a	n/a	n/a	M	100%		

EC: Executive Committee, NC: Nominations Committee, CC: Compensation Committee, ICAC: Internal Control and Audit Committee

There were no changes in the membership of the Board of Directors during 2007, after the end of the financial year or at the date of this report.

Maximum number of positions held at other companies

To ensure that directors would be able to dedicate the time necessary to perform their assigned duties diligently, the Board of Directors passed a resolution on April 28th 2006 that defines the maximum number of positions that each director may hold on the board of directors or board of statutory auditors of companies listed on regulated markets inside and outside Italy, as well as at financial, banking, insurance or other large companies, deciding as follows:

a) executive directors: a maximum of three offices, not counting the positions held within the Group;
b) non-executive directors: a maximum of seven offices, not counting the positions held in the financial companies envisaged in Article 113 of the Italian Consolidated Banking Act ("Testo Unico Bancario").

During 2007, the Board of Directors confirmed compliance with the aforementioned rules.

5.2. ROLE OF THE BOARD OF DIRECTORS

The Board of Directors met eight times during the 2007 financial year. The meetings lasted an average of about one hour twenty minutes. Six meetings are scheduled for the 2008 financial year, one of which had already been held at the date of this report.

The Board of Directors is responsible for examining and approving the Company's and Group's strategic, business, and financial plans and budgets, the Sabaf corporate governance system and the organisation of the Group headed by the Company.

The Board of Directors assessed the overall adequacy of the general organisational, administrative, and accounting structure of the Company as established by the Chief Executive Officer, with special reference to the internal control system and management of conflicts of interest.

When it appointed the Board of Directors, the Shareholders' Meeting held on April 28th 2006 defined the amount of compensation to be paid to directors during the three-year period 2006-2008. At the meeting held to delegate authority and duties, the Board of Directors then allocated the overall compensation approved by the Shareholders' Meeting to the individual directors.

The Corporate Governance Manual envisages that the compensation of executive directors be decided by the Board of Directors upon examination of proposals by the Compensation Committee (as illustrated hereunder) and consultation with the Board of Statutory Auditors. This rule came into effect on the date that the Manual was approved (December 19th 2006).

The Board of Directors assessed general operating performance, focusing in particular on the information provided by the Chief Executive Officer, and comparing actual with budgeted results on a quarterly basis.

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

Guidelines implementing the Manual define the general rules for determining what are considered material transactions, with these being construed as:

- the transactions for which the Sabaf Board of Directors is responsible pursuant to the By-laws, including:
  - the establishment or closing of branch offices;
  - transfer of the registered office within the territory of Italy;

- merger in the cases envisaged in Sections 2505 and 2505 bis Italian Civil Code, including the provisions governing demerger in Section 2506 ter Italian Civil Code;
- reduction in share capital if a shareholder withdraws;

- the purchase and sale of equity investments, real estate and treasury stock;
- issuance of financial instruments;
- the assumption of loans, requests for granting of bank credit lines and issuance of guarantees;
- the hiring and designation of third parties as executives, their dismissal and definition of economic and other relations with them;
- any other transaction that when considered alone exceeds the limits set for the managing directors of Sabaf.

The Corporate Governance Manual also envisages that the Board of Directors have the prerogative of prior approval of the ordinary and extraordinary transactions of Sabaf and its subsidiaries, where one or more directors have an actual interest on their own behalf or o behalf of someone else. Accordingly, Guidelines implementing the Manual govern the operating procedures that can facilitate identification and adequate management of these situations.

A Guideline implementing the Manual specifies that the Board of Directors examine and approve in advance all transactions with related parties, with the exception of ordinary commercial and financial transactions concluded on an arm's-length basis with subsidiaries and associates at a price of no more than Euro 1 million. The same Guideline sets out the measures designed to ensure that these transactions are executed transparently, in accordance with rules of formal and substantial fairness.

On November 13th 2007 the Board of Directors carried out its annual review of the size, membership and activities of the Board of Directors as a whole and its committees. After having considered various approaches for evaluation, the Sabaf Board of Directors decided that the individual directors would evaluate themselves, by filling out and returning specific questionnaires, and then discussing the results with the Board as a whole in order to determine any areas of improvement.
The Lead Independent Director co-ordinates the annual evaluation. He is responsible for defining the topics to be discussed during the self-evaluation. The results of the assessment were positive overall, and no significant problems were found.

The Shareholders' Meeting has not authorised general exceptions in advance to the non-competition clause envisaged in Section 2390 Italian Civil Code

5.3. DELEGATED BODIES

Chief Executive Officer

The Chief Executive Officer (CEO), Angelo Bettinzoli, 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, with separate powers of signature, within the limit of Euro 1 million per individual transaction.

Chairman

Chairman of the Board of Directors, Giuseppe Saleri, is the controlling shareholder of Sabaf S.p.A.; the Chairman's sons Gianbattista Saleri and Ettore Saleri are Vice-Chairmen.

The Chairman and Vice-Chairmen are vested with ample delegated powers within the limit of Euro 500,000 per individual transaction. These powers have been delegated to the Chairman and Vice-Chairmen to assure more streamlined management and are specifically designed to ensure that there are never any management "hiatuses" if the CEO is unable to exercise his functions.

Executive Committee

None.

Reports to the Board of Directors

Every quarter the CEO reports to the Board of Directors on the activities he performs in fulfilment of his assigned duties. These reports are governed by guidelines set out in the Manual. They envisage that the CEO prepare a written report summarising the following activities and transactions carried out by Sabaf and its subsidiaries:

- their activities during the period;
- transactions having a material impact on the business strategy, operating results, assets, liabilities and financial position of the Group;
- transactions involving a potential conflict of interest;
- transactions that were atypical, unusual or concluded at non-standard conditions;
- all other activities or transactions that are deemed worthy of reporting.

5.4. OTHER DIRECTORS WITH EXECUTIVE AUTHORITY

The Director Alberto Bartoli is Chief Financial Officer of the Company. The Board of Directors has granted him delegations of authority for the transactions germane to his position, with a limit of Euro 500,000 on each individual transaction.

5.5. INDEPENDENT DIRECTORS

With the abstention of those concerned, the Board of Directors reviews satisfaction by independent directors of the requirements for independence after they have been appointed and then twice annually thereafter, upon approval of the draft annual report and the half-year report.

Satisfaction of these requirements, as defined in the Corporate Governance Manual and in reference to all the principles set out in the Code, was reviewed for the first time on December 19th 2006, following adoption of the Manual. In accordance with the new criteria, Salvatore Bragantini, Raffaele Ghedini, Alberto Federico Giua, Franco Carlo Papa and Flavio Casotti were confirmed as independent directors. However, following the application of the new criteria, Leonardo Cossu, until then an independent director of the Company, was no longer considered as such since he had been a director of Sabaf S.p.A. for more than nine years.
Satisfaction by each of the non-executive directors of the requirements for independence as envisaged in the Code was reviewed twice in 2007, in March and September.

The Board of Statutory Auditors audited proper implementation of the principles and procedures used to determine the independence of its members, concluding with a positive finding.

The independent directors met separately from the other directors once during the financial year to assess the completeness and timeliness of the information provided to them before every meeting of the Board of Directors and to formulate any questions or requests for additional information from the Chairman of the Board of Directors.

5.6. LEAD INDEPENDENT DIRECTOR

Since the Chairman of the Board of Directors is the person in charge of Sabaf, the Board of Directors meeting held on April 28th 2006 designated Franco Carlo Papa as Lead Independent Director. The Lead Independent Director holds this office for the entire term of the Board of Directors and is the principal point of contact and co-ordination for the requests and contributions made by non-executive directors, and in particular independent directors.

The Lead Independent Director collaborated with the Chairman over the course of the year in order to ensure that the Directors receive complete and prompt information regarding adoption of resolutions by the Board of Directors and exercise of its powers of direction, co-ordination, and supervision of Company and Group activities.

The Lead Independent Director also co-ordinates the Board of Directors self-evaluation process.

6. HANDLING OF CONFIDENTIAL INFORMATION

The CEO manages the processing of confidential information in accordance with a specific procedure for internal management and external disclosure of documents and information concerning the Company. This procedure must be proposed by the CEO and approved by the Board of Directors. Special attention is devoted to the management of inside information, as defined in Article 181 of the Consolidated Law on Finance (i.e. information that has not been made public and, if it were made public, would be likely to have a significant effect on the price of relevant listed financial instruments).

This procedure pursues the aims of careful, secure and confidential management of this type of information, as well as disclosure of symmetrical, non-selective, prompt, complete and adequate inside information. Corporate officers are obliged to maintain the confidentiality of information and documents acquired in the performance of their tasks and to comply with the procedure referred to in this section.

7. BOARD OF DIRECTORS COMMITTEES

No committee has been established to perform the functions of two or more of the committees envisaged in the Code, and no committees charged to make proposals and provide advice have been set up other than the ones envisaged in the Code.

8. NOMINATIONS COMMITTEE

Since the Company is legally controlled by a single shareholder, a Nominations Committee has not been set up inside the Board of Directors.

9. COMPENSATION COMMITTEE

The Board of Directors has established a Compensation Committee with four non-executive members, a majority of whom are independent.

The Committee met formally on three occasions and informally on various other occasions in 2007.

Directors must not participate at the Committee meetings that draft proposals to the Board of Directors in regard to their own compensation.
The CEO participated at the Committee meetings on invitation by the Committee itself. During these meetings, the CEO expressed his agreement with the strategies underlying the stock option plan to be put up for vote. He also identified and reached agreement with the Committee on the individual employees who would benefit from the stock options,

according to the quotas set out in the stock option plan approved by the Shareholders' Meeting in favour of executives, managers and white-collar employees.

Functions of the Compensation Committee:

The Company Corporate Governance Manual envisages that the Compensation Committee is responsible for:

- making proposals to the Board of Directors, in the absence of the persons directly concerned, for compensation of the CEO and directors holding specific positions, monitoring application of the decisions taken by the Board. Specifically in regard to the portion of compensation tied to the Company's operating results, the relevant recommendations are accompanied by suggestions for the associated targets and evaluation criteria, in order to align the compensation of the CEO and directors holding specific positions with the shareholders' medium-long term interests and the growth targets set by the Board of Directors;
- evaluating the criteria for compensation of key managers, overseeing their proper application (on the basis of information provided by the CEO) and making general recommendations on the subject to the Board.

During the 2007 financial year, the Committee participated in the preparation of and examined and expressed its opinion to the Board of Directors on a stock option plan in favour of certain directors and employees of the Company. The Committee pointed out that this compensation tool contributes to reinforcing the fidelity of beneficiaries, while simultaneously ensuring the convergence of their interests with shareholder interests and developing a value-creation culture within the Company.

On the basis of the information received by the CEO, the Committee also approved the plan beneficiaries and the options granted to them.
In 2007 the Committee did not further examine the rules applicable to compensation of executives with strategic responsibilities, partly in consideration of the fact that the stock option plan constitutes their only form of variable compensation and that definition of the fixed component of their compensation is determined by the CEO.

Minutes were regularly kept of the Compensation Committee meetings. The Committee was able to access the information and corporate functions necessary to discharge its duties in the course of its work. It had no need to avail itself of outside consultants.
On May 15th 2007 the Board of Directors established a Euro 25,000 expense account so that the Compensation Committee could fulfil its duties. These provisions were not used in 2007.

10. DIRECTORS' COMPENSATION

A significant portion of the compensation of executive directors and executives with strategic responsibilities is tied to Group earnings through a stock option plan.

The compensation of directors without executive authority is fixed and not tied to Group earnings. Non-executive directors are not beneficiaries of stock option plans.

Compensation received by directors during the 2007 financial year, for any reason and in any form, including from subsidiaries.

(in thousands of euros)

Name	Compensation for position	Non-monetary benefits	Bonuses and other incentives	Other com-pen-sation	Total
Saleri Giuseppe	80	-	-	8	88
Saleri Gianbattista	70	-	-		70
Saleri Ettore	70	-	-	8	78
Bettinzoli Angelo	340	-	-	20	360
Bartoli Alberto	16	-	-	155	171
Cossu Leonardo	24	-	-		24
Papa Franco Carlo	24	-	-		24
Bragantini Salvatore	24	-	-		24
Giua Alberto Federico	16	-	-		16
Ghedini Raffaele	16	-	-		16
Pasotti Flavio	16	-	-		16

In addition to Director Alberto Bartoli, Chief Financial Officer, the Internal Control and Audit Committee has identified the following executives with strategic responsibilities:

- Gianluca Beschi, Chief Internal Auditor
- Francesco Consadori, Technical and Production Manager
- Massimo Dora, Research and Development Manager
- Maddalena Giacomelli, Human Resources Manager
- Luca Salvi, Sales Manager

The aggregate compensation received by the executives with strategic responsibilities (excluding the Director Alberto Bartoli), for any reason and in any form, including from subsidiaries during the 2007 financial year 2007 was Euro 545,000 (employee compensation is reported gross of social security contributions and income taxes owed by the employee).

11. INTERNAL CONTROL AND AUDIT COMMITTEE

The Board of Directors has set up its own Internal Control and Audit Committee.

The Committee held four meetings during the 2007 financial year.

The Internal Control & Audit Committee has three non-executive members, a majority of whom are independent. All members of the Committee have adequate experience in accounting and financial matters, as confirmed by the Board of Directors upon their appointment.

The Committee meetings were attended by the Chief Internal Auditor, acting as secretary, and the Chief Financial Officer, on invitation by the Committee.

Duties assigned to the Internal Control and Audit Committee

The Internal Control and Audit Committee was assigned the following duties:

a) together with the Chief Accounting Officer and the independent auditors, verify whether uniform accounting standards and policies are properly applied in preparation of the consolidated financial statements;
b) on request by the CEO, issue opinions on specific aspects concerning identification of the principal business risks as well as the design, implementation and management of the internal control system;
c) examine the work plan and periodic reports prepared by the Chief Internal Auditor;
d) assess the proposals made by accounting firms to become the Company's independent auditor, the work plan prepared for audits, and the results set forth in its report and any letter of suggestions;
e) monitor the effectiveness of the independent auditing process;
f) on request by the Board of Directors, issue opinions prior to and regarding transactions with related parties or in which a director might have an interest, either on his own account or that of others;
g) perform any other tasks that are assigned to it by the Board of Directors;
h) report on its activity and the adequacy of the internal control system to the Board of Directors at least once every six months, upon approval of the annual accounts and half-year reports.

In 2007 the Committee:

a) assessed fair application of accounting standards together with the Chief Accounting Officer and the auditors, particularly in regard to accounting of transactions involving derivative financial instruments
b) expressed its opinion on the Guidelines governing management, co-ordination and control of the subsidiaries
c) analysed the results of internal audits
d) through exchange of information with the independent auditor, monitored the effectiveness of the auditing process
e) audited compliance with the laws, regulations and internal procedures governing internal dealing and transactions with related parties

f) monitored the progress of implementation of SAP.

All Company statutory auditors participate at the Committee meetings.

Minutes were regularly kept of the Internal Control and Audit Committee meetings.

The Internal Control and Audit Committee may access corporate records and functions as necessary to discharge its duties, as well as avail itself of outside consultants in accordance with the terms and conditions established by the Board of Directors.

On May 15th 2007 the Board of Directors established a Euro 30,000 expense account so that the Internal Control and Audit Committee could fulfil its duties. These provisions were not used in 2007.

12. INTERNAL CONTROL SYSTEM

The Board of Directors has defined the guidelines for the internal control system in the Corporate Governance Manual. Their purpose is proper identification and adequate measurement, management and monitoring of the principal risks faced by the Issuer.

The internal control system of the Company and its strategic subsidiaries (with these being construed as the subsidiaries representing at least 25% of the total assets or shareholders' equity or the pre-tax profit of the Group, as well as those subsidiaries identified by the Directors, that, even if they fall below these levels, contribute to development and fulfilment of Group policies and strategic plans) is comprised by the set of rules, procedures and organisational structures designed to ensure achievement of the following objectives with reasonable certainty:

- adequate controls of business risks;
- effective and efficient company operating processes;
- protection of corporate assets;
- complete, reliable and prompt accounting and management information;
- compliance of corporate conduct with laws, regulations, directives and corporate procedures.

The fundamental components of the Sabaf internal control system are based on:

- the organisation of the internal control system, consisting in the set of participants assigned different roles and responsibilities (as specified hereunder);
- the procedures and mechanisms for materially implementing the principles of control, as reflected in the documentation that is constantly produced and updated by the Company in defining the rules of conduct and the delegation of duties and responsibilities. These include:
    - the Charter of Values;

- the measures regarding the corporate and organisational structure and associated delegations of authority;
- the mechanisms for segregation of functions in the organisation (which are also reflected in the company information systems), designed to avoid excessive concentration of decision-making/authorisation, implementation/execution, accounting and audit/control powers and functions in the organisation;
- the policies for development and professional growth of personnel;
- the systems for defining business objectives and auditing and monitoring business performance;
- the operating and financial reporting systems, as well as internal and external communication systems;
- the body of company procedures, including those envisaged in the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 and those established pursuant to Law 262/2005 in regard to the administrative and accounting procedures for preparation of financial statements;
- the processes of continuous auditing and monitoring carried out at the various levels of the organisation, both within the scope of business processes and through independent structures.

Although no subsidiary is qualified as strategic, the Board of Directors has defined guidelines addressing specific aspects of internal control that are being adopted and implemented by the subsidiaries.
In 2007 Faringosi-Hinges started a project to assess the adequacy and congruency of its current organisational and control mechanisms with the requirements of Italian Decree 231 and Law 262/2005. In February 2008, it adopted the so-called "231 Model" and appointed a Supervisory Committee.
At the beginning of 2008 Sabaf do Brasil implemented internal control & audit procedures in accordance with the guidelines established by the direct parent company.

A Guideline for implementation of the Corporate Governance Manual analytically governs the reporting and assessment processes by means of which the Sabaf Board of Directors expresses its judgment on the overall adequacy of the Group's internal control system. The process, which is co-ordinated by the Chief Internal Auditor, involves all members of the company with responsibility for designing, implementing and/or monitoring the Group's internal control system.

The internal control system was found to be adequate overall in the 2007 financial year following analysis of the following aspects:

Significant events impacting the Organisation, Operation and Control Model

- Changes in the membership of the Board of Directors and Board of Statutory Auditors and organisational structure
- Changes in delegations of authority and powers of attorney
- Compliance with Law 262/05 in regard to accounting and corporate documentation

- Implementation of the new ERP system
- Transactions in derivative financial instruments
- Transactions with related parties, intercompany transactions and transactions involving potential conflict of interest
- Monitoring of the subsidiaries' internal control systems
- Principal pending litigation

Results of audits carried out by internal and external auditors
- Information from the independent auditor
- Results of audits by the Board of Statutory Auditors
- Results of monitoring by the Supervisory Committee
- Results of monitoring by internal audit
- Results of independent audits of the quality, environment and social responsibility management systems
- Meetings between the control bodies
- Reports by the head of the prevention and protection service
- Reports by the head of information systems
- Reports by the Chief Internal Auditor

Based on the information and evidence gathered, the Board believes that the internal control & audit system in place in 2007 is substantially adequate with respect to the Group's size and characteristics. It also considers it generally able to permit achievement of corporate objectives, also considering implementation of internal control procedures initiated in subsidiaries.

12.1. DIRECTOR WITH EXECUTIVE AUTHORITY OVER INTERNAL CONTROL SYSTEM

The Board of Directors designated the CEO Angelo Bettinzoli as the director with executive responsibility for monitoring the functioning of the internal control system.

Within the scope of the responsibilities delegated to him by the Board of Directors, the **Chief Executive Officer** executed the policy and implementation guidelines of the internal control system. This involved:

a) planning, implementing and managing the system, constantly monitoring its overall adequacy, effectiveness and efficiency with the support of the Chief Internal Auditor and the Internal Audit function;

b) updating the internal control system according to changes in operating conditions and the statutory and regulatory context;

c) identifying principal business risks, which are periodically submitted for review by the Board of Directors.

The Chief Executive Officer appointed the Chief Internal Auditor on May 25th 2006 for the three-year period 2006-2008. In implementation of the Code, the Company Corporate Governance Manual currently envisages that the Chief Executive Officer propose appointment, revocation and compensation of the Chief Internal Auditor to the Board of Directors. This formal measure will be implemented starting from the next appointment.

12.2. CHIEF INTERNAL AUDITOR

The CEO Angelo Bettinzoli appointed Gianluca Beschi as Chief Internal Auditor for the three-year period 2006-2008.

Consistently with company policies, no specific compensation for the position of Chief Internal Auditor was envisaged for the 2007 financial year.

In performing his duties, the Chief Internal Auditor reports directly to the CEO and reports on his work at least every six months to the Internal Control and Audit Committee and the Board of Statutory Auditors. Mr. Beschi is also the Investor Relations Manager in the Administration and Finance Department.

The Chief Internal Auditor:

- had direct access to all information useful for performance of his assigned duties;
- reported on his activities to the Internal Control and Audit Committee and the Board of Statutory Auditors;
- also reported on his activities to the director with executive authority for monitoring the functioning of the internal control system.

On May 15th 2007 the Board of Directors established a Euro 25,000 expense account at the disposal of the Chief Internal Auditor so that he could perform his duties. These provisions were not used in 2007.

In 2007 the Chief Internal Auditor:

- assisted the CEO and department heads in planning, managing and monitoring the internal control system
- planned audits of the adequacy and functioning of the internal control system carried out by the internal auditing department during the financial year
- verified compliance with the procedures implemented for management of material risks
- co-ordinated updating of the Corporate Governance Manual and relevant Guidelines
- co-ordinated and encouraged the exchange of information between the supervisory bodies
- reported on his activities and their results to Internal Control and Audit Committee and the Board of Statutory Auditors
- co-ordinated the process of collecting and analysing information of relevance to assessment of the internal control system

The internal auditing activities were delegated to the independent auditor KPMG Audit S.p.A., since the Company lacked the internal resources and expertise necessary to carry them out itself.

12.3. ORGANISATION, OPERATION AND CONTROL MODEL pursuant to Legislative Decree 231/2001

Sabaf S.p.A. adopted the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 (also referred to hereinafter as the "Model") in 2006. The Model is designed to thwart the possibility that criminal offences falling under the scope of Legislative Decree 231/2001 be committed. This decree envisages the administrative liability of the Company in the case of certain types of criminal offences committed by employees or outside staff in the Company's interest.

By adopting the Model, Sabaf S.p.A. set itself the objective of acquiring a series of general rules of conduct and protocols that, in accordance with the system of assigning functions and delegating authority, as well as internal procedures, would address the purposes and obligations imposed by Legislative Decree 231/2001, as amended, both for preventing criminal offences and administrative infractions and for controlling implementation of the Model and the levying of any penalties.

The Model is comprised of a **General Part**, which describes the fundamental principles of the Model and the goals that Sabaf S.p.A. aims to achieve by adopting it, and **a series of Special Parts** that identify and govern the specific conduct to be adopted in the risk-prone areas identified at Sabaf S.p.A., according to the different types of administrative infractions.
In defining the Model, Sabaf S.p.A. analysed the business activities, the decision-making and implementation processes in individual business units and the internal control systems.

The following risk-prone areas were identified at the end of this analysis:

1. Relations with the Public Administrative regarding the normal performance of business activities (e.g. management of inspections by public officials) and activities instrumental to the realisation of administrative infractions (e.g. management of financial flows);
2. Preparation of financial and operating data for subsequent publication;
3. Relations with the Board of Statutory Auditors and the independent auditor;
4. Management, distribution and notification of confidential and privileged information outside the Company.

In regard to this potential risk profile, Sabaf S.p.A. decided to regulate the processes in regard to the following specific types of criminal offences and infractions envisaged in Legislative Decree 231/2001: Articles 24 and 25 thereof (criminal offences against the Public Administration), Article 25 ter (white-collar crime) and Article 26 sexies (market abuse).
The Model also envisages the mandatory creation of a Supervisory Committee (SC), which is responsible for assessing the adequacy of the Model (i.e. its real ability to prevent offences); supervising application and compliance with the Model by means of ongoing audits; auditing individual acts, compliance with adopted protocols, the level of familiarity

with the Model in the organization, and specific reports of infractions; updating the Model. The Model envisages that the SC have at least two members, with general legal and labour law, accounting, inspection and internal audit expertise. At least one of the members of the Supervisory Committee must be selected from within the Company (namely, the Chief Internal Auditor), while at least one must be independent of the Company, be particularly qualified and have experience in the sector in which Sabaf S.p.A. operates.

On August 2nd 2006 the Sabaf S.p.A. Board of Directors appointed the Supervisory Committee for the three-year period 2006 – 2008. The members of the Supervisory Committee are the Chief Internal Auditor, Gianluca Beschi, and the Company's independent legal counsel, Nicla Picchi.

On August 2nd 2007 the Board of Directors updated the Model in response to a proposal made by the Supervisory Committee. Another update is planned to be carried out in the first half of 2008, which will receive the new model fact situations of presumed offences and identification of the relevant sensitive processes, particularly the offences connected with violation of safety and accident prevention laws pursuant to Law 123 of August 3rd 2007.

The general part of the Model is available on the Company website at: http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/corporateGovernance/documentiSocietari/modcone.pdf

12.4. INDEPENDENT AUDITOR

The accounting firm retained to audit the Company's accounts is AGN SERCA s.n.c. It was retained by the Shareholders' Meeting on Apriil 28th 2006 for the three-year period 2006-2008.

12.5. CHIEF ACCOUNTING OFFICER

Sabaf S.p.A. specifically amended its By-laws by introducing the position of Chief Accounting Officer in its Corporate Governance model, pursuant to the provisions of Article 154-bis TUF, introduced in turn by Law 262/2005 (as amended). This amendment to the By-laws was made by resolution of the Extraordinary Shareholders' Meeting on August 2nd 2007. On the same day, the Board of Directors appointed Alberto Bartoli, Chief Financial Officer, as the Chief Accounting Officer.

The By-laws envisage that the Chief Accounting Officer must satisfy legal requirements and – in any event – have specific expertise in a) accounting and financial reporting and b) management and control of the associated procedures, as well as c) at least three years of qualified experience in administration and control, or carrying out executive or consulting functions at listed and/or associated groups of companies, or of companies, entities and enterprises with significant dimensions and importance, including in regard to preparation and auditing of accounts and corporate documents. The Board of Directors appoints and dismisses the Chief Accounting Officer after receiving the mandatory but non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has provided the Chief Accounting Officer with the following resources and authority:

- have direct contact with the independent auditor, the Internal Control and Audit Committee and the Board of Statutory Auditors;
- acquire, control and verify information and news at all equivalent or higher hierarchical levels, including at lower hierarchical levels that do not depend on the executive himself; the same powers may also be exercised vis-à-vis the subsidiaries and corporate hierarchies of the consolidated companies;
- use internal communication channels that ensure adequate intercompany information flows;
- have authority to propose/assess all procedures adopted inside the Company;
- set up administrative and accounting procedures;
- acquire control and management tools, including information systems (both hardware and software) within the annual spending limit of Euro 25,000;
- assign duties, responsibilities and deadlines for the collection and verification of information;
- avail himself of specialised external advisors for dealing with particular issues, by retaining professionals within the annual spending limit of Euro 50,000;
- use the Internal Audit department for the purposes of Law 262;
- participate at conferences, training courses and continuing education seminars;
- convene company personnel at his discretion for the purpose of updating, training and informing staff of their obligations.

The Company has defined the roles and responsibilities of the persons who are variously involved in the process of preparing and auditing Group financial disclosures and the characteristics and operating procedures for management of the administrative and accounting control system. In this respect, the Company has also revised and amended its principal administrative procedures. The process continued in the first two months of 2008, with formal adoption of the Account Auditing Model of the Chief Accounting Officer, and will proceed throughout 2008 to reflect any organisational and process changes, partly in view of the transition to a new information system.

13. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors approved Guidelines implementing the Corporate Governance Manual for approval and execution of transactions carried out by the Group or its subsidiaries with related parties.
With the exception of ordinary commercial and financial transactions carried out at arm's-length market conditions with subsidiaries, associated companies and the parent company for amounts not exceeding Euro 1 million, the Guidelines envisage that transactions with related parties must be approved by the Sabaf Board of Directors.

Accordingly, the Board of Directors receives from the CEO, who may be supported by the Chief Internal Auditor, adequate information on the transaction to be approved, particularly in regard to the nature of the relationship, the procedures for executing the transaction, the economic and other conditions for carrying out the transaction, the applied evaluation process, the underlying interests and justifications and any risks posed to the Group.

Even if they are concluded through subsidiaries, all transactions with related parties must comply with the rules of substantial and procedural fairness, with (i) substantial fairness being construed as the fairness of the transaction in economic terms (when, for example, the transfer price of a good is consistent with market prices), (ii) procedural fairness being construed as compliance with procedures that aim to ensure the substantial fairness of the transaction.

The Sabaf Internal Control and Audit Committee must give its opinion in advance in the following cases:

- transactions with atypical or unusual related parties, i.e. whose object, nature, characteristics or conditions are unrelated to the normal business activities of the Company or feature particular problems due to their characteristics or risks connected with the nature of the counterparty;
- transactions with related parties at non-standard conditions, i.e. conditions inconsistent with market conditions or that are different from those that would have been envisaged in relations with unrelated parties;
- transactions with related parties whose object, consideration, conditions or terms for execution might impact the integrity of Company assets or the fairness and completeness of information, including accounting information (pursuant to Article 71 bis of the Consob Issuers Regulation).

The Chief Internal Auditor audits the substantial and procedural fairness of transactions with related parties.

If the nature, value or other characteristics of the transaction so require, and in order to prevent the transaction from being concluded at conditions other than what would have been plausibly negotiated by unrelated parties, the Board of Directors or the Internal Control and Audit Committee may request that the transaction be concluded with the assistance of one or more independent experts who express an opinion on the economic conditions and/or procedures for execution and/or legitimacy thereof.

No material transactions were carried out in 2007 with related parties, except for the ordinary commercial and financial transactions with subsidiaries, which were concluded at arm's length market conditions.

The Guidelines also define appropriate operating solutions that can facilitate identification and adequate management of the situations where a director has a direct interest or an interest on behalf of third parties.

The following rules must be followed if such an interest exists:

- if the transaction is subject to approval by the Board of Directors, the director with an interest must promptly and fully inform the Board of Directors before the discussion begins at the Board of Directors meeting, specifying the nature, terms, origin and scope of the underlying interest (even if it is potential or on behalf of third parties), and he must leave the Board of Directors meeting for the duration of discussion and resolution thereon;.
- if the transaction falls within the scope of the powers of the CEO and if he has an interest therein, he must refrain from executing the transaction by submitting it for approval to the Sabaf Board of Directors.

In both of the foregoing cases, the Board of Directors resolution must contain adequate justification of the reasons why the Company should carry out the transaction and what benefits it would realise therefrom.

In 2007, this procedure was applied to resolutions regarding the adoption of a stock option plan of which certain directors are beneficiaries.

14. APPOINTMENT OF STATUTORY AUDITORS

The Shareholders' Meeting of June 26th 2007, which resolved to amend the By-laws in accordance with the new provisions of the TUF, also amended the rules governing the voting lists used to appoint the members of the Board of Statutory Auditors, in order to reflect the new provisions set out in Article 148 TUF and the Issuers Regulation.

The aforementioned statute envisages:

- the use of voting lists for the election of statutory and alternate auditors to the Board of Statutory Auditors, mandating that at least one of the statutory auditors and one of the alternate auditors must be chosen by the minority shareholders;
- a minimum shareholding for submission of candidate lists that is equal to what is envisaged for election of the members to the Board of Directors;
- the obligation to reserve the post of Chairman of the Board of Statutory Auditors to the statutory auditor elected by the minority shareholders;
- the causes for ineligibility and forfeiture of office by the statutory auditors;
- the integrity and professional pre-requisites;
- the limits on total number of management positions.

The submitted lists must be deposited at the registered office of the Company at least fifteen days before the day scheduled for the Shareholders' Meeting on the first call.
Only those shareholders who, either alone or in association with others, collectively own voting shares representing at least 2.5 per cent of the voting shares are entitled to submit lists.
The statutory auditors shall be elected as follows:

1) two statutory auditors and an alternate auditor are elected from the list that received the greatest absolute number of votes at the Shareholders' Meeting, and they are chosen according to the progressive order in which they are indicated on the relevant section of the list;
2) the remaining statutory auditor and the other alternate auditor are elected from the list that received the greatest absolute number of votes at the Shareholders' Meeting, and they are chosen according to the progressive order in which they are indicated on the relevant section of the lists submitted and voted for by shareholders unrelated to the reference shareholders pursuant to applicable laws and regulations.

15. STATUTORY AUDITORS

Name	Position	In office from / to	List	Indep. pursuant to Code	% part. at B.S.A. meetings.	Other positions[1]
Lucchini Italo	Chairman	04/28/2006	M	X	100%	18
Ballerio Eugenio	Statutory Auditor	04/28/2006	M	X	100%	30
Seccamani Mazzoli Giovannimaria	Statutory Auditor	04/28/2006	M	X	80%	21
Bellini Pierluigi	Alternate Auditor	04/28/2006	M	X	n/a	n/a
Guidetti Paolo	Alternate Auditor	04/28/2006	M	X	n/a	n/a

All statutory auditors of the Company are professional accountants ("dottore commercialista").
No changes in the Board of Statutory Auditors occurred in the 2007 financial year or up to the date of this report.

The Board of Statutory Auditors met five times in 2007.

The Board of Statutory Auditors reviewed continued satisfaction by its members of the requirement that they be independent during the 2007 financial year. When it carried out these reviews, it applied all the principles envisaged in the Code regarding the independence of directors.

The Company Corporate Governance Manual envisages that each statutory auditor undertake to disclose promptly and completely to the other statutory auditors and the Chairman of the Board of Directors if he has a direct interest or an interest on behalf of

[1] Management and supervisory positions at the companies envisaged in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code

others in a specific transaction involving Sabaf or its subsidiaries. In 2007 there were no situations where the statutory auditors had to make such disclosure.

In 2007 the Board of Statutory Auditors:

- monitored the independent auditor's independence, verifying its satisfaction both of the applicable laws and regulations and the nature and amount of the services other than audits provided to the Company and its subsidiaries by the independent auditor and the entities belong to its network;
- co-ordinated its activities with the Chief Internal Auditor, the Internal Audit department and the Internal Control and Audit Committee through:
    - weekly meetings for the exchange of information amongst the parties with supervisory and auditing functions;
    - invitations to the Chief Internal Auditor to participate at the meetings of the Board of Statutory Auditors;
    - participation of all its members at the meetings of the Internal Control and Audit Committee.

16. SHAREHOLDER RELATIONS

The Company has set up a specific section on its website that is easy to find and access. This section provides information of interest to its shareholders so that they can make informed decisions when exercising their rights.

Gianluca Beschi is Investor Relations Manager. No specific corporate office was set up given the dimensions of the Company and the fact that his functions are performed directly by the Investor Relations Manager.

17. SHAREHOLDERS' MEETINGS

Without prejudice to the statutory provisions governing the solicitation and collection of proxies, shareholders may be represented at the Shareholders' Meetings pursuant to the limits and provisions of law.
All shareholders may attend the Shareholders' Meeting if they possess the certification issued by the authorised intermediary that serves the notice envisaged in Section 2370(2) Italian Civil Code at least two days before the date scheduled for the Shareholders' Meeting. The shares and relevant certification may not be picked up before the end of the Shareholders' Meeting. In any event, the rules imposed by law apply to participation at the Shareholders' Meeting.

The Shareholders' Meeting approved a Shareholders' Meeting Regulation in order to govern the orderly proceedings of the Ordinary and Extraordinary Shareholders' Meetings, while simultaneously encouraging participation by shareholders and exercise of

their voting rights. The regulation is available on the Company website, at the following address:
http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/corporateGovernance/documentiSocietari/regas02.pdf

The Chairman of the Shareholders' Meeting moderates discussion. Voting shareholders may request to speak about the topics listed on the agenda just once, making comments and requesting information. Voting shareholders may also make motions. The request to do so may be made until the Chairman announces that discussion on the topic addressed by the request has been closed. The Chairman establishes the procedures for requests to speak and the order of persons speaking. The Chairman and, when he requests, those who assist him, answer the speakers at the end of all comments on the agenda topics, or after each person speaks. The individuals who requested to speak may give a brief reply. Considering the object and significance of the individual agenda topics, as well as the persons asking to speak, the Chairman decides in advance how long the speakers may speak and answer in order to ensure that the Shareholders' Meeting may conclude its work at just one gathering. Before the scheduled end of the comment or answer, the Chairman asks the speaker to finish. At the end of all comments, answers and any replies, the Chairman announces the closure of discussion.

The Board of Directors reported to the Shareholders' Meeting on its past and scheduled activities, and it undertook to provide shareholders with adequate information so that they could take informed decisions on the matters to be resolved by the Shareholders' Meeting.

In the 2007 financial year, no significant changes occurred in the market capitalisation or ownership structure of the Company such as would compel the Board of Directors to consider the possibility of proposing to the Shareholders' Meeting that it amend the By-laws in regard to the percentages established for taking the actions and exercising the prerogatives envisaged for protection of minority shareholders.

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the Corporate Governance structure between December 31st 2007 and the date of this report.