

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

pursuant to Article 123-*bis* Consolidated Law on Finance (TUF)

Name of issuer: SABAF S.p.A.

Website: www.sabaf.it

Reporting period: 2009 financial year

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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.

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.

Transparency Directive: European Union Directive 2004/109/EC regarding the harmonisation of certain disclosure obligations imposed on issuers whose securities are listed for trading on a regulated European market, received in the Italian legal system through Legislative Decree 195/2007.

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 Issuers Regulation: the Issuers Regulation published by Consob pursuant to Resolution 16191 of 2007 (as amended).

Report: the Report on Corporate Governance and Ownership Structure that companies must prepare pursuant to Article 123-*bis* TUF.

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

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

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

1. DESCRIPTION OF ISSUER

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 through 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 about OWNERSHIP STRUCTURE (pursuant to Art. 123-*bis* (1)/TUF) at March 23rd 2010

a) Structure of share capital (*ex art. 123-bis* (1)(a) TUF)

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. They are traded on the STAR segment operated by Borsa Italiana.

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-emptive 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 resolution stipulated that the capital increase may be subscribed in one or more tranches, beginning 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.

The stock option plan, a detailed description of which 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>, envisaged satisfaction of certain parameters, such as: consolidated EBITDA and EBIT at December 31st 2009; the price of the shares at that date, and specific environmental and employment targets.

The targets for consolidated EBITDA and EBIT and share price at December 31st 2009 were not met; therefore, the options were not exercisable and expired on that date.

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

There are no restrictions on the transfer of shares.

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

On the basis of the disclosures made pursuant to Article 120 TUF and the other information available to the Company, the owners of more than 2% of the share capital are listed as follows:

<i>SIGNIFICANT SHAREHOLDINGS</i>			
Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA	55.299%	55.299%
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV	10.564%	10.564%
Pendoli Anna	Pendoli Anna (USUFRUCT)	3.902%	3.902%
Nazionale Fiduciaria SpA	Nazionale Fiduciaria SpA (ON BEHALF OF THIRD PARTIES)	3.902%	3.902%
Baillie Gifford & CO	Baillie Gifford Overseas Limited	2.501%	2.501%

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

No shares granting special rights of control have been issued.

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

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

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

There are no restrictions on voting shares.

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

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 18th 1961, Gianbattista Saleri, born in Brescia on November 13th 1963, Ettore Saleri, born in Brescia on April 24th 1973, Giuseppe Saleri, born in Lumezzane on August 21st 1931, Flavio Gnechi, born in Brescia on March 15th and Mario Mazzoleni, born in Milan on January 24th 1957. It was notified, filed and published in accordance with the law and governs the entire shareholdings held by each one in Giuseppe Saleri S.a.p.A., representing 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) Change of control clauses (pursuant to Art. 123-bis (1)(h) TUF)

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.

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

On April 29th 2008, the Sabaf Shareholders' Meeting authorized the Board of Directors to buy back its own shares pursuant to Sections 2357 et seq. Italian Civil Code, up to a limit of 10% of the share capital. Authorization to purchase own shares aims to allow the Board of Directors to seize the opportunities offered by the market to invest in company shares, if the performance of the financial instruments or the amount of available liquidity makes this transaction attractive. Furthermore, shares acquired in accordance with the mandate can be used for implementing possible future stock-option plans allocated to employees and directors of the Company and/or subsidiaries, or can be used for transactions related to business projects and agreements with strategic partners or as part of investment operations.

At December 31st 2009 Sabaf S.p.A. had 32,503 own shares, equal to 0.282% of the share capital.

The buyback program will end within 18 months after the date of the aforementioned resolution.

l) Management and co-ordination (pursuant to Sections 2497 et seq. Italian Civil Code)

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.

Note that:

- the information required pursuant to Article 123-bis (1)(i) ("*agreements between companies and directors, members of the control body or supervisory council which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract should terminate as the result of a takeover bid*") are illustrated in the section of the Report dedicated to directors' compensation (Section 9 Directors' Compensation);
- the information required pursuant to Article 123-bis (1)(l) ("*rules applying to the appointment and replacement of directors...and to amendments to the articles of association if different from those applied as a supplementary measure*") are illustrated in the section of the Report dedicated to the board of directors (Section 4.1 Appointment and substitution).

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

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 Manual, which is updated to reflect legislative and regulatory changes, is available in the Corporate Governance section of the website www.sabaf.it. It was adopted pursuant to the Board of Directors resolution of December 19th 2006 and subsequently, in its updated version, during the meeting held on September 22nd 2009. The Sabaf S.p.A. Corporate Governance Manual contains certain operating Guidelines, which were updated in 2009 and then submitted for approval by the Board of Directors. These guidelines were issued to ensure that the administrative and control bodies of Sabaf properly carried out 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. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (Art. 123-bis (1)(l) TUF)

The Extraordinary Shareholders' Meeting mentioned hereinabove 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 vote 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 details and professional qualifications of the candidates indicated in the submitted lists, and any certification of their being qualified as independent members pursuant to Article 147-ter (4) 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-laws or other measures applicable to their respective positions.

The shareholders must file 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.

4.2. COMPOSITION (pursuant to Art. 123-bis (2)(d) TUF)

Upon expiration of the previous Board of Directors, the Shareholders' Meeting held on 28 April 2009 elected the new Board in compliance with the By-laws (Article 12).

On the basis of the only list that was filed (by the shareholder Giuseppe Saleri S.a.p.A.), that Shareholders' Meeting confirmed that the Board of Directors had eleven seats, the majority of which (six) reserved to directors without executive authority, appointed to serve until approval of the 2011 annual report.

The Board of Directors serving for the period 2009 - 2011 is chaired by Giuseppe Saleri, and its Deputy Chairmen Gianbattista Saleri and Ettore Saleri, who are members of the family that owns the controlling interest in the Company.

No changes were made for the position of Chief Executive Officer, Angelo Bettinzoli, who has passed his professional career at Sabaf, where he has worked for more than 40 years, and Director Alberto Bartoli, who is also Chief Financial Officer and has been employed by Sabaf since 1994, after acquiring major professional experience in various sectors.

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

- Leonardo Cossu is a professional accountant
- Salvatore Bragantini is a former commissioner of CONSOB
- Giuseppe Cavalli has held important positions at such entities as Merloni Elettrodomestici/Indesit Company and Merloni Termosanitari
- Fausto Gardoni, former Chairman, Chief Executive Officer and General Manager at other industrial companies
- Gregorio Gitti, founding partner of the Studio Legale Gitti - Pavesi law firm in Milan, a university professor and author of numerous publications, has served on the Boards of Directors of numerous medium and large industrial companies
- Flavio Pasotti is a businessman and former Chairman of Apindustria Brescia

The complete curricula vitae of all the Directors are available for consultation on the Company website.

<i>BOARD OF DIRECTORS</i>										
Position	Members	From	To	List	Exec	Non Exec	Indep. Code	Indep. TUF	% BoD	Other positions
Chairman	Saleri Giuseppe	28/04/09	2011	N/A	X				100%	1
Deputy Chairman	Gianbattista Saleri	28/04/09	2011	N/A	X				100%	0
Deputy Chairman	Ettore Saleri	28/04/09	2011	N/A	X				100%	0
Chief Executive Officer	Angelo Bettinzoli	28/04/09	2011	N/A	X				100%	1
Director	Alberto Bartoli	28/04/09	2011	N/A	X				100%	0
Director	Leonardo Cossu	28/04/09	2011	N/A		X		X	100%	7
Director	Salvatore Bragantini	28/04/09	2011	N/A		X	X	X	88%	4
Director	Giuseppe Cavalli	28/04/09	2011	N/A		X	X	X	100%	2
Director	Fausto Gardoni	28/04/09	2011	N/A		X	X	X	100%	0
Director	Gregorio Gitti	28/04/09	2011	N/A		X	X	X	50%	7
Director	Flavio Pasotti	28/04/09	2011	N/A		X	X	X	100%	0
<i>— DIRECTORS WHO VACATED THEIR SEAT DURING THE FINANCIAL YEAR —</i>										

BOARD OF DIRECTORS										
Position	Members	From	To	List	Exec	Non Exec	Indep. Code	Indep. TUF	% BoD	Other positions
Director	Papa Franco Carlo	28/04/06	28/04/09	N/A		X	X	X	100%	N/A
Director	Giua Alberto Federico	28/04/06	28/04/09	N/A		X	X	X	100%	N/A
Director	Ghedini Raffaele	28/04/06	28/04/09	N/A		X	X	X	100%	N/A

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 Chairman of the Board of Statutory Auditors of Guido Berlucci & C. S.p.A. and Quifin S.p.A. and statutory auditor of Ambrosi S.p.A., Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A. and Futurimpresa S.G.R. S.p.A.;
- Gregorio Gitti is Chairman of Metalcam S.p.A., Independent Director of Edison S.p.A., Director of Ansaldo STS S.p.A., Director of Flos S.p.A., Director of Librerie Feltrinelli s.r.l., Director of Hopa S.p.A. and Deputy Vice Chairman of the Board of Directors of Tethys S.r.l.;
- Giuseppe Cavalli is Chief Executive Officer of Acciaierie di Sicilia (Alfa Acciai Group);
- Salvatore Bragantini is Chairman of Pro Mac S.p.A. and Apei SGR and Director of Interpump Group S.p.A.

Position	Members	EC	% EC	NC	% NC	CC	% CC	ICAC	% ICAC
Chairman	Saleri Giuseppe	N/A	N/A	N/A	N/A		N/A		
Deputy Chairman	Gianbattista Saleri	N/A	N/A	N/A	N/A		N/A		
Deputy Chairman	Ettore Saleri	N/A	N/A	N/A	N/A		N/A		
Chief Executive Officer	Angelo Bettinzoli	N/A	N/A	N/A	N/A		N/A		
Director	Alberto Bartoli	N/A	N/A	N/A	N/A		N/A		
Director	Leonardo Cossu	N/A	N/A	N/A	N/A	M	N/A	P	100%
Director	Salvatore Bragantini	N/A	N/A	N/A	N/A		N/A	M	50%
Director	Giuseppe Cavalli	N/A	N/A	N/A	N/A	M	N/A		
Director	Fausto Gardoni	N/A	N/A	N/A	N/A	P	N/A		
Director	Gregorio Gitti	N/A	N/A	N/A	N/A		N/A	M	0%
Director	Flavio Pasotti	N/A	N/A	N/A	N/A	M	N/A		

EC EXECUTIVE COMMITTEE, NC: NOMINATIONS COMMITTEE, CC: COMPENSATION COMMITTEE, ICAC: INTERNAL CONTROL AND AUDIT COMMITTEE
P: CHAIRMAN, M: MEMBER

The composition of the Internal Control and Audit Committee and the Compensation Committee was changed in April 2009 upon appointment of the new Board of Directors.

No further changes were made to the composition of the Board of Directors or the composition of the Committees during the year or up to 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, and renewed it at its meeting on April 28th 2009, 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:

- executive directors: a maximum of three offices, not counting the positions held within the Group;

- 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").

At its meeting on April 28th 2009, the Board of Directors confirmed compliance with the aforementioned criteria for 2009.

4.3. DUTIES OF THE BOARD OF DIRECTORS (pursuant to Art. 123-bis (2)(d) TUF)

The Board of Directors met eight times during the 2009 financial year. The meetings lasted an average of about one hour and forty minutes. Five meetings have been planned for FY 2010, of which one was held on February 9th.

So that the Board of Directors may discharge its duties with an adequate level of organisation and examine in advance the issues on which it must resolve, the Company provided the members with all reference documents or information before the scheduled meetings. This information was sent via e-mail and was password protected.

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.

In FY 2009, the Board of Directors assessed the overall adequacy of the general organisational, administrative, and accounting structure of the Company and its key subsidiaries, as established by the Chief Executive Officer, with special reference to the internal control system and management of conflicts of interest.

When it elected the Board of Directors, the Shareholders' Meeting held on April 28th 2009 determined the amount of owed to the members of the Board of Directors for the three-year period 2009 - 2011. Then, at its first meeting (April 28th 2009), the Board assigned the powers and delegations of authority, and allocated the compensation decided by the Shareholders' Meeting amongst its members.

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 first 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 reserved to the purview of the Sabaf Board of Directors pursuant to the By-laws, such as:
 - 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 on 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.

During the year, 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 distributed at the September 22nd 2009 Board meeting. It then discussed the results at the November 10th 2009 Board meeting.

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 not-to-compete clause envisaged in Section 2390 Italian Civil Code.

The Chief Internal Auditor and the Company tax advisor always attend the Board of Directors meetings, together with any members of Company management who are invited to discuss the topics on the agenda.

4.4. OFFICERS WITH DELEGATIONS OF EXECUTIVE AUTHORITY

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 and Deputy Chairmen of the Board of Directors

The 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 Deputy Chairmen.

The Chairman and Deputy Chairmen are vested with broad delegated authority within the limit of Euro 500,000 per individual transaction. This authority has been delegated to the Chairman and Deputy Chairmen to assure more streamlined management and is specifically designed to ensure that there are never any management "hiatuses" if the CEO is unable to exercise his functions.

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

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.

4.5. 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.

4.6. 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 once annually thereafter, upon approval of the draft annual report.

Satisfaction of these requirements by the members of the current Board of Directors, as defined in the Corporate Governance Manual and in reference to all the principles set out in the Code, was reviewed at its first meeting, on April 28th 2009. The following members qualified as independent directors: Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Gregorio Gitti and Flavio Pasotti.

On the contrary, Leonardo Cossu, although he is independent pursuant to TUF, is not pursuant to the Corporate Governance Code, insofar as he has been a director of Sabaf S.p.A. for over nine years.

Satisfaction of the prerequisites for independence of the individual, non-executive members was reviewed by the Board of Directors at its meeting on February 10th 2009 (for the Board of Directors in office until April 2009), and then again after appointment of the new Board of Directors in April 2009. On those occasions, the Company applied criteria consistent with what is set out in the aforementioned Corporate Governance Manual for assessing the independence of Directors.

At its meeting on March 3rd 2009, the Board of Statutory Auditors audited proper implementation of the principles and procedures used to determine the independence of its members, including examination of their statements, and concluded that they were indeed

independent. This audit was repeated at its June 10th 2009 meeting for the independent directors elected by the Shareholders' Meeting on April 28th.

Because the independent auditors were elected in April 2009, they were unable to meet without the other directors.

The thoroughness and timeliness of the information provided to them before every Board of Directors meeting and the definition of any questions or details to be requested from the Chairman of the Board of Directors were assessed during the many other meetings at which they participated in the absence of the other directors: meetings by the Internal Control Committee and meetings with the Control Bodies.

4.7. 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 2009 designated Flavio Pasotti 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.

5. 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.

6. INTERNAL BOARD COMMITTEES (pursuant to Art. 123-bis (2)(d) TUF)

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.

7. 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.

8. COMPENSATION COMMITTEE

Composition and duties of the Compensation Committee (pursuant Art. 123-bis, (2)(d) TUF)

The Board of Directors has established a Compensation Committee with four non-executive members, a majority of whom are independent. The Committee members are identified in the table found in section 4.2. hereinabove.

The Committee did not need to meet during 2009: the variable compensation of executive directors and top management were defined during the previous years.

However, the Committee met on four occasions during 2010, in order to prepare a new managerial incentive plan, replacing the previous one that expired on December 31st 2009, as mentioned above.

Directors must not participate at the Committee meetings that draft proposals to the Board of Directors in regard to their own compensation.

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 executives with strategic responsibilities, overseeing their proper application (on the basis of information provided by the CEO) and making general recommendations on the subject to the Board.

The Board of Directors has established a Euro 25,000 expense account so that the Compensation Committee could fulfil its duties. These provisions were not used in 2009.

9. DIRECTORS' COMPENSATION

A major portion of the compensation of executive directors and key managers is tied to the economic results achieved by the Group. As previously illustrated in this document, the pre-existing stock-options plan expired on December 31st 2009. The Compensation Committee has already initiated preparatory measures for development of a new incentive plan to be finalised and approved in 2010.

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 2009 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 compensation	Total
Saleri Giuseppe	120	-	-	8	128
Saleri Gianbattista	100	-	-	-	100
Saleri Ettore	100	-	-	8	108
Bettinzoli Angelo	340	-	-	10	350
Bartoli Alberto	18	-	-	156	174
Cossu Leonardo	27	-	-	-	27
Bragantini Salvatore	25	-	-	-	25
Giuseppe Cavalli	18	-	-	-	18
Fausto Gardoni	18	-	-	-	18
Gregorio Gitti	21	-	-	-	21
Pasotti Flavio	18	-	-	-	18

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
- Massimo Dora, Research and Development 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 2009 financial year was Euro 214,000 (employee compensation is reported gross of social security contributions and income taxes owed by the employee).

Termination benefits for directors in the event of resignation, dismissal or termination of relationship following public offer to buy shares (pursuant to Art. 123-*bis* (1)(i) TUF)

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.

10. INTERNAL CONTROL AND AUDIT COMMITTEE

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

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

The Committee held five meetings, lasting an average of about one hour and thirty minutes during FY 2009. Four meetings are scheduled to be held in 2010, including one already held on February 9th.

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, financial and legal matters, as confirmed by the Board of Directors upon their appointment.

The Internal Control and Audit Committee meetings were attended by the Chief Internal Auditor, who acted as secretary, the consulting firm Protiviti, as provider of Internal Control services and, on invitation by the Committee, the Chief Financial Officer.

For more information about the composition and operations of the committee during FY 2009, reference is made to section 4.2. hereinabove.

Duties assigned to the Internal Control and Audit Committee

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

- assist the Board of Directors in carrying out the duties delegated to it by the Code in regard to internal control;
- 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;
- 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;
- examine the work plan and periodic reports prepared by the Chief Internal Auditor;

- assess the work plan prepared by external auditor, and the results illustrated in the report and any letter of suggestions;
- monitor the effectiveness of the independent auditing process;
- 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;
- perform any other tasks that are assigned to it by the Board of Directors;
- 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 2009 the Committee:

- 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 and measurement of receivables
- expressed its opinion on the Guidelines governing management, co-ordination and control of the subsidiaries
- reviewed the results of risk assessments carried out at Sabaf do Brasil e Sabaf S.p.A. and validated the consequent Audit Plan for FY 2010;
- within the scope of the Company and Group organisational structure, it assessed the need to identify key managers and formally identify certain key subsidiaries;
- analysed the results of internal audits
- requested action in addition to what was envisaged in the pre-existing Audit Plan;
- through exchange of information with the independent auditor, monitored the effectiveness of the auditing process
- audited compliance with the laws, regulations and internal procedures governing internal dealing and transactions with related parties;
- monitored conclusion of the SAP implementation project at Sabaf S.p.A. and its operational launch at the subsidiary Sabaf do Brasil.

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.

The Internal Control and Audit Committee has an expense account of Euro 30,000 allocated by the Board of Directors to cover the costs of fulfilling its duties. During FY 2009 this expense account was partially used to perform specific measures (not envisaged in the

Audit Plan) for analysing the configuration of the principal information system perimeter security devices and identify any existing vulnerabilities ("Vulnerability Assessment").

11. 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 human resources;
 - 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.

* * * * *

At the meeting held on September 22nd 2009, the Board of Directors identified Faringosi Hinges S.r.l. and Sabaf do Brasil Ltda as strategic subsidiaries for the Group. This decision was based on the actual strategic importance of these subsidiaries in the Group, even if they do not reach the quantitative limits defined in the Corporate Governance Manual.

In 2008 Sabaf do Brasil began the process of bringing its own internal control system into line with the guidelines defined by the 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.

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During FY 2009, Sabaf identified and measured its principal corporate risks, in order to (i) update the previous risk assessment carried out in 2007; (ii) acquire more information about the Group's principal risks, whether they be business risks, context risks, process risks or legal/compliance risks and, finally (iii) elaborate an audit plan to address the findings and risks uncovered.

This process engaged the heads of all Company offices and departments, including the Chief Executive Officer, and the Supervisory Committee appointed pursuant to Legislative Decree 231/2001. The possible causes and likely effects of every risk were identified. The internal control system and the strategies for mitigation of existing risks were described and assessed.

This assessment was carried out in terms of its impact and probability, on the basis of internally prepared qualitative and quantitative scales.

Three different guidelines have been elaborated specifically in regard to the scale of "impact," that are to be used in connection with the assessed event: (i) financial losses; (ii)

harm to persons; (iii) harm to reputation, with the greatest of the three being measured for the purpose of the analysis.

For more details on the principal risks revealed by the analysis, reference is made to the section of the Report on Operations dedicated to description of the “principal risks and uncertainties” pursuant to Article 154-bis (5)(e) of the Consolidated Law on Finance and Section 2428 of the Italian Civil Code.

*** **

The internal control system was found to be adequate overall in the 2009 financial year following analysis of the following aspects:

Significant events impacting the Organisation, Operation and Control Model

- statutory and regulatory changes;
- 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;
- vulnerability of systems;
- transactions in derivative financial instruments;
- transactions on own shares;
- transactions with related parties, intercompany transactions and transactions involving potential conflict of interest;
- monitoring of the subsidiaries’ internal control systems;
- principal pending litigation;
- situation of delinquent accounts.

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 Financial Reporting Officer;

On the basis of the information and evidence that it has collected, the Board of Directors believes that the internal control system implemented in 2009 was substantially adequate in terms of the size and characteristics of the Group and fit overall for it to realize its business objectives.

This conclusion, which refers to the entire Internal Control System, reflects the limits inherent in all Internal Control Systems. Although it is well-conceived and functions efficiently, the Internal Control System can guarantee the realisation of corporate objectives only with "reasonable certainty."

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

Sabaf considers the internal control system on financial reporting to be an integral part of its own risk management system.

Consequently, since 2008 Sabaf has integrated the activities connected with management of its internal control system on financial reporting with its Internal Audit and Compliance process by (i) preparing an individual Audit Plan, whose test plan is shared and broken down according to specific control objectives (e.g. operating control, compliance with Law 262/2005 and Legislative Decree 231/2001, and the security and profiling of corporate information systems) and (ii) assigning execution of measures to a single structure responsible for reporting on results to the delegated supervisory bodies.

Furthermore, in 2009 the Company carried out the risk assessment, the only one at the Group level, by integrating it for the specific aspects connected with individual compliance measures, including those connected with Law 262.

Specifically in regard to the internal control system on financial reporting, the Group has defined its own Audit Control Model, approved by the Board of Directors on February 12th 2008, which defines the rules followed by the Group in order to:

- align itself with applicable provisions governing the preparation of corporate accounting documents and all documents and reports connected with the Company's operating, asset, liability and financial disclosures to the market;
- describe the components of the Control Model adopted by the Company;
- define the responsibilities of the Financial Reporting Officer and the other parties involved in the process;
- establish a certification process (both in the ambit of Sabaf and the subsidiaries).

The Model is complemented by instruments and internal rules (including, for example, the system of delegations of authority and powers of attorney, reporting instructions, supporting

information systems, visits to the facilities of Group companies), whereby the parent company guarantees the efficient exchange of data with the subsidiaries.

The Accounting Control Model is based on the following key elements:

- general environmental controls;
- process of identifying the principal risks associated with operating, asset, liability and financial disclosures and the associated controls, according to a top-down approach, focused on the principal areas of risk;
- the system of corporate procedures of relevance to preparation and disclosure of operating, asset, liability and financial disclosures (administrative and accounting procedures);
- periodic assessments of the adequacy and actual application of the controls made;
- internal certifications (at the Group) that are periodically focused on guaranteeing the completeness and fairness of the information generated by the processes that it governs and/or under its responsibility and disclosing the changes made to the managed processes,

and envisages the involvement of a large number of participants, including the following principal ones:

- *Board of Directors;*
- *Chief Executive Officer;*
- *the Financial Reporting Officer;*
- *Heads of the key functions/functions involved;*
- *Information Systems Officer;*
- *Internal Audit;*
- *Investor Relator;*
- *Chief Executive Officers and heads of the subsidiaries' management organisations.*

Sabaf updates its Model to reflect changes in its operations and/or organisation, while also updating procedures and specific controls to monitor compliance with Law 262 on the basis of the risk assessment results, outcomes of periodic audit activities and other changes in the systems and processes that might be made to the structure.

The Group Accounting Control Model envisages an annual, formalised and structured process - carried out by the Financial Reporting Officer, assisted by the Chief Internal Auditor and external company in charge of Internal Audit - to identify the principal corporate processes of relevance to Law 262 compliance and the principal Group entities that originate them or participate in them.

Consistently with best practices, the process of identification and assessment of the processes and organisational units considers both qualitative principles (tied to the visibility of the Financial Reporting Officer and his organisation over the individual processes and their degree of control; the intrinsic riskiness of the underlying process; the complexity of making calculations and the subjectivity of estimates) and quantitative principles (ties to the materiality of the values generated by the individual processes on financial reporting).

The 2009 assessment defined the significant processes, which were subjected during the year to punctual audits in regard to specific control objectives (*existence; completeness and accuracy; assessment; rights and obligations; presentation and disclosure*).

The outcomes of the audits of individual processes are reported by Internal Audit to the Financial Reporting Officer and the Chief Internal Auditor at specific meetings following each assessment. The members of the Internal Control and Audit Committee and the participants at the meetings with the supervisory bodies are informed of the results of these assessments at the planned meetings.

The Chief Internal Auditor submits a detailed annual report to the Internal Control and Audit Committee on the adequacy and effective functioning of the internal control system. In FY 2009, this report was submitted to the Internal Control and Audit Committee at the meeting held on February 9th 2010 and, subsequently to the Board of Directors.

Any deficiencies/actions for improvement identified on occasion of the audit and reporting actions described hereinabove envisage immediate identification of the actions to be taken, as well as periodic monitoring of their resolution.

11.1. 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:

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

- identifying principal business risks, which are periodically submitted for review by the Board of Directors;
- proposing the appointment, dismissal and compensation of one or more Chief Internal Auditors.

11.2. CHIEF INTERNAL AUDITOR

On April 28th 2009 the Board of Directors confirmed Dr Gianluca Beschi as the Chief Internal Auditor for the three-year period 2009-2011, granting him specific annual compensation of Euro 2,500.

In carrying out his duties, the Chief Internal Auditor reports directly to the Chief Executive Officer and reports at least once every six months (five times in 2009 alone) on his activities to the Internal Control and Audit Committee and the Board of Statutory Auditors. Dr 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 2009.

In 2009 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
- actively participated in the annual risk assessment;
- verified compliance with the procedures implemented for management of material risks
- 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.

Internal Audit activities were outsourced to an independent company that provides internal control activities, Protiviti S.r.l., insofar as the Company does not dispose of the human resources and professional expertise necessary to perform this function.

11.3. 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 Organisation, Operation and Control Model consists of a **General Part**, which describes its basic principles and the aims of Sabaf S.p.A. wishes to achieve by adopting it, and a **series of Special Parts** that identify and regulate the specific conduct to be maintained in the areas of Sabaf S.p.A. that are prone to the risk of commission of the different types of administrative offences.

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:

- 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);
- Preparation of financial and operating data for subsequent publication;
- Relations with the Board of Statutory Auditors and the independent auditor;

- Management, distribution and notification of confidential and privileged information outside the Company;
- Management of the occupational health and safety system.

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), Article 26 sexies (market abuse) and Article 25 septies (negligent homicide and serious or extremely serious personal injuries committed with violation of occupational health and safety laws).

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 6th 2009 the Board of Directors of Sabaf S.p.A. appointed the Supervisory Committee for the period August 2009 - August 2012. The members of the Supervisory Committee remained the same: Gianluca Beschi, the Chief Internal Auditor, and Nicla Picchi, a Company's independent legal counsel, while allocating it an annual expense account of Euro 20,000, which was not used in 2009.

Taking action through the Internal Audit function and in accordance with its own Audit Plan, the Supervisory Committee audited the actual application and knowledge of control and conduct rules. During the period, the Supervisory Committee, which met seven times, systematically audited the effectiveness of the Model by conducting internal audits and interviewing the personnel assigned to sensitive activities. It also held training courses for employees, amended the specific protocols of the Model (approved by the Board of Directors at its meeting on December 15th 2009) and initiated a review of the applicability/materiality of the criminal offences introduced to the regulation during the financial year. Detailed analysis of corporate processes and additional amendments to the document were initiated in 2009 and will be concluded in 2010.

The general part of the Model is available on the Company website at the following address:

<http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/corporateGovernance/documentiSocietari>

11.4. INDEPENDENT AUDITOR

Following expiration of the contract with the independent auditor AGN SERCA s.n.c., the mandate for auditing the Company's accounts was granted to Deloitte & Touche S.p.A. by the Shareholders' Meeting held on April 28th 2009.

During FY 2009, this independent auditor met with the other supervisory bodies of Sabaf just one time (on July 21st). Representatives of AGN SERCA attended the previous meeting held by the supervisory bodies, on March 10th 2009.

Minutes of both these meetings were prepared by the Chief Internal Auditor, who acted as secretary.

11.5. FINANCIAL REPORTING OFFICER

Sabaf S.p.A. specifically amended its By-laws by introducing the position of Financial Reporting 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 upon resolution by the Shareholders' Meeting, on August 2nd 2007. On the same date, the Board of Directors appointed the Financial Reporting Officer, who is Dr Alberto Bartoli, Chief Financial Officer.

The By-laws envisage that the Financial Reporting 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 Financial Reporting Officer after receiving the mandatory but non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has provided the Financial Reporting Officer with the following resources and authority, so that he:

- 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 in order to update, train and make them aware 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 ambit, during FY 2009 the Company (i) completed its review and modification of the principal administrative procedures, to take account of intervening organisational and process changes, partly in view of the transition to the new SAP information system, and (ii) performed, through the Internal Audit function, audits on the effective application of existing procedures.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors approved Guidelines for application of the Corporate Governance Manual (see section 3 "Compliance") for approval and execution of the transactions implemented by the Company 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 2009 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.

13. 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:

- 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;

the third statutory auditor and the other alternate auditor are elected from the list that received the highest number of votes at the Shareholders' Meeting, among the lists

submitted and voted on by shareholders who are unrelated to the controlling shareholders pursuant to applicable laws and regulations, in the numerical order in which they are named on that list.

14. STATUTORY AUDITORS (pursuant to Art. 231-*bis* (2)(d) TUF)

Board of Auditors						
Position	Members	Term	List	Indep. Pursuant to code	% part. B.A. meetings	Number of other positions ¹
Chairman	Alessandro Busi	28/04/2009 April 2012	m	X	100%	9
Statutory Auditor	Enrico Broli	29/04/2009 April 2012	M	X	100%	24
Statutory Auditor	Renato Camodeca	29/04/2009 April 2012	M	X	100%	8
Alternate Auditor	Riccardo Rizza	28/04/2009 April 2012	m	n/a	n/a	n/a
Alternate Auditor	Guidetti Paolo	28/04/2009 April 2012	M	n/a	n/a	n/a
— STATUTORY AUDITORS WHO VACATED THEIR SEAT DURING THE FINANCIAL YEAR —						
Chairman	Pierluigi Bellini	29/04/2008 28/04/2009	m	X	100%	-

M: MAJORITY LIST; m: MINORITY LIST

The term of the Board of Auditors expired upon approval of the FY 2008 annual report. The Shareholders' Meeting held on April 28th 2009 elected the Board of Auditors for the period 2009 - 2011.

Two lists were filed by the stipulated deadlines, one by the controlling shareholder "Giuseppe Saleri Società in Accomandita per Azioni" and one by the minority shareholder "Nazionale Fiduciaria SpA," together with all the documentation required pursuant to applicable laws and regulations.

The controlling shareholder submitted a list with the following candidates: (i) Enrico Broli and Renato Camodeca, Statutory Auditors; (ii) Paolo Guidetti and Salvatore Capatori, Alternate Auditors.

The list submitted by the minority shareholder included the following candidates: Alessandro Busi, Chairman, and Riccardo Rizza, Alternate Statutory Auditor.

¹ Management and control positions at the entities envisaged in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code.

The list of those unanimously elected, on motion by the Board of Directors, is shown in the preceding table.

The standing members of the Board of Auditors are chartered accountants. The details of their professional qualifications and backgrounds are found in the curricula vitae available on the Company web site, in the section Investor Relations/Corporate Governance/Organi Sociali.

The Board of Auditors met six times in FY 2009. At its meeting on June 10th 2009, the Board of Auditors reviewed satisfaction of the prerequisites for independence of all its members. When it carried out these reviews, it applied all the principles envisaged in the Code regarding the independence of directors.

Five meetings are scheduled for FY 2010.

No further changes were made to the Board of Auditors during the year and up to the date of this report.

* * *

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 others in a specific transaction involving Sabaf or its subsidiaries. In 2009 there were no situations where the statutory auditors had to make such disclosure.

In 2009 the Board of Statutory Auditors:

- proposed to the Shareholders' Meeting the independent auditor to be retained for auditing the Company accounts during the period 2009-2017, after informing the Board of Directors and Internal Control and Audit Committee;
- 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:
 - two 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.

15. 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.

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

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>

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 2009 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.

17. OTHER CORPORATE GOVERNANCE PRACTICES

There are no other corporate governance practices in addition to those described in the preceding sections of this document.

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the corporate governance structure between December 31st 2009 and the date of this report.