

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

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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 29 December 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 28 December 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 Markets' Regulation: the Regulation published by CONSOB pursuant to Resolution 16191 of 2007 (as amended) on markets.

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.

Bylaws: the bylaws of Sabaf S.p.A.

TUF: Legislative Decree 58 of 24 February 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 common 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:

- the Board of Directors responsible for management of Company operations;
- the 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 internal audit, risk management and legal review of the accounts and the

independence of the auditing firm¹;

- 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 Bylaws, and the appointment, substitution and powers of liquidators.

2. INFORMATION about OWNERSHIP STRUCTURE (pursuant to Article 123-*bis* (1) TUF) at 23 March 2011

a) Structure of share capital (ex Article 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.

On 14 December 2010, in the absence of the necessary conditions for the exercise of stock options, the Shareholders' Meeting cancelled the capital increase resolved on 2 August 2007.

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

There are no restrictions on the transfer of shares.

c) Significant shareholdings (pursuant to Article 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:

¹ As amended by Legislative Decree 39 of 27 January 2010 in implementation of European Parliament Directive 2006/43.

<i>SIGNIFICANT SHAREHOLDINGS</i>			
Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA (OWNERSHIP)	55.299%	55.299%
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV (ASSET MANAGEMENT)	10.564%	10.564%
Pendoli Anna	Pendoli Anna (USUFRUCT, THROUGH SIREFID SPA – SOCIETÀ ITALIANA DI REVISIONE E FIDUCIARIA)	3.902%	3.902%
Baillie Gifford & CO	Baillie Gifford Overseas Limited (ASSET MANAGEMENT)	2.501%	2.501%

d) Financial instruments granting special rights (pursuant to Article 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 Article 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 Article 123-bis (1)(f) TUF)

There are no restrictions on voting shares.

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

A shareholders' agreement (renewed until 8 January 2013) 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 18 December 1961, Gianbattista Saleri, born in Brescia on 13 November 1963, Ettore Saleri, born in Brescia on 24 April 1973, Giuseppe Saleri, born in Lumezzane on 21 August 1931, Flavio Gnechi, born in Brescia on 15 March 1956 and Mario Mazzoleni, born in Milan on 24 January 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 this shareholders' agreement is to co-ordinate management of the equity investment in Sabaf S.p.A.

h) Change of control clauses (pursuant to Article 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 Article 123-bis (1)(m) TUF)

On 29 April 2008, the Sabaf Shareholders' Meeting authorised, for a period of 18 months, the Board of Directors to buy back own shares pursuant to article 2357 et seq. of the Civil Code, up to a limit of 10% of the share capital. The aim was to allow the Board of Directors to seize the opportunities offered by the market to invest in company shares, depending on the performance of the stock and/or the amount of available liquidity.

No shares were purchased or sold in 2010.

At 31 December 2010, the Company held 32,503 own shares, equivalent to 0.282% of the share capital.

l) Management and co-ordination (pursuant to Articles 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 Bylaws. Furthermore, the parent company's Bylaws 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 Bylaws if different from those applied as a supplementary measure*") are illustrated in the section of the Report dedicated to the Board of Directors (Section 4.1 Appointment and replacement).

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

In 2006, Sabaf S.p.A. adopted the Corporate Governance Code (the complete text of which is available on Borsa Italiana's website - www.borsaitaliana.it).

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

This Manual, adopted by board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding corporate governance, as well as best practice adopted by the Company. The updated text (approved by the Board of Directors' meeting of 21 September 2010) is available in the Corporate Governance section of the website www.sabaf.it.

The Sabaf S.p.A. Corporate Governance Manual contains certain operating guidelines, which were updated and approved by the Board of Directors in 2009 and 2010. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carried out their duties. Specifically, the guidelines govern:

- the self-evaluation of the Board of Directors;
- the management, coordination and control of Group subsidiaries;
- disclosure obligations pursuant to Article 150 of the TUF;
- the assessment of the Group internal control system;
- the process of periodically identifying and measuring Group risks;
- the management of significant operations in which directors have an interest.

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 (Article 123-bis (1)(l) TUF)

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

Appointment to the office of director is conditional on possession of the requirements laid down by the legislation and other applicable provisions. At least two members of the Board of Directors must satisfy the requirements of independence set out in the laws and regulations applicable to the statutory auditors of companies listed in Italian regulated markets.

The Board of Directors shall be appointed on the basis of lists submitted by anyone having voting rights who, alone or together with anyone else having voting rights, hold at least 2.5% of the capital carrying the right to vote on the resolutions of the Shareholder's Meeting relating to the appointment of the members of the governing bodies, or such other amount as may be established by CONSOB Regulation taking account of the capitalisation, float and ownership of the Company. The notice of call of the Shareholders' Meeting required to resolve on the appointment of directors shall specify the minimum shareholding required for submission of lists.

Candidates nominated in more than one list shall be disqualified. Without prejudice to any other cause of disqualification or debarment, candidates who do not meet the requirements laid down by the legislation, the Company Bylaws or the other provisions applicable to the various offices shall not be included in the lists. No party holding voting rights shall individually or jointly submit more than one list, even through an intermediary or trust company.

The candidates in each list shall be indicated with a sequential number. Each list shall contain at least a number of candidates who meet the independence requirements laid down in the legislation and other provisions applicable to the Company.

The lists, duly signed by each of the shareholders who submitted them and accompanied by a certificate showing the percentage shareholding held by the persons having voting rights and the ownership of that holding, shall be filed at the Company's registered office and made available to the public at the registered office and on the company website, pursuant to the terms and in compliance with the provisions of applicable primary and secondary laws and regulations.

At the time of submission of the list, the following documentation shall also be filed at the company's registered office:

- detailed information about the personal and professional characteristics of the candidates nominated in the lists submitted, including the administration and control offices held by each candidate in other listed companies or in finance, banking, insurance or other large companies;
- the declarations in which individual candidates accept their nomination and declare, on their own responsibility, that none of the grounds of disqualification or incompatibility laid down by law exist, that they meet the requirements laid down by legislation, the Company Bylaws and the other provisions applicable to the various offices, including the independence requirements established by the legislation applicable to the statutory auditors of companies listed on Italian regulated markets, and the further requirements laid down in the code of conduct drawn up by the management company of the Italian regulated market.

Each party holding voting rights may only vote for one list.

The election of directors shall be conducted as follows:

- a number of directors equal to the number of the directors to be elected less one shall be taken from the list that obtained the majority of the votes cast by anyone who has voting rights, in the sequential order indicated in the list;
- also according to the sequence specified on 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.

If two or more lists which are not connected in any way, even indirectly, with the list that obtained the highest number of votes obtain the same number of votes, a director shall be taken from each of the said lists, in the sequential order indicated therein, and the older candidate shall be elected.

For the purpose of allocating the directors to be elected, no account will be taken of lists which do not obtain a percentage of the votes amounting to at least half the percentage required by the Company Bylaws for submission of lists.

If the candidates elected in accordance with the foregoing procedures do not satisfy the minimum number of directors meeting the requirements of independence, 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.

*** **

The Board of Directors is vested with all the fullest powers of ordinary and extraordinary management. It is thus attributed all powers for accomplishment of corporate purposes, excluding only those that, by law or the Bylaws, are reserved as the prerogative of the Shareholders' Meeting. Without prejudice to the limits imposed by law, the Board of Directors may also resolve on the following matters:

- the establishment or closing of branch offices;
- transfer of the registered office within the territory of Italy;
- mergers in the cases envisaged by Articles 2505 and 2505/2 of the Civil Code, also as recalled due to splitting of Article 2506/3 of the Civil Code;
- reduction in share capital if a shareholder withdraws;
- amendments to the Bylaws 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.

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

The Shareholders' Meeting of 28 April 2009 appointed the Board of Directors currently in office, consisting of Giuseppe Saleri (Chairman), Gianbattista Saleri and Ettore Saleri (Deputy Chairmen), Angelo Bettinzoli (CEO), Alberto Bartoli (Director) and six non-executive directors (i.e.: Leonardo Cossu, Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Gregorio Gitti and Flavio Pasotti).

Specifically:

- *Giuseppe, Gianbattista and Ettore Saleri*, who are members of the family that controls the Company;
- *Angelo Bettinzoli*, who has worked at Sabaf for more than 40 years;
- *Alberto Bartoli*, who has been employed at Sabaf since 1994, and is also Chief Financial Officer;
- *Leonardo Cossu*, who is a professional accountant;
- *Salvatore Bragantini*, who is a former commissioner of CONSOB;
- *Giuseppe Cavalli*, who has held important positions at such entities as Merloni Elettrodomestici/Indesit Company and Merloni Termosanitari;
- *Fausto Gardoni*, who has previously held positions at other leading industrial companies;
- *Gregorio Gitti*, a founding partner of the Studio Legale Gitti - Pavesi law firm in Milan, a university professor and author of numerous publications, who has served

as director and deputy chairman on the Boards of various medium-sized and large industrial companies;

- *Flavio Pasotti*, who 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.

BOARD OF DIRECTORS										
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	71%	3
Director	Giuseppe Cavalli	28/04/09	2011	N/A		X	X	X	86%	1
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	29%	5
Director	Flavio Pasotti	28/04/09	2011	N/A		X	X	X	71%	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 Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and Credito Lombardo Veneto S.p.A., and statutory auditor of Italmobiliare

² Please see relevant sections for the number of meetings and their average duration.

S.p.A., Ambrosi S.p.A., Brawo S.p.A., Fingefran S.r.l. and Futurimpresa S.G.R. S.p.A.;

- Gregorio Gitti is chairman of Metalcam S.p.A., independent director of Edison S.p.A. and Ansaldo STS S.p.A., member of the Board of Tethys S.r.l. and Basilichi S.p.A.;
- Giuseppe Cavalli is Chief Executive Officer of Acciaierie di Sicilia S.p.A. (Alfa Acciai Group);
- Salvatore Bragantini is Chairman of I2 Capital SGR S.p.A., non-executive director of Interpump Group S.p.A. and director of Permico S.p.A.

Position	Members	EC	% EC	NC	% NC	CC	% CC	ICAC	% ICAC	RPC	% RPC
Chairman	Saleri Giuseppe	N/A	N/A	N/A	N/A						
Deputy Chairman	Gianbattista Saleri	N/A	N/A	N/A	N/A						
Deputy Chairman	Ettore Saleri	N/A	N/A	N/A	N/A						
Chief Executive Officer	Angelo Bettinzoli	N/A	N/A	N/A	N/A						
Director	Alberto Bartoli	N/A	N/A	N/A	N/A						
Director	Leonardo Cossu	N/A	N/A	N/A	N/A	M	80%	P	100%		
Director	Salvatore Bragantini	N/A	N/A	N/A	N/A			M	50%	M	100%
Director	Giuseppe Cavalli	N/A	N/A	N/A	N/A	M	100%				
Director	Fausto Gardoni	N/A	N/A	N/A	N/A	P	100%			P	100%
Director	Gregorio Gitti	N/A	N/A	N/A	N/A			M	50%	M	100%
Director	Flavio Pasotti	N/A	N/A	N/A	N/A	M	40%				

EC EXECUTIVE COMMITTEE, NC: NOMINATIONS COMMITTEE, CC: COMPENSATION COMMITTEE, ICAC: INTERNAL CONTROL AND AUDIT COMMITTEE, RPC: RELATED PARTIES COMMITTEE, C: CHAIRMAN, M: MEMBER

On 4 August 2010, the Board of Directors appointed from its members the Related Parties Committee, the members of which are shown in the table above. This committee of independent directors is responsible for expressing a preliminary opinion on the procedure prepared in implementation of CONSOB Regulation 17221.

This Committee met on 21 September 2010 to express this opinion, which was unanimously positive.

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 28 April 2006, and renewed it at its meeting on 28 April 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 23 March 2010, the Board of Directors confirmed compliance with the aforementioned criteria for 2010.

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

The Board of Directors met seven times during the 2010 financial year. The meetings lasted an average of about one hour and fifty minutes. Seven meetings have been planned for 2011, of which one was held on 9 February.

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 2010, 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.

When it elected the Board of Directors, the Shareholders' Meeting held on 28 April 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 (28 April 2009), the Board 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 (19 December 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 Bylaws, 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 Articles 2505 and 2505 bis of the Civil Code, including the provisions governing demerger in Article 2506 ter of the 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.

In compliance with the CONSOB Regulation issued with resolution 17221 on Transactions with Related Parties, on 9 November 2010, the Sabaf Board of Directors adopted the "procedure for regulating related-party transactions", subject to consultation that resulted in a positive opinion from the Related Parties Committee nominated for this purpose. This

procedure, published – as requested by the Regulation – on the Issuer’s website, came into force on 1 January 2011.

At the same time, the introduction of this procedure made it necessary to amend (and again submit to the Board of Directors for approval) the previous guidelines to the Corporate Governance Manual on related-party transactions (previously guidelines on “Significant Transactions, Transactions with Related Parties and Directors’ Interests”, now guidelines on “Significant Transactions and Directors’ Interests”).

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. It then discussed the results at the 14 December 2010 Board meeting.

The Lead Independent Director (Flavio Pasotti) co-ordinates the annual evaluation. He is responsible for defining the topics to be discussed during the self-evaluation.

The results of the valuation were generally positive, and highlighted some points for consideration that were explored by the independent directors in their meeting on 21 March 2011.

The Shareholders’ Meeting has not authorised general exceptions in advance to the not-to-compete clause envisaged in Article 2390 of the 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 Article 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 assesses the fulfilment by independent directors of the requirements for independence after they have been appointed and then once annually thereafter.

This valuation was conducted at the Board meeting of 9 February 2010. On this occasion, the statements of the independent directors were received, and the Board, with the abstention of those concerned, assessed the fulfilment of the independence requirements for directors Bragantini Salvatore, Giuseppe Cavalli, Fausto Gardoni, Gregorio Gitti and Pasotti Flavio. On the contrary, Leonardo Cossu, although he is independent pursuant to

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

For the purpose of assessing independence, the Company referred to the requirements defined in the Corporate Governance Manual in line with the criteria set out in the Corporate Governance Code.

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.

In 2010, the independent directors did not meet without the other directors. For 2010, this meeting took place on 21 March 2011.

At meetings of the Internal Control and Audit Committee and meetings with the management bodies, independent directors were able to assess the completeness and timeliness of the information provided to them before every meeting of the Board of Directors and to formulate and discuss beforehand any question that could emerge.

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 28 April 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 Article 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.

As already highlighted, on 4 August 2010 the Board of Directors established from its members the Related Parties Committee with the function of supporting, through reasoned opinion, the Board in the initial adoption and subsequent amendments to the new procedure for regulating related party transactions, reviewed in implementation of the regulatory changes provided for by CONSOB in 2010.

This Committee only held one meeting, at which minutes were taken.

No further committees charged to make proposals and provide advice have been established 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 within the Board of Directors.

8. COMPENSATION COMMITTEE

Composition and duties of the Compensation Committee (pursuant Article 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.

In 2010, the Committee held five meetings – with an average duration of an hour and fifty minutes – to prepare a management incentive plan (i.e.: MBO 2010). For details, please see section 9 on Director Compensation.

In 2011, it has already held three meetings, whose purpose was the achievement of 2010 objectives and the definition, still in progress, of MBO 2011.

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

Minutes were regularly kept of the Compensation Committee meetings.

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 2010.

9. DIRECTORS' COMPENSATION

A major portion of the compensation of executive directors and key managers is tied to the financial and other results achieved by the Group.

For 2010, the Board of Directors, on the proposal of the Compensation Committee, approved a variable incentive plan (MBO – Management by Objectives) for 23 people (executive directors, managers and other important Group employees).

For 2010, this plan envisages the allocation of bonuses for the achievement of EBIT targets and individual objectives (quantifiable and measurable) defined by the CEO, up to a maximum of 25% of the fixed component of each party.

As part of this plan, the variable compensation of the CEO was decided by the Shareholders' Meeting of 27 April 2010.

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

As mentioned above, the stock option plan for 2007-2009 expired in that the conditions for the exercise of the options were not met. No further stock option plans are outstanding.

The incentive plan for 2011 is still being defined.

The Compensation Committee is also assessing the impact of the new article 7 of the Borsa Italiana Corporate Governance Code on Sabaf, a company listed on the STAR segment.

Compensation received by directors during the 2010 financial year, for any reason and in any form, including from subsidiaries.

(in thousands of Euro)

Name	Compensation		Non-monetary benefits	Bonuses and other incentives ³	Other compensation	Total
	Fixed compensation	Presence				
Saleri Giuseppe	120		-	-	8 ⁴	128
Saleri Gianbattista	100		-	-	-	100
Saleri Ettore	100		-	-	8 ⁴	108
Bettinzoli Angelo	340		-	85	10 ⁴	435
Bartoli Alberto	18		-	37	157 ⁴	212
Cossu Leonardo	15	14	-	-	-	29
Bragantini Salvatore	15	10	-	-	-	25
Giuseppe Cavalli	6	12	-	-	-	18
Fausto Gardoni	6	14	-	-	-	20
Gregorio Gitti	15	4	-	-	-	19
Pasotti Flavio	6	10	-	-	-	16

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

- Gianluca Beschi, Chief Internal Auditor
- Massimo Dora, Research and Development Manager.

³ Bonuses will be paid out in 2011 and 2012.

⁴ Relative to positions held in subsidiaries.

⁵ Of which Euro 5,000 relates to positions held in subsidiaries.

The aggregate compensation received by the executives with strategic responsibilities (excluding director Alberto Bartoli), for any reason and in any form, including from subsidiaries during 2010 was Euro 277,000, of which Euro 208,000 was for employee compensation, Euro 20,000 for positions held in subsidiaries and Euro 49,000 for bonuses and other incentives (employee compensation is reported gross of social security contributions and income taxes owed by the employee; bonuses will be paid in 2011 and 2012).

Termination benefits for directors in the event of resignation, dismissal or termination of relationship following public offer to buy shares (pursuant to Article 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 Article 123-bis, (2)(d) TUF)

In 2010, the Committee held four meetings, with an average duration of around an hour and forty minutes. Five meetings are scheduled for 2011, including one already held on 9 February.

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, the Board of Statutory Auditors and the Financial Reporting Officer.

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 Financial Reporting 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;
- 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.

Note that the Board of Auditors is responsible for monitoring the effectiveness of the statutory auditing process, also in accordance with the duties attributed thereto by the laws in force (Legislative Decree 39/2010).

In 2010 the Committee:

- assessed the proper application of accounting standards together with the Financial Reporting Officer and the auditors, particularly in regard to accounting of transactions involving derivative financial instruments and measurement of receivables, inventories and equity investments;
- expressed its opinion on the guidelines on identifying and measuring risks;
- reviewed the results of risk assessments carried out at end-2010 and validated the consequent Audit Plan for 2011;
- analysed the results of internal audits conducted during the year;
- obtained continuous updates on the project to implement the ERP system at Sabaf do Brasil (concluding) and its operational launch at subsidiary Faringosi Hinges Srl.

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. These provisions were not used in 2010.

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.

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At the meeting held on 22 September 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.

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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In 2010 Sabaf conducted the annual process of identifying and measuring the main corporate risks, in order to update the previous risk assessment and prepare a risk-based Audit Plan for 2011.

In light of the limited structural, organisational and business changes at the Group in 2010, the risk assessment process involved a small number of internal personnel.

As is normal practice, for every risk identified, the potential effects (in terms of impact and probability of occurrence according to a semi-quantitative scale) were assessed, including the related causes, and the mitigation strategies and systems in place were analysed and measured.

Guidelines defining the roles and responsibilities of the risk identification and measurement process, as well as the identification, measurement and analysis methods, were prepared and submitted for approval to the Board of Directors' meeting on 9 February 2011.

For more details on the principal risks revealed by the analysis, see the section of the Report on Operations describing the "principal risks and uncertainties" pursuant to Article 154-bis (5)(e) of the Consolidated Law on Finance and Article 2428 of the Civil Code.

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The internal control system was found to be adequate overall in the 2010 financial year following analysis of the following aspects:

Significant events impacting the Organisation, Operation and Control Model

- statutory and regulatory changes;
- Changes to the Bylaws and the Shareholders' Meeting Regulation;
- changes in the composition 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 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 2010 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."

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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, the Company annually carries out a risk assessment, the only one at 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 12 February 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 Relations Officer;
- Chief Executive Officers and heads of the subsidiaries' management organisations.

In this regard, as already indicated in the previous section on the Issuer Profile, Legislative Decree 39/2010 ("consolidated law on statutory auditing"), implementing directive 2006/43/EC on statutory audits of annual accounts, effective from 7 April 2010, officially charged the Board of Statutory Auditors with the duties of monitoring the process of financial disclosure and the efficiency of the internal audit system, if applicable, and risk management (as well as the statutory auditing of annual and consolidated accounts, and the independence of the statutory auditor or the statutory auditing firm).

Sabaf updates its Model to reflect changes in its operations and/or organisation, in relation to 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 2010 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 and 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 2010, this report was submitted to the Internal Control and Audit Committee at the meeting held on 9 February 2011 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 28 April 2009, the Board of Directors confirmed 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 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 (four times in 2010 alone) 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.

The expense account of Euro 25,000 at the disposal of the Chief Internal Auditor for the performance of his duties was not used in 2010.

In 2010 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 Audit Department;
- 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 have 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 prevent the possibility that criminal offences falling under the scope of Legislative Decree 231/2001 are 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;
- management of product and process innovations and the use of commercial trademarks and names.

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), Article 25 septies (negligent homicide and serious or extremely serious personal injuries committed with violation of occupational health and safety laws) and Article 25 bis (counterfeiting currency, securities and revenue stamps).

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.

The Supervisory Committee (appointed on 6 August 2009 by the Board of Directors of Sabaf S.p.A. for the period August 2009 – August 2012) comprises Gianluca Beschi, Chief Internal Auditor, and Nicla Picchi, the Company's independent legal counsel. An expense account of Euro 20,000 was established, but not used in 2010.

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 Committee, which met eight times,:

- systematically audited the effectiveness of the Model by conducting internal audits and interviewing the personnel assigned to sensitive activities;
- provided information to all employees regarding the updating of the Model;
- held specific training courses for the recipients of Special Part E relating to counterfeiting currency, securities and revenue stamps;
- launched the update process for Special Part D of the Model on the issues of health and safety;
- launched the update of informative material to be provided generally and selectively via e-learning programmes, which will take place in 2011.

The General Part of the Model, in the last version approved by the Board of Directors on 21 September 2010, is available on the Company website at the following address:

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

11.4. INDEPENDENT AUDITOR

The mandate for auditing the Company's accounts for the period 2009-2017 was granted to Deloitte & Touche S.p.A. by the Shareholders' Meeting held on 28 April 2009.

During 2010, this independent auditor met with the other supervisory bodies of Sabaf on two occasions (on 9 March and 20 July). 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 Bylaws 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 Bylaws was made upon resolution by the Shareholders' Meeting, on 2 August 2007. On the same date, the Board of Directors appointed the Financial Reporting Officer, who is Dr Alberto Bartoli, Chief Financial Officer.

The Bylaws 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 regard, during 2010, the Company: (i) updated certain administrative procedures to take effective operation of the Company into account and; (ii) performed, through the Internal Audit function, audits on the effective application of existing procedures.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In compliance with the CONSOB Regulation issued with resolution 17221 on Transactions with Related Parties, on 9 November 2010, the Sabaf Board of Directors adopted the "procedure for regulating related-party transactions".

This procedure, published – as required by the Regulation – on the Issuer's website and subject to the favourable opinion of the Related Parties Committee appointed for this purpose, and of the Board of Statutory Auditors, is intended to ensure the substantive and procedural transparency and completeness of transactions with related parties.

Specifically, the procedure adopted by Sabaf:

- sets the "significance threshold" at Euro 2 million (less than the maximum limit set by the law in force);
- does not exclude from the application of the procedure ordinary transactions concluded under market or standard conditions.

For more details on the procedure, see the complete text thereof on the website, at:

http://www.sabaf.it/opencms/opencms/investor/corporate/documenti_societari.html

No material transactions were carried out in 2010 with related parties, except for the ordinary commercial and financial transactions with subsidiaries, which were concluded at arm's length market conditions.

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On 9 November 2010, following the adoption of the above procedure, the Board of Directors approved the update of guidelines applicable to the Corporate Governance Manual for the management of transactions in which a director has a direct interest or an interest on behalf of third parties. The following rules must be followed in this case:

- 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

Statutory Auditors shall not be elected and, if elected, shall be debarred from office, if they do not meet the requirements of professionalism, respectability and independence laid down by current legislation or are in one of the situations of disqualification, incompatibility or debarment laid down by law. The limits on holding multiple offices established by CONSOB Regulation shall also apply to Statutory Auditors.

The Board of Statutory Auditors is appointed on the basis of lists presented by those holding voting rights in which candidates are listed by means of a sequential number.

The list consists of two sections: one for candidates for office as standing statutory auditors and the other for candidates for office as alternate statutory auditors.

Only those holding voting rights who, alone or together with others, are owners of shares with voting rights accounting for at least 2.5 percent of capital with voting rights for resolutions relating to the appointment of members of the governing and control bodies, or such other holding as may be established for the submission of lists for the appointment of members of the Board of Directors, may submit lists.

Each holder of voting rights, as well as shareholders forming part of a group as defined by Article 2359 of the Italian Civil Code, or shareholders who enter into a shareholders' agreement relating to the company's shares, cannot present – not even via interposed persons or trustee companies – more than one list and cannot vote for several lists.

A candidate may be presented in only one list, failing which s/he shall be disqualified. Outgoing statutory auditors can be re-elected.

The lists presented must be lodged at the company's registered HQ and made available to the public at the company's registered HQ and on the Company's website, pursuant to the terms and in compliance with the provisions of applicable primary and secondary laws and regulations, and this will be mentioned in the announcement. The lists shall be accompanied by:

- information about the identity of the holders of voting rights who submitted the lists, stating the total percentage shareholding owned, and a certificate demonstrating the ownership of the said holding;
- a declaration by those holding voting rights other than those who can express the absolute or relative majority at the Shareholders' Meeting or individually or jointly hold a controlling interest or relative majority, certifying that they have no connection with the latter as defined in the applicable legislation, and;
- detailed information about the personal and professional characteristics of the candidates, and a declaration by the candidates that they meet the requirements laid down in the legislation and the Company Bylaws and accept the nomination.

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

- 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;
- from the list obtaining the highest number of votes at the Shareholders' meeting, among those submitted and voted on by holders of voting rights not connected with the majority shareholders as defined in the applicable legislation, the remaining standing auditors and the other alternate auditor are taken according to the sequential order in which they appear on the list.

In the event of a tie between two or more lists, the oldest candidates shall be elected statutory auditors until all posts have been assigned.

If it is not possible to proceed, either totally or partly, with appointments according to the above procedure, the Shareholders' Meeting decides on the basis of a relative majority.

If the requisites required by regulations and Company Bylaws cease to exist, the statutory auditor concerned lapses from office.

In the case of substitution of a standing statutory auditor, the alternate statutory auditor belonging to the same list as the ex-statutory auditor takes his/her place.

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

Board of Statutory Auditors						
Position	Members	Term	List	Indep. pursuant to code	% part. B.A. meetings	Number of other positions ^o
Chairman	Alessandro Busi	28/04/2009 April 2012	m	X	100%	4
Statutory Auditor	Enrico Broli	29/04/2009 April 2012	M	X	100%	27
Statutory Auditor	Renato Camodeca	29/04/2009 April 2012	M	X	100%	6
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

M: MAJORITY LIST; m: MINORITY LIST

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 28 April 2009, 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 Auditor.

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 Statutory 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/Management Bodies.

The Board of Statutory Auditors met five times in 2010. These meetings had an average duration of two hours. Five meetings are scheduled for 2011, including one already held on 21 January.

^o Management and control positions at the companies envisaged in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code

In 2010, the Board of Statutory Auditors assessed the fulfilment of independence requirements of all its members. 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 others in a specific transaction involving Sabaf or its subsidiaries. In 2010 there were no situations where the statutory auditors had to make such disclosure.

In 2010 the Board of Statutory Auditors:

- viewed, prior to approval by the Board of Directors, the draft procedure governing related-party transactions, covered in detail in previous sections of this report. It did not make any comments regarding problems in the document;
- monitored the independence of the external auditing company;
- co-ordinated its activities with the Chief Internal Auditor, the Internal Audit department and the Internal Control and Audit Committee through:
 - half-yearly meetings for the exchange of information amongst the parties with supervisory and auditing functions;
 - inviting the Chief Internal Auditor (and the Financial Reporting Officer) to Board of Statutory Auditor meetings;
 - participation of its members at Internal Control and Audit Committee meetings;
- viewed the work plan adopted by the independent auditor, through exchange of information with the auditing company.

As stated above, Legislative Decree 39/2010 (Article 19) officially charged the Board of Statutory Auditors with monitoring:

- a) the process of financial disclosure;
- b) the effectiveness of the systems of internal control, internal audit, if applicable, and risk management;
- c) the statutory auditing of the annual and consolidated accounts;
- d) the independence of the statutory auditor or the statutory auditing firm, particularly as regards the provision of non-auditing services to the entity subject to statutory account auditing.

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 Article 123-bis (2)(c) TUF)

The Bylaws and the Shareholders' Meeting Regulation of Sabaf S.p.A. were amended by the Shareholders' Meeting of 14 December 2010, to reflect the new legislation introduced in 2010 by Legislative Decrees 27 and 39 of 27 January 2010.

The main changes regarding the Bylaws concern:

- calling the Shareholders' Meeting:
 - providing for the publication of the notice of call on the Company website, rather than its publication in the Official Gazette;
 - the change in the statutory deadline for calling the meeting;
- participation in and representation at the Shareholders' Meeting:
 - authorisation to participate at the Shareholders' Meeting and exercise the voting right is certified by a notice given to and received at the company pursuant to the terms and conditions established by law and applicable regulations;
 - the Company's power to designate for each Shareholders' Meeting a person to whom the shareholders may grant a proxy with voting instructions on all or some of the items on the agenda;
 - the possibility that proxies may also be granted electronically.

The text of the Shareholders' Meeting Regulation, which governs the orderly proceedings of the Ordinary and Extraordinary Shareholders' Meetings, while simultaneously encouraging participation by shareholders and exercise of their voting rights, was amended to take these regulations into account.

The complete text of the Regulation, the updated version of which was approved on 14 December 2010 by the Shareholders' Meeting, is available on the Company's website, at:

http://www.sabaf.it/opencms/opencms/investor/corporate/documenti_societari.html

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 2010, 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 Bylaws 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 31 December 2010 and the date of this report.