

Saras S.p.A. – Annual Report  
on Corporate Governance and information  
on the Shareholding Structure pursuant  
to article 123-bis of legislative decree N°. 58  
of 24 February 1998 (the “Tuf”)

March 2007



## Foreword

Saras S.p.A. (hereinafter “Saras” or the “Company”) complies with the code of self-discipline drafted by the Corporate Governance Committee and issued by the Italian Stock Exchange S.p.A. in March 2006 (hereinafter “Code of Self-discipline” or “Code”) as described in this report. Specifically, the following paragraphs describe the main features of the corporate governance system of Saras, as well as the actual functioning of its components, particularly with reference to compliance with the recommendations set forth in the Code of Self-discipline.

This report has been drafted according to art. 124-*bis* of Legislative Decree no. 58 of 24 February 1998 (the Consolidated Act on Financial Intermediation, hereinafter the “TUF”) as well as Section IA.2.6. of the Instructions to the regulations of markets organized and managed by Borsa Italiana S.p.A. (the “Stock Exchange Regulations”), as well as taking into account the indications provided by the *Guidelines for drafting annual reports of corporate governance* issued by Borsa Italiana and by the *Guide to editing an annual report on corporate governance* drafted by Assonime and Emitenti Titoli S.p.A.

This Report was drafted by the Board of Directors of Saras (hereinafter the “Board”) to be made available to Saras’s shareholders in view of the Shareholders’ Meeting which should approve the financial statements for the financial year ended 31 December 2006. It refers to the 2006 financial year and includes corporate events occurred in 2007 up to date the Report was approved.

On 3 May 2006, the Board amended the Company’s Articles of Association (the “Articles”)<sup>1</sup> to comply with the new rules included in the TUF by Law no. 262 of 28 December 2005 (the “Investor Protection Act”). After the Investor Protection Act became effective, Legislative Decree no. 303 of 29 December 2006 was approved (the “Corrective Decree”). Regulations implementing the new rules included in the TUF by the Investor Protection Act and the Corrective Decree have yet to be issued. The Corrective Decree allows listed companies to implement all changes to the Articles needed to comply with the innovations brought about by the Investor Protection Act and the Corrective Decree by 30 June 2007 at the latest.

The Board intends to implement the above-mentioned Articles changes or those which may be called for by the implementing regulations within such date, in accordance with article 19 of the Articles whereby the Board may resolve upon amendments to the Articles to conform them to statutory or regulatory provisions. Reference is made, for instance, to possible changes stemming from regulations concerning the Board of Directors’ and the Board of Statutory Auditors’ members appointment procedures, or concerning the limits set for the plurality of offices. Since the Articles of Association already comply with the provisions of the Investor Protection Act that are directly applicable, we believe that changes will be few and that none of them will cause meaningful alterations to the corporate structure described in this Report.

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1. Available at the following link: [http://www.saras.it/documentazione/statuto\\_Saras.pdf](http://www.saras.it/documentazione/statuto_Saras.pdf)

## Section I

### *Governance Structure*

#### 1. Shareholding structure

The Company's share capital is formed by nominative, entirely paid up common stocks only, which bear voting rights both at Ordinary and Extraordinary Shareholders' Meetings.

Based on the records in the Shareholders' ledger and the public information from any source available to the Company, as at 23 March 2007, nobody holds shareholdings exceeding 2% of the share capital, with the exception of (i) Angelo Moratti S.a.p.a., whose general partners are Gian Marco Moratti and Massimo Moratti, whose shareholding amounts to 62.461% of the share capital, thus controlling the Company according to art. 93 of the TUF, and of (ii) Assicurazioni Generali S.p.A., whose direct and indirect shareholding amounts to 2.007% of the share capital.

As at the same date, to the Company's knowledge there are no shareholders' agreements as defined under art. 122 of the TUF regarding the Company itself or its holding company.

#### 2. Corporate Structure

Saras S.p.A.'s structure complies with the rules provided for by the Italian civil code and by other applicable specific statutory provisions about corporations, particularly those contained in the TUF, and shows an overall compliance to the Code of Self-discipline. It features:

- a Board of Directors in charge of managing the Company's business, within which a Compensation Committee and an Internal Control Committee have been established;
- a Board of Statutory Auditors with the responsibilities (i) to supervise compliance with the law and Articles of Association, as well as the application of principles of proper management in carrying out the Company's activities and (ii) to control the adequacy of the organizational structure, the internal control system and the Company's administrative and accounting system; and
- a Shareholders' Meeting, which resolves - in its Ordinary or Extraordinary Meetings - on matters such as (i) the appointment and revocation of members of the Board of Directors and of the Board of Statutory Auditors and their compensation and responsibilities, (ii) the approval of the annual financial statements and net profit distribution, (iii) the purchase and the disposition of Company's own shares, (iv) changes to the Company's Articles of Association, and (v) the issue of convertible bonds.

The Company appointed PricewaterhouseCoopers S.P.A. (hereinafter "PwC") as its auditing firm for its stand-alone and consolidated financial statements for the financial years 2006-2011, as well as for its half-year reports for the same period. Furthermore, in the second half of 2006, its significant controlled companies, Akhela Ltd, Saras Ricerche and Technologie S.p.A., Arcola Petrolifera S.p.A. and Sarlux Ltd also chose PwC as their auditing firm for their financial statements for the financial years from 2006 until 2011, in compliance with art. 165 of the TUF.

As is known, Legislative Decree no. 303 of 29 December 2006 changed art. 159 of the TUF providing (i) that the appointment of audit firms for listed companies should be resolved by the Shareholders' Meeting at the proposal of the Board of Statutory Auditors, (ii) that the appointment has a duration of nine financial years, and (iii) that listed issuers that happen to be in the first six years' term of engagement of an audit firm may extend such term for a further 3 years within the date the Shareholders' Meeting approves the 2006 financial statements.

The Board of Statutory Auditors, following consultations with management and after receiving a favourable opinion from the Company's Internal Control Committee, notified the Board (and the Board in turn expressed its favourable opinion) about its intention to propose to the Shareholders' Meeting convened to approve the 2006 financial statements - and to which this Report is addressed - to extend the PwC engagement for a further three years, that is until 2014, thus accepting PwC's proposal. A summary of the extension proposal and the terms put forward by PwC is included in the document drafted by the Board according to art. 3 of the D.M. no. 437 of 5 November 1998, which includes a report on the items set forth in the agenda of the meeting. It is currently anticipated that the significant controlled companies mentioned in the paragraph above will also extend their engagement with PwC for the auditing of their financial statements for another three years.

## Section II

### *Detail information and Implementation of the Self-Discipline Code Recommendations*

#### 1. The Board of Directors

##### 1.1 .Board of Directors' Role and Duties

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According to applicable laws and to the Articles of Association, the Board of Directors is responsible for managing the affairs of the Company and operates and is organized so as to carry out its functions effectively and efficiently.

The definition of the duties of the Board takes into account the recommendations of article 1.C.1 of the Code. Specifically, and in addition to other tasks and powers as set forth by law, the Board:

- may delegate its powers to the Chairman and/or one of the Directors and/or an executive committee according to art. 2381 of the Italian civil code;
- may establish one or more committees and/or commissions to which it may delegate specific assignments or part of its own powers, within the limits set forth by the law, also to ensure compliance of the Company corporate system with the Code of Self-discipline;
- determines, after reviewing proposals by the relevant committee and after consulting the Board of Statutory Auditors, the compensation of the directors to which powers have been delegated and of those entrusted with specific functions;
- reviews and approves the strategic, industrial and financial plans of the Company and of the group headed by it (hereinafter the "Group"), as well as the corporate governance system and the overall Group structure;
- may resolve: on (i) mergers in the cases provided by art. 2505 and 2505-bis of the Italian civil code; (ii) on the opening or closing of branch offices; (iii) on the choice of the directors empowered to represent the Company vis-à-vis third parties in addition to the Chairman; (iv) on the reduction of share capital in case of withdrawal of a shareholders, except as provided for in the last paragraph of art. 2437-quater of the Italian civil code; (v) on amendments to the Articles to conform them to statutory or regulatory provisions; (vi) on moving the registered seat within the national territory; and (vii) and on the share capital reduction following losses under the provision of art. 2446 of the Italian civil code.
- assesses the general running of the Company's business, specifically taking into account all information received by delegated bodies, as well as periodically comparing actual versus planned results;
- reviews and approves prior to completion the most material transactions of Saras and of the Group;
- assesses the adequacy of the Company's and the Group's organizational, administrative and accounting structures as implemented by the delegated directors, with particular reference to the corporate governance system and to the management of conflict of interests issues;
- carries out, at least once a year, an appraisal on the size, composition and operations of the Board itself and its committees;

- provides directions as to the maximum number of offices its components may hold in other listed companies as well as in financial services companies, banks, insurance companies or of sizeable companies;
- appoints, following consultation with the Board of Statutory Auditors, a Company's manager to oversee the drafting of the Company's financial statements choosing her among the Company's managers with sound accounting and financial expertise;
- makes proposals to submit to the Shareholders' Meeting and reports to shareholders during the meeting.

The following paragraphs describe the composition and operations of the Board as well as the actual implementation by it of the tasks and the functions listed above.

## 1.2 Composition of the Board of Directors

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According to the Articles of Association the Shareholders' Meeting fixes the number of directors between a minimum of three and a maximum of fifteen members.

According to the Articles, the Board is appointed by the Meeting through a slate mechanism aimed at ensuring that the second most voted list, which shall not be connected to the majority list, may appoint a director. The lists of candidates may be deposited at the Company's registered seat at least ten days prior to the first call of the Meeting, by shareholders representing, directly or together with other shareholders, at least 2.5% of share capital formed by shares with voting rights at the general Meeting.

The Articles provide that along with each such list, within the ten days' deadline for the deposit, declarations by each nominee stating - under their own responsibility - that they comply with all statutory or Articles requirements for election as directors and that no reasons for ineligibility and incompatibility exist, shall be also deposited at the Company's registered seat.

In addition, although this is neither expressly provided for by the Articles of Association nor yet bindingly provided for by the Issuers' Regulations enacted by Consob, the Board, in the call notice for the annual general Meeting convened to approve the financial statements for the 2006 financial year and to appoint a director, intends to invite all shareholders to deposit at the Company's seat, together with the above-mentioned lists and declarations, the applicants' resumes, according to article 6 of the Code and the possible new version of Issuers' Regulations. The list, along with information on the nominees' professional characteristics, will be published in a timely manner on the company's web site.

In light of the possibility for minority shareholders to appoint a director through the slate system, as well as of the presence amongst the Company's shareholders of a controlling shareholder who will select all applicants to be included in its list, the Board did not establish a directors nomination committee (as recommend by article 6 of the Code on a non-binding basis), holding that nominations should be put forward by shareholders through the slate mechanism. The current Board was appointed by the Company's Ordinary Shareholders' Meeting of 11 January 2006, with the exception of Mr. Mario Greco and Mr. Gilberto Callera, appointed by the Company's Ordinary Shareholders' Meeting of 28 February 2006, and Mr. Dario Scaffardi, appointed by the Board by co-optation on 19 October 2006 to replace Mr. Paolo Alfani and whose appointment shall be voted by the Shareholders' Meeting convened to approve the financial statements for 2006. The Board members' terms of office shall expire on the approval date of the financial statements for the year ended 31 December 2008. The Board currently consists of the 8 members listed below, none of whom nominated by minority shareholders:

Gian Marco Moratti	Chairman
Massimo Moratti	Chief Executive Officer
Angelo Moratti	Vice Chairman
Gilberto Callera	Chairman of the Remuneration Committee Member of the Internal Audit Committee Lead Independent Director
Gabriele Previati	Chairman of the Internal Audit Committee Member of the Remuneration Committee
Mario Greco	Member of the Internal Audit Committee (and Financial Expert) Member of the Remuneration Committee
Angelomario Moratti	
Dario Scaffardi	

For more information about the Board and the Committees, see the following paragraphs, as well as the chart in annex 1.

### 1.3 Board Meetings

The Board may also meet in offices other than the Company's seat, both in Italy and in the European Union countries. Board meetings are validly held even when held via videoconference and/or teleconference, provided that: all participants can be identified both by the meeting chairman and by all other participants; all participants are enabled to participate to discussions and resolutions about matters on the agenda in real time; all participants are enabled to receive, send and review documents, and that all the actions mentioned above are reported in the minutes. The Board may be convened by letter, telegram, fax, e-mail, sent to all Board members and statutory auditors at least five days before (or, in case of urgency, at least 24 hours before) the meeting.

During 2006 the Board held 11 meetings. In 2007 the Board meetings were 3, including the meeting where this report was approved. Board members and Statutory Auditors regularly attended the meetings, as shown in detail in the summary table in annex 1, to which we refer.

On 24 January 2007, the Company published its annual calendar of company events drafted according to art. 2.6.2.1.c.) of the Stock Exchange Regulations. It envisages at least 6 meetings in 2007. As previously communicated to the public, the Company is exempted from drafting the fourth quarterly report for 2006 since the Board prepared and published the draft 2006 financial statements within 90 days from year end.

### 1.4 Delegated powers within the Board

Except for the Board responsibilities briefly described in paragraph 1.1 above, the Board entrusted the Chairman, Mr. Gian Marco Moratti and the Chief Executive Officer, Mr. Massimo Moratti with wide administrative powers, as well as with the consequent powers to represent the Company vis-à-vis third parties, for the ordinary and extraordinary management of affairs, to be exercised severally and by single signature (although prior consultation between the two proxies is provided where the nature and the importance of the transaction or of the decision require it, thus ensuring consistent Company management).

The Board believes that the delegation of said powers to the Chairman and the Chief Executive Officer, both general partners of the Company's controlling entity Angelo Moratti S.a.p.a., ensures effective and efficient Company management, in line with the consolidated business practices and traditions of the Saras Group.

Moreover, the Board identified the Chairman as the executive officer in charge of supervising the internal control system operations (see below).

The Board also assigned the Vice Chairman Mr. Angelo Moratti, along with due powers, special power to represent the Company in institutional relationships with the press and with banking and other financial services institutions. On 19 October, the Board also entrusted Vice Chairman Mr. Angelo Moratti with the task of researching and assessing possible opportunities for extraordinary transactions, to be submitted to the Board, the Chairman and/or the Chief Executive Officer, as well as the power to execute Board resolutions, in both cases vesting him with all necessary powers.

Up to the date of resignation from all offices held in the Group, which occurred as from 4 October 2006, former Executive Vice Chairman and general manager of the Company, Mr. Paolo Alfani, had been entrusted with powers of ordinary administration of the Company's business.

The Board members to whom specific powers have been delegated also perform those duties vested with them by law and by the Articles of Association.

In accordance with article 1.C.1.c.) of the Code, the Board resolved that Directors vested with delegated powers as described above report to the Board on a quarterly basis on the management of the Company's business through their delegated powers. The Board delegated members have regularly performed this reporting activity along with the one mentioned in the following paragraph.

### 1.5 Reporting to the Board

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In accordance with art. 2381 of the Italian civil code and art. 150.1 of the TUF, the Articles of Association provide that directors with delegated powers report to the Board of Directors and the Board of Statutory Auditors on the general running of business operations, its foreseeable trends, the activities performed and on the most material economic and financial transactions carried out by the Company or by its subsidiaries. In particular, delegated directors report on transactions in which they might bear an interest, on their own behalf or on behalf of third parties. Information is provided at least quarterly, during the Board of Directors' meetings as well as through written communications addressed to the Board of Statutory Auditors' Chairman.



## 1.6 Non-executive and independent Directors

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The Board includes two non-executive members which meet the independence requirements as per the article 3.C.1 of the Code (as well as articles 147-ter, paragraph 4, and 148, paragraph 3 of the TUF), namely Mr. Mario Greco and Mr. Gilberto Callera. The number of directors who meet the independence requirements as per art. 148, paragraph 3 of the TUF thus complies with the provision set forth by art. 147-ter, paragraph 4 of TUF, as recently revised by Legislative Decree n. 303 of 29 December 2006, regarding the boards of directors of listed companies formed by more than seven members. The existence of said independence requirements was assessed by the Board in the meetings of 28 February 2006 and 23 January 2007, also based on statements and information provided by the directors concerned.

Said evaluation considered that Board member Mr. Gilberto Callera is the father of a Company manager who does not play a key role within the organization, nor could he affect company strategies. Specifically, the Board meeting held on 23 January 2007, following consultation with the Board of Statutory Auditors, resolved that Ing. Gilberto Callera meets the independence requirements set forth by the Code of Self-discipline despite the above-mentioned parental relationships, in light of the above considerations and of Mr. Callera's confirmation that his relationship does not influence his choices and assessments as a Company Board member nor does it affect his judgment independence as well as of the actual way in which Mr. Callera has performed his duties since his appointment. We reassert these conclusions in this report.

Furthermore, the Board includes two other directors who can be regarded as non-executive directors, Mr. Gabriele Previati and Mr. Angelomario Moratti.

In light of the above, the Board currently includes a number of non-executive directors who may carry a significant weight in the Board decisions also by virtue of their authority.

## 1.7 Lead Independent Director and independent directors' meetings

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On 3 May 2006, the Board appointed independent director Mr. Gilberto Callera as *Lead Independent Director* in line with article 2.C.3 of the Code, entrusting him with the task to cooperate with the Chairman of the Board in order to grant timely and comprehensive information flows, together with the power to convene, on his own initiative or upon request of other directors, meetings of independent or non-executive directors to discuss topics related to the running of the Board of Directors or to the Company's management of affairs.

Pursuant to the recommendations set forth in article 3.C.6 of the Code, Saras's independent directors met on 17 November 2006 upon a call by the *Lead Independent Director*. During such meeting they expressed their satisfaction about the quarterly report at Board meetings by the executive directors on the significant transactions of the Company and of the Group. Furthermore, they considered that all documentation prepared for the Board meetings had been adequate and communicated in a timely manner, enabling directors to examine the topics on the agenda thoroughly.

The independent directors were also satisfied with regard to operations of the Compensation Committee and of the Internal Control Committee (of which both directors are members), also thanks to the support of the relevant internal departments, of the Company's staff and of external consultants.

Finally, the independent directors were satisfied with the flow and contents of communications and market disclosures,

specifically with regard to the Company's web site and communications and meetings with market operators; the Group demonstrated a remarkable ability to adapt its own policies to the high standards required by listing on a stock exchange.

### 1.8 Assessment of the composition of the Board and the Committees and of external offices

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During the meeting of 23 January 2007, the Board carried out an assessment of the size, composition and operations of the Board itself and of its Committees, as well as expressing its view as regards the maximum number of positions as director or statutory auditor that a Company director may hold in other companies listed on stock exchanges, or in financial, banking or insurance companies or in companies of sizeable dimensions, compatibly with an effective performance of the duties as a Company director.

During that meeting, in particular, the Board assessed - and those views are hereby reasserted - that the size and composition of the Board and its Committees, along with their operations so far, are adequate to the structure of the Company and of the Group.

In the above meeting, the Board also reviewed the position of director Dr. Mario Greco, who holds offices as executive or non-executive director in nine material companies in addition to Saras, four of which are listed on regulated stock exchanges.<sup>2</sup> In this regard, the Board assessed - and such assessment is hereby reasserted - that not only do the above assignments of Mr. Greco not prevent his effective performance of the duties as a Company director, but on the contrary, as demonstrated by his position as *Financial Expert* within the Internal Control Committee, they allow him to proactively contribute to the Board and Committees operations through a useful and effective expertise and competences.

### 1.9 Board implementation of other Code recommendations

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At the meeting held on 11 January 2006, the Board approved the consolidated industrial plan for 2006 (the *budget*) and for the next two financial years (the *business plan*). Those documents were later updated and restated by the Board during the meeting of 16 March 2006.

At the 23 March 2007 meeting, Saras Group's consolidated financial results were compared to the 2006 *budget* results expected for the same financial year.

As to the Board's evaluation of the Company's overall performance, see the Directors' Reports approved by the Board, attached to the draft financial statements and to the Group's consolidated financial statements respectively.

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<sup>2</sup> The companies are: Eurizon Financial Group SpA, Eurizon Vita SpA, Eurizon Tutela SpA, Eurizon Life SpA, Eurizon Capital SGR SpA, Banca Fideuram SpA, Gruppo Editoriale L'Espresso SpA, Indesit Company SpA, Fastweb SpA. Note that the Chief Executive Officer, Mr. Massimo Moratti, is a director of Interbanca SpA, Pirelli & C. SpA, Telecom Italia SpA.

## 2. Board Internal Committees

### 2.1 Compensation Committee

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According to article 7.P.3. and 7.C.3. of the Code, the Board formed an internal Compensation Committee with advisory and proactive functions as follows:

- (i) to make proposals to the Board, in the absence of the directors concerned, about compensation for directors to whom powers have been delegated and those who hold specific roles, monitoring the implementation of the Board's decisions;
- (ii) to regularly assess compensation criteria for managers with key responsibilities within the Company and its direct or indirect subsidiaries, and supervise the implementation thereof;
- (iii) to make proposals regarding the adoption of general compensation criteria for Saras Group's senior managers that will attract qualified professionals; and
- (iv) to propose possible stock option plans or stock grant plans.

Pursuant to the Compensation Committee regulations, which were approved by the Board on 11 January 2006, and subsequently modified on 3 May 2006 to comply with the recommendation provided by article 7.P.3. of the Code as regards composition of the committee, the Committee shall consist of three non-executive directors, the majority of whom are independent. The current members of the Compensation Committee are: Mr. Gilberto Callera, independent director, Mr. Mario Greco, independent director and Mr. Gabriele Previati, non-executive director. On 28 February 2006, the Committee appointed Mr. Gilberto Callera as its Chairman.

Meetings of the Compensation Committee are convened by its Chairman, when he deems it appropriate. The Committee is validly convened with the presence of the majority of its members and it passes resolutions with the absolute majority of attendants. Persons whose presence is deemed appropriate may be invited by the Compensation Committee to attend its meetings, it being understood that no director shall attend Committee meetings where proposals for her compensation are being discussed. The Committee may avail itself of internal and external consultants, who may provide useful information concerning market standards for compensation systems. Committee meetings are recorded in minutes.

During the 2006 financial year, the Compensation Committee held 3 meetings. The 2007 Committee meetings have been 2. The three members regularly attended the meetings, as described in the summary table in annex 1, to which we refer. The Committee was supported by internal and external consultants in carrying out its tasks.

The Committee convened on 28 February 2006 made proposals to the Board concerning compensation of directors vested with special offices (the Chairman, the Chief Executive Officer and the Vice Chairman); the Board accepted those proposals through a resolution pursuant to art. 2389, paragraph 3, of the Italian civil code.

The following Committee meetings held in the second half of 2006 and in 2007 were mostly related to the in-depth assessment of (i) the appropriateness of managers' compensation criteria, as well as (ii) the opportunity to adopt stock grant plans, both for managers and for all employees, in both cases pursuant to the recommendations as per art. 7 of the Self-discipline Code.

With particular reference to the possible adoption of stock grant plans, following the in-depth analyses and assessments, the Committee brought to the Board's attention proposals to adopt (i) a compensation and retention stock grant plan for

managers (*dirigenti*) of the Saras Group concerning the granting for no consideration of Saras ordinary shares to managers of the Company and of the Group, based, among other things, on the performances of Saras shares and of the Group's financial results for each of the three years of the plan, as well as (ii) a three-years retention and motivation stock grant plan for the employees concerning the granting for no consideration of Saras ordinary shares to permanent employees of Saras and of its Italian subsidiaries based, among other things, on the possible investment in Saras shares by employees rather than on performance indicators.

Proposals for the two plans were approved by the Board at the meeting where this Report was also approved, and both plans will be submitted to the Company Shareholders' Meeting for final approval, as provided by art. 114-*bis* of the TUF. Reports about the two plans will be published according to the above provision within fifteen days of the term set for the Meeting convened to resolve on said plans and on the approval of the financial statements for the year ended 31 December 2006.

## 2.2 Internal Control Committee

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Pursuant to art. 8 of the Self-discipline Code, the Board formed an Internal Control Committee with advisory and proactive functions towards the Board. In particular, the Internal Control Committee:

- (a) assists the Board in (i) setting out the guidelines of the internal control system so as to enable the issuer and its subsidiaries to correctly identify, measure, monitor and manage the main risks, (ii) determining the criteria ensuring that such risks are compatible with correct company management, (iii) assessing, at least on an annual basis, the adequacy and the effectiveness of the internal control system, and (iv) providing a description of the key elements of the internal control system in the corporate governance report, including an assessment about its overall adequacy;
- (b) evaluates, along with the manager in charge of preparing the company's financial statements and with auditors, the correct implementation of accounting principles and their consistency for purposes of drafting the consolidated financial statements;
- (c) expresses its opinion, upon request of the executive director in charge, about specific aspects concerning the identification of the company's primary risks as well as the design, implementation and management of the internal control system;
- (d) reviews the work plan prepared by internal controllers as well as their periodic reports;
- (e) evaluates proposals submitted by audit firms to be retained as the Company's auditors, as well as the work plan for the auditing activities and the results set forth in the audit report and in the management letter, if any;
- (f) supervises the effectiveness of the audit process;
- (g) carries out other tasks assigned to it by the Board;
- (h) reports to the Board at least every six months, at the time financial statements and half-year reports are approved, on the activities performed as well as on the adequacy of the internal control system.

The internal Control Committee, as set forth by its regulations approved by the Board on 11 January 2006, consists of three non-executive directors, the majority of whom are independent. The Committee currently includes Mr. Mario Greco, independent director, Mr. Gilberto Callera, independent director, and Mr. Gabriele Previati, non-executive director. The Committee convened on 8 March 2006 appointed Mr. Gabriele Previati as its Chairman. On 3 May 2006, the Board determined in accordance with article 8.P.4. of the Code that Mr. Mario Greco, member of the Internal Control Committee,

has adequate accounting and financial experience to be regarded as Financial Expert.

Meetings of the Internal Control Committee are convened by its Chairman, when he deems it appropriate, at least biannually. The Committee is validly convened with the presence of the majority of its members and it passes resolutions with the absolute majority of attendants. The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the former usually attends Committee meetings. The Chairman of the Board of Directors and the Chief Executive Officer may also attend the meeting, as well as other members of the Board of Statutory Auditors, the Internal Control Officer, the *Chief Financial Officer*, audit firm representatives and any other person whose presence the Committee deems appropriate with respect to the items on the agenda. Committee meetings are recorded in minutes.

During the 2006 financial year the Internal Control Committee held 3 meetings. Three Committee meetings were held in the first quarter of 2007. The three members regularly attended the meetings, as described in the summary table in annex 1, to which reference is made, along with the Internal Control Officer, the Chairman of the Board of Statutory Auditors and the Internal Audit Manager. The Committee gave a meaningful contribution to the implementation of the Company's corporate governance tools, taking part in their analysis, definition and update. The Committee participated in the process of adopting the principles governing the carrying out of related parties' transactions as well as a code of the Saras Group's directors, described below. The Committee also drew up and submitted to the Board the guidelines of the internal control system concerning risk identification, the implementation of the control system and the evaluation of its effectiveness.

The Committee was constantly informed about activities concerning the implementation of the Organization, Management and Control Model as per Legislative Decree no. 231 of Saras and its subsidiaries (as described below) and monitored activities carried out by the Internal Control Officer and by the Internal Audit function with regard to the assessment on the internal control system adequacy and effectiveness. Specifically, as far as the Internal Audit function is concerned, the Committee reviewed the quarterly audit reports and the implementation of corrective measures, as well as a summary of activities performed during 2006 upon closing of the audit plan. In the meeting held on of 23 January 2007, the Committee reviewed and approved the activities and the audit plan drawn up by the Internal Audit function for the 2007 financial year.

In the second half of 2006 the Committee began a general assessment of the controls and procedures concerning the internal control system of Saras and of its subsidiaries. Such assessment, which was carried out alongside the ordinary activities of those involved, was primarily performed by the Internal Control Officer and by the competent departments and employees, with the support and the specific coordination of the Chairman of the Board of Directors as executive director in charge of the internal control supervision.

The Internal Control Committee submitted the results of such assessment to the Board of Directors at the meeting held on 23 March 2007. The assessment results enabled the Board to implement some improvements also based on the proposals and recommendations put forward by the Internal Control Committee and by the director in charge of supervising the internal control system. Specifically, the assessment identified opportunities to update and improve procedures for monitoring business risks.

Also as a result of the activities mentioned above, the Board believes that processes are adequately managed and monitored, in that they provide a reasonable assurance about the observance of the Company's policies and guidelines, the

correct implementation of the procedures and the adequacy and the effectiveness of the controls. In the meeting of 23 March 2007 the Board determined the Company's internal control system, whose essential elements are described in this Report, to be adequate and effective.

### 3. Internal Control

The Board is responsible for the internal control system, sets its guidelines and periodically assesses its adequacy and effectiveness. To such end the Board avails itself of the Internal Control Committee, the Internal Control Officer, as well as of the Internal Audit function.

Pursuant to the recommendation of art. 8.C.1. of the Code, the Board:

- (a) identified the Chairman of the Board as the executive director in charge of the supervision of the internal control system;
- (b) appointed, upon proposal by the Chairman of the Board, Mr. Concetto Siracusa as the Internal Control Officer, entrusting him with the tasks of: (i) verifying that the company's internal control system is at all times adequate, fully operational and effectively running; (ii) periodically reporting to the Internal Control Committee, the Board of Statutory Auditors and the Chairman of the Board about its activities and the way risks are managed, as well as about compliance with plans set to minimize such risks; (iii) evaluating the suitability of the internal control system to accomplish an overall acceptable risk profile;
- (b) entrusted the Chairman of the Board, as the executive director in charge of supervising operations of the company's internal control system, with the task of taking all actions deemed necessary to enable the Internal Control Officer to directly access the information needed and to obtain all resources needed to fulfil the assignment.

The Internal Control Officer, who complies with the knowledge and professional skills requirements, does not report to operational departments but to the Internal Control Committee, to the Board of Statutory Auditors and to the Chairman of the Board of Directors (as executive director in charge of supervising the Company's internal audit system).

The Internal Audit function reports directly to the Chairman of the Board and reports on his activities to the Internal Control Committee, to the Board of Statutory Auditors as well as to the Supervisory Authority established pursuant to Legislative Decree no. 231/01. It has the specific task of monitoring the Group's internal control system to ensure its efficiency and effectiveness. The Internal Audit function manager is Mr. Ferruccio Bellelli.

The current segregation of duties between the Internal Audit manager and the Internal Control Officer is aimed at ensuring a better enforcement of the audit actions and of the assessment of the internal control system on the part of the Internal Audit function, as well as a better management of the issues arising from the control system design and of the relationships with the supervisory entities within the organization (Internal Control Committee, Supervisory Authority, Board of Statutory Auditors, external auditors) on the part of the Internal Control Officer.

At a meeting held on 9 August 2006, upon the proposal of the Internal Control Committee, the Board approved the guidelines for the internal control system. This document, which was shared with the Internal Control Officer and with the Internal Audit manager, was drafted for the purpose of setting guidelines for developing and improving the Company's internal control system, with specific reference to control environment, risks assessment, control and monitoring activities.

The Code of Ethics is an essential part of the internal control system and portrays the principles and values recognized by Saras and with which all employees, consultants and all those who hold relationships with Saras are requested to comply. The Code of Ethics has been adopted by Saras and its subsidiaries (Sarlux, Sartec, Akhela, Arcola Petrolifera, Sardeolica, Saras Energia).

The internal control system was further enhanced by the adoption of the Organization, Management and Control Model (the "Model"), approved by the Board of Directors on 11 January 2006, to implement regulations concerning the "Rules for the administrative responsibility of public entities" pursuant to Legislative Decree no. 231/2001, in order to set up a system of procedures and controls aimed at minimizing the risk of commission of the crimes listed in the Legislative Decree.

The Model was drafted according to the guidelines issued by Confindustria (Confederation of Italian Industry) and consists of a "general section" (which describes the objectives and operations of the Model, the duties of the supervisory body in charge of monitoring the effectiveness of the Model and compliance thereto, as well as the penalties regime) and by "special sections," concerning the different kinds of offences referred to by Decree no. 231/2001. Only the special section concerning offences against the Administration are currently in force, while the special sections concerning articles 25 *bis*, *ter*, *quater* and *quinquies* of Legislative Decree no. 231/01 are in the process of being drafted (regarding corporate offences, terrorism-related offences or those against democracy, offences against people, monetary infringements). Guidelines concerning relationships with the Administration have been adopted to implement the Model, providing for the conduct to be held by persons authorized to deal with the Administration.

A Supervisory Authority was established for the purpose of promoting the correct and effective implementation of the Saras Model. The Supervisory Authority consists of Mr. Previati, non-executive director (as the Chairman), Mr. Claudio M. Fianza and Mr. Concetto Siracusa.

Companies belonging to Saras Group (Sarlux, Sartec, Akhela, Arcola Petrolifera, Sardeolica) implemented their own organization, management and control models during 2006, at the same time establishing their respective supervisory authorities.

#### 4. Management of corporate information

In accordance with art. 115-*bis* of TUF, which requires that listed companies set up a register to record people that may access confidential information, as well as with the recommendations set forth in article 4 of the Code (which in turn stem from art. 114 of TUF and its implementing rules), the Board adopted the "*Internal regulations for management of confidential information and the register of people who may access confidential information*" as from May 2006. The Regulations sets forth procedures for the identification, internal management and access by third parties and, wherever the case, communication to third parties of confidential or material information regarding the Company and its subsidiaries, particularly with reference to *price sensitive* information, aimed at preventing, among other things, that it be selectively, untimely, incompletely or inadequately communicated.

The Regulations, including all provisions related to the Register keeping activities (which Saras manages also on behalf of its subsidiaries), were drafted in compliance with art. 114 of the TUF, with provisions set forth in art. 65-*bis* and following, as well as with art.152-*bis* and following as far as the register is concerned, of the Issuers' Regulations and having regard to Consob Communication no. DEM/6027054 of 28 March 2006.



## 5. Internal Dealing Code

In order to conform Saras's corporate governance to the rules applicable to listed companies, the Board also adopted, as from May 2006, an "Internal Dealing Code"<sup>3</sup> implementing the provisions set forth in art. 114.7 of the TUF and in art. 152-*sexies* and following of the Issuers' Regulations, aimed at ensuring correct and adequate market disclosure on transactions on the Company's securities effected by the Company's personnel. The Internal Dealing Code sets forth specific rules of conduct and communication with reference to transactions on financial instruments issued by Saras carried out by relevant persons (including the Company's directors and statutory auditors, the general manager and managers with regular access to confidential information and having decision making powers on management decisions which may affect the development and the future perspectives of the Company, as well as of every shareholder holding directly or indirectly at least 10% of Saras's share capital) or by individuals closely connected to these relevant persons. In line with the best practice, the Internal Dealing Code contains provisions aimed at prohibiting the relevant persons, and individuals closely connected to them, from effecting transactions on the Company's Securities in specific periods.

## 6. Directors' interests and material and related parties transactions

While waiting for Consob to define the general principles related to the internal rules which should ensure transparency and substantial correctness of transactions with related parties, pursuant to art. 2391-*bis* of the Italian civil code, the Board did not implement, throughout 2006, a specific set of rules about related parties transactions or about transactions where a director bears interests for himself or for a third party. The Board, however, substantially complied with the rules regulating the matter as well as with the transparency and correctness principles provided for in art. 9 of the Self-discipline Code, for instance by reserving to itself material economic or financial transactions, including certain related parties' transactions.

Still in the absence of Consob's definition of the general principles above, at the meeting held on 23 January 2007 the Board adopted "Principles governing the carrying out of related parties' transactions", including possible solutions in cases where directors bear an interest. The Principles were drafted in a document favourably assessed by the Internal Control Committee and by the Board of Statutory Auditors. It remains subject to all amendments deemed necessary or appropriate should Consob adopt the general principles referred to above.

According to the Principles, related parties' transactions worth more than a certain value (higher for inter-company transactions, i.e., transactions undertaken by Saras with directly or indirectly connected entities; lower for transactions with other related parties, such as relevant shareholders or parties connected thereto), are subject to approval by the Board.

The Board also identified certain kinds of transactions subject to its prior approval even if they do not qualify as related parties' transactions if they are worth more than a certain value (purchase or disposition of shareholdings, businesses, divisions or immovable property).

At the meeting of 23 January 2007, the Board also approved a "Code of conduct for Group directors", also favourably assessed by the Internal Control Committee and by the Board of Statutory Auditors, primarily intended to provide directors with consistent criteria of conduct to allow them to perform their duties within a predefined framework, in compliance with the laws governing directors' interests and with corporate governance principles and, where possible, coherently with the interests of the Saras Group.

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<sup>3</sup>. Available at the following link: [http://www.saras.it/documentazione/codice\\_internal\\_dealing.pdf](http://www.saras.it/documentazione/codice_internal_dealing.pdf)



## 7. Manager in charge of drafting corporate accounting documents

Since the listing of its shares in May 2006, the Company appointed a manager in charge of drafting corporate accounting documents, after amending its Articles of Association to adjust to the provisions set forth by art. 154-*bis* of the TUF. The current manager in charge is the Company's *Chief Financial Officer*, Mr. Corrado Costanzo, who was appointed in this capacity by the Board of Directors held on 2 October 2006.

The manager in charge performs duties provided for by art. 154-*bis* of the TUF, for which the Board provided him with all powers deemed necessary or appropriate.

## 8. Board of Statutory Auditors

According to the Articles, the Board of Statutory Auditors is appointed by the Shareholders' Meeting through a slate mechanism aimed at ensuring that the second most voted list may appoint an effective statutory auditor (who will be appointed as Chairman of the Board of Statutory Auditors) and an alternate statutory auditor. The lists of candidates may be deposited at the Company's registered seat at least two days prior to the first call of the Meeting, by shareholders representing, directly or together with other shareholders, at least 2.5% of share capital formed by shares with voting rights at the general Meeting. Along with each such list, within the two days' deadline for the deposit, declarations by each nominee stating - under their own responsibility - that they comply with all statutory or Articles requirements for election as statutory auditors and that no reasons for ineligibility exist, shall be also deposited at the Company's registered seat. The office of permanent statutory auditor is not compatible with the holding of similar offices in more than three other companies listed in Italy, not including Saras and its controlled companies.

The Board of Statutory Auditors currently in office was appointed by the Meeting convened on 11 January 2006, and will expire on the date of approval of the financial statements for the year ending 31 December 2008. It is composed of the members listed below, none of whom was nominated by minority shareholders:

Mr. Claudio Massimo Fianza	Chairman
Mr. Giovanni Luigi Camera	Permanent Statutory Auditor
Mr. Michele Di Martino	Permanent Statutory Auditor
Mr. Massimiliano Nova	Alternate Statutory Auditor
Mr. Luigi Borré	Alternate Statutory Auditor

Throughout 2006 the Board of Statutory Auditors held 6 meetings. In 2007 there has been 1 meeting. Permanent statutory auditors regularly attended the meetings, as reported in detail in the summary table attached as annex 2, to which reference is made.

The Board of Statutory Auditors, according to art. 10.C.2 of the Code, successfully verified the existence of its own independence requirements set forth by the law as well as by the criteria described in the Code with respect to directors.

The Board of Statutory Auditors, in compliance with art. 10.C.5 of the Code, also successfully supervised the independence of the auditing firm, assessing both compliance with applicable laws as well as the nature and extent of services other than the accounting audit provided to the issuer and its subsidiaries by the firm itself or by other firms belonging to the same network.

## 9. Relationships with shareholders

Since the listing of its shares with the Italian Stock Exchange, the Company has regarded the establishment of a dialogue with all shareholders and institutional investors as something to be done in its own interest as well as a duty towards the market—; a dialogue to be carried out in compliance with the laws in force and with the principles set forth in the “Guide to the Market Information” published by Borsa Italiana S.p.A., as well as with the internal Regulations for the management of confidential information.

In order to foster such dialogue, the Company appointed Mr. Marco Schiavetti as the person responsible for managing relationships with shareholders and institutional investors, pursuant to recommendations in art. 11 of the Code. The Company also determined to further improve dialogue with investors by adequately arranging its web site contents ([www.saras.it](http://www.saras.it), investor relations section), within which economical and financial information in Italian and English (financial statements, half-year and quarterly reports, presentations to the financial community, financial forecasts by analysts and the Company’s share price trends), as well as the latest data and documents for all shareholders (press releases, composition of the Board and of the Company’s management, Articles of Association, Code of Ethics, Meetings Regulations, Internal Dealing Code) may be retrieved.

You may contact the department in charge of relationships with shareholders and investors at the following address:  
Saras S.p.A. – Investor Relations, Galleria De Cristoforis, 8 – 20122 Milan  
Toll free No. 800511155 – email: [ir@saras.it](mailto:ir@saras.it)

## 10. Meetings Regulations

The Company considers the Meeting as a preferential means to develop a dialogue between the Board of Directors and shareholders and to communicate the Company’s news to shareholders, to occur in full compliance with regulations concerning confidential information.

In compliance with the recommendations set forth in art. 11 of the Code, the Company adopted Meeting Regulations,<sup>4</sup> which were also drafted according to the model prepared by ABI and Assonime, to ensure that Meetings are orderly and effectively held by means of detailed rules governing their various stages, in all instances ensuring that the fundamental right of each shareholder to ask for clarifications about the different items on the agenda, to express his opinion and to submit proposals is fully observed.

Although the Regulations do not have the status of Articles provisions, they were approved by the Ordinary Shareholders’ Meeting pursuant to an Article clause to this end.

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4. Available at the following link: [http://www.saras.it/documentazione/regolamento\\_assemblee.pdf](http://www.saras.it/documentazione/regolamento_assemblee.pdf)