Annual report 2011

SABAF

ANNUAL REPORT 2011

SABAF

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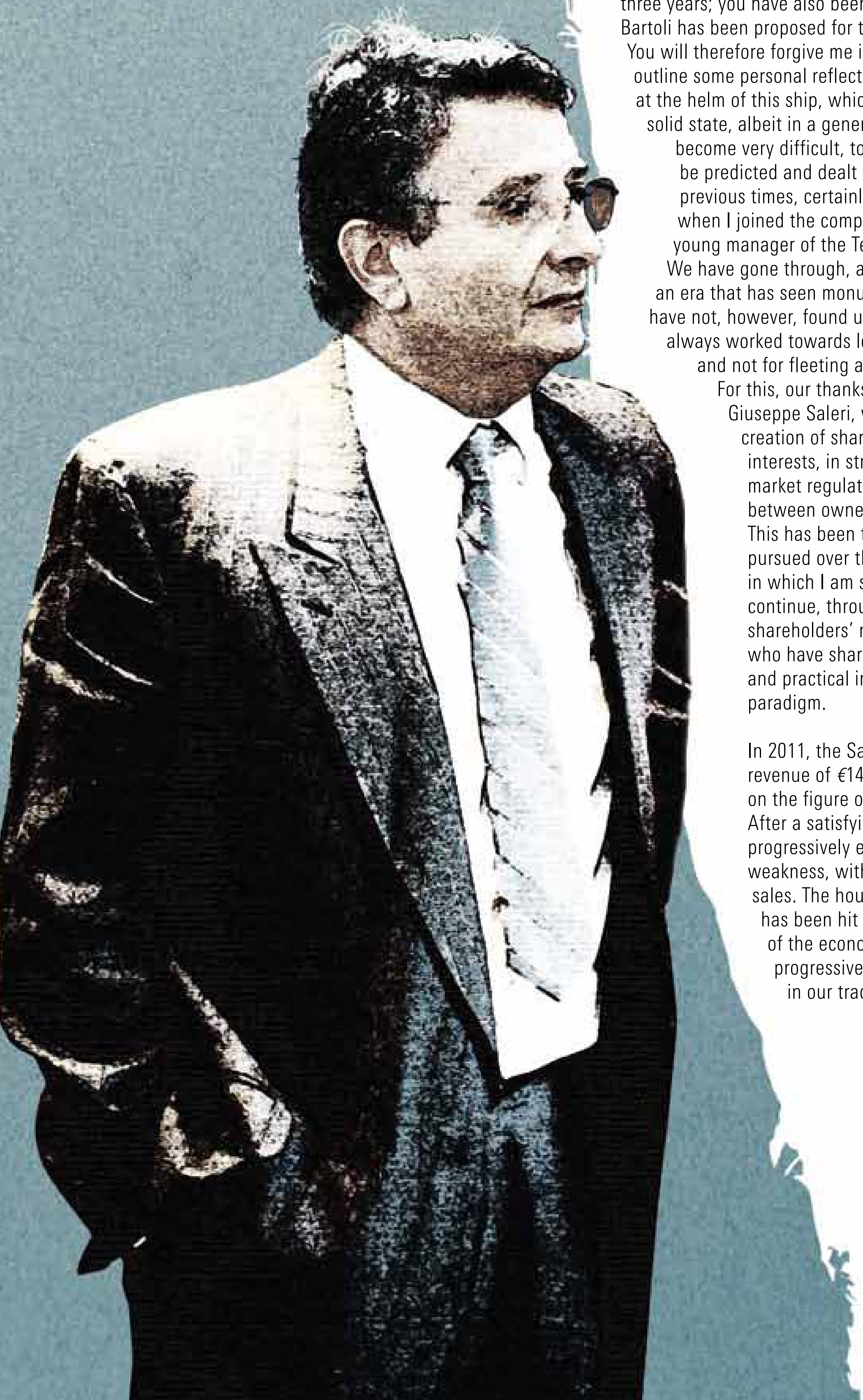
CHIEF EXECUTIVE OFFICER'S LETTER TO STAKEHOLDERS



Dear Shareholders and Stakeholders,

For the last time, after 18 years, it is my duty to report the performance and results achieved by Sabaf in the year just concluded. You have been informed that, with my mandate as Chief Executive Officer coming to an end, I have decided not to seek re-election to the post for another three years; you have also been informed that Alberto Bartoli has been proposed for the position.
You will therefore forgive me if I use this brief letter to outline some personal reflections, after so many years at the helm of this ship, which I leave in a strong and solid state, albeit in a general environment that has become very difficult, to the extent that it cannot be predicted and dealt with using the tools of previous times, certainly not those that existed when I joined the company in 1969, then as a young manager of the Technical Department.
We have gone through, and are still going through, an era that has seen monumental changes, which have not, however, found us unprepared, as we have always worked towards long-term sustainability, and not for fleeting and short-lived success.
For this, our thanks must first of all go to Giuseppe Saleri, who has championed the creation of shared value over the family's interests, in strict compliance with market regulations and the separation between ownership and management. This has been the main direction we have pursued over these years. A direction in which I am sure the Group will continue, through the proposal to the shareholders' meeting of the directors who have shared in the logic, objectives and practical implementation of this paradigm.

In 2011, the Sabaf Group recorded sales revenue of €148.6 million, down 1.5% on the figure of €150.9 million in 2010. After a satisfying start, the market progressively entered a new phase of weakness, with a consequent drop in sales. The household appliance market has been hit hard by the weakness of the economy, and has seen a progressive slowdown in demand in our traditional core markets

(Italy and Western Europe). In contrast, sales in Eastern Europe and South America registered solid growth. These are markets on which Sabaf began some time ago to establish a presence for the long term, and are the areas that have been prioritised in its internationalisation strategy. In Brazil, a facility has already been operational for some years, while in Turkey, a new production unit is set to come on stream by the end of 2012.
Profitability in 2011 was negatively affected by the significant rise in commodity prices, which could not be fully passed on to sales prices, and by the non-optimal use of production capacity, which is directly linked to the weakness in demand.
The financial structure remains sound, with a modest level of debt, another indicator of the health of a company that in the last few years has been able to invest more than EUR 10 million a year in new products and processes, exclusively self-financed.

To sustain our margins, we have mainly leveraged on product and process innovation. The ability to work across the whole supply chain, which in our case also includes the design and construction of manufacturing and assembly machines, remains one of Sabaf's strengths in which it must continue to invest in the future, building on the technical expertise and professionalism of individual members of staff. For us, this is what it means to put people at the centre of our strategy.
It is no coincidence that during this period of serious crisis that continues to affect the western world, Sabaf has been able to respond promptly to these difficulties, registering even significant reductions in volumes without this leading to a loss in competitiveness. From this viewpoint, we must be optimistic about the future: more innovative products, such as light alloy valves and special burners, to which for some years we have continuously directed the bulk of our efforts in research, have now been launched, and we expect further positive results from these in the future. We are world leaders in this area: the result of desire and passion, two elements that have always protected us from every storm and enabled us to overcome every obstacle.
The international environment is difficult, but it is even more so for our competitors, which don't have our know-how, our ability to affect every detail, even beyond technical literature, because in this area, if I may say so, we wrote the book. And if we're required to speed up further in the future, a little like Lewis Carol's Alice, who has to run to stand still, we are undoubtedly well-equipped for the race, even though we must not forget that to run fast, we must be trained, efficient and prepared. We have the muscles, the brain, the tools and the expertise to do it better than anyone else.

Over the last few weeks, I have received expressions of esteem, friendship, respect and thanks from all kinds of people, some of whom I knew personally, others who only revealed themselves to me on this occasion. Let me just say that I am proud to have over these years led a company of men and women, each of whom has entrusted their hopes, their life plans, their ambitions and their future to Sabaf. When I look at them, I understand how important is the road that we have taken, how our successes are the successes of everyone, a region, a community, not just a brand or a product. It is them who I would like to thank first and foremost, and I urge my successor to continue to think of them any time that a decision must be made concerning the present or future of this company. At times, these decisions will seem to some to run counter to their needs, their interests, their portfolio. This happens when the objective is long-term sustainability, when it is necessary to maintain the health of the entire body, sacrificing a small interest to the bigger interest of the entire community.

I would like to end with a quote from a US president who had to govern a very different reality to this one, in no less difficult and tempestuous times. In 1953, Dwight Eisenhower said: "This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children." It is a maxim that I would like us to always keep in mind. Thank you.

Angelo Bettinzoli

INTRODUCTION TO THE ANNUAL REPORT

SABAF'S PROGRESS TOWARDS INTEGRATED REPORTING

Over the last year, the worldwide debate on integrated reporting has led to the definition of guidelines for the future. Specifically, the publication in September 2011 of the discussion paper "Towards Integrated Reporting – Communicating Value in the 21st Century", by the International Integrated Reporting Council (IIRC), further contributed to the gradual development of an international framework for Integrated Reporting.

Sabaf, one of the first companies in the world to develop integrated reporting, intends to take a proactive approach, constantly remaining in line with best practice and improving transparency vis-à-vis its stakeholders. For the seventh consecutive year, Sabaf has chosen to present integrated reports to its stakeholders, in line with the international guidelines defined by the IIRC.

The 2011 Annual Report is not just a statement of the results for the year, but a document intended to explore the origin of these results. The Annual Report therefore shows the key factors at the basis of the Sabaf Group's strategy, focuses on the fundamental components of the business model, and illustrates their consistency with management decisions and economic, social and environmental effects.

Within this framework, Sabaf is committed to taking part in the Gruppo Oscar di Bilancio – Rendicontazione Integrata, the first multi-stakeholder round table in Italy set up to make an active contribution to the definition of new integrated reporting criteria in consultation with the Integrated Reporting International Committee.

METHODOLOGY

Sections **1 - Business Model and strategic approach,**
2 - International operations and core markets
4 - Social and environmental sustainability comprise the Annual Report at 31 December 2011, prepared in accordance with:
- the 2006 Sustainability Reporting Guidelines defined by the GRI/G3, the level of application of which we believe corresponds to A+;
- the AA 1000 (AccountAbility 1000) standards issued by AccountAbility, as regards the social reporting process and the dialogue with stakeholders.

As in previous years, the process of defining content and determining materiality is based on GRI principles (materiality, inclusivity of stakeholders, sustainability and completeness).

Section **3 - Governance, Risk Management, Compliance and Remuneration** reports important information regarding the corporate governance structure and the company risk management system.

Sections **5 - Report on Operations, 6 - Consolidated Financial Statements** and **7 - Financial Statements of Sabaf S.p.A.** make up the Annual Financial Report at 31 December 2011.

Finally, the **Report on Remuneration**, is provided, prepared pursuant to Article 123-ter of the Consolidated Law on Finance.

Once again this year, the section "non-financial indicators" includes the results of operating and improving intangible fixed assets, the principal drivers that allow monitoring of the business strategy's ability to create value in the medium to long term.

The reporting scope of the Annual Report corresponds to that of the Annual Financial Report, from which the economic and financial data contained in the Annual Report are derived. Any limitations compared with this scope are specifically mentioned. To ensure that the information contained in the Annual Report is reliable, only directly measurable figures are included, avoiding the use of estimates wherever possible. The calculations are based on the best information available or on sample-based surveys. Where they have been used, estimates are clearly indicated as such.

The Annual Report was approved by the Board of Directors on 26 March 2012 and presented to shareholders at the Annual General Meeting held on 8 May 2012.

KEY ISSUES FOR GROUP OPERATIONS

In order to identify the key issues to be explored in the 2011 Annual Report, the following were taken into account:
- the strategic priorities defined at Company level;
- stakeholder expectations.

Sustainable development	Sustainability strategy and management Business ethics Enhanced exploitation of intangible assets and intellectual capital Establishment in international markets
Customers	Customer satisfaction Product and process research and innovation Image and Reputation Partnerships with multinational groups
Staff	Staff management, development and training Health and safety
Environment and Suppliers	Environmental impact Eco-efficiency and quality management Monitoring of the Supply Chain
Shareholders and Society	Corporate governance and protection of minority shareholders Relations with the region

Sabaf adopts CECED Code of Conduct

Sabaf subscribes to the CECED Italia Code of Conduct. CECED Italia is an association that represents more than 100 companies in the household electric appliance industry.
By signing up for this initiative, Sabaf recognises and undertakes to act as a "good corporate citizen".
The CECED Italia Code of Conduct is a voluntary agreement for CECED Italia members wanting to promote fair and sustainable working conditions, corporate social responsibility and environmental quality. It also requires the signatory companies to encourage the application of the principles enshrined in the code within their own supply chain.
In this context, the Sabaf Annual Report is the tool through which the Group reports each year on the practical implementation of the code's principles and the progress achieved, as specifically required of participating companies.

Sabaf is a member of the Global Compact

In April 2004 Sabaf formally subscribed to the Global Compact, the United Nations programme for companies that commit to supporting and promoting 10 universally accepted principles covering human rights, labour rights, environmental protection and the fight against corruption.
By publishing the 2010 Annual Report, we are renewing our commitment to making the Global Compact and its principles an integral part of our strategy, our culture and our daily operations, and we also undertake explicitly to declare this commitment to all our employees, partners, customers and public opinion in general.
The Annual Report contains details of the measures taken by the Sabaf Group in support of the 10 principles. The references are set out in the index of GRI indicators, according to the guidelines "Making the connection. The GRI Guidelines and the UNGC Communication on Progress".

Angelo Bettinzoli

THE 10 PRINCIPLES

HUMAN RIGHTS

Principle I
Businesses are required to promote and respect universally acknowledged human rights in the ambit of their respective spheres of influence and

Principle II
make sure that they are not directly nor indirectly complicit in human rights abuses.

LABOUR

Principle III
Businesses are required to support the freedom of association of workers and to recognise their right to collective bargaining.

Principle IV
Elimination of all forms of forced and compulsory labour.

Principle V
Effective abolition of child labour.

Principle VI
Elimination of all forms of discrimination in respect of employment and occupation.

ENVIRONMENT

Principle VII
Businesses should support a precautionary approach to environmental challenges and

Principle VIII
undertake initiatives to promote greater environmental responsibility.

Principle IX
encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

Principle X
Businesses should work against corruption in all its forms, including extortion and bribery.

KEY PERFORMANCE INDICATORS (KPIS)

FINANCIAL INDICATORS

Income statement

(Amounts in euro'000)	2011	2010	2009
Sales revenues	148,583	150,897	127,088
EBITDA	30,092	38,516	28,518
Operating profit (EBIT)	16,566	25,793	16,218
Pre-tax profit	15,454	23,776	14,548
Net profit	10,775	16,867	11,583

Balance sheet and financial position

(Amounts in euro'000)	31/12/2011	31/12/2010	31/12/2009
Non-current assets	102,310	100,632	99,038
Working capital	37,915	37,476	33,191
Provisions for risks, employee benefits and deferred taxes	(3,606)	(3,717)	(3,935)
Capital employed	**136,619**	**134,391**	**128,294**
Shareholders' equity	121,823	121,846	109,133
Net financial debt	14,796	12,545	19,161
Total sources	**136,619**	**134,391**	**128,294**

Other financial indicators

	2011	2010	2009
ROCE (return on capital employed)	12.1%	19.2%	12.6%
Dividend per share (€)	0.60*	0.80	0.50
Net debt/equity ratio	12%	10%	18%
Market capitalisation (31.12)/equity ratio	1.06	2.41	1.74
Change in sales	-1.5%	+18.7%	-21.5%

(Amounts in euro'000)	2011	2010	2009
Investments in research & development	648	524	386
Other investments	13,842	12,845	11,979

(Amounts in euro'000)	2011	2010	2009
Value of outsourced goods & services			
• brass pressing and aluminium die-casting	5,049	5,824	4,613
• other processing	8,010	8,036	6,651

** Proposed dividend*

GENERATED AND DISTRIBUTED ECONOMIC VALUE

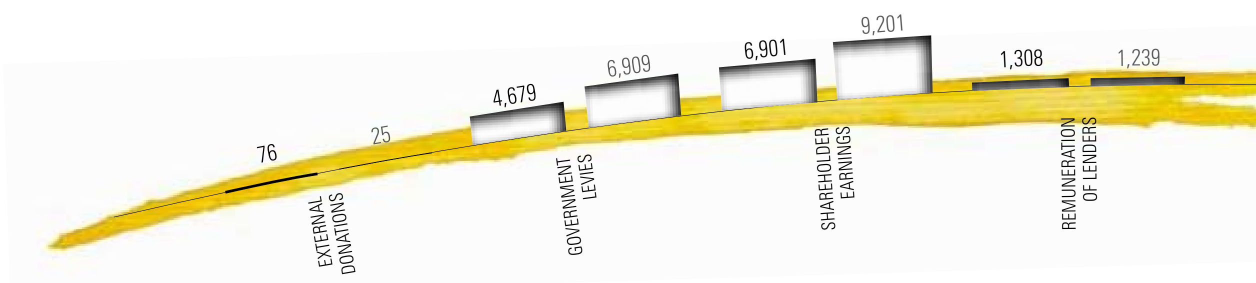
The following table shows the amounts and allocation of economic value among stakeholders, prepared in accordance with GRI guidelines.
The table was prepared by defining three levels of economic value: generated value, distributed value and value retained by the Group. Economic value represents the overall wealth created by Sabaf, which is then allocated amongst its various stakeholders: suppliers (operating costs), staff and independent contractors, lenders, shareholders, government and society (grants and gifts outside the Company).

(Amounts in euro'000)	2011	2010	Change
Economic value generated by Group	**153,276**	**154,854**	**(1,578)**
Revenue	148,583	150,897	(2,314)
Other income	4,871	4,660	211
Financial income	162	132	30
Adjustments	981	937	44
Doubtful account provision	(250)	(577)	327
Foreign exchange loss (gain)	391	(151)	542
Income/expenses from sale of tangible and intangible fixed assets	23	(34)	57
Adjustments to tangible and intangible fixed assets	(1,129)	(251)	(878)
Gains/ losses from equity investments	(356)	(759)	403

Economic value distributed by Group	**136,974**	**134,703**	**2,271**
Remuneration of suppliers	93,270	86,409	6,861
of which environmental costs	*834*	*710*	*124*
Employee compensation	30,740	30,920	(180)
Remuneration of lenders	1,308	1,239	69
Shareholder earnings	6,901	9,201	(2,300)
Government levies[2]	4,679	6,909	(2,230)
External donations	76	25	51

2- Includes deferred taxes

Economic value retained by Group	**16,301**	**20,151**	**(3,850)**
Depreciation and amortisation	12,421	12,438	(17)
Allocations	167	160	7
Use of provisions	(161)	(113)	(48)
Reserves	3,874	7,666	(3,792)



NON-FINANCIAL INDICATORS

Human capital

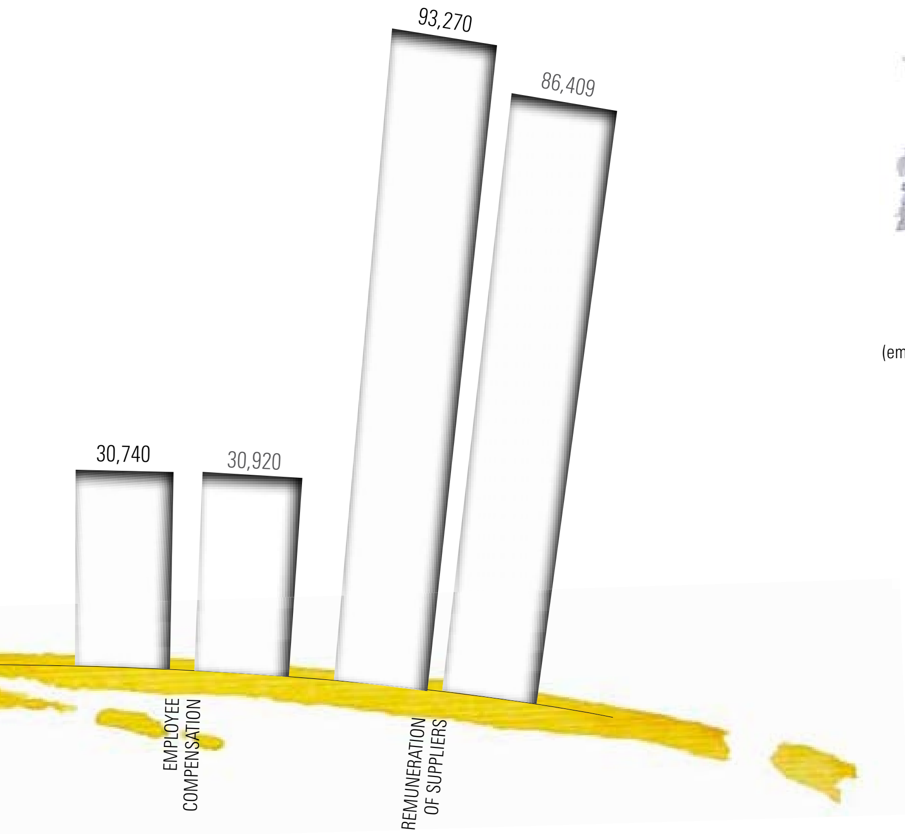
Level of education
(number of university and high school graduates/total employees at 31/12)

Average age of employees
(sum of age of employees/total employees at 31/12)

Hours of training per employee
(average hours of training per employee)

Investment in training/
sales

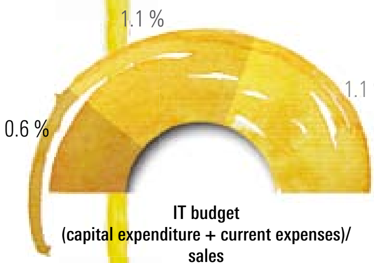
Staff turnover
(employees who resign or are dismissed/total employees at 31/12)



2011
2010
2009

2011
2010
2009

Structural capital

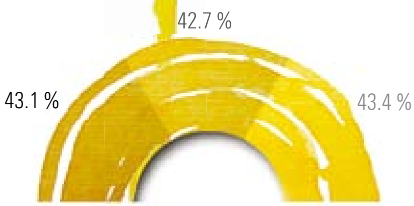


IT budget
(capital expenditure + current expenses)/
sales

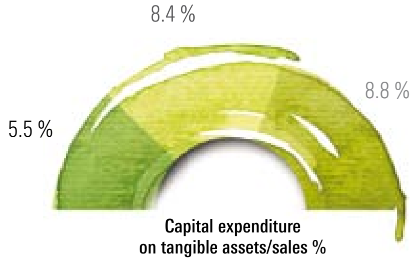
Hours spent on
process engineering/hours worked
(hours spent on contract work for
construction of new machinery for
new products or to increase production
capacity/total hours worked)

Current expenses
for quality/sales

In-house production rejects/sales
(production rejects/sales)



% employees
with PCs at 31/12

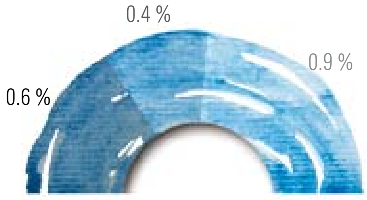


Capital expenditure
on tangible assets/sales %

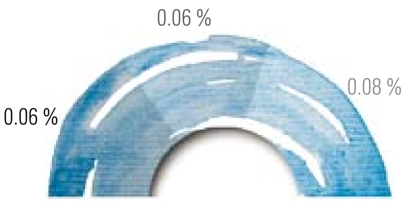
Capital expenditure
for quality/sales

Customer rejects + in-house rejects/sales
(production rejects + customer returns/sales)

Hours spent on new product
development/total hours worked



Capital expenditure
on intangible assets/sales



Customer rejects
(customer charge-backs and credit notes
for returned goods/sales)

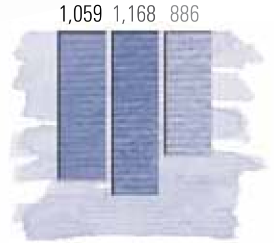
Relational capital

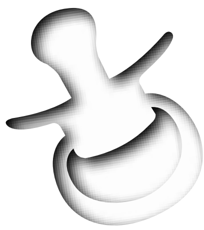
Hours of industrial action for internal causes

0 21,5 16

Number of samples produced for customers

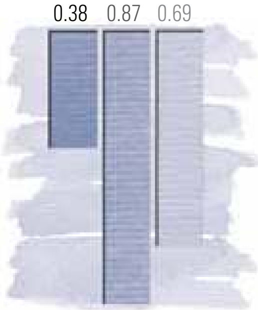
1,059 1,168 886



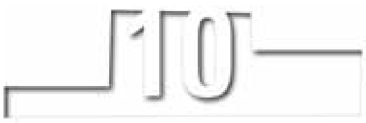


% sales from new customers (sales to new customers/sales)

0.38 0.87 0.69

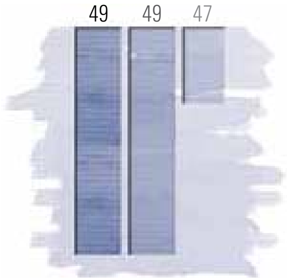


2011 2010 2009



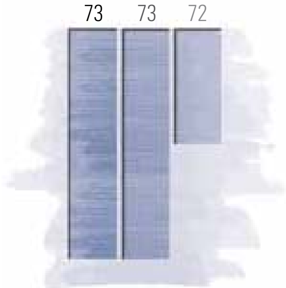
% weighting of top 10 customers

49 49 47



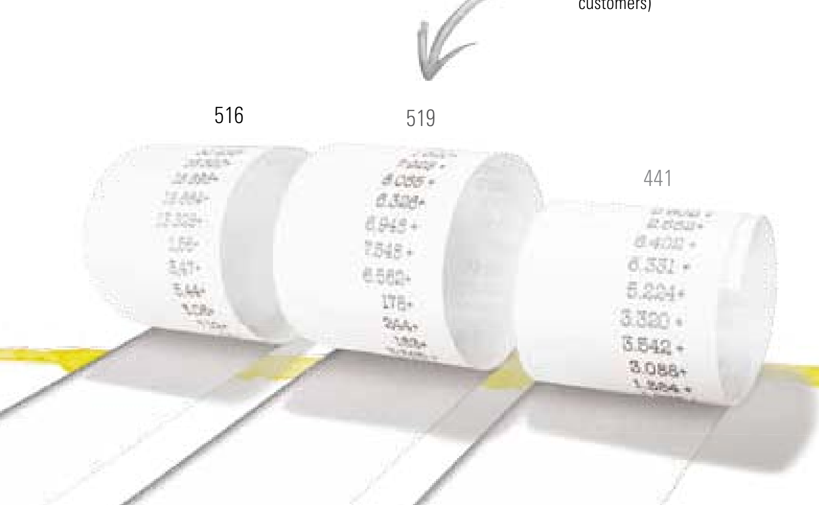
% weighting of top 20 customers

73 73 72

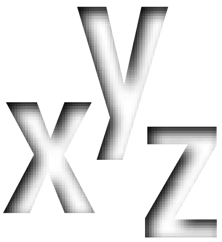


Average sales per customer (total sales/number of customers)

516 519 441



2011 2010 2009

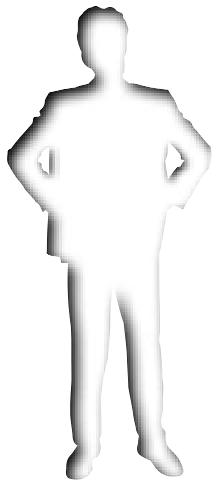


Number of different product SKUs (stock-keeping units) supplied to top 10 customers

2,283 2,301 2,176

Certified supplier sales (certified supplier sales/sales)

54.2 53.9 59.6

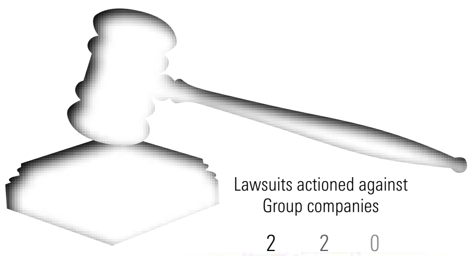


242 246 179

Media presence

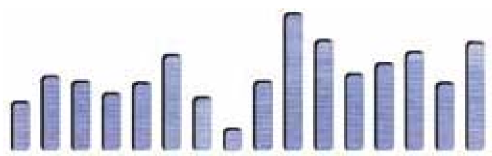
Customer complaints

446 459 466



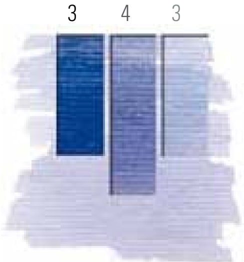
Lawsuits actioned against Group companies

2 2 0



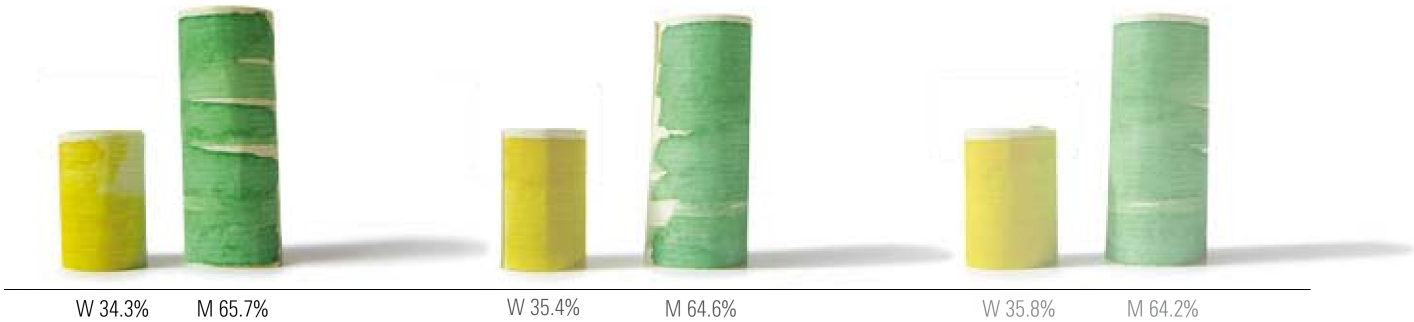
Number of financial analysts following Sabaf stock on an ongoing basis

3 4 3

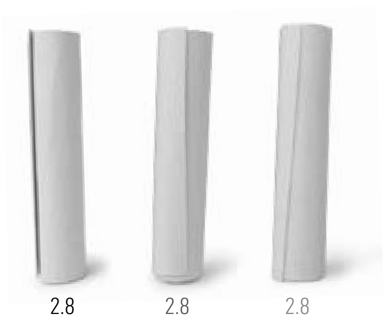


Social indicators

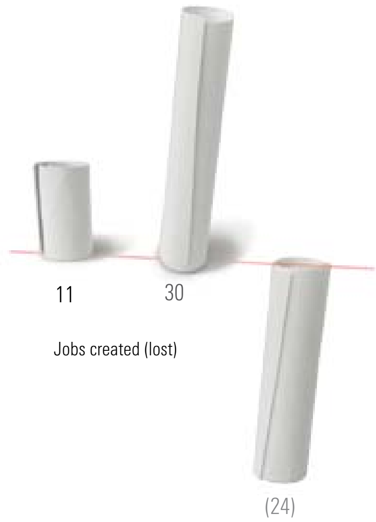
Total employee headcount



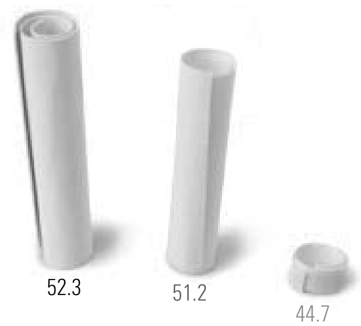
Women/ Men



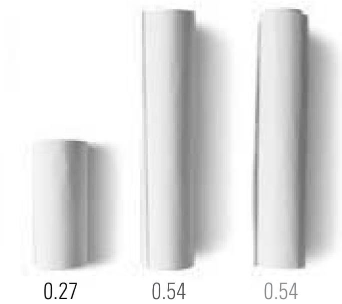
Sickness rate (Sick leave hours/total workable hours)



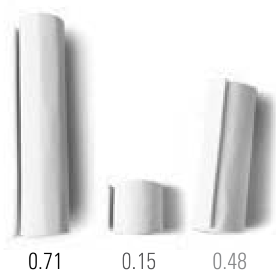
Jobs created (lost)



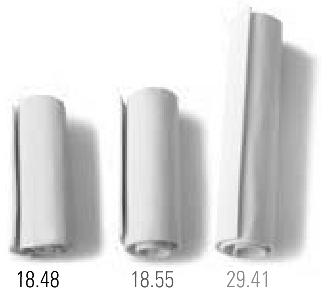
% of supplier sales in province of Brescia



Accident severity index (days of absence (excluding accidents in transit) per 1,000 hours worked)



Donations/net profit



Accident frequency index (No. of accidents (excluding accidents in transit) per 1 million hours worked)

2011
2010
2009

2011
2010
2009

Environmental indicators

178 244 183

Tons of municipal-type waste

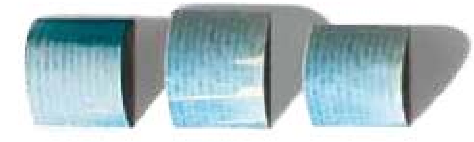
3,345 2,602 2,552

Tons of hazardous waste

Waste

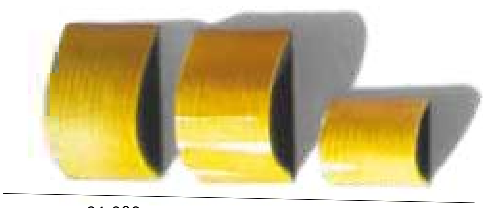
6,402 6,331 5,224

Tons of non-hazardous waste



3,308 3,542 3,088

Natural gas consumption
m3 x 000

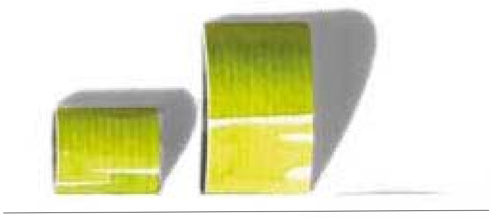


31,098 30,488 16, 820

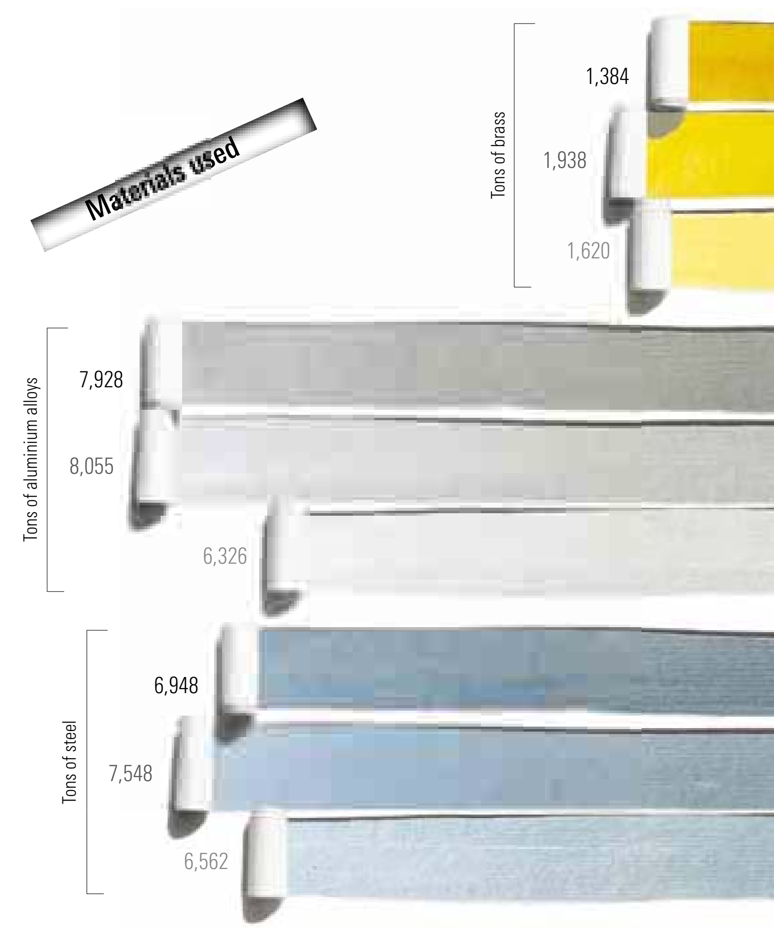
Electricity consumption
MWh

Tons of
CO_2 emissions

Current environmental
spending/sales at 31/12



Environmental investment/sales at 31/12



Natural bodies are
divided into three
kingdomes of nature:
viz. the mineral,
vegetable, and animal
kingdoms. Minerals
grow, Plants grow and
live, Animals grow,
live, and have feeling.

Carolus Linnaeus

1

BUSINESS MODEL AND STRATEGIC APPROACH

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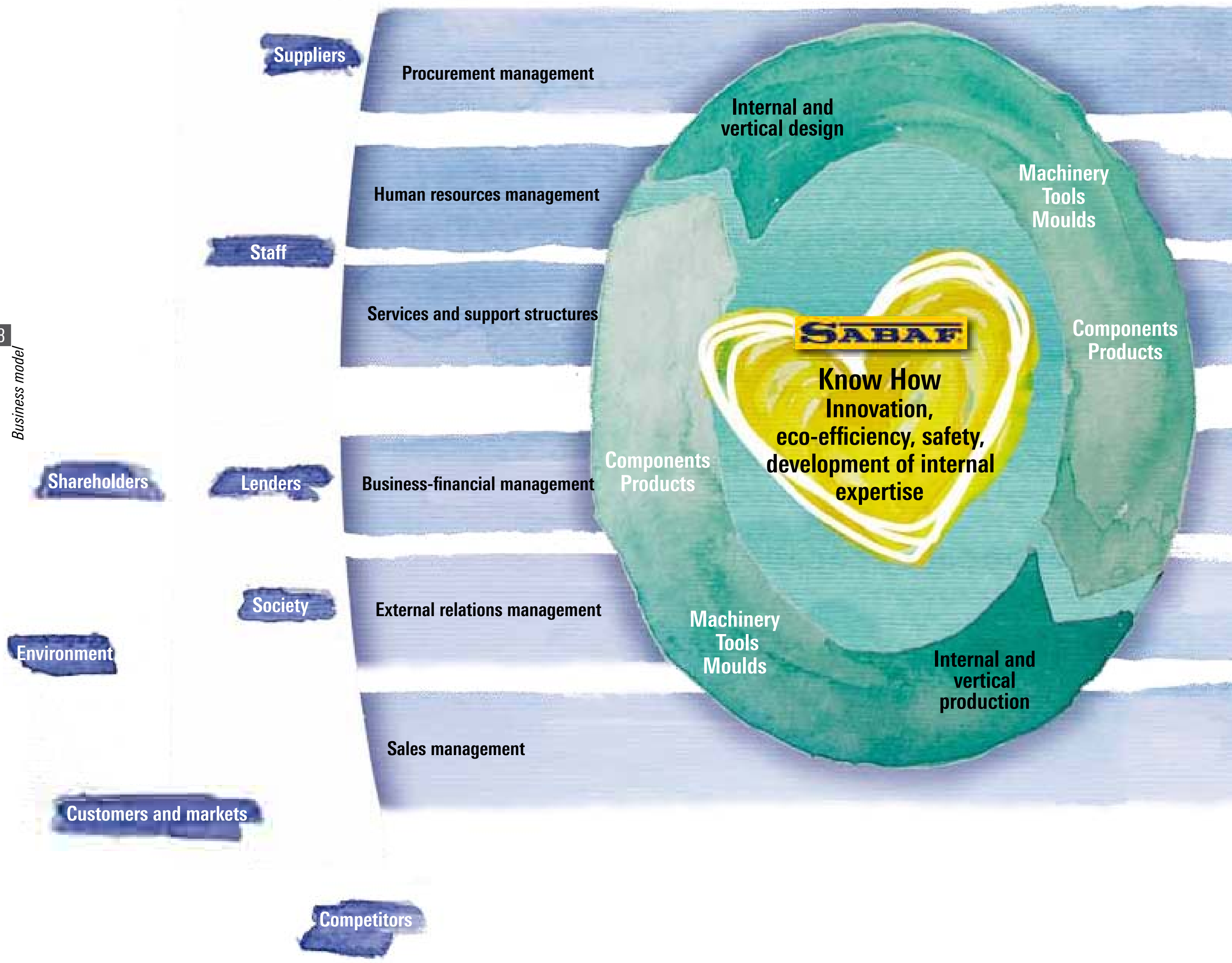
SABAF'S BUSINESS MODEL

In keeping with its shared values and mission, the Company believes that there is a successful business and cultural model to be consolidated as a priority through organic growth.
Innovation, safety, personal development and socio-environmental sustainability are the distinctive characteristics of the Sabaf model.



Sustainability
In line with the Company's vision and mission, and in accordance with the Charter of Values, the strategic and operational decisions implemented by Sabaf are intended to ensure sustainable development, by balancing business and financial requirements with social and environmental needs. According to this logic, Sabaf undertakes to be a reliable partner with which lasting relationships can be formed.

Innovation and continuous learning
Sabaf is constantly geared towards innovation and favours self-learning to deal with changes in the competitive environment and the market knowledgeably and comprehensively.

Quality, performance, eco-compatibility
Over time, Sabaf has developed an integrated management system for quality, the environment, occupational safety and social responsibility, and obtained the related certification. The most advanced products set themselves apart not only for their quality and safety, but also for their energy efficiency and design.

Internationalisation
Sabaf's identity reflects its roots in the region in which it is based. In relation to growth on international markets, first and foremost in emerging countries, the valuing of and respect for local cultures are indispensable aspects, forming part of a unique and uniform industrial model.

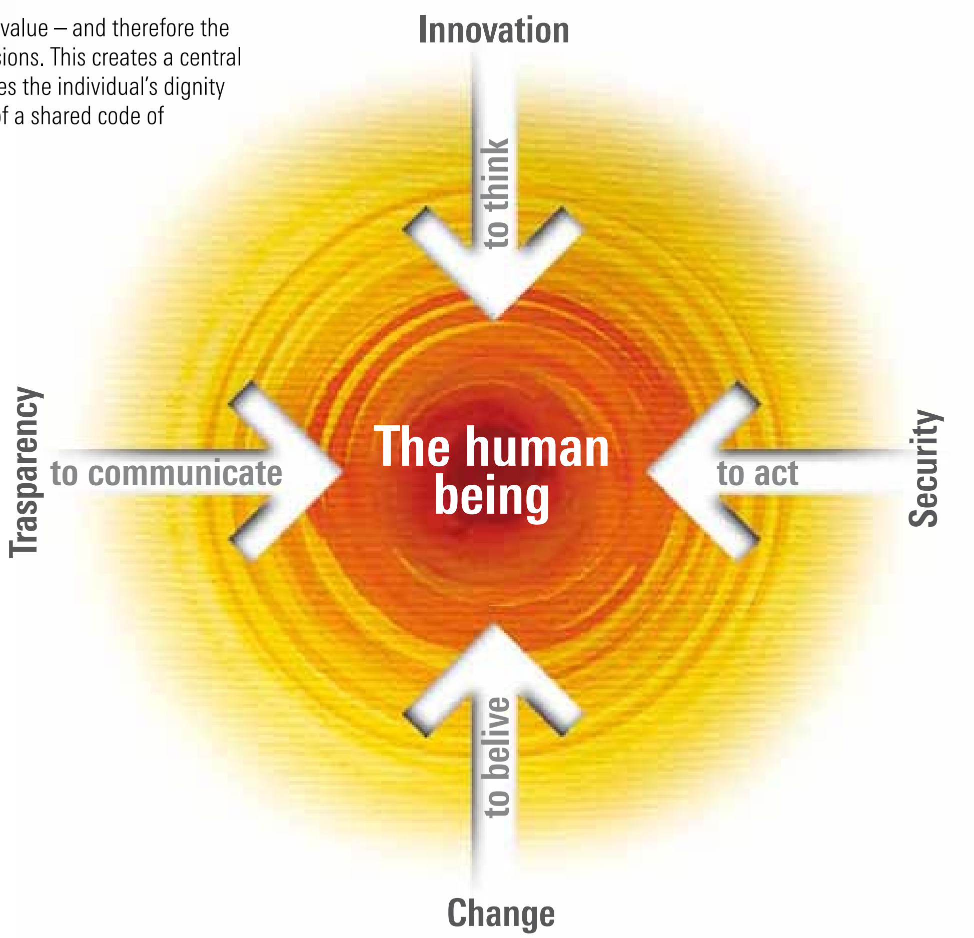
STRATEGIC APPROACH AND VALUE CREATION

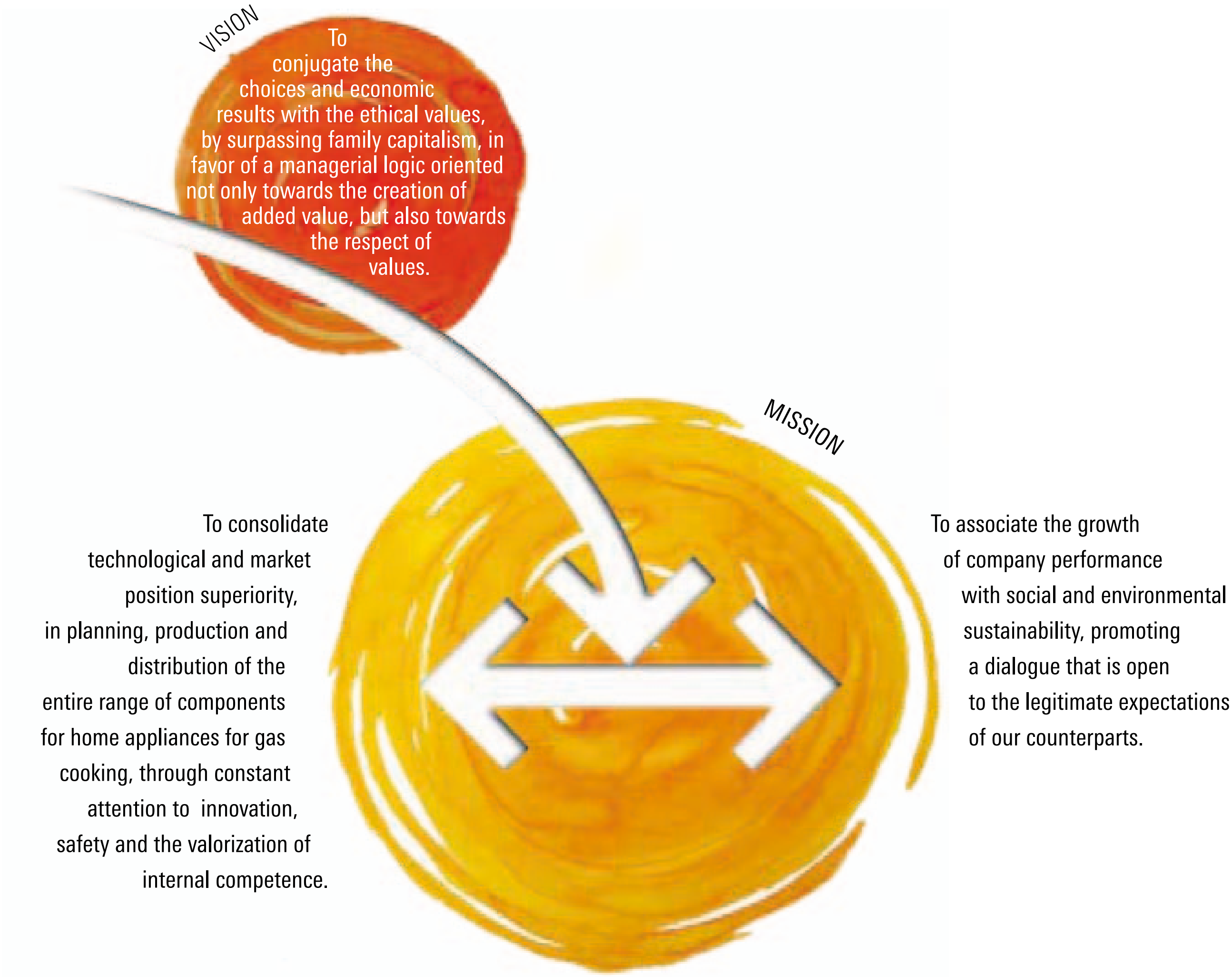
VALUES, VISION AND MISSION

Sabaf uses the individual as its core value – and therefore the fundamental criterion for all its decisions. This creates a central entrepreneurial vision that guarantees the individual's dignity and freedom within the framework of a shared code of conduct.

The centrality of the individual is a universal value, i.e. a "hyper-rule" applicable regardless of place or time. In accordance with this universal value, the Sabaf Group fosters cultural diversity through the criterion of spatial and temporal equality. This type of moral commitment implies the renouncement of all choices that do not respect the individual's physical, cultural and moral integrity, even if such decisions would be efficient, economically beneficial, and legally acceptable.

Respecting the value of the individual means, first and foremost, making "being" a priority before "doing" and "having", and thus protecting and enhancing the "quintessential" manifestations that allow people to express themselves fully.





The Sabaf Charter of Values is a governance tool through which Sabaf's Board of Directors expresses the values, standards of conduct and ways in which relations between Sabaf and its stakeholders are managed. All Group companies are formally required to adopt it.
The Charter of Values is also a reference document for the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001. As such, it sets out a series of general rules of conduct that Group employees and contractors must follow.

Innovation

For Sabaf, innovation is one of the essential components of its business model and one of its main strategic drivers.
Through constant innovation, the Group has succeeded in achieving excellent results, identifying some of the most advanced and efficient technological and manufacturing solutions currently available, and creating a virtuous circle of continuous process and product improvement – ultimately acquiring technological skills that are difficult for competitors to emulate. A key factor in the Group's success has been the know-how acquired over the years in the internal development and construction of machinery, tools and moulds, which integrates synergically with know-how in the development and production of our products.
Investments in innovation have enabled the Company to become a global leader in an extremely specialised niche market and, over time, to achieve high standards of technological advancement, specialisation and manufacturing flexibility. The manufacturing sites in Italy and abroad are designed to ensure that products are based on the highest technological standards available today. They are a cutting-edge model in terms of both environmental protection and worker safety.

Eco-efficiency

One of the underlying priorities of Sabaf's product innovation strategy is the quest for superior performance in terms of environmental impact. Our attention to environmental issues materialises through innovative production processes with lower energy consumption in product manufacturing, and, above all, products that are designed to be eco-efficient during everyday use. More specifically, innovation efforts are predominantly focused on the development of burners that reduce fuel consumption (natural or other gases) and emissions (particularly carbon dioxide and carbon monoxide) during use.

Safety

Safety has always been one of the indispensable features of Sabaf's business model.
Safety for Sabaf is not mere compliance with existing standards, but a management philosophy striving for continuous improvement in performance in order to guarantee end users an increasingly safe product. Besides investing in new-product R&D, the Group has chosen to play an active role in fostering a safety culture, both by promoting the sale of products featuring thermoelectric safety devices, and via a communication policy aimed at promoting the use of products with thermoelectric safety devices. Sabaf has long been a worldwide promoter in the various institutional environments of the introduction of regulations making the adoption of products with thermoelectric safety devices obligatory. Safety has proved

to be a key factor for success, partly because the Company has succeeded in anticipating demand for products with safety devices in the European market and in stimulating the spread of such products in developing countries. More recently, Sabaf has become a promoter, together with the Brazilian regulatory authority, of the ban on the use of zamak (a zinc and aluminium alloy) for the production of gas cooking valves due to its inherent risks. Today, however, the use of zamak is still permitted in Brazil, Mexico and in other South American countries, limiting business opportunities in the valves segment for Sabaf, which does not plan to consider the production of valves using zamak.

Establishment in international markets

Sabaf is continuing to expand by becoming established in international markets, seeking to replicate its business model in emerging countries and adapting it to the local culture.
In keeping with its corporate values and mission, the Group is seeking to bring state-of-the-art know-how and technology to these countries, whilst fully respecting human and environmental rights and complying with the United Nations Code of Conduct for Transnational Corporations. This choice is based on our awareness that only by operating in a socially responsible manner is it possible to assure the long-term development of business initiatives in emerging markets.

Expansion of the component product line and partnership with multinational groups

Ongoing expansion of our range is intended to further increase our customers' loyalty via greater satisfaction of their needs. Its ability to offer a complete range of components further distinguishes Sabaf from its competitors.
This expansion is mainly pursued via in-house research, although possible strategic alliances with other leading players in the sector or acquisitions, even in related sectors, are not ruled out.
The Group intends to further consolidate its collaborative relationships with customers and to strengthen its positioning as sole supplier of a complete product range in the cooking components market, thanks to its ability to tailor its production processes to customers' specific requirements.

Enhanced exploitation of intangible assets and intellectual capital

Enhanced exploitation of intangible assets is essential to be able to compete effectively in the international market.
Sabaf carefully monitors and enhances the value of its intangible assets: the advanced technical and professional expertise of people working in the Company; its image synonymous with quality and reliability; its reputation as a company mindful of social and environmental issues and the needs of its stakeholders. Advocating the idea of work and relations with stakeholders as **"the passion for a project founded on common ethical values in which everyone recognises themselves"** is not only a moral commitment, but also a real guarantee of enhanced exploitation of intangible assets (intellectual capital). In this perspective the sharing of ethical values is the link between the promotion of a business culture oriented towards social responsibility and enhanced exploitation of the Company's intellectual capital. Thanks to the strong drive represented by value-sharing, Sabaf aims to strengthen its human capital (increasing employees' skills, sense of ownership and satisfaction), thus aiding development of organisational capital (operating know-how and process improvement), whilst assuring constant development of relational capital (in terms of improved interaction with stakeholders).

SOCIAL RESPONSIBILITY IN BUSINESS PROCESSES

In order to translate the values and principles of sustainable development into decisions regarding of action and operating activities, Sabaf applies a structured methodology, whose key factors are as follows:

the **sharing of values, mission and sustainability strategy;**

raining and communication;

an **internal control and audit system** capable of monitoring risks (including ethical and reputational risks) and of verifying that commitments to stakeholders are fulfilled;

key performance indicators (KPIs) capable of monitoring our economic, social and environmental performance;

a clear and complete **reporting system** able to inform the various categories of stakeholder effectively;

a **stakeholder engagement system,** to deal with the expectations of all stakeholders and to receive useful feedback with a view to continuous improvement.

Prudent approach

Awareness of the social and environmental implications of Group activities, together with consideration both of the importance of a cooperative approach with stakeholders and the Group's own reputation, has led Sabaf to adopt a prudent approach to management of the economic social and economic variables that it encounters on a daily basis. Accordingly, the Group has developed specific analyses of the main risks faced by its business entities.
Detailed information on the internal control and audit system and the risk management system are provided in Section 3.

STAKEHOLDER ENGAGEMENT

Sabaf is committed to constantly strenghtening the social value of its business activities through the careful management of its relations with stakeholders. The Company intends to establish an open and transprent dialogue, promoting opportunities for discussion in order to find out their legitimate expectations, increase their confidence in the Company, manage risks and identify new opportunities.
The identification of stakeholders is an essential starting point for the definition of socio-environmental reporting processes. The "stakeholder map" shows Sabaf's main stakeholders, identified according to their business features, typical market characteristics and the intensity of Sabaf's relations with them.
The Annual Report is the key communication tool for the presentation of economic, social and environmental performance over the year.

Engagement initiatives relating to each category of stakeholder and the significant issues emerging from this activity are shown below. Sabaf plans to further increase opportunities for dialogue by defining a structured stakeholder engagement plan.

Stakeholder engagement initiatives undertaken

Employees	Employee satisfaction surveys Meetings with employees Panel discussions with trade union organisations
Customers	Customer Satisfaction surveys
Suppliers	Questionnaire Regular meetings
Shareholders	Questionnaire for financial analysts and investment fund managers. Meetings with managers of ethical funds
Community & institutions	Multistakeholder panel

Everything that lives
and moves will be
food for you. Just as
I gave you the green
plants, I now give you
everything.

Genesi

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INTERNATIONAL OPERATIONS AND CORE MARKETS

INTERNATIONAL OPERATIONS AND CORE MARKETS

INTERNATIONAL PRESENCE

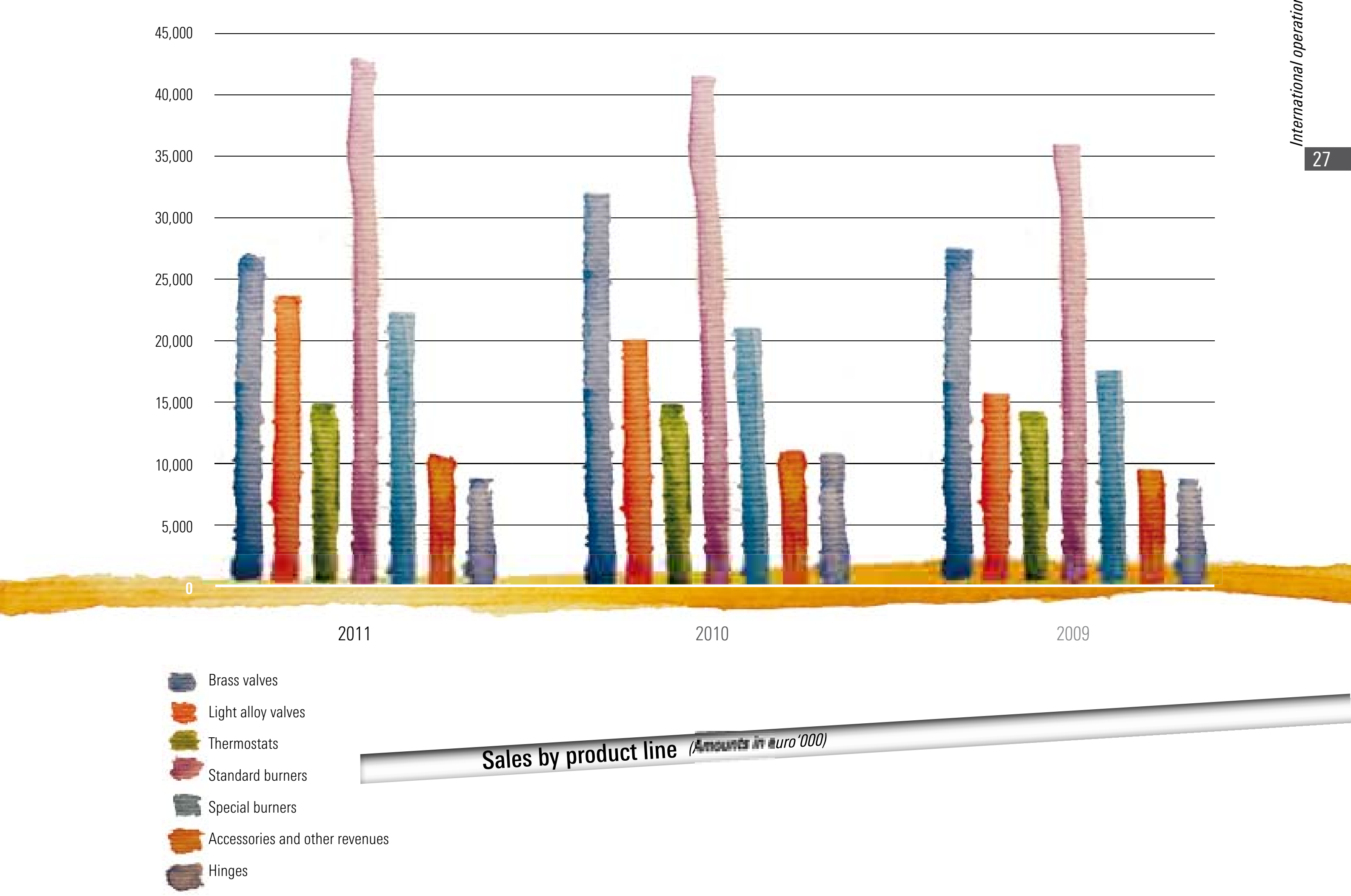
The Sabaf Group is one of the world's leading manufacturers of components for household gas cooking appliances, with a market share of around 50% in Europe and a global share of about 10%. Its core market consists of manufacturers of household appliances, particularly cookers, hobs, and ovens. The majority of Sabaf's sales consist of the supply of original equipment, whereas sales of spare parts are negligible.

MAIN PRODUCTION LINES

Valves and thermostats	Burners	Hinges	Accessories
Valves and thermostats, whether simple or with thermoelectric safety shut-off: these components regulate the flow of gas to covered burners (in the oven or grill) or exposed burners; thermostats are characterised by the presence of a thermal regulator device to maintain a constant pre-set temperature.	Burners: these are the components that, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame.	Hinges: these are the components that allow a smooth and balanced movement of oven, washing-machine or dishwasher doors when they are opened or closed.	The Group also produces and markets an extensive range of accessories, which supplement the offering of the main product lines.

Sales by product line

(Amounts in euro'000)	**2011**	**2010**	**2009**
Brass valves	26,537	31,788	26,928
Light alloy valves	23,265	20,027	15,276
Thermostats	14,560	14,829	13,746
Standard burners	42,631	41,405	36,358
Special burners	22,210	21,097	17,173
Accessories and other revenues	10,598	10,959	9,089
Hinges	8,782	10,792	8,518
Total	**148,583**	**150,897**	**127,088**



SABAF'S INTERNATIONAL GROWTH: CHALLENGES AND OPPORTUNITIES

SALES BY GEOGRAPHICAL AREA

ITALY

2011	37.9%	56,321
2010	40.8%	61,648
2009	41.4%	52,654

Sabaf has a consolidated presence on the Italian market, which leverages on a complete and innovative product range. The development of future strategies in Italy is aimed at **product diversification** and a focus on the **energy efficiency** of its products, in order to combat the market's relative stagnation and growing competitive pressure from emerging countries.

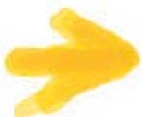
Trend

WESTERN EUROPE

2011	7.5%	11,215
2010	7.6%	11,561
2009	8.1%	10,233

In line with the trends on the Italian market, Western European countries present risks relating to the emergence of competitors from low-cost countries. Also in this case, Sabaf intends to focus on the **quality and innovation** of its products in order to consolidate its customer base.

Trend



EASTERN EUROPE AND TURKEY

2011	25.2%	37,459
2010	21.6%	32,553
2009	22.0%	27,978

Sabaf is at the high end of the market, and intends to reap **opportunities for expansion** emerging in Eastern European countries, particularly Turkey. In this regard, the forthcoming opening of a **production facility in Turkey** and the development of new trade relations are key to growth.

Trend

ASIA AND OCEANIA

2011	9.0%	13,328
2010	10.3%	15,476
2009	10.5%	13,295

Asian markets are marked by the emergence of consumption patterns similar to those of the West. The expansion of the gas cooking appliance industry, together with the possible tightening of safety standards, represents a growth opportunity for Sabaf, which can count on the **strength of its brand** and the **"made in Italy"** reputation."

Trend

TRENDS IN THE COOKING APPLIANCE MANUFACTURING SECTOR

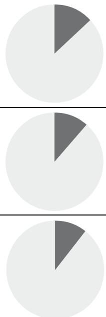
For years now the sector has tended to outsource component design and production to highly specialised suppliers, which, like Sabaf, are active in the world's main markets and are able to supply a range of products tailored to the specific requirements of individual markets.

In addition, the trend to internationalise production is becoming more accentuated, with production increasingly shifting to countries with low-cost labour and lower levels of saturation.

Moreover, the emergence of new players at the international level is causing over-supply. This in turn leads to pressure from competition and will probably bring about greater concentration in the sector. However, this trend is less evident in cooking appliances than for other domestic appliances: in the cooking segment, design and aesthetics on the one hand and less intensive investment on the other mean that small, highly innovative producers can also prosper.

The problems faced by the sector were amplified by the slowdown that began in 2008 and dramatically accelerated in 2009. There was a real risk of weaker players going out of business, with numerous instances of restructuring and streamlining of production. As a result, some of the less robust manufacturers have been ousted from the market. In 2010, the fragile recovery in demand in Europe, still a long way from pre-crisis levels, means that many manufacturers are unable to turn a decent profit.

CENTRAL AND SOUTH AMERICA

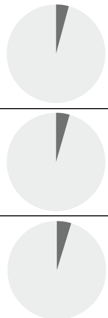


2011	13.4%	19,838
2010	11.6%	17,467
2009	10.6%	13,473

Sabaf now has a **consolidated presence, also in production**, on which to base future growth. Growth possibilities in Brazil, South America and Central America are related to the large size of the market and sustained growth trends. The potential raising of regulatory standards in some countries of the area represents a significant opportunity.

Trend

AFRICA

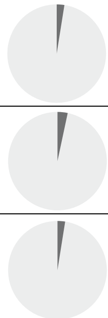


2011	4.4%	6,524
2010	4.7%	7,056
2009	4.8%	6,107

City expansion plans in North Africa and the Middle East represent a driver for possible market opportunities. Sabaf intends to increase its presence in the area by leveraging on its geographical proximity and market knowledge

Trend

US, CANADA & MEXICO



2011	2.6%	3,898
2010	3.4%	5,136
2009	2.6%	3,348

Its wide range of innovative and efficient products, together with relations with the main producers and its good technical reputation, provide the Group with new market opportunities relating to **growing safety requirements**.

Trend

CORE MARKETS

In Western Europe, which accounts for about half of the end-user market for Sabaf products, the level of saturation reached by cooking appliances (i.e. the number of households owning such appliances) is close to 100%. Purchases of new appliances are therefore mainly replacement purchases. Moving house or the purchase or refurbishment of a home are often occasions for the purchase of a new cooking appliance. The market trend is therefore directly influenced by the general economic trend and, in particular, by households' disposable income, consumer confidence and housing market trends.

Conversely, in other markets the saturation level is often much lower. Faster economic growth rates and a more favourable demographic trend than in Western Europe create huge opportunities for groups such as Sabaf that are able to work both with multinational household appliance manufacturers and with local manufacturers.

A varied picture

Manufacturers of gas cooking appliances – Sabaf's core market – consist of:
- large multinational groups with a well-established international presence in sales and production and possessing strong brands;
- manufacturers located in countries with low-cost labour that aim both to exploit opportunities in their home markets and to grow fast globally;
- manufacturers focused on specific markets in which they are the market leader;
- manufacturers (mainly Italian export firms) occupying segments featuring greater product differentiation (built-in hobs and ovens, for example).

A diverse ecosystem will also be resilient, because it contains many species with overlapping ecological functions that can partially replace one another. When a particular species is destroyed by a severe disturbance so that a link in the network is broken, a diverse community will be able to survive and reorganize itself... In other words, the more complex the network is, the more complex its pattern of interconnections, the more resilient it will be.

Fritjof Capra

3

CORPORATE GOVERNANCE, RISK MANAGEMENT, COMPLIANCE AND REMUNERATION

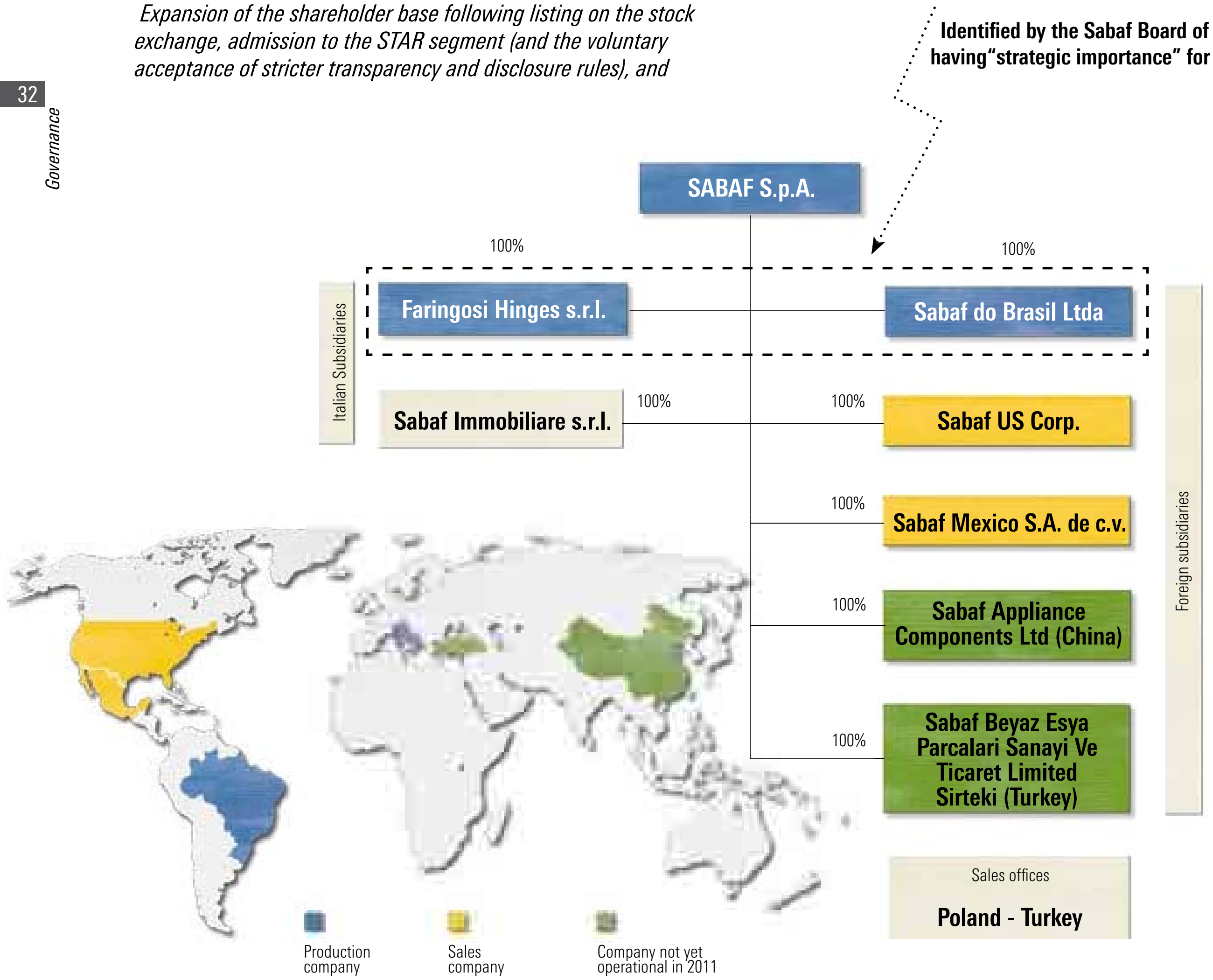
CORPORATE GOVERNANCE

OVERVIEW

This section of the report is intended to show the decisions taken by Sabaf and the special features of its governance system, as well as to provide a comparison with other listed companies, using information taken from Assonime in its annual report on Corporate Governance in Italy, published in February 2012. This benchmark is based on the Corporate Governance reports for the year 2010, published in 2011 of 262 listed Italian companies. Where available, the benchmark used below takes into account a panel of "non-financial" companies only. The information below is a summary, and does not replace the "Report on Corporate Governance and Ownership Structure", prepared by the Issuer pursuant to Article 123-ter of the Consolidated Law on Finance (TUF) for 2011 and available in the Investor Relations/Corporate Governance section of the website www.sabaf.it.

The corporate governance model adopted by Sabaf is based on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference shareholder.

Expansion of the shareholder base following listing on the stock exchange, admission to the STAR segment (and the voluntary acceptance of stricter transparency and disclosure rules), and the desire to comply consistently with best practice in relation to corporate governance 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 shareholders and other stakeholders. As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect of principles, 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), considered to be the tool through which the Board of Directors renders explicit the Company's values, standards of conduct and commitments in respect of all stakeholders – shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.



The Group operates through production and sales companies in Italy and abroad, all 100% owned by the Parent Company. Specifically:

Production is carried out by:
- Parent Company Sabaf S.p.A., valves and burners,
- Italian company Faringosi Hinges, hinges,
- the subsidiary in Brazil, burners.

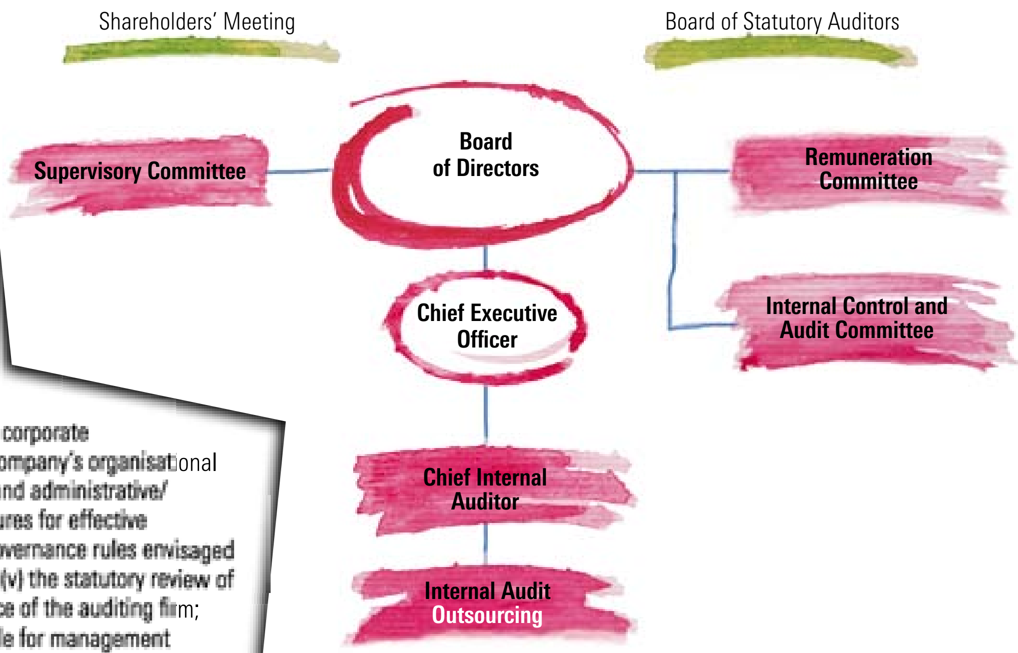
The subsidiaries in Mexico and the US are sales companies.

Sabaf Immobiliare manages the Group's real estate assets.

MANAGEMENT AND CONTROL MODEL

Sabaf has adopted a **traditional** management and control model, consisting of:
Shareholders' Meetings, ordinary and extraordinary, called to pass resolutions pursuant to the laws in force and the Bylaws;
the Board of Statutory Auditors, responsible for supervising: (i) compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities; (ii) the adequacy of the Company's organisational structure, internal control system, and administrative/accounting system; (iii) the procedures for effective implementation of the corporate governance rules envisaged in the Code; (iv) risk management; (v) the statutory review of the accounts and the independence of the auditing firm;
the Board of Directors, responsible for management of Company operations, also through the support of committees charged to make proposals and provide advice, such as the Remuneration Committee and the Internal Control and Audit Committee established pursuant to the Borsa Italiana Corporate Governance Code to which the Company adheres. It appoints the Supervisory Committee pursuant to Legislative Decree 231/2001.

The governance structure

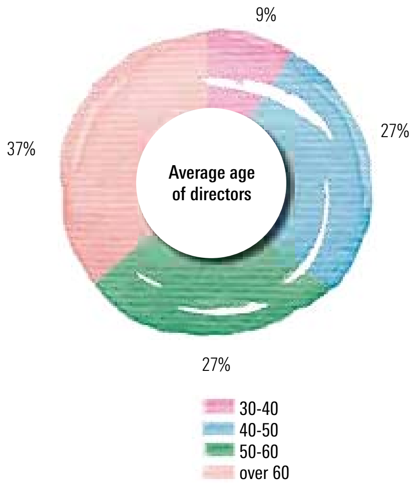


Board of Directors

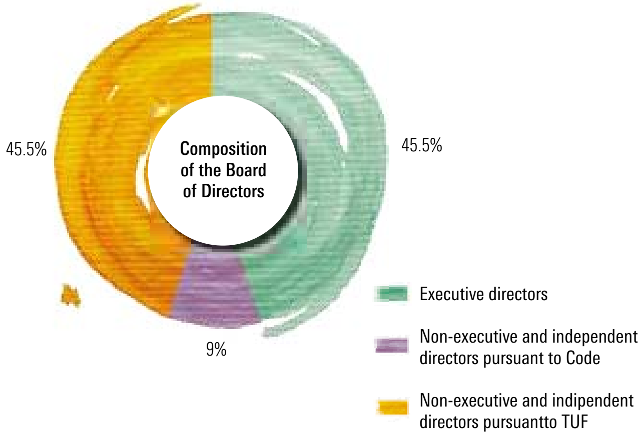
Office	*Components*	
Chairman	Giuseppe Saleri	
Deputy Chairman	Gianbattista Saleri	
Deputy Chairman	Ettore Saleri	
Chief Executive Officer	Angelo Bettinzoli	
Director	Alberto Bartoli	Also **Chief Financial Officer and Financial Reporting Officer**
Director	Leonardo Cossu [1]	
Director	Salvatore Bragantini	
Director	Giuseppe Cavalli	
Director	Fausto Gardoni	
Director	Gregorio Gitti	
Director	Flavio Pasotti	Appointed **Lead Independent Director**

1 - Leonardo Cossu is a non-executive and independent director solely pursuant to the TUF, as he has been a director of the Company for over nine years

The composition of the Board of Directors has not changed since its appointment in April 2009.



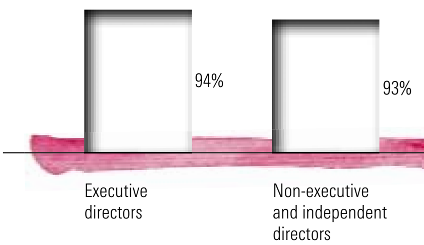
The curricula vitae of individual directors are available on the Company website



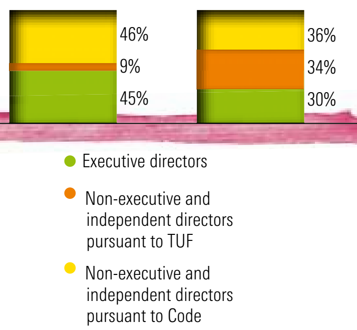
The Sabaf Board of Directors consists of 11 members, the majority of which are non-executive and independent (6 members).

The Board met seven times in 2011; this number is less than the average for listed non-financial companies, reported in Assonime's study. The attendance of members at these meetings was in line with the average of other companies. All meetings were attended by the Company's Board of Statutory Auditors, Chief Internal Auditor and tax advisor. The Supervisory Committee and company management were also invited to attend and report on specific items on the agenda.

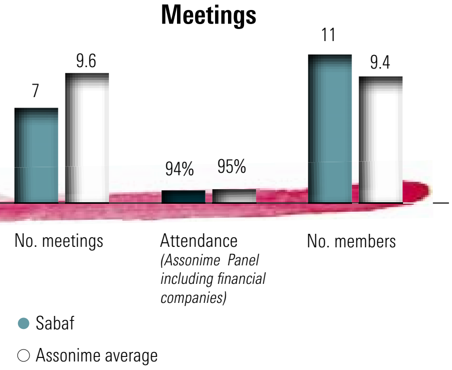
Attendance at Board of Directors' Meetings



Composition of the Directors' Meetings



Board of Directors' Meetings



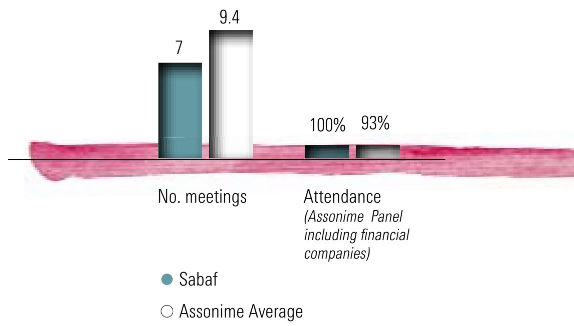
Board of Statutory Auditors

Office	*Components*
Chairman	Alessandro Busi
Statutory Auditor	Enrico Broli
Statutory Auditor	Renato Camodeca
Alternate Auditor	Riccardo Rizza
Alternate Auditor	Paolo Guidetti

The Sabaf Board of Statutory Auditors met seven times in 2011, slightly fewer times than the Assonime average. All members registered attendance of 100% at the meetings.

As well as conducting the checks and attending the regular meetings pursuant to the laws in force, all members of the Sabaf Board of Statutory Auditors must attend the meetings of the Board of Directors and the Internal Control and Audit Committee, the half-yearly collective meetings with the supervisory bodies and the individual meetings with the statutory auditing firm.

Board of Statutory Auditors



Internal Control and Audit Committee

Office	*Components*
Chairman	Leonardo Cossu
Member	Salvatore Bragantini
Member	Gregorio Gitti

Sabaf has appointed an Internal Control and Audit Committee within the Board of Directors.
It comprises the Chairman, a non-executive and independent director pursuant to the TUF, and two independent directors pursuant to the Borsa Italiana Corporate Governance Code.

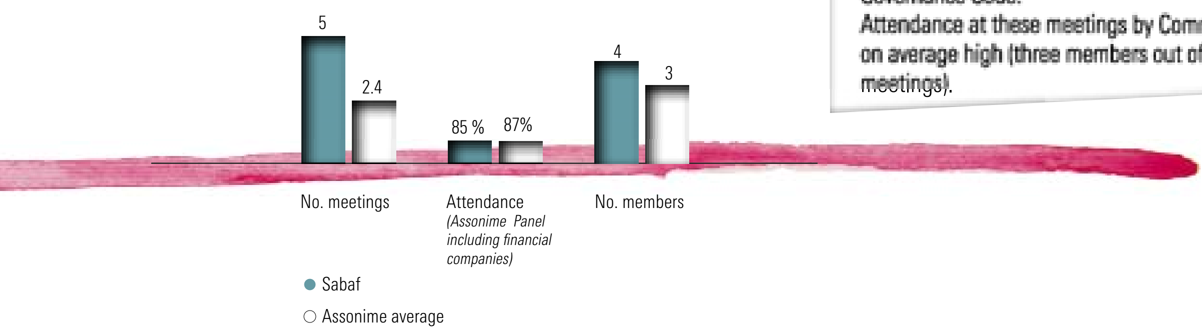
The Committee met six times in 2011, a higher number than the Assonime average.
Attendance by Committee members at these meetings is high, but slightly lower than the average shown in the Assonime study.

Remuneration Committee

Office	*Components*
Chairman	Fausto Gardoni
Member	Giuseppe Cavalli
Member	Flavio Pasotti
Member	Leonardo Cossu

Sabaf has appointed a Remuneration Committee within the Board of Directors.
It consists of a non-executive director and three independent directors (a total of four members vs the Assonime average of three).

The Committee met five times in 2011, double the Assonime average. This high number of meetings was necessary to formalise the remuneration policy pursuant to Article 123-ter of the TUF and Article 7 of the Borsa Italiana Corporate Governance Code.
Attendance at these meetings by Committee meetings was on average high (three members out of four took part in all meetings).



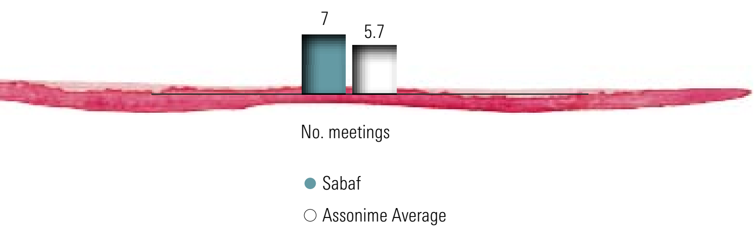
Supervisory Committee

Office	*Components*
Chairman	Nicla Picchi
Member	Gianluca Beschi

Also Chief Internal Auditor

Sabaf's Supervisory Committee, established pursuant to Legislative Decree 231/2001, consists of two members, one external and independent to the organisation, who acts as Chairman, while the other is the Chief Internal Auditor. The Chief Internal Auditor's presence within the Supervisory Committee is a widespread practice and one recognised by the guidelines issued pursuant to Legislative Decree 231.

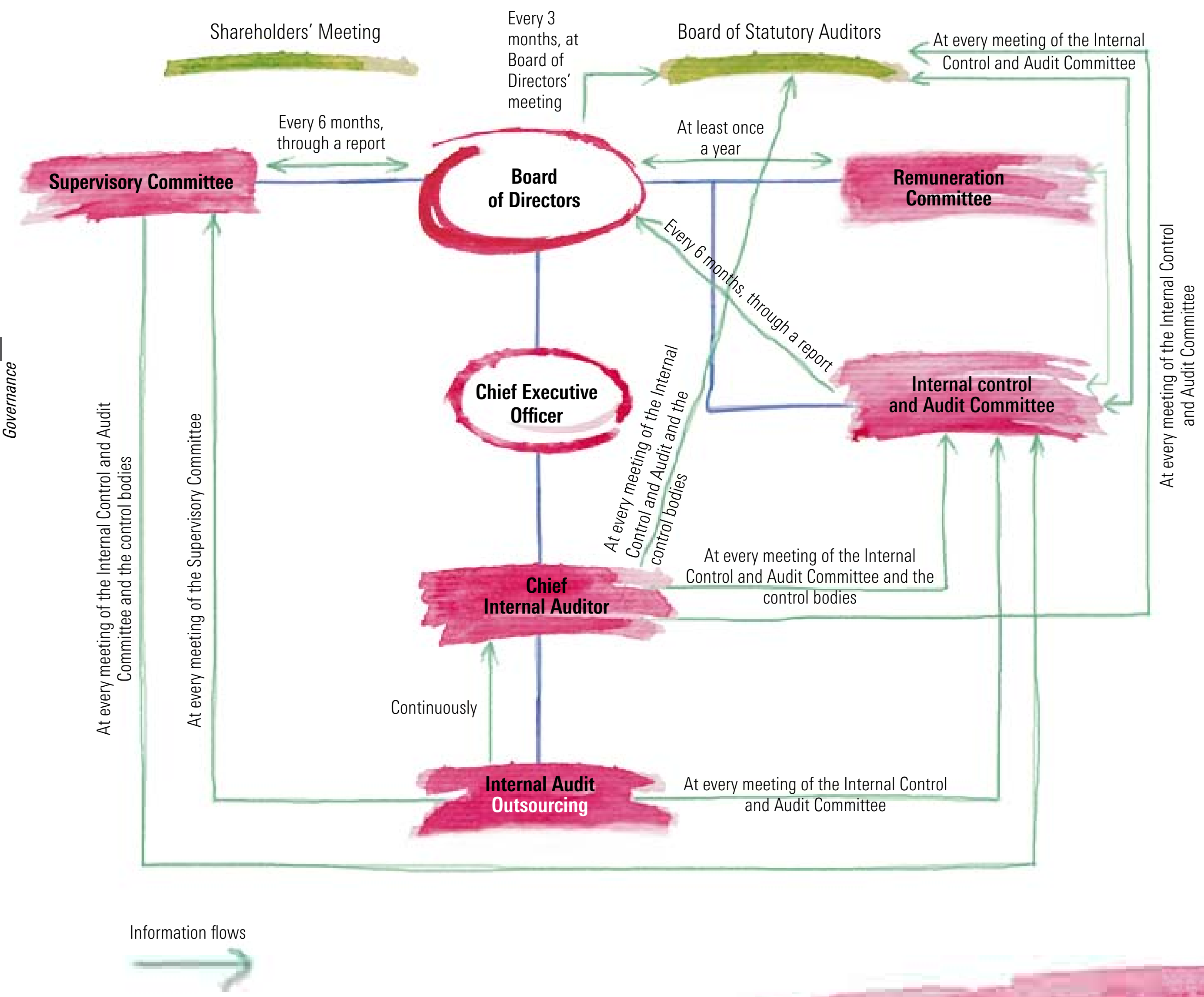
The Assonime study reports that, in 79% of sample companies, the Supervisory Committee has a board structure, and comprises three members, two external and one internal, typically the Chief Internal Auditor. Sabaf's Supervisory Committee met seven times in 2011, more regularly than the average shown in the Assonime study (5.7 times).



INFORMATION FLOWS WITHIN THE CORPORATE GOVERNANCE STRUCTURE

Sabaf's management and control model operates through a **network of information flows**, which are regular and systematic, between the various company bodies.

Each body, according to the timeframes and procedures defined by the Bylaws, the Governance Model and other internal documents such as regulations and procedures, reports to the functionally superior body regarding the activities conducted during the time period in question and those planned for the subsequent period, any observations noted and suggested action.



RISK MANAGEMENT

FRAMEWORK

In conducting its business, Sabaf defines strategic and operational objectives, and identifies, assesses and manages the risks that could prevent them from being met.

Over the last five years, Sabaf has progressively explored the concepts of risk assessment and risk management, in order to develop an internal, structured and regular process of risk identification, assessment and management, defined and formalised in Guidelines contained in the Company's Corporate Governance Manual.

The guidelines define the roles and responsibilities for risk assessment and risk management processes, indicating the parties to be involved, process frequency and assessment scales.

Risk assessment		1	2	3	4
Impact	*Economic-financial losses*	*Approx. 1% Ebit*	*Approx. 1% - 2.5% Ebit*	*Approx. 2.5% - 10% Ebit*	*Approx. 10% Ebit*
Impact	*Damage to persons*	*Limited effects on health*	*Average consequences for health*	*Serious health risks*	*Irremediable effects*
Impact	*Damage to image*	*Effects at local level*	*Effects at regional level*	*Effects at national level*	*Effects at international level*
Probability	*Frequency of occurrence*	*Once every 3 years or more*	*Once every 2 years*	*Once a year*	*More than once a year*
Probability	*Qualitative indications*	*Improbable/ Remote*	*Not very probable*	*Probable*	*Very probable*
Risk Management level		*Initial*	*Unstructured*	*Structured*	*Integrated*

Each risk is subject to an **assessment** which breaks down into the following variables:

- probability of occurrence over a three-year timeframe;
- estimate of the greatest impacts in terms of the business-financial position, damage to persons and damage to image, over the timeframe subject to assessment;
- level of risk management and control.

RISK MANAGEMENT 2011

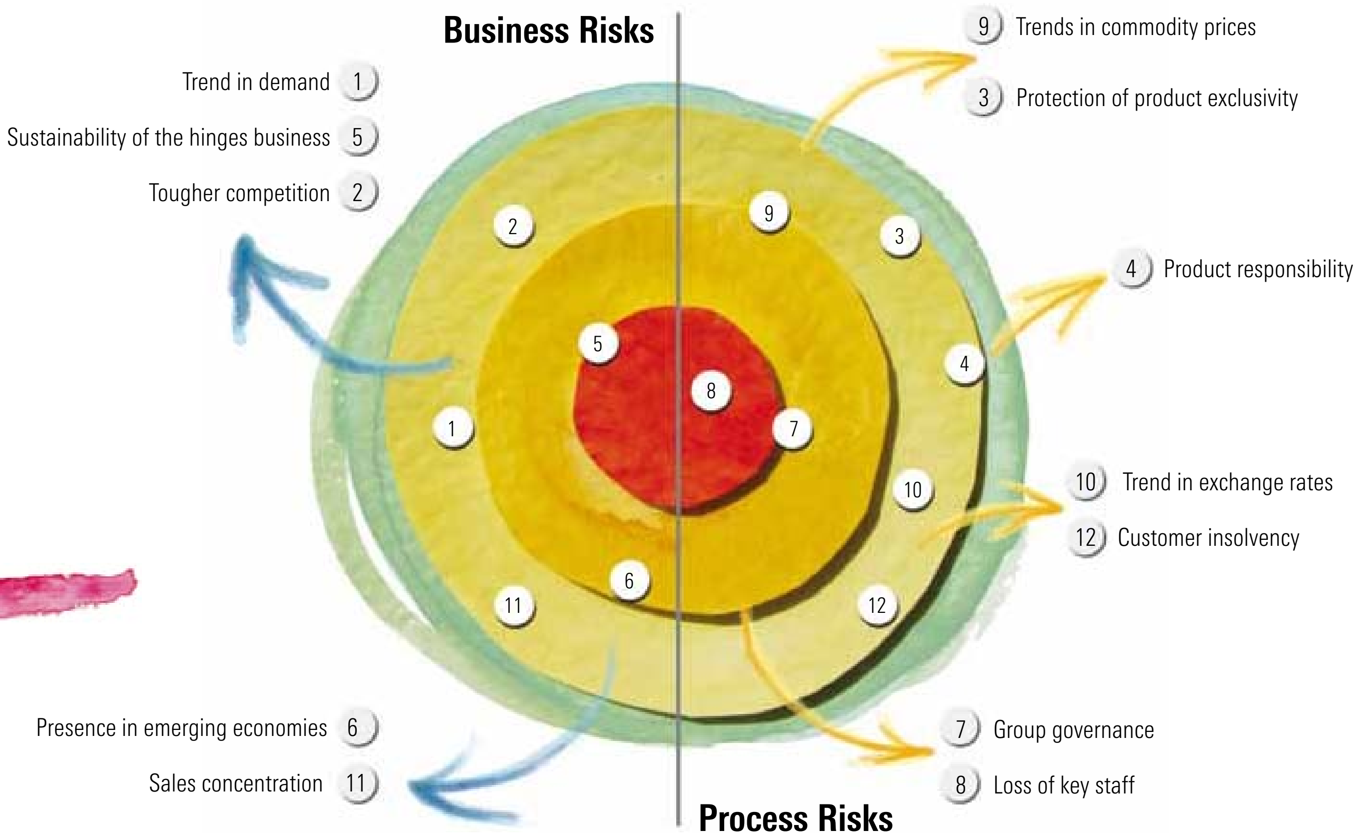
RESULTS

Towards the end of 2011, Sabaf conducted its regular process of risk assessment, with the involvement of:

Contact	*Role*
A. Bettinzoli	Chief Executive Officer
A. Bartoli	Chief Financial Officer
G. Beschi	Investor Relations
M. Dora	Technical Manager
A. Bonfadelli	Planning Manager
A. Cancarini	Production Manager
N. Belpietro	Area Sales Manager
P. Benedetti	Area Sales Manager
L. Gorini	Area Sales Manager
M. Piras	Procurement Manager
C. Migliorati	Information Systems Manager
M. Giacomelli	Human Resources Manager
M. Tedeschi	Quality, Environment, Safety Manager
Supervisory Committee	

to identify and assess Group risks, according to their remit.

The results of Sabaf's 2011 risk assessment highlight, among other things, the following 12 main risks, selected for their relevance and consistency with the issues covered in this document:



For more information on the Group's financial risks, including those not mentioned here owing to their lack of relevance, please see the Notes to the Consolidated Financial Statements.

Key – Expected Risk Trend:

Increasing

Stable

MAIN RISKS OF THE GROUP

1

Trend in demand

The Group's core market, the household appliances sector, which is cyclical and generally related to the performance of the real estate market, was hit particularly hard by the ongoing global economic crisis that began in the last few months of 2008. 2011 was unfortunately not a year of recovery, since it was affected first by the political instability in North Africa and the Middle East, and then by the progressive decline in the macroeconomic situation in Europe, which led to a new period of weak demand, the intensity and duration of which are currently difficult to forecast.

Risk management measures

The Group intends to maintain, and where possible, strengthen its position of leadership by launching new products marked by superior performance than current market standards; expanding on high-growth markets; maintaining high quality and safety standards, which enable its products to be differentiated through the use of resources and implementation of production processes that its competitors find hard to sustain.

2

Tougher competition

The Group enjoys some competitive advantages, such as product innovation, quality and safety.

The weakness of its core market and household appliance manufacturers' increasing focus on purchase costs, however, expose Sabaf to the risk of pressure on its margins or of loss of market share.

Risk management measures

The innovation strategies pursued by Sabaf aim to ensure superior performance on the one hand and incremental efficiency of production processes on the other. Moreover, they have enabled the Group to construct technological barriers to combat its competitors, and which today constitute the strategic priorities to be strengthened through constant investment.

3

Protection of product exclusivity

Sabaf's business model is strongly focused on product and process innovation.

There is a risk that some Group products, although patented, will be copied by competitors, particularly in countries in which it is more difficult to protect intellectual property rights.

Risk management measures

Sabaf has adopted and implemented structured processes to manage innovation and protect intellectual property, in addition to its already noted capacity to design and internally produce machines used in manufacturing processes.

4

Product responsibility

Sabaf products carry a high intrinsic risk in terms of safety.

The Group's great attention to product quality and safety has made it possible to avoid incidents caused by product defects. Despite this, it is not possible to automatically exclude incidents of this nature.

Risk management measures

Sabaf has in place an integrated quality management system aimed at continuous improvement, at the basis of which regular monitoring activities are conducted under the responsibility of a team of dedicated staff.

Moreover, in order to transfer the risk of third-party liability damage arising from malfunctioning of its products, Sabaf has signed insurance policies with deductible of up to €10 million per individual claim.

5

Sustainability of the hinges business

The environment in which the Hinges unit operates has worsened as a result of the decline on the core market and growing competitive pressure on standard products.

Risk management measures

The Group is strongly committed to developing new hinges models, able to ensure additional performance, the introduction of which could relaunch this business segment.

6

Presence in emerging economies

30% of Sabaf Group sales are generated on markets outside Europe, in addition to indirect/sales exports to these countries made by European customers of the Group. It follows that a significant percentage of sales depends directly or indirectly on emerging economies.

The Group's main markets outside Europe include the Middle East and North Africa (accounting for 6% and 4% of direct Group sales respectively in 2011).

Any embargos or major political or economic stability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed in the next few months of the year could totally or partially affect a portion of Group sales and the associated margins.

Risk management measures

The Group has adopted a policy of diversifying investments at international level, setting different strategic priorities that, as well as business opportunities, also consider the different associated risk profiles.

7

Group governance

The Group pursues an international growth strategy by establishing operational subsidiaries and sales offices that increase the complexity of company process management.

Risk management measures

The global governance of the Sabaf Group breaks down into: (i) the execution of management, coordination and control activities; (ii) continuous and formalised relations with operational subsidiaries, through the centralisation within Parent Company corporate structures of activities considered to be strategic and the Parent Company's participation in the corporate governance of the subsidiaries; (iii) the integrated ERP system at all Group companies.

8

Loss of key staff

Group results depend to a large extent on the work of executive directors and management.
The loss of a key staff member without a suitable and timely replacement could have a negative impact on the business and financial results, as well as on the Group's future.

Risk management measures

In order to minimise this risk, the Company has had in place for years policies to strengthen the most critical internal organisational structures.

9

Trend in commodity prices

The Group uses metals and alloys in its production processes, chiefly brass, aluminium and steel.
The sale prices of products are generally renegotiated semi-annually or annually; as a result, Group companies are unable to immediately pass on to customers any changes in the prices of commodities.

Risk management measures

The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments on the reference market.
For the next few months, Sabaf has set the purchase prices for its expected steel and aluminium requirements, respectively until June 2012 and December 2012.

At organisational level, the Group defines and manages centrally commodity procurement strategies and contract negotiations with suppliers. To this end, the Company constantly monitors - through a dedicated structure - the trend in commodity prices and its purchasing needs.

10

Trend in exchange rates

The Sabaf Group operates primarily in euro. It also executes transactions in other currencies, such as the US dollar and the Brazilian real.
Since sales in US dollars accounted for 10% of consolidated revenue, the gradual depreciation expected in the coming months could lead to a loss in competitiveness on the markets where sales are made in that currency (mainly South and North America).

Risk management measures

Through structured processes, the Parent Company Administration and Finance Department constantly monitors forex exposure and the trend in exchange rates, thereby determining the operational management of related activities.

11

Concentration of sales

The Group is characterised by a strong concentration in its revenue, with 50% arising from sales to its ten biggest customers. Relationships with customers are generally stable and long-term, and usually regulated with renewable contracts of under one year, with no minimum guaranteed sales.

Risk management measures

Sabaf has established stable and long-term relationships with its customers, and for each of these, constantly monitors the level of satisfaction regarding the services offered. Sabaf is careful, however, to avoid situations of excessive dependence on one customer.

12

Customer insolvency

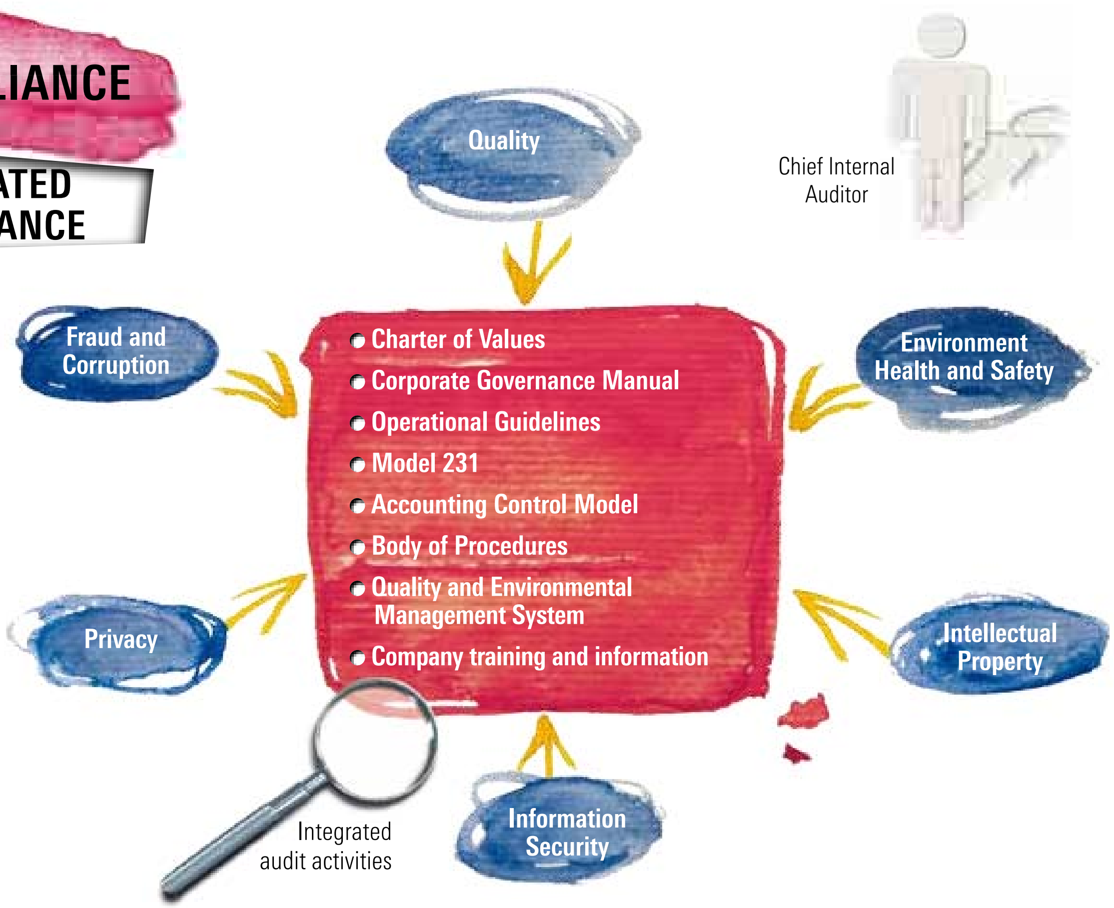
The high concentration of sales on a small number of customers, set out under the previous risk relating to sales concentration, generates a concentration of the respective commercial receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of one of them.

Risk management measures

The Group tends to favour the larger brands in the segment, considered more reliable. At the same time, risk is constantly monitored through valuation processes and checks on customer reliability. The risk is also partially transferred to third parties by no-recourse assignment or partially guaranteed through the request for letters of credit issued by leading banks for customers.
The remaining portion where the risk is not mitigated is covered in the financial statements by a doubtful account provision.

COMPLIANCE

INTEGRATED COMPLIANCE



For the purposes of meeting company objectives, the risk management activities conducted by Sabaf also take into account compliance requirements.
The internal control system governing this activity is based on the following elements:
- organisation of the **internal control system**;
- concrete implementation procedures and mechanisms for **control principles**;
- 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.

Specifically, Sabaf has an integrated Audit Plan, which breaks down according to specific control objectives (e.g. operational, compliance with Law 262/2005 and Legislative Decree 231/2001, the security and profiling of corporate information systems).

The implementation of measures is outsourced to a single structure, Internal Audit, in turn responsible for reporting the results of the activities conducted to the delegated supervisory bodies.

CORPORATE GOVERNANCE MANUAL

Following adhesion to the Borsa Italiana Corporate Governance Code and in order to internalise within its processes good governance practices in this sponsored document, Sabaf has adopted a Corporate Governance Manual* which governs principles, regulations and operational procedures.
This Manual, adopted by board resolution of 19 December 2006, having heard the opinion of the Internal Control and Audit Committee, 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 Manual contains certain operating guidelines, which were updated and approved by the Board of Directors in 2009, 2010 and 2011. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carry out their duties.

Operational guidelines

Issues governed

- **Self-evaluation of Board of Directors**
- **Management, coordination and control of Group subsidiaries**
- **Means of compliance with disclosure obligations to unions, pursuant to Article 150 TUF**
- **Assessment of the Group internal control system**
- **Process of periodically identifying and measuring Group risks**
- **Management of significant transactions in which directors have an interest**
- **Assingment of professional mandates to the statutory auditing firm**

** The latest version of the text, updated pursuant to Article 7 of the Borsa Italiana Corporate Governance Code as amended in 2010, approved by the Board of Directors' meeting of 22 December 2011, is available in the Corporate Governance section of the website www.sabaf.it, and does not yet incorporate the amendments to the Corporate Governance Code published in 2011.*

LEGISLATIVE DECREE 231/2001

In 2006, Sabaf S.p.A. adopted the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001. The Model is designed to prevent the committing of criminal offences by employees and/or outside staff in the Company's interest. Following the initial adoption, through the supervision of the Supervisory Committee, Sabaf promptly responded to the need to adjust the Model and the control structure of the company departments involved, to the changed in legislation that have occurred over time.
A new edition of the Model, which incorporates the environmental offices introduced in August 2011, will be published in 2012.
The Company tasks the Supervisory Committee with assessing the adequacy of the Model (i.e. its real ability to prevent offences), as well as with supervising the functioning and compliance of the protocols adopted.

LEGISLATIVE DECREE 262/2005

Sabaf considers the internal control system on financial reporting to be an integral part of its own risk management system. In this regard, since 2008, Sabaf ha integrated activities relating to the management of the internal control system on financial reporting into its Audit and Compliance process.
The Group has defined an **Accounting Control Model**, approved by the Board of Directors for the first time on 12 February 2008, and subsequently revised and updated.

Activities conducted in 2011

Checks on the **Model's effectiveness**, through both audits conducted by Internal Audit, and interviews with staff assigned to sensitive activities.

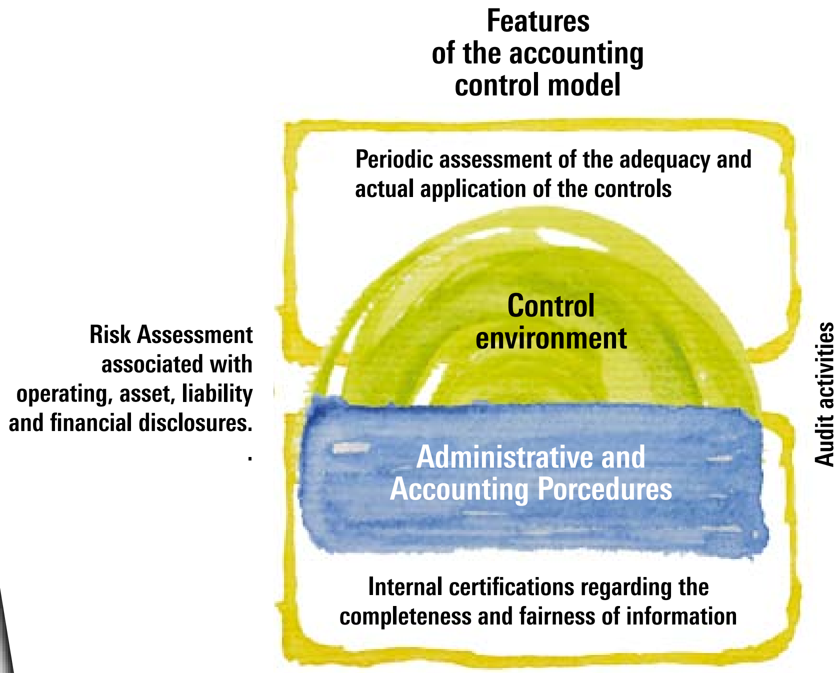
Information to all employees regarding the updating of the Model.

Updating of the **231 risk assessment** in order to identify previously undetected risks and the need to make additions to the Model.

Updating of the Model, relating to (i) information flows to the Supervisory Committee involving recipients of the Model; (ii) the addition to the disciplinary system pursuant to Article 30, paragraph 3 of the TUF, which sets out specific penalties for violations of the occupational health and safety system; (iii) the review of Special Section D on occupational health and safety

Assessment of environmental risks and the internal control system governing them, using an external specialist company, in order to prepare the related Special Section and consequently update the Model.

Provision of **231 training sessions** to approximately 120 employees and members of the Board of Directors.



On 22 December 2011, the list of company procedures governing financial reporting were presented and approved by the Board of Directors, as part of a more general review of the Company's body of regulations.

MANAGEMENT OF RELATED-PARTY TRANSACTIONS

In compliance with CONSOB Regulation 172221 of 2010, Sabaf adopted and in 2011 implemented the "Procedure for regulating related-party transactions".
The Company proposes a structure in line with that adopted by most companies in the Assonime analysis, although in terms of content, it is more cautious, and therefore consistent with the original spirit of the regulation.

Issue	Sabaf	Benchmark*
1. Adoption of the procedure	The procedure is approved by the Board of Directors, having heard the opinion of a Committee set up for this purpose, – the **Related Parties Committee**.	In 64% of the sample companies, the Board of Directors adopted the procedure, subject to the opinion of a committee established for this purpose.
2. List of Related Parties	The Chief Internal Auditor is responsible for preparing and maintaining the list of related parties. This list is not attached to the procedure.	In 60% of cases, the procedure identifies the party responsible for identifying related parties. In 11% of cases, the list of related parties is attached to the procedure.
3. Approval of insignificant transactions	The Internal Control and Audit Committee is responsible for expressing an opinion on insignificant transactions. The Committee may be assisted by an external advisor. The Board of Directors is responsible for approving these transactions.	35% of companies have a similar approval procedure for insignificant transactions to that described by Sabaf.
4. Approval of significant transactions	Pursuant to Article 10 of the Regulation, the approval procedure for significant transactions is similar to that followed for insignificant transactions. Should the Internal Control and Audit Committee express a negative opinion on the transaction, it may be approved by the Shareholders' Meeting.	Exclusive remit of the Board of Directors.
5.Transactions conducted by subsidiaries	These are approved by the Parent Company.	13% of companies have in place a system of prior assessment by the Board of Directors. For 5% of companies, the prior assessment by the Issuer's Board of Directors is binding.
6. Lower limits	Single lower limit, of €25,000 Applicability of the procedure to the setting of remuneration of directors, statutory auditors and executives with strategic responsibilities.	70% of non-financial companies have a single lower limit, for an average amount of €221,000.
7. Remuneration plans based on financial instruments	These do not fall under the procedure for related-party transactions.	89% of companies in the sample have excluded remuneration plans based on financial instruments approved by the shareholders' meeting from the scope of the procedures.

** This means the choices shown as the most common among companies in the Assonime sample*

THE "NEW" CORPORATE GOVERNANCE CODE

The table belows some provisions relating to good corporate governance introduced by the new edition of the Borsa Italiana Corporate Governance Code and which have already been in place for some time at Sabaf.

Issue	**Provision of the New Code** - to be adopted by end-2012	**Sabaf** - already in 2011
1.C.5 Documentation analysed by the Board of Directors	In its report on corporate governance, the Board of Directors must provide recommendations on the notice considered appropriate for sending preparatory documents for meetings, further specifying whether or not this time limit has been complied with.	Members of the management and control bodies are provided all the documents/information relating to the items on the agenda approximately three working days before the meeting. Documents are sent by password-protected e-mail.
1.C.6 Participation in Board of Directors' meetings	The Chairman of the Board may ask chief executive officers if the managers of the issuer and those of group companies, [omission], can attend board meetings in order to provide information on the items on the agenda.	2011, Sabaf Area Managers and the Quality, Environmental and Safety Manager were asked to attend board meetings to contribute to the discussion on specific agenda items. The meetings are also attended by the Board of Statutory Auditors, the Chief Internal Auditor and the Company tax advisor.
3.C.3 Independent directors	There must be at least two independent directors on the Board of Directors.	There are six independent directors on Sabaf's board, of which one is independent only pursuant to the TUF. Furthermore, as required by 6.P.3 (Remuneration Committee) and 7.P.4. (Control and Risks Committee - now the Internal Control and Audit Committee), Committees mainly comprise independent directors.
7.P.3 Internal Control and Risk Management System	The risk managementsystem involves, each according to their remit: a) the Board of Directors, [omission]; b) the head of the Internal Audit department, [omission]; c) other persons and company departments with specific duties relating to internal control and risk management, [omission]; d) the Board of Statutory Auditors, [omission]; The issuer establishes procedures for the coordination of the parties listed above in order to maximise the efficiency of the internal control and risk management system and reduce duplication in their activities.	Specific coordination procedures are in place, namely: - a meeting is held every six months between the Internal Control and Audit Committee, the Board of Statutory Auditors, the Independent Auditors, the Chief Internal Auditor, Internal Audit and the Supervisory Committee; - the Internal Audit department attends all meetings of the Internal Control and Audit Committee and the Supervisory Committee, and meets with the Board of Statutory Auditors.
7.C.3 Attendance of the Statutory Auditors at Control and Risks Committee meetings	Control and Risks Committee meetings are attended by the Chairman of the Board of Statutory Auditors or another auditor designated thereby; other auditors may, however, also attend.	According to the Corporate Governance Manual, the Chairman of the Board of Statutory Auditors or another auditor designated thereby attends the Internal Control and Audit Committee. It is normal practice that the entire Board of Statutory Auditors attends all the meetings of the Internal Control and Audit Committee meetings.

GENERAL REMUNERATION POLICY

In accordance with recent regulation on remuneration, the Board of Directors approved the “General Remuneration Policy” on 22 December 2011. This policy, applicable from 2012, defines the criteria and guidelines for the remuneration of: (i) members of the Board of Directors, (ii) members of the Board of Statutory Auditors, (iii) executives with strategic responsibilities.
For more details on the above policy, see the complete text on the Company’s website.
See also the Report on Remuneration for specific information on remuneration earned and paid out in 2011.

Purpose

Fixed component

On the proposal of the Board of Directors and having heard the opinion of the Remuneration Committee, the Shareholders’ Meeting determines a total amount including a fixed amount and attendance fees, for:

- all members of the Board of Directors

On the proposal of the Remuneration Committee and subject to the opinion of the Board of Statutory Auditors, the Board of Directors determines, within the amount indicated above, additional remuneration for:

- directors vested with special powers

Variable Component of short-term

On the proposal of the Remuneration Committee and in line with the budget, the Board of Directors defines an MBO plan, for:

- Executive directors (excluding the Chairman and Deputy Chairmen)
- Other executives with strategic responsibilities
- Other managers identified by the Chief Executive who report directly thereto or who report to the abovementioned managers

Variable Component of long-term

On the proposal of the Remuneration Committee, the Board of Directors approves the long-term financial incentive for:

- Executive directors (excluding the Chairman and Deputy Chairmen)
- Other executives with strategic responsibilities

There are no incentive plans based on financial instruments or ex ante agreements governing financial settlements following the early termination of the working relationship.

attract, motivate and increase the loyalty of persons with appropriate professional expertise

align the interests of management and shareholders

favour, in the medium/long term, the creation of sustainable value for shareholders

- **The short-term variable component** may not exceed 25% of the gross fixed annual salary; furthermore, it may be partially granted in the event that the objectives are only partially met.
75% is paid out in the April of the following year, and 25% in the January of the second subsequent year.

- The annual variable component is linked to an **MBO** plan.
This plan sets a common objective (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual objectives, both economic-financial and technical-productive in nature.

- **Total long-term variable component** for three years may not exceed 50% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are only partially met.
It is paid in full following the approval of the financial statements of the third year to which the incentive relates.
NB: applicable from 2012.

When we bent over a small plant to observe it carefully, it appeared bigger than usual with an unusually regular structure.
It had the shape of a green circle with oval leaves, serrated at the edges and from its middle rose a luminous bud.

Ernst Junger

4

SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

SABAF AND ITS STAFF

The SA8000 standard

The Sabaf S.p.A. social accountability system complies with the SA8000 standard, for which the Company obtained certification in 2005. The decision to certify the system stemmed from the belief that the Company's human resources are an important asset.
In particular, it seeks to raise awareness among management, suppliers, employers and independent contractors of full compliance with the social accountability principles enshrined in the standard.

In implementing SA8000, Sabaf SpA has analysed and monitored the main ethical and social risk factors in terms of child labour, forced labour, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary procedures, working hours and compensation.

There was constant dialogue during the year between management representatives and workers' representatives concerning the concrete application of the SA8000 standard.

The social accountability management system was audited by IMQ / IQ NET twice in 2011, when auditors collected evidence of the Company's commitment to supporting the Social Accountability System, and no evidence of non-compliance emerged.

Hiring policy, composition and changes in employees

As at 31 December 2011, the Sabaf Group had 714 employees, compared with 703 at 2010 year-end (+1.5%).

	31 december 2011	31 december 2011	31 december 2011
Sabaf S.p.A. (Ospitaletto, BS)	598	593	564
Faringosi Hinges (Bareggio, MI)	51	53	53
Sabaf do Brasil (Jundiaì, San Paolo)	65	57	56
Total	**714**	**703**	**673**

As regards basic types of employment contracts, 685 employees (96%) had permanent contracts, 20 (3%) had training or apprenticeship contracts, and 9 (1%) had temporary contracts.

	31 december 2011	31 december 2011	31 december 2011	31 december 2010	31 december 2009
	M	W	TOTAL	TOTAL	TOTAL
Permanent	441	244	685	654	626
Training or apprenticeship	19	1	20	30	24
Temporary	9	0	9	19	23
Total	**469**	**245**	**714**	**703**	**673**

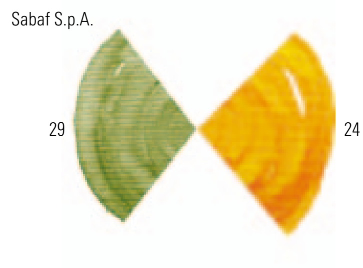
Temporary staff (on an employment agency contract)

Temporary staff	2011	2011	2011	2010	2009
	M	W	TOTAL	TOTAL	TOTAL
January	44	22	66	115	3
February	44	27	71	125	2
March	43	29	72	129	2
April	44	31	75	114	1
May	39	27	66	106	40
June	29	30	59	96	95
July	42	31	73	94	119
August	42	32	74	94	113
September	44	27	71	96	151
October	36	28	64	101	150
November	36	31	67	80	121
December	31	26	57	72	105
ANNUAL AVERAGE	**40**	**28**	**68**	**102**	**75**

The Sabaf Group uses employment agency staff for the purposes allowed under the applicable laws and regulations. The number of temporary staff was lower than in 2010 owing to fewer peaks of intense activity.

In 2011, the Sabaf Group hired 42 ex-temporary workers on a permanent basis (73[3] in 2010).

In 2011 Sabaf offered work placements to 29 students (13 in 2010).
In this way, Sabaf offers for a week some students from schools in the province of Brescia with a bias towards industry a first direct contact with the world of work, in which they are able to apply the technical knowledge they have acquired in the classroom in the field.



3 - 2010 figure recalculated to include Sabaf Do Brasil

Staff turnover in 2011

Sabaf S.p.A.

	31/12/10	New hires	Departures	Change in category	31/12/11
Senior management	8	0	1	0	7
Clerical staff and middle management	114	5	6	0	113
Manual workers	471	24	17	0	478
Total	**593**	**29**	**24**	**0**	**598**

Faringosi Hinges s.r.l.

	31/12/10	New hires	Departures	Change in category	31/12/11
Senior management	1	0	0	0	1
Clerical staff and middle management	17	0	0	0	17
Manual workers	35	0	2	0	33
Total	**53**	**0**	**2**	**0**	**51**

Sabaf do Brasil Ltda

	31/12/10	New hires	Departures	Change in category	31/12/11
Senior management	2	0	2	0	0
Clerical staff and middle management	14	2	4	0	12
Manual workers	41	25	13	0	53
Total	**57**	**27**	**19**	**0**	**65**

Group total

	31/12/10	New hires	Departures	Change in category	31/12/11
Senior management	11	0	3	0	8
Clerical staff and middle management	145	7	10	0	142
Manual workers	547	49	32	0	564
Total	**703**	**56**	**45**	**0**	**714**

New hires by category and gender

	2011			2010		
	M	W	**Total**	M	W	**Total**
Senior management	0	0	**0**	0	0	**0**
Clerical staff and middle management	4	3	**7**	3	4	**7**
Manual workers	42	7	**49**	68	17	**85**

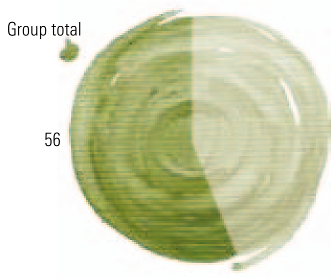
Redundancies by age bracket and gender

	2011			2010		
	M	W	**Total**	M	W	**Total**
< 20 years	1	1	**2**	7	0	**7**
21 - 30 years	12	5	**17**	19	6	**25**
31 - 40 years	7	6	**13**	14	4	**18**
41 - 50 years	5	1	**6**	5	1	**6**
> 50 years	6	1	**7**	4	2	**6**

Reasons for termination of employment in 2011

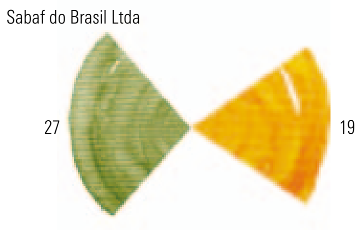
	Senior management	Middle management	Clerical staff	Manual workers	Total
Resignation	3	0	8	25	36
Retirement	0	0	2	3	5
Expiry of contract	0	0	0	4	4
Dismissal	0	0	0	0	0
Failure to pass probationary period	0	0	0	0	0
Total	**3**	**0**	**10**	**32**	**45**

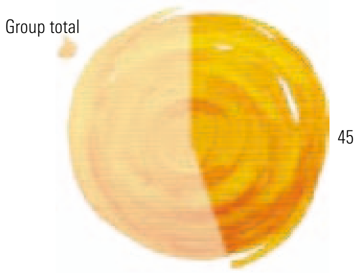
The initiatives undertaken in 2010 and 2011, including the review of remuneration policies, significantly reduced staff turnover at Sabaf do Brasil, which is still however higher than the Group average, because of the high demand for labour in the country, particularly in the area of Jundiaì.



New hires

Departures





Breakdown of employees by age

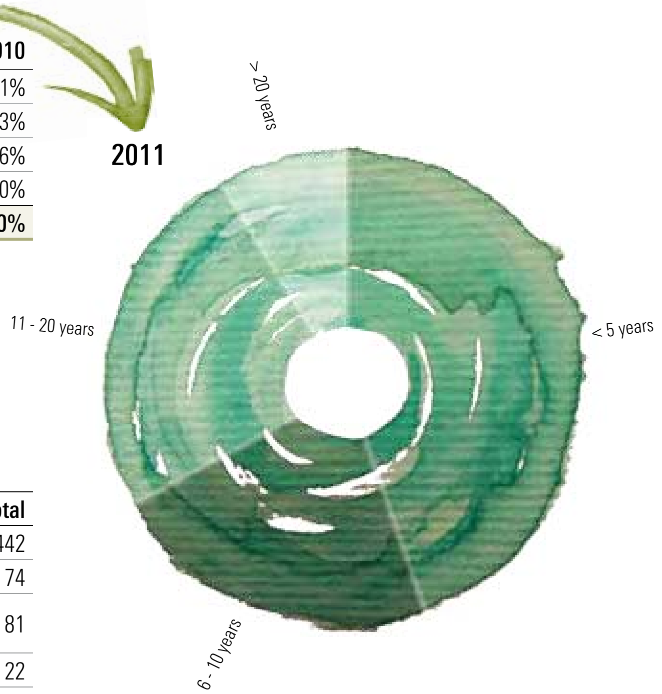
	31.12.2011	31.12.2010
< 30 years	35.0%	36.0%
31 - 40 years	37.6%	37.8%
41 - 50 years	19.3%	18.6%
oltre 50 years	8.1%	7.6%
Total	**100%**	**100%**

The average age of Group employees (36 years) reflects the continuous expansion of the business and the desire to hire young workers, giving preference to in-house training and development rather than bringing in outside skills, particularly in view of the specific nature of Sabaf's business model.

The minimum age of Group employees is 18 in Italy and 16 in Brazil.

Breakdown of employees by seniority

	31.12.2011	31.12.2010
< 5 years	44.7%	45.1%
6 - 10 years	22.4%	23.3%
11 - 20 years	24.1%	22.6%
> 20 years	8.8%	9.0%
Total	**100%**	**100%**



Sabaf is well aware of the fundamental importance of having a stable and qualified workforce that, together with investments in technology, is a key factor in maintaining the Group's competitive advantage.

Staff breakdown by functional area

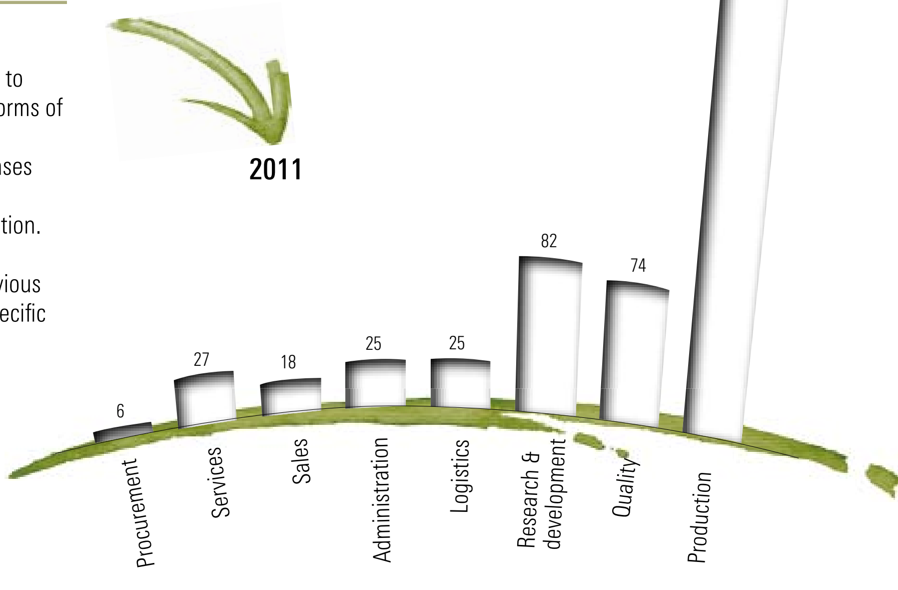
	2011			2010		
Area	**M**	**W**	**Tot**	**M**	**W**	**Total**
Production	289	168	457	272	170	442
Quality	44	30	74	42	32	74
Research & development	78	4	82	78	3	81
Logistics	24	1	25	21	1	22
Administration	7	18	25	13	16	29
Sales	7	11	18	9	11	20
Services	16	11	27	16	12	28
Procurement	4	2	6	3	4	7
Total	**469**	**245**	**714**	**454**	**249**	**703**

Hiring policy

In order to attract the best resources, our hiring policy aims to ensure equal opportunities for all candidates, avoiding all forms of discrimination. The selection policy envisages, inter alia:
- that the hiring process be carried out in at least two phases with two different interviewers;
- that at least two candidates be considered for each position.

Candidates are assessed based on their skills, training, previous experience, expectations and potential, according to the specific needs of the business.

All new hires receive the Charter of Values and the SA8000 standard, as well as a copy of the national collective bargaining agreement for the industry.



Staff breakdown by educational qualifications

	2011				2010			
	Men	Women	Total		Men	Woman	Total	
University degree	35	9	44	6.2%	30	10	40	5.7%
High school diploma	228	90	318	44.5%	219	88	307	43.6%
Middle school diploma	198	137	335	46.9%	196	142	338	48.1%
Primary school certificate	8	9	17	2.4%	9	9	18	2.6%
Total	**469**	**245**	**714**	**100%**	**454**	**249**	**703**	**100%**

Training

At Sabaf, employee professional development is underpinned by a continuous training process. The Human Resources Department, in consultation with the managers concerned, devises an annual training plan, based on which specific courses to be held during the year are scheduled.

	2011			2010		
	Men	Women	Total	Men	Women	Total
Training for new recruits, apprentices, initial employment contracts	5,431	197	5,628	3,262	1,005	4,267
Information systems	445	423	868	195	86	281
Technical training	142	69	211	954	125	1,079
Safety, environment and social responsibility	1,317	283	1,600	1,029	535	1,564
Administration & organisation	231	148	379	377	395	772
Foreign languages	122	0	122	561	156	717
Total hours of training received	**7,688**	**1,120**	**8,808**	**6,378**	**2,302**	**8,680**
Of which: training hours provided by in-house trainers	10,404	2,300	12,704	9,638	3,409	13,047
Total	**18,092**	**3,420**	**21,512**	**16,016**	**5,711**	**21,727**

The training hours provided by in-house trainers also include the training given to employment agency staff (10,378 hours in 2011).

Per capita hours of training received by job category	**2011**	**2011**	**2011**	**2010**
	M	W	Total	Total
Manual workers	14.5	5.9	11.5	10.5
Clerical staff and middle management	14	18	15.4	18.5
Senior management	21.2	n.a.	21.2	29.6
Total	**14.5**	**8.2**	**12.3**	**12.5**

In 2011 the total cost of training Group employees was di €396,000 (€384,000 in 2010).
In addition, training costs for temporary staff totalled €224,000 (€215,000 in 2010).

Internal communication

With a view to developing an ongoing dialogue between the business and its employees, Sabaf publishes a biannual magazine featuring key information about corporate life and addressing subjects of general interest.

The Human Resources Department officially has two periods each week during which it is available to meet with employees to offer them help and advice, even with issues not strictly related to the employer-employee relationship, such as information on tax and social security laws.

Diversity and equal opportunities

Sabaf is permanently committed to assuring equal opportunities for female staff, who today account for 34.3% of the workforce (35.4% in 2010).

The Company – subject to organisational and production requirements – is mindful of staff family commitments. To date, the majority of requests to reduce working hours made by workers have been satisfied. In 2011, the Sabaf Group granted a total of 37 part-time contracts (four to female clerical staff, 30 to female manual workers and three to male manual workers), equivalent to 5.2% of the total (38 contracts in 2010).

Percentage distribution of employment by gender

	2011		2010		Benchmark[4]
	Number	%	Number	%	%
Men	469	65.7	454	64.6	**87.2**
Women	245	34.3	249	35.4	**17.3**
Total	**714**	**100**	**703**	**100**	

Breakdown by category

Category		2011	2010
Manual workers and similar	Men	367	347
	Women	197	200
Clerical staff and middle management	Men	94	96
	Women	48	49
Senior management	Men	8	11
	Women	0	0
Total		**714**	**703**

At all Group sites, senior management is recruited from the local area.

Non-EU workers[5]

	2011	2010	Benchmark[6]
Non-EU workers	68[7]	66	
% of total employees	10.48%	10.22%	2.50%

The Sabaf Group has 20 disabled employees, eight of them part-time. For Sabaf, hiring people with disabilities each year is not merely a question of legal compliance, but of wanting to facilitate their integration within the manufacturing process. There is an agreement in place between Sabaf S.p.A. and social cooperative Gruppo Fraternità, based on Article 14, for the hiring of protected categories.

4 - FEDERMECCANICA, The metalworking industry in figures (June 2011) – Worker breakdown by gender (2008) [L'industria metalmeccanica in cifre (giugno 2011) – Distribuzione dell'occupazione per sesso (2008)], http://www.federmeccanica.it

5 - Figures refer to Italian companies only. Sabaf do Brasil is not included.

6 - FEDERMECCANICA, The metalworking industry in figures (June 2011) – Non -EU workers (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Lavoratori extracomunitari (2009)], http://www.federmeccanica.it

7 - At 31 December 2011, 15 different nationalities were represented on Sabaf's workforce.

Compensation, incentive and promotion systems

Sabaf S.p.A. employees are classified according to the national collective bargaining agreement for the metalworking and mechanical engineering sector, as amended by second-level bargaining, which includes:

- a personal bonus by employee grade,
- a productivity bonus by employee grade,
- a fixed performance-related bonus for all employee grades,
- a standard consolidated bonus for all employee grades,
- a standard variable performance-related bonus for all employee grades.

In addition, a specific bonus is envisaged for employees hired under training and apprenticeship contracts.
Details of staff cost components are set out in the notes to the consolidated financial statements.
Besides financial incentives – e.g. individual pay rises, mortgage guarantees issued by the Company for employees, sale or rental of apartments at cost price, and company discounts on goods and services – Sabaf's incentive system also includes the option of taking part in free training courses held on or off-site.
The types of welfare benefits available to Group employees are those envisaged by the statutory legislation in force in the various countries in which the Group operates.

Ratio between the minimum monthly salary envisaged by national collective agreements and the minimum salary paid by Group companies

	Minimum salary as per national collective agreement	Minimum salary paid	% increase over minimum
Italy[8]	1,444.58	1,491.39	+3.2%
Brazil (BRL)	884	891	+0.8%

Ratio between average salary of female employees and average salary of male employees

	2011	2010
Clerical staff, middle management and senior management	68%	64%
Manual workers	93%	95%

These figures were determined as the ratio between the average gross annual pay of female employees and that of male employees for individual Group companies. The Group indicator was determined by weighing the indicators of the individual companies by the number of employees in each.

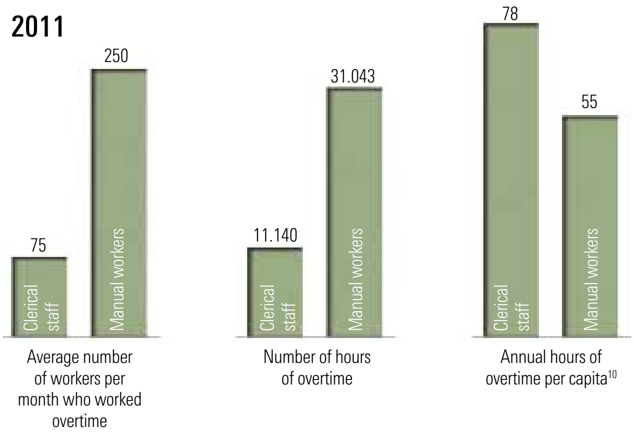
Working hours and hours of absence

The ordinary working week is 40 hours for Italian companies and 44 hours for Sabaf do Brasil, spread over five working days, from Monday to Friday. If there are changes in working hours or the introduction of shifts at particular times, the trade union representatives and employees concerned are informed.

8 - Gross salary of a manual worker/grade 3 clerical employee

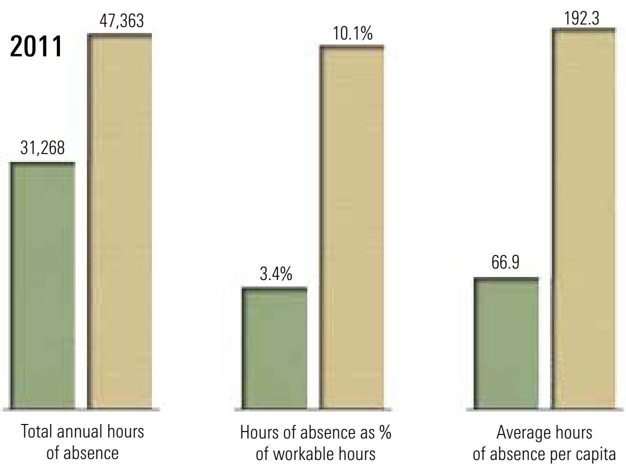
Overtime

	2011		2010		Benchmark[9]	
	Clerical staff	Manual workers	Clerical staff	Manual workers	Clerical staff	Manual workers
Average number of workers per month who worked overtime	75	250	79	216		
Number of hours of overtime	11,140	31,043	11,888	25,024		
Annual hours of overtime per capita[10]	78	55	82	47	47	44



HOURS OF ABSENCE

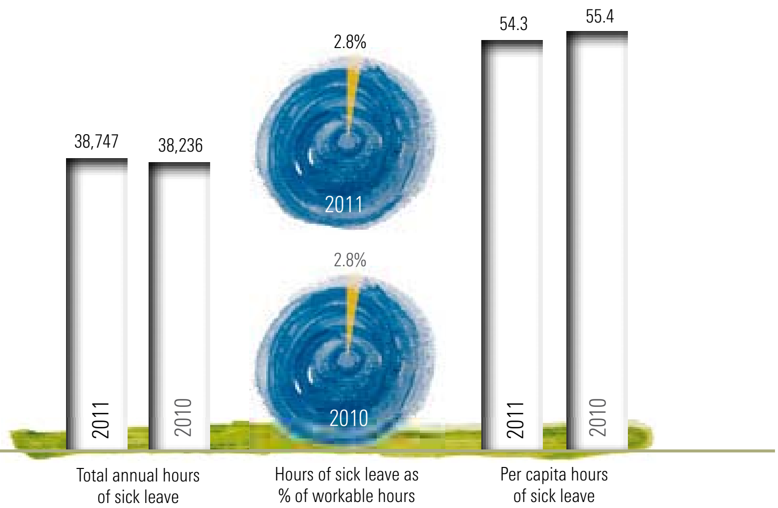
	2011 M	2011 W	2011 total	2010	Benchmark[11]
Total annual hours of absence	31,268	47,363	78,631	70,780	
Hours of absence as % of workable hours	3.4%	10.1%	5.6%	5.2%	
Average hours of absence per capita	66.9	192.3	110.2	102.8	121.1



9 - FEDERMECCANICA, *The metalworking industry in figures (June 2011) – Per capita overtime hours (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di lavoro straordinario (2009)]*, http://www.federmeccanica.it
10 - *Calculated on the average number of employees*
11 - FEDERMECCANICA, *The metalworking industry in figures (June 2011) – Per capita hours of absence from work (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

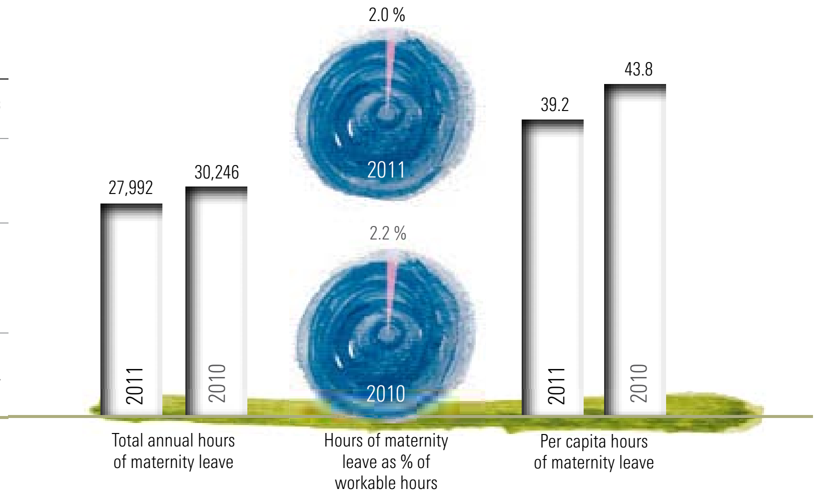
HOURS OF SICK LEAVE

	2011 M	2011 W	2011 total	2010	Benchmark[12]
Total annual hours of sick leave	22,127	16,620	38,747	38,236	
Hours of sick leave as % of workable hours	2.4%	3.5%	2.8%	2.8%	
Per capita hours of sick leave	47.3	67.5	54.3	55.4	64.0



HOURS OF MATERNITY LEAVE

	2011 M	2011 W	2011 total	2010	Benchmark[13]
Total annual hours of maternity leave	1,328	26,664	27,992	30,246	
Hours of maternity leave as % of workable hours	0.1%	5.7%	2.0%	2.2%	
Per capita hours of maternity leave	2.8	108.3	39.2	43.8	13.4



The high number of hours of maternity leave compared with the sector average reflects our much higher percentage of female staff.

PARENTAL LEAVE

	2011				2010			
Type of leave	M	W	Total	% of workers in work-force after 12 months	M	W	Total	% of workers in work-force after 12 months
Statutory maternity leave	1	15	16	n.a.	1	19	20	90.0%
Early maternity leave	0	14	14	n.a.	0	13	13	92.3%
Optional maternity leave	2	16	18	n.a.	0	18	18	83.3%
Child-rearing leave	5	6	11	n.a.	2	8	10	100.0%
Blood donation	3	1	4	n.a.	4	1	5	100.0%
Law 104	8	8	16	n.a.	8	8	16	100.0%
Leave of absence	0	3	3	n.a.	4	4	8	62.5%
Extraordinary parental leave	2	1	3	n.a.	1	4	5	100.0%

Recourse to the government's statutory redundancy pay scheme (Cassa Integrazione Guadagni Ordinaria)

	2011	2010
Number of hours of statutory redundancy pay	1,540	0
Annual average number of hours per capita	2.18	0

Recourse to the government's statutory redundancy scheme, made necessary following a drop in orders, only concerned Faringosi Hinges.

12-13 - FEDERMECCANICA, The metalworking industry in figures (June 2011) – Per capita hours of absence from work (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)], http://www.federmeccanica.it

OCCUPATIONAL HEALTH AND SAFETY

The Company is fully committed to protecting the health and safety of its employees: the system used to manage occupational health and safety issues is OHSAS 18001 compliant. Not only does it guarantee compliance with applicable laws and regulations, it is also designed to ensure continuous improvement of working conditions.

Sabaf S.p.A. and Faringosi Hinges S.r.l. have updated company guidelines and operating procedures required pursuant to Legislative Decree 81/2008 (consolidated law on occupational health and safety).

Since February 2012, the occupational health and safety system of Faringosi Hinges has been certified according to the OHSAS 18001 standard.

Number and duration of accidents

	2011 M	2011 W	2011 tot	2010	Benchmark[14]
On-site accidents	15	6	21	23	
Off-site accidents	2	1	3	3	
Average absence due to on-site accidents (days)	13.40	17.00	14.43	12.61	
Average absence due to off-site accidents (days)	10.5	24.0	15.0	38.0	
Total days of absence due to accidents	1,340	720	2,060	4,164	
Per capita hours of absence due to accidents	2.87	2.92	2.89	6.04	7.0

14 - FEDERMECCANICA, The metalworking industry in figures (June 2011) – Per capita hours of absence from work (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro

Accident frequency index

Number of accidents (excluding off-site accidents) per 1,000,000 hours worked

	2011 M	2011 W	2011 total	2010
Index	18.44	18.58	18.48	18.55

Accident severity index

Number of accidents (excluding off-site accidents) per 1,000 hours worked

	2011 M	2011 W	2011 total	2010
Index	0.26	0.29	0.27	0.54

No serious accidents occurred in 2011. Training and instruction on the use of protective and safety equipment continued. Systematic safety audits of all Sabaf S.p.A. machinery have been conducted since 2008.

In compliance with current law, Group companies have prepared and implemented a health-monitoring programme for their employees, with medical check-ups focusing on the specific work-related hazards.
In 2011, 2,387 medical check-ups were performed (2,366 in 2010).

Current expenditure on worker safety

(Amounts in euro' 000)	2011	2010
Plant, equipment and materials	95	87
Personal protective equipment (PPE)	98	78
External training	13	6
Advisory services	45	21
Analyses of workplace environment	3	0
Medical check-ups (including pre-hire check-ups)	51	36
Software and database	1	1
Total	**306**	**229**

Investments in worker safety

(Amounts in euro' 000)	2011	2010
Plant, equipment and materials	273	131
Total	**273**	**131**

Investments in 2011 include a die splitter machine equipped with a special elevating trolley to move the die within Sabaf S.p.A.'s diecasting division.

Use of hazardous substances

Only those materials that fully comply with Directive 2002/95/EC (RoHS Directive) are used in production. These materials are intended to limit the use of hazardous substances such as lead, mercury, cadmium and hexavalent chromium.

Labour relations

Three trade unions are represented internally at Sabaf SpA: FIOM, FIM and UILM.
As at December 2011, 151 employees were card-carrying members, i.e. 21.2% of total employees (in 2010, 156 employees were card-carrying members, 22.2% of the total).

Relations between senior management and trade union representatives are based on mutual transparency and fairness. During the year, there were 11 meetings at Sabaf SpA between management and trade union representatives. The main issues addressed were:

- announcements regarding changes in permanent staff and employment agency contracts, monitoring temporary and training contracts and planning of recruitment and training;
- definition of the company calendar;
- worker training in company safety.

The hours spent taking part in trade union activities in 2011 were equivalent to 0.77% of workable hours.

Participation in trade union activities

	2011	2010	Benchmark[15]
Union meetings			
Number of hours	2,103	2,605	
As % of workable hours	0.17%	0.19%	
Number of hours per capita	3.0	3.8	
Union leave of absence			
Number of hours	1,823	1,831	
As % of workable hours	0.15%	0.13%	
Number of hours per capita	2.6	2.6	
Industrial action			
Number of hours	7,971	8,567	
As % of workable hours	0.65%	0.62%	
Number of hours per capita	11.3	12.4	4.1
Total			
Number of hours	11,897	13,003	
As % of workable hours	0.97%	0.95%	
Number of hours per capita	16.9	18.9	

In 2011, a total of 42 hours of strike were called at Sabaf S.p.A., owing to national claims. No strikes were called at Faringosi Hinges or Sabaf do Brasil.

FEDERMECCANICA, The metalworking industry in figures (June 2011) – Per capita hours of absence from work (2009) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)], http://www.federmeccanica.it

Social activities and benefits

Sabaf S.p.A. has signed an agreement with a bank for mortgages and consumer loans with particularly advantageous terms, acting as a guarantor for employees: at 31 Decemebr 2011, 67 employees had benefited from the agreement, 66 with mortgage loans and four with consumer loans.

The Company leased eight apartments to employees near the Ospitaletto site. A new residential complex was built in 2007 with 54 units, which are allocated on a priority basis at preferential rates to employees. Twenty-nine apartments had been sold to employees at the end of December 2011.

The Company has also signed various agreements with retailers to purchase products and services at special low prices.

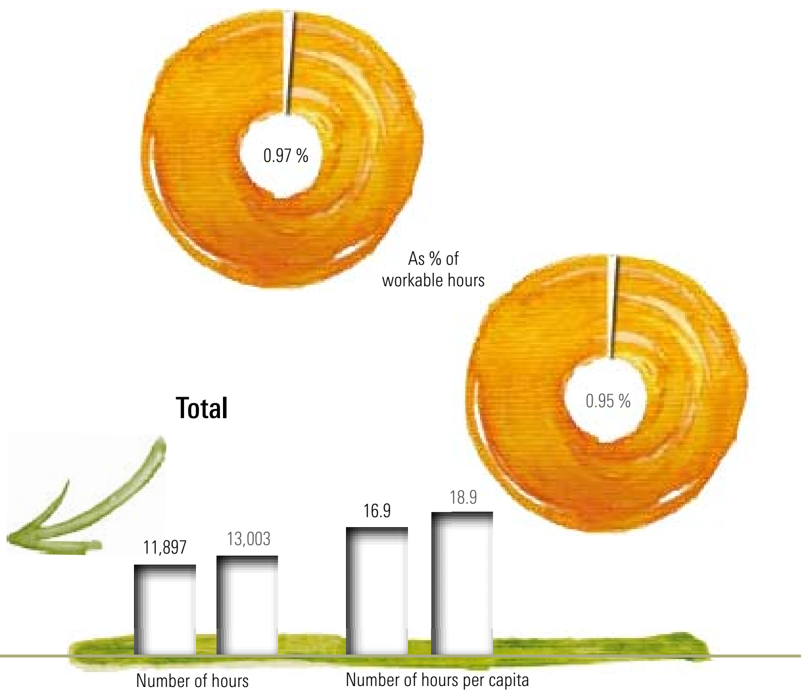
Litigation and disciplinary measures

During 2011, 65 disciplinary measures were taken against Group employees. These break down as follows:

- 3 verbal warnings
- 6 reminders concerning the use of personal protective equipment
- 25 written warnings
- 19 fines
- 11 suspensions
- 1 provisional suspension without pay.

Aside from the reminder to use PPE and failure to comply with occupational safety regulations, the principal causes for disciplinary measures are unexcused absences and not being available for mandatory medical examinations ("visita fiscale"), failure to observe working hours and improper performance of assigned duties.

At 31 December 2011, three lawsuits were pending with former employees.



SABAF AND ITS SHAREHOLDERS

Shareholder base

As at 29 February 2012, 1,682 shareholders were listed in the shareholders' register. Of these:

- 1,438 owned fewer than 1,000 shares
- 163 owned from 1,001 to 5,000 shares
- 21 owned from 5,001 to 10,000 shares
- 60 owned over 10,000 shares.

Shareholders residing outside Italy hold 26.6% of the share capital.
Institutional investors are very strongly present in share capital, accounting for approximately 90% of the free float.

Relations with investors and financial analysts

Right from the time when it went public (1998) the Company has considered financial communication to be of strategic importance. Sabaf's financial communication policy is based on the principles of integrity, transparency and continuity, in the belief that this approach enables investors to assess the Company properly. In this regard, Sabaf is 100% willing to engage in dialogue with financial analysts and institutional investors.

The brokers that prepare studies and research documents about Sabaf on an ongoing basis are: Banca Akros, Equita and Fidentiis.

In 2011, the Company met with institutional investors at roadshows organised in Milan, London and Paris.

Shareholder return and share performance

During 2011, Sabaf shares reached their highest official price on 3 January (€25.242) and their lowest on 30 December (€11.177). Average daily trading volume was 7,857 shares, equivalent to an average daily total value of €143,000 (€194,000 in 2010). The dividend policy adopted by Sabaf is designed to guarantee a fair return for shareholders. This is realised in part through the annual dividend, by maintaining a ratio of approximately 50% between dividends and profits.

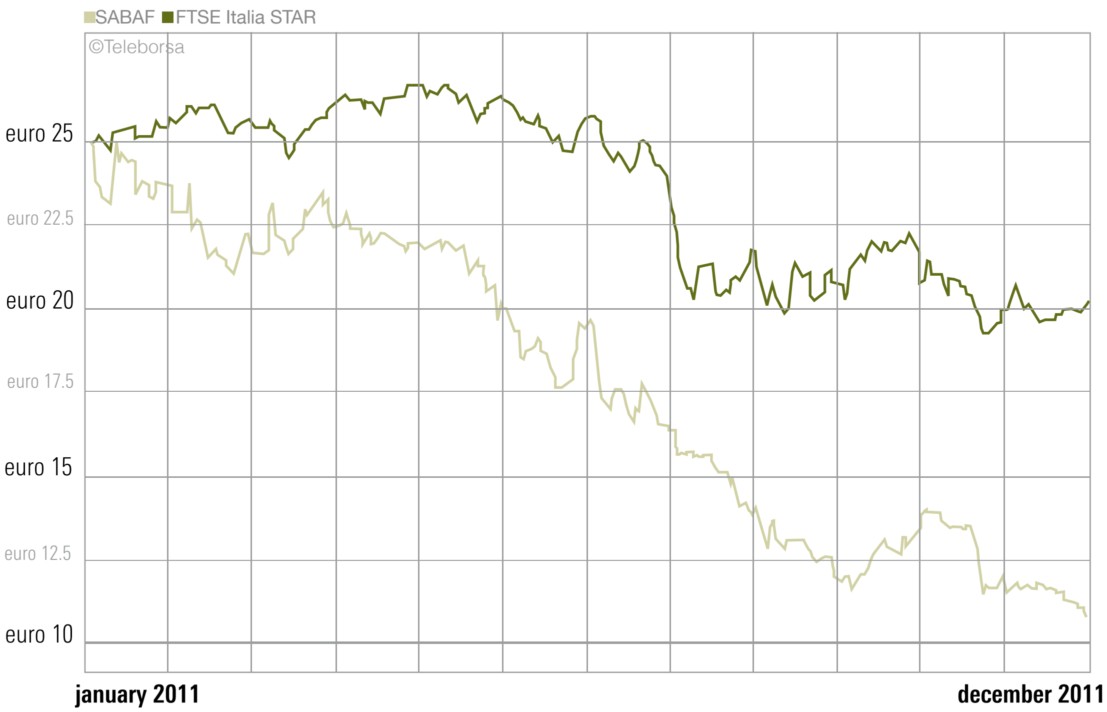
Year of payment	Dividend
1999	0.23
2000	0.28
2001	0.31
2002	0.34
2003	0.37
2004	0.40
2005	0.48
2006	0.60
2006 - extraordinary dividend	1.00
2007	0.70
2008	0.70
2009	0.70
2010	0.50
2011	0.80
2012 - proposed dividend	0.60

Socially responsible investments

Sabaf shareholders also include ethical funds such as Kempen.

Litigation

No lawsuits are pending with shareholders.



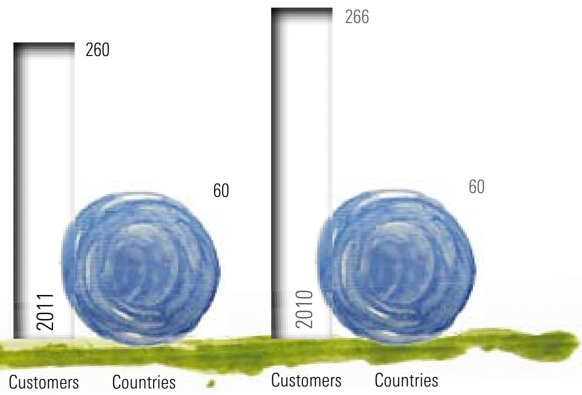
SABAF AND ITS CUSTOMERS

SALES ANALYSIS

Countries and customers

	2011	2010
Countries	60	60
Customers[16]	260	266

16 - With sales over euro 1,000

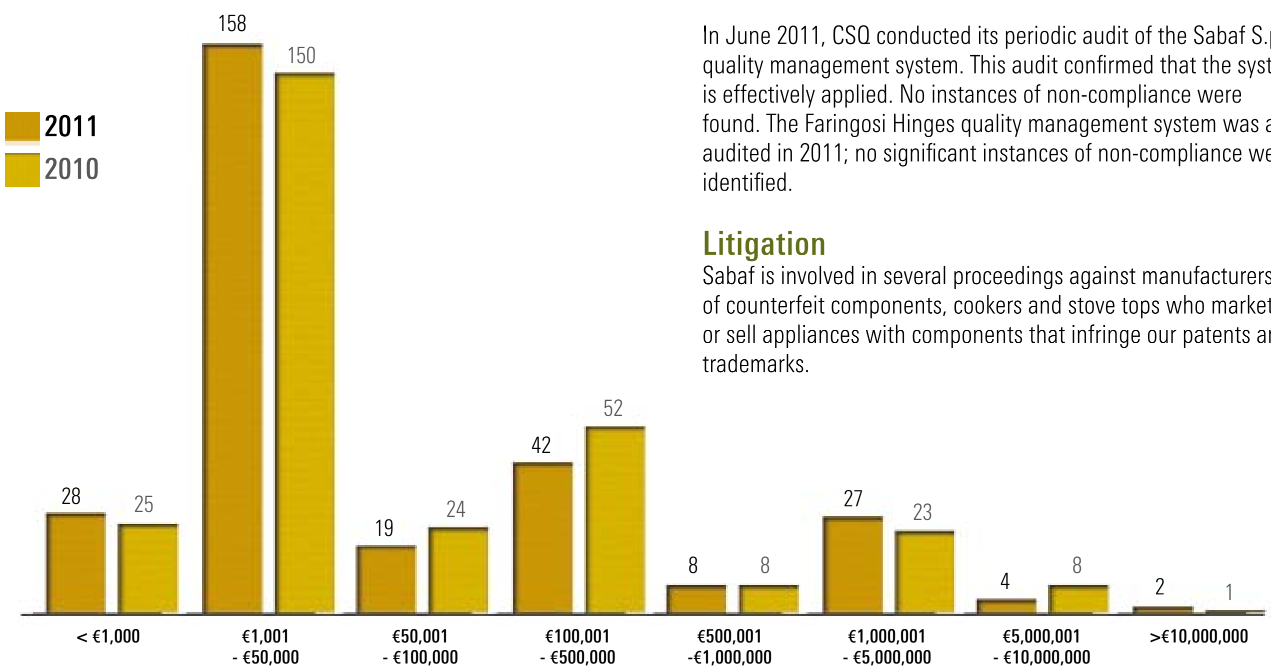


For a detailed analysis of revenue by product family and geographical area, please see the Report on Operations.

In line with the Group's commercial policies, most of the active commercial relationships are well established and long-term.

In 2011, the Sabaf Group issued invoices to 24 new customers (48 in 2010), for a total of €567,000 (€1.3 million in 2010), whilst 37 customers active in 2010 did not buy in 2011, for a total of about €650,000 (compared with 60 the previous year, for a total of €364,000).

33 customers provided us with annual sales of over €1 million (32 in 2010). The breakdown by sales amount is as follows:



In addition to the management structure at the Ospitaletto site, the sales network is managed by subsidiaries in Brazil, USA, Mexico and China, as well as two branch offices in Turkey and Poland, which opened in the latter half of 2010 to work more closely with these two strategic markets. Twelve agency relationships are currently active.

The quality system

Our quality management system is integrated with our environmental management and workplace safety systems, and should enable us to achieve the following objectives:

a. increase customer satisfaction by understanding and responding to customers' present and future needs;
b. continuously improve processes and products, with special attention to environmental protection and employee safety;
c. involve partners and suppliers in the continuous improvement process, encouraging a "co-makership" approach;
d. develop the potential of our human resources;
e. improve business performance.

Current spending on quality *(Amounts in euro' 000)*	2011	2010
Product certification	93	73
Certification and management of quality system	5	2
Purchase of measuring instruments and equipment	12	24
Calibration of measuring instruments and equipment	49	33
Technical regulations, software and publications	2	1
Trials and tests by independent laboratories	8	3
Total	**169**	**136**

Investments in quality *(Amounts in euro' 000)*	2011	2010
Purchase of measuring instruments and equipment	53	132
Total	**53**	**132**

All Group facilities have obtained quality certification according to ISO 9001: Sabaf S.p.A.'s quality system has been ISO 9001 certified since 1993, that of Faringosi Hinges since 2001 and that of Sabaf do Brasil since 2011.

In June 2011, CSQ conducted its periodic audit of the Sabaf S.p.A. quality management system. This audit confirmed that the system is effectively applied. No instances of non-compliance were found. The Faringosi Hinges quality management system was also audited in 2011; no significant instances of non-compliance were identified.

Litigation

Sabaf is involved in several proceedings against manufacturers of counterfeit components, cookers and stove tops who market or sell appliances with components that infringe our patents and trademarks.

SABAF AND ITS SUPPLIERS

The SA8000 standard and suppliers

In 2005 Sabaf S.p.A. was certified as compliant with the SA8000 (Social Accountability 8000) standard. The Company therefore requires its suppliers to respect – in all their activities – the standard's principles as a basic prerequisite for building a lasting relationship based on the principles of social accountability.
Supply contracts include an ethics clause inspired by the SA8000 standard, which requires suppliers to guarantee respect for human and social rights, and more specifically, to avoid employing persons below the legal minimum age in the country concerned, to guarantee their workers a safe workplace, to protect trade union rights, to comply with legislation on working hours, and to ensure that workers are paid the statutory minimum wage.
Failure to comply with or accept the principles of the SA8000 standard could lead to the supply relationship being terminated. In 2011, as in 2010, 23 audits were carried out on suppliers' quality management, environment and social accountability, none of which revealed any critical non-conformity. Suppliers were asked to take the appropriate measures to resolve any non-conformity of a non-critical nature.

Purchasing analysis

The Sabaf Group aims to promote development in the areas where it operates. Therefore, when choosing suppliers it gives preference to local firms. Purchases made in Lombardy by the Group's Italian companies represent 66.0% of the total.
Sales generated outside the European Union mainly comes from suppliers in China, with components supplied totalling around €3,135,000 in 2011 (€1,618,000 in 2010). Chinese suppliers have signed a clause to comply with the principles set out in the SA 8000 standard.

Geographical distribution of suppliers[17]

(Amounts in euro' 000)	2011		2010	
	Sales	%	Sales	%
Province of Brescia	52,722	52.3	51,397	51.2
Province of Milan	2,284	2.3	3,031	3.0
Rest of Lombardy region	11,566	11.5	12,051	12.0
Italy	19,669	19.5	18,434	18.4
Rest of EU	10,058	10.0	11,484	11.4
Non-EU countries	4,580	4.5	3,948	3.9
Total	**100,879**	**100**	**100,345**	**100**

Sabaf do Brasil mainly purchases its production materials from local suppliers. The main machinery items used (transfer machining and assembly equipment and die-casting burner presses) have instead been imported from Europe to assure uniform group-wide manufacturing processes, particularly as regards quality and safety.

17 - Excluding Sabaf do Brasil

Supplier relations and contractual terms

Our relations with suppliers aim for long-term partnerships and are based on business integrity, propriety and fairness, and on shared growth strategies.

In order to share with suppliers the values underpinning its business model, and to foster complete transparency and reciprocal knowledge, Sabaf has distributed its Charter of Values extensively and periodically sends suppliers its "Sabaf Magazine" newsletter.

Sabaf guarantees total impartiality in supplier selection and undertakes to adhere strictly to the agreed payment terms (to date, except in rare and justified cases, all contracts have been paid as per agreements).

Sabaf requires its suppliers to upgrade their technology so that they are constantly able to offer the best value for money. It gives preference to suppliers who have obtained or are in the process of obtaining quality and environmental certification.

In 2011 sales to Sabaf Group by suppliers with certified quality systems accounted for 54.2% of the total (vs. 53.9% in 2010).

Breakdown of purchases by category

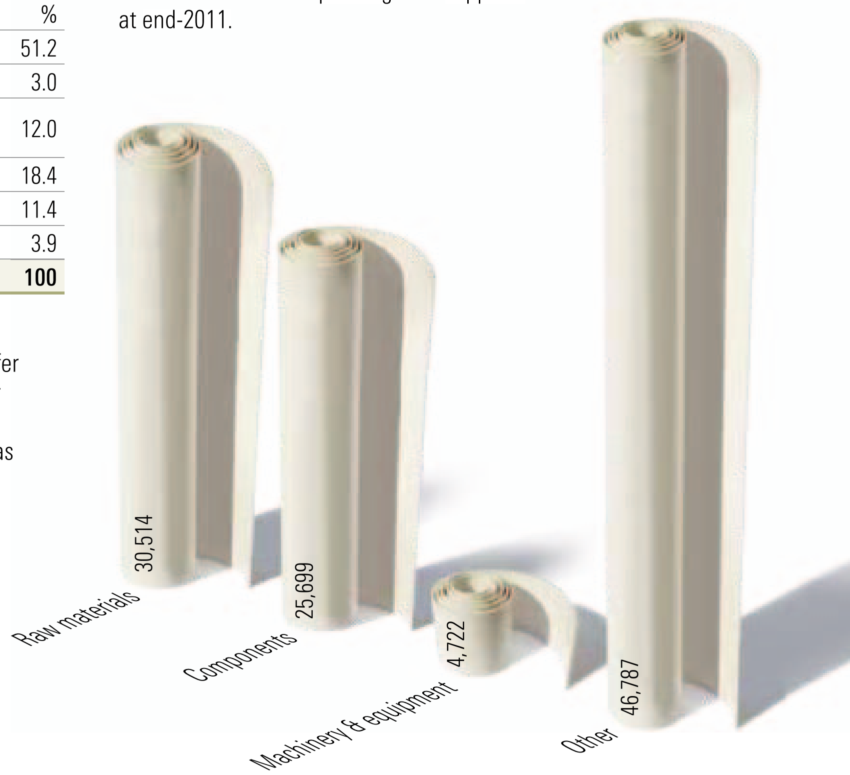
(Amounts in euro' 000)	2011		2010	
	Sales	%	Sales	%
Raw materials	30,514	28.3	30,043	27.7
Components	25,699	23.9	25,869	23.9
Machinery & equipment	4,722	4.4	6,705	6.2
Other	46,787	43.4	45,701	42.2
Total	**107,722**	**100**	**108,318**	**100**

For small suppliers, we have agreed very short payment terms (mainly 30 days).

Litigation

There are no lawsuits pending with suppliers at end-2011.

2011



SABAF AND ITS LENDERS

Banking relations

The Group operates with a low debt ratio (net indebtedness/ shareholders' equity of 0.12 at 31 December 2011) and has ample unused short-term lines of credit.

At 31 December 2011, net debt was €14.8 million, compared with €12.5 million at 31 December 2010. No new finance was arranged in 2011.

The Group mainly dealw with eight Italian banks (Banco di Brescia, Intesa San Paolo, Unicredit, Monte dei Paschi di Siena, BNL, B.C.C. di Pompiano, Banca Popolare di Vicenza, Banca Popolare dell'Emilia Romagna) and three foreign banks (Banco Santander, Banco Itau and Industrial & Commercial Bank of China).

Litigation

No lawsuits are pending with lenders.

SABAF AND ITS COMPETITORS

In Italy and in Europe as a whole, Sabaf estimates that it has a market share of over 40% in each product segment. It is the only company offering the complete range of gas cooking components, as its competitors only manufacture part of this product range.

Sabaf's main competitors in the international market are Copreci, Burner System International and Defendi.

Copreci is a cooperative based in the Basque region of Spain. It is part of the Mondragon Cooperative Corporation and, after Sabaf, is Europe's leading valve and thermostat manufacturer.

Burner Systems International (BSI) is a US company that has acquired control of the French manufacturer Sourdillon, a longstanding competitor of Sabaf, and of Harper Wyman, the biggest manufacturer of gas cooking components for the North American market.

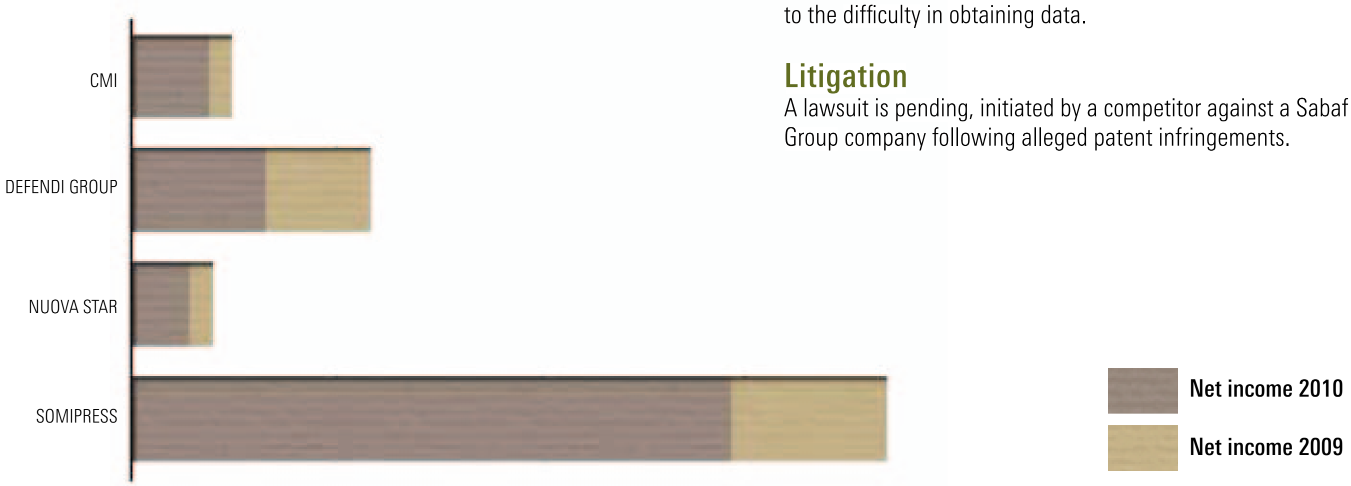
Defendi Italy is an Italian group that also has a presence in Brazil and Mexico. It is mainly involved in the production of burners.

The Sabaf Group's main Italian and international competitors

	Valves	Thermostats	Burners	Hinges
Sabaf	**X**	**X**	**X**	**X**
Burner Systems International (U.S.A)	X	X	X	
CMI (Italy)				X
Copreci (Spain)	X	X		
Defendi Italy (Italy)	X		X	
Nuova Star (Italy)				X
Somipress (Italy)			X	

2009 and 2010 Profit & Loss highlights of principal Sabaf competitors[18]

(Amounts in euro' 000)	2010			2009		
	Sales	Operating profit	Net income	Sales	Operating profit	Net income
CMI	22,955	738	382	21,875	778	111
DEFENDI GROUP	47,019	2,008	658	35,969	1,173	512
NUOVA STAR	26,292	591	285	21,502	373	117
SOMIPRESS	28,654	4,295	2,930	18,972	1,266	761



No further information is available about Sabaf's competitors due to the difficulty in obtaining data.

Litigation

A lawsuit is pending, initiated by a competitor against a Sabaf Group company following alleged patent infringements.

18 - Data compiled by Sabaf from the financial reports of the various companies. Latest available figures.

SABAF, GOVERNMENT AND SOCIETY

Institutional relations

In line with its standard policies, Sabaf's dealings with the government and tax authorities are informed by the utmost transparency and honesty.
At local level, Sabaf has sought to establish an open dialogue with the various authorities to create harmonious industrial development. For this reason, Sabaf systematically provides Ospitaletto town council with copies of analyses relating to atmospheric emissions from its production plants.

Charity initiatives and donations

In 2011 donations totalled around €76,000 (€25,000 in 2010), and mainly supported local social and humanitarian initiatives. In particular, Sabaf donated a piece of medical equipment to the orthopaedic unit of the Gardone Val Trompia Hospital in Brescia.

Long-distance adoption

For several years now Sabaf has suggested to its suppliers that they replace traditional Christmas gifts with donations to the Associazione Volontari per il Servizio Internazionale (AVSI), an Italian non-profit NGO working on international development aid projects. The donations have been earmarked for providing support to 20 children living in various countries in the world.

Relations with universities and students

Sabaf systematically organises company visits for groups of students and showcases CSR best practice during major conferences in various Italian cities.

Relations with industry associations

Sabaf is one of the founding members of **CECED Italia**, the association that develops and coordinates research in Italy, promoted at European level by CECED (European Committee of Domestic Equipment Manufacturers) with the associated scientific, legal and institutional implications in the household electric appliance sector.

Litigation

There are no significant lawsuits pending with public organisations or other representatives of society.

SABAF AND THE ENVIRONMENT

Dialogue with environmental associations and institutions

For some time the Group has been keen to raise awareness of the reduced environmental impact of using gas in cooking instead of electricity: the use of gas to produce heat in fact permits much higher yields than those achievable with electric cooking appliances. In addition, there is worldwide demand for increased power and multiple cooking points (plates/burners) to cook food quickly. An increase in electric hobs would cause an increase in peak electricity consumption, typically around meal times, further increasing electricity demand which is already difficult to meet.

Environmental policy, programme and objectives

Sabaf has always been mindful of the environment, constantly seeking to reduce the impact of its industrial operations. The Company's awareness of the importance of ecological balance is reflected in the various decisions taken over the years, which not only respect legal requirements but also aim to achieve constant progress in the Company's environmental performance.

The environmental management system in place at the Ospitaletto plant (which accounts for more than 85% of total Group production) has been ISO 14001 certified since 2003. By implementing ISO 14001, Sabaf has also identified the principal environmental risks connected with its own production, which are systematically monitored and managed.

In 2008, Sabaf S.p.A. obtained the Integrated Environmental Authorisation (IPPC) from the Region of Lombardy pursuant to Legislative Decree 59 of 18 February 2005.

Product innovation and environmental sustainability

One of the priorities of Sabaf's product innovation strategy is the quest for superior performance in terms not only of environmental impact, but also in the production and use of products.

Light alloy valves

The production of aluminium alloy valves has numerous advantages over brass valve production: elimination of the hot pressing phase, lower lead content in products, reduced weight and consequent decrease in packaging and transport costs.

Sabaf Series III burners

Series III burners offer much higher yields than standard burners (65% vs. 52%). The greater efficiency of the Sabaf Series III burner means lower gas consumption (some 20% less) and less time to reach the desired cooking temperature. Greater efficiency and lower consumption also translate into a halving of carbon monoxide emissions and a significant reduction in carbon dioxide emissions.

AE and AEO burners

In 2008, a new platform for burners was designed that, taking the Series II burner as its basis, makes it possible to achieve a higher standard of energy efficiency than the Series III burner. This new platform is compatible with both the AE (high efficiency) and AEO (brass high efficiency) versions, without the need to modify the structure of the appliance or change the grill height. This new generation of burners went on sale in 2010.

ENVIRONMENTAL IMPACT

Materials used and product recyclability

Sabaf's main product lines – valves, thermostats and burners for domestic gas cooking appliances – feature high energy yields and optimal use of natural resources. The use of combustible gas to generate heat permits much higher yields than those achievable with electric cooking appliances.
Sabaf products are also easily recyclable, as they are made almost entirely of brass, aluminium alloys, copper and steel.

Sabaf has introduced in-house recycling of paper/cardboard, glass, cans and plastic. In 2011 recycling made it possible to recover 106,920 kg of paper, cardboard and plastic packaging.

Materials used	2011 consumption (t)	2010 consumption (t)
Brass	1,384	1,938
Aluminium alloys	7,928	8,055
Zamak	78	63
Steel	6,948	7,548

100% of the brass and around 65% of the aluminium alloys used are produced through scrap metal recycling; 35% of aluminium alloys and 100% of steel are produced from mineral sources. Lower brass consumption was partly linked to the gradual replacement of brass valves with light alloy valves.

Sabaf's products are 100% compliant with the requirements of Directive 2003/95/EC (**RoHS Directive**), which aims to restrict the use of hazardous substances, such as lead, in the production of electrical and electronic equipment. This category includes all household appliances, including gas cooking appliances (which are equipped with electronic ignition devices).

In addition, Sabaf's products are 100% compliant with the requirements of Directive 2000/53/EC **(End of Life Vehicles)**, i.e. their heavy-metal content (lead, mercury, cadmium and hexavalent chromium) is lower than the limits set by the directive.

In terms of the **REACH Regulation** (Regulation No.1907/2006 of 18.12.2006), Sabaf S.p.A. is classed as a downstream user of chemicals. The products supplied by Sabaf are classed as items that do not release substances during normal use, therefore the substances contained in them do not need to be registered. Sabaf has contacted its suppliers to ensure that they comply fully with the REACH Regulation and to obtain confirmation of compliance with pre-registration and registration requirements for the chemicals used by them. Sabaf also constantly monitors new legislation derived from the REACH Regulation, in order to identify and manage any new requirements in this area.

Energy sources

Electricity	2011 consumption (Mwh)	2010 consumption (Mwh)
Total	**31,098**	**30,488**[19]

Natural gas	2011 consumption (m^3 x1000)	2010 consumption(m^3 x 1000)
Total	**3,308**	**3,542**

Sabaf S.p.A. and Sabaf do Brasil use natural gas as an energy source for the die-casting of aluminium and for firing enamelled caps. Faringosi Hinges does not use natural gas as an energy source in its production.

Water

Water	2011 consumption (m^3)	2010 consumption (m^3)
Mains water	23,744	24,409
Groundwater	46,424	21,091
Total	**70,168**	**45,500**

The increase in groundwater used is due to construction work at Sabaf S.p.A. regarding a new production warehouse and a facility for the collection, treatment and reuse of rainwater.

All water used in manufacturing processes by Group companies is sent for treatment: consequently there is no industrial waste water. The groundwater used in die-casting and enamelling processes in Italy is recovered by concentration plants, which significantly reduce the quantities of water used and waste produced.

Waste

Trimmings and waste from the manufacturing process are identified and collected separately for subsequent recycling or disposal. Sprue from aluminium die-casting is reused.

Waste for disposal and recycling is summarised below.

Waste *(metric tons)*	2011	2010
Municipal-type waste	178	244
Non-hazardous (for disposal)	2,256	2,156
Non-hazardous (for recycling)	4,146	4,175
Total non-hazardous waste	**6,402**	**6,331**
Hazardous (for disposal)	2,266	1,996
Hazardous (for recycling)	1,079	606
Total hazardous waste	**3,345**	**2,602**

No major spills occurred in 2011.

Atmospheric emissions

Most of the atmospheric emissions released by the Sabaf Group derive from activities defined as producing "negligible pollution".

- Sabaf S.p.A. operates three production processes:

1- Production of burner components (injector-holder casings and flame spreaders) involves melting and subsequent pressure die-casting of aluminium alloy, sandblasting of pieces, a series of mechanical processes removing material, washing of some components, and assembly and testing. This production process releases insignificant amounts of oily and PERC (perchloroethylene) mists, as well as dust and carbon dioxide.
2 - Production of burner caps, in which steel is used as a raw material and subjected to blanking and coining. The semi-finished caps then undergo washing, sand blasting, and application and firing of enamel. The entire process generates dust.
3 - Production of valves and thermostats, in which the main raw materials are brass bars and casings (aluminium alloy for new-generation valves) and, to a much lesser extent, steel

19 - Figure adjusted from that published in 2010 Annual Report, based on actual data released by the electricity supplier in 2011 bars. The production cycle is divided into the following phases: (a) mechanical processing of die-cast bars and casings with removal of material, (b) washing of semi-finished products and components, (c) finishing of the male coupling surfaces using diamond machine tools, and (d) assembly and final testing of the finished product. This process generates an insignificant amount of oily mists and PERC emissions.

- At Faringosi Hinges the main material used to produce hinges is steel. This undergoes a series of mechanical and assembly processes that do not lead to any significant emissions.

- The entire burner production process is carried out at Sabaf do Brasil. Taking into account the limited production volumes, analysis of the internal process does not reveal any significant emissions.

The efficiency of purification systems is guaranteed through regular maintenance and periodic monitoring of all emissions, which to date have been well within legal limits.

The following table summarises the results of analysis of the main emissions at Sabaf S.p.A.'s factories, compared with the targets set at the beginning of the year.

	2011		2010	
Origin of impact	**Target[20] less than**	**Actual figure[20]**	**Target[20] less than**	**Actual figure[20]**
Unit A: extractor for pressure die-casting islands	40%	18.9%	40%	7.2%
Unit A: extractor for smelting furnace	50%	22.5%	50%	7.6%
Unit A: sand blasters	40%	28.1%	40%	40.5%
Unit A: extractor for bar-processing lathes	30%	3.6%	30%	4.0%
Unit A: extractor for furnace scorification	30%	8.3%	30%	3.1%
Unit B: extractor for transfer machines/lathes	30%	2.0%	30%	3.6%
Unit B: metal parts washing machine	65%	8.6%	65%	16.3%
Unit B: electrical discharge machining eqpt	40%	5.7%	40%	3.2%
Unit B: extractor for grinders	30%	6.7%	30%	0.9%
Unit C: sand blasters	40%	24.3%	40%	74.4%
Unit C: enamel application line and firing furnace	100%	62.4%	100%	41.8%

Monitoring performed during 2010 and 2011 showed compliance of all emissions with legal limits.

CO_2 EMISSION [21]

(tonnes)	**2011**	**2010**
Use of natural gas	6,546	7,010
Use of electricity	12,352	12,053[22]
Total CO_2 emissions	**18,898**	**19,063**

The use of natural gas to power the smelting furnaces leads to the release of NOX (nitrogen oxides) and SOX (sulphur oxides) into the atmosphere, although in insignificant quantities. The use of a relatively clean fuel such as natural gas means that Sabaf makes a negligible contribution to national greenhouse gas emissions.

There are no emissions of the following greenhouse gases: CH4, N2O, HFCS and SF6. No substances that damage the ozone layer are currently used by Sabaf, with the exception of the refrigerant fluid (R22), which is used in air conditioning units in compliance with applicable regulations.

ENVIROMENTAL INVESTMENTS

Current environmental spending

(Amounts in euro' 000)	**2011**	**2010**
Plant, equipment and materials	2	11
External training	0	1
Advisory services	49	27
Emissions analysis	32	16
Waste disposal	751	654
Software and databases	0	1
Total	**834**	**710**

Environmental investments

(Amounts in euro' 000)	**2011**	**2010**
Plant, equipment and materials	93	182
Total	**93**	**182**

Litigation

No lawsuits are currently pending with regard to environmental matters.

20 - Data calculated in relation to legal limits

21 - Calculated according to the "Instructions for implementation of the European Commission's decision C(2004)130 of 29 January 2004 establishing guidelines for the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council" issued by the Italian Environment Ministry in conjunction with the Ministry for Trade and Industry.
22 - Data recalculated based on the new electricity consumption figure for 2010.

LIMITED ASSURANCE REPORT ON THE SOCIAL REPORT

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(Translation from the Italian original which remains the definitive version)

Limited assurance report on the social report

To the board of directors of
SABAF S.p.A.

1 We have reviewed the social report for the year ended 31 December 2011 of the SABAF Group (the "Group"), consisting of the following sections of the Annual Report of the Group at the same date:

- "Introduction to the Annual Report"
- Section 1 "Business Model and strategic approach"
- Section 2 "International operations and core markets"
- Section 4 "Social and environmental sustainability"

The parent's directors are responsible for the preparation of the social report in accordance with the Sustainability Reporting Guidelines issued in 2006 by GRI - Global Reporting Initiative, as set out in the "Methodology" section. They are also responsible for determining the Group's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived. Our responsibility is to issue this report based on our review.

Our work was solely performed on the social report as defined above and did not cover the data and information included in section 3 "Governance, Risk Management, Compliance and Remuneration", section 5 "Report on Operations", or the consolidated and separate financial statements of SABAF S.p.A., which were audited by other auditors.

2 We carried out our work in accordance with the criteria established for review engagements by "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000"), issued by the International Auditing and Assurance Standards Board. That Standard requires that we comply with applicable ethical requirements (the "Code of Ethics for Professional Accountants" issued by the International Federation of Accountants ("IFAC")), including independence requirements, and that we plan and perform the engagement to obtain limited assurance (and, therefore, less assurance than in a reasonable assurance engagement) about whether the report is free from material misstatement. A limited assurance engagement on a social report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the social report, and applying analytical and other evidence gathering procedures, as appropriate.

These procedures included:

- comparing the information and data presented in the "Generated and distributed economic value" section of the "Introduction to the Annual Report" to the social report to the corresponding information and data included in the Group's consolidated financial statements as at and for the year ended 31 December 2011, on which other auditors issued their report dated 10 April 2012 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;
- analysing how the processes underlying the generation, recording and management of quantitative data included in the social report operate. In particular, we have performed the following procedures:
  - interviews and discussions with management of SABAF S.p.A. and personnel of Faringosi-Hinges S.r.l., to gather information on the IT, accounting and reporting systems used in preparing the social report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the social report;
  - sample-based analysis of documentation supporting the preparation of the social report to confirm the effectiveness of processes, their adequacy in relation to the objectives described, and that the internal control system correctly manages data and information included in the social report;
- analysing the compliance of the qualitative information included in the social report with the guidelines referred to in paragraph 1 and their consistency, in particular with reference to the sustainability strategy and policies and the determination of material issues for each stakeholder category;
- analysing the stakeholder involvement process, in terms of methods used and completeness of persons involved, by reading the minutes of the meetings or any other information available about the salient features identified;
- obtaining the representation letter signed by the legal representative of SABAF S.p.A. on the compliance of the social report with the guidelines indicated in paragraph 1 and on the reliability and completeness of the information and data contained therein.

A review is less in scope than an audit carried out in accordance with ISAE 3000, and, therefore, it offers a lower level of assurance that we have become aware of all significant matters and events that would be identified during an audit.

The social report includes the corresponding information and data of the prior year social report for comparative purposes, with respect to which reference should be made our report dated 6 April 2011.

3 Based on the procedures performed, nothing has come to our attention that causes us to believe that the social report of the SABAF Group for the year ended 31 December 2011 is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines issued in 2006 by GRI - Global Reporting Initiative, as set out in the "Methodology" section.

Bergamo, 13 April 2012

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

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KEY RCG: 2011 annual report on corporate governance and ownership structure

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SO8 Core	Monetary and other sanctions for non-compliance with laws and regulations	60	

GRI Code	Profile	Page	Global Compact Principle
	Product responsibility		
DMA PR Core	Information on management procedures	60	
PR1 Core	Health and safety of products and services	60, 63	1
PR3 Core	Information required by procedures and services subject to such information requirements	7, 60	8
PR5 Add	Customer satisfaction	23	
PR6 Core	Programmes for adherence to laws and voluntary codes relating to marketing activities	N/A this indicator is not significant for the type of business	
PR9 Core	Fines for non-compliance with laws and regulations	60	
	Environmental performance		
DMA EN	Information on management procedures	63 - 64	
EN1 Core	Raw materials used	64	8
EN2 Core	Reused or recycled materials	64	8 - 9
EN3 Core	Direct energy consumption by source	64	8
EN4 Core	Indirect energy consumption	64	8
EN5 Add	Energy saved	63	
EN6 Add	Energy-efficient or renewable energy-based products and services	63	
EN8 Core	Water withdrawal by source	64	8
EN9 Add	Water sources significantly affected by water withdrawal	N/A the Group's activities do not require water withdrawal that could significantly affect the balance of water sources	
EN10 Add	Percentage and total volume of water recycled and reused	64	
EN11 Core	Location of sites owned in protected areas or in areas of high biodiversity	N/A since the Group's production sites are located in areas with little environmental significance	8
EN12 Core	Description of significant impacts on biodiversity	N/A since the Group's production sites are located in areas with little environmental significance	8
EN16 Core	Total direct greenhouse gas emissions	64 - 65	8
EN17 Core	Other significant indirect greenhouse gas emissions by weight	64 - 65	8
EN 18 Add	Initiatives to reduce greenhouse gas emissions	64 - 65	
EN19 Core	Emissions of ozone-depleting substances	64 - 65	
EN20 Core	Other atmospheric emissions	64 - 65	
EN21 Core	Water discharge	64 - 65	8
EN22 Core	Production of waste and disposal methods	14, 64	
EN23 Core	Total number and volume of spills	14, 64	
EN26 Core	Initiatives to mitigate environmental impacts of products and services	21, 63	7 - 8 - 9
EN27 Core	Percentage of products sold and their packaging materials that are recycled or reused	N/A as not significant for products sold by Sabaf	
EN28 Core	Fines for non-compliance with environmental laws and regulations	65	8
EN30 Add	Environmental protection expenditure and investment	65	7

“Surely if a single cell … may become a man in the space of twenty years … there is nothing absurd in the hypothesis that … a cell may, in the course of millions of years, give origin to the human race.”

Herbert Spence

5 REPORT ON OPERATIONS

GROUP BUSINESS AND FINANCIAL STATUS

The Sabaf Group recorded sales revenue of €148.6 million in 2011, down 1.5% on the figure of €150.9 million in 2010. After a satisfying start, the Group's core market progressively entered a new phase of weakness, with a consequent drop in sales.

(Amounts in euro' 000)	2011	%	2010	%	Change 2011-2010	Change %
Sales revenue	148,583	100%	150,897	100%	-2,314	-1.5%
EBITDA	30,092	20.3%	38,516	25.5%	-8,424	-21.9%
Operating profit (EBIT)	16,566	11.1%	25,793	17.1%	-9,227	-35.8%
Pre-tax profit	15,454	10.4%	23,776	15.8%	-8,322	-35.0%
Net profit	10,775	7.3%	16,867	11.2%	-6,092	-36.1%
Earnings per share (euro)	0.937		1.467		-0.530	-36.1%
Diluted earnings per share (euro)	0.937		1.467		-0.530	-36.1%

Average sales prices in 2011 were slightly higher than those of 2010, but not enough to fully make up for the rises in commodity prices over the year. The higher incidence of commodities and energy costs, as well as insufficient use of production capacity due to lower than expected volumes, were the main factors affecting profitability: EBITDA represented 20.3% of sales (25.5% in 2010), EBIT was 11.1% of sales (17.1%) and net profit fell from 11.2% to 7.3% as a percentage of sales. See Note 38 of the consolidated financial statements for information on the impact of non-recurring components on the Group's net profit.

The breakdown of revenue by product line was as follows:

SALES BY PRODUCT LINE

(Amounts in euro' 000)	2011	2010	Change	Change %
Brass valves	26,537	31,788	-5,251	-16.5%
Light alloy valves	23,265	20,027	3,238	+16.2%
Thermostats	14,560	14,829	-269	-1.8%
Standard burners	42,631	41,405	1,226	+3.0%
Special burners	22,210	21,097	1,113	+5.3%
Accessories and other revenues	10,598	10,959	-361	-3.3%
Total gas components	*139,801*	*140,105*	*-304*	*-0.2%*
Hinges	8,782	10,792	-2,010	-18.6%
Total	**148,583**	**150,897**	**-2,314**	**-1.5%**

The trend to replace brass valves with more recently-introduced light alloy valves continued in 2011. Sales of burners increased, with higher growth registered for special burners. The sales performance of hinges was however negatively affected by both the general decline on core markets and the end of production of some household appliances that used dedicated components.

The geographical breakdown of revenue was as follows:

SALES BY GEOGRAPHICAL AREA

(Amounts in euro' 000)	2011	%	2010	%	Change %
Italy	56,321	37.9%	61,648	40.8%	-8.6%
Western Europe	11,215	7.5%	11,561	7.6%	-3.0%
Eastern Europe and Turkey	37,459	25.2%	32,553	21.6%	15.1%
Asia and Oceania	13,328	9.0%	15,476	10.3%	-13.9%
South America	19,838	13.4%	17,467	11.6%	13.6%
Africa	6,524	4.4%	7,056	4.7%	-7.5%
US, Canada & Mexico	3,898	2.6%	5,136	3.4%	-24.1%
Total	**148,583**	**100%**	**150,897**	**100%**	**-1.5%**

2011 was marked by a gradual slowdown in demand on traditional markets (Italy and Western Europe), owing to economic weakness in these areas, which had a strong impact on the household appliance market.
In contrast, sales in Eastern Europe registered solid growth, mainly thanks to the contribution of Turkey, a country that is consolidating its position of strength in the production of cooking appliances.
Sales in Africa and Asia were affected by the political problems that beset some North African and Middle Eastern markets. In 2011, South America again registered extremely buoyant growth rates, while the North American market remains of secondary importance.

The actual cost of the main raw materials (brass, aluminium alloys and steel) was approximately 20% higher compared to 2010, while the cost of other components registered lower increases. Consumption (purchases plus change in inventory) consequently rose as a percentage of sales from 35.3% to 39.2%.

The impact of the cost of labour on sales rose from 20.5% in 2010 to 20.7% in 2011.

The impact of net financial charges on sales remains very low (0.8% in 2011, versus 0.7% in 2010), owing to the low level of debt.

Operating cash flow (net profit plus depreciation & amortisation) went from €29.3 million to €23.2 million, equivalent to 15.6% of sales (vs. 19.4% in 2010).

The tax rate in 2011 was 30.3%, lower than the ordinary rate because of some non-recurring benefits described in the Explanatory Notes.

Balance sheet and financial position

Reclassification based on financial criteria is as shown below:

(Amounts in euro' 000)	**31/12/2011**	**31/12/2010**
Non-current assets	102,310	100,632
Short-term assets[1]	72,764	71,917
Short-term liabilities[2]	(34,849)	(34,441)
Working capital[3]	37,915	37,476
Provisions for risks, employee benefits and deferred taxes	*(3,606)*	*(3,717)*
Net capital employed	**136,619**	**134,391**
Net short-term financial position	(2,857)	3,871
Net medium/long-term financial position	(11,939)	(16,416)
Net financial debt	**(14,796)**	**(12,545)**
Shareholders' equity	**121,823**	**121,846**

1 - Sum of inventories, trade receivables, tax credits, and other current receivables
2 - Sum of trade payables, tax payables, and other payables
3 - Difference between current assets and current liabilities

Cash flows during the year are summarised in the following table:

(Amounts in euro' 000)	**2011**	**2010**
Cash and cash equivalents – opening balance	*9,769*	*9,154*
Operating cash flow	22,439	24,998
Cash flow from investments	(14,455)	(13,344)
Cash flow from financing activities	(2,511)	(11,802)
Foreign exchange differences	(1,034)	763
Cash flow for the period	4,439	615
Cash and cash equivalents – closing balance	*14,208*	*9,769*

Net financial debt and the cash and cash equivalents shown in the tables above are defined in compliance with the net financial position detailed in Note 21 of the consolidated accounts, as required by the CONSOB memorandum of 28 July 2006.

In 2011, the Sabaf Group invested more than €14 million. The main investments in the year included those for the industrialisation of new products (notably including a new model for light alloy valves for hobs) and the construction of a new warehouse of approximately 4,000 sqm within the Ospitaletto industrial complex, to be used by the coining department. In 2011, Sabaf acquired land covering approximately 10,000 sqm in Manisa (Turkey), where it began to build a new production unit. Furthermore, the Group made investments in maintenance and replacement to keep the assets up to date.

Working capital amounted to €37.9 million versus €37.5 million in 2010: as a percentage of sales, it rose from 24.8% at the end of 2010 to 25.5% at the end of 2011.

Self-financing generated by operating cash flow totalled €22.4 million versus €25 million in the previous year, owing to a decline in profitability.
Net financial debt was €14.8 million, compared with €12.5 million at 31 December 2010. The net medium/long-term financial position was negative to the tune of €11.9 million (€16.4 million at 31 December 2010), and consisted of €3.7 million in mortgages, €2.9 million in payables to leasing companies, €3.8 million in unsecured loans maturing by end-2014 and €1.5 million for an 18-month loan obtained during the year. The exchange rate risk was partially offset by entering into two interest rate swap contracts.
The short-term financial position was negative to the tune of €2.9 million, and consisted of cash and cash equivalents of €14.2 million, short-term debts of €8.6 million, and the current portion of medium to long-term borrowings of €8.5 million.
Shareholders' equity amounted to €121.8 million, unchanged versus year-end 2010. The ratio of net financial debt to shareholders' equity is 0.12, compared with 0.10 in 2010.
See Note 38 of the consolidated financial statements for information on the impact of non-recurring components on the Group's net financial position.

Economic and financial indicators

	2011	**2010**
ROCE (return on capital employed)	12.1%	19.2%
Dividend per share (euro)	0.60[4]	0.80
Net debt/equity ratio	12%	10%
Market capitalisation (31.12)/equity ratio	1.06	2.41
Change in sales	-1.5%	+18.7%

4 - Proposed dividend

Please refer to the introductory part of the Annual Report for a detailed examination of other key performance indicators.

RISK FACTORS RELATED TO THE SEGMENT IN WHICH THE GROUP OPERATES

Risks related to the overall conditions of the economy and trend in demand

The business and financial circumstances of the Group are influenced by a variety of factors, such as gross domestic product, consumer and corporate confidence, interest rate trends, the cost of raw materials, the unemployment rate, and the ease of access to credit.
The Group's core market, the household appliances sector, which is cyclical and generally related to the performance of the real estate market, was hit particularly hard by the global economic crisis that began in the last few months of 2008. After the gradual improvement of 2010, this recovery was unfortunately not confirmed in 2011, affected first by the political instability in North Africa and the Middle East, and then by the progressive decline in the macroeconomic situation in Europe, which soon led to a new period of weak demand, the intensity and duration of which are currently difficult to forecast.

To cope with this situation, the Group aims to retain and reinforce its leadership position wherever possible through:

- the launch of new products characterised by superior performance compared with market standards;
- expansion on markets with high growth rates;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors.

Risk connected with trends in commodity prices

The Group uses metals and alloys in its production processes, chiefly brass, aluminium alloys and steel. The sale prices of products are generally renegotiated semi-annually or annually; as a result, Group companies are unable to immediately pass on to customers changes in the prices of commodities that occur during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments.
As of the date of this report, the Sabaf Group has already fixed purchase prices for its expected requirements of aluminium until December 2012 and steel until June 2012, while it has not fixed brass purchase prices.
Any further increase in the price of commodities not hedged could have negative effects on expected profits.
For more information on how this risk is managed, see Note 35 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks related to exchange rates

The Sabaf Group operates primarily in euro. It executes transactions in other currencies, such as the US dollar and the Brazilian real.
Since sales in US dollars accounted for 10% of consolidated revenue, the gradual depreciation expected in the coming months could lead to a loss in competitiveness on the markets where sales are made in that currency (mainly South and North America).
At the date of this report, the Group has no derivative contracts to hedge exchange rate risks. The Administration and Finance Department constantly monitors forex exposure, the trend in exchange rates and the operational management of related activities.
For more information on how this risk is managed, see Note 35 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks related to product liability

Sabaf products carry a high intrinsic risk in terms of safety. The Group's great attention to product quality and safety has made it possible to avoid incidents caused by product defects. Despite this, it is not possible to automatically exclude incidents of this nature.
In order to transfer the risk of third-party liability damage arising from malfunctioning of its products, Sabaf has signed insurance policies with deductible of up to €10 million per individual claim.

Protection of product exclusivity

There is a risk that some Group products, although patented, will be copied by competitors, particularly in countries in which it is more difficult to protect intellectual property rights.
Sabaf's business model therefore bases the protection of product exclusivity mainly on design capacity and the internal production of special machines used in manufacturing processes, which result from its unique know-how that competitors would find difficult to replicate.

Risks of revenue concentration

The Group is characterised by a strong concentration in its revenue, with 50% arising from sales to its ten biggest customers. Relationships with customers are generally stable and long-term, and usually regulated with renewable contracts of under one year, with no minimum guaranteed sales.
At the date of this report, there was no reason for the Group to foresee the loss of any significant clients in the coming months.

Customer insolvency risk

The high concentration of sales to a small number of customers, under the previous point, generates a concentration of the respective commercial receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of one of them.
To minimise this risk, the Group tends to favour the larger brands in the segment, considered more reliable. At the same time, risk is constantly monitored through the preliminary assessment of customers and checks that agreed payment terms are met. The risk is also partially transferred to third parties by no-recourse assignment, i.e., partially guaranteed through the request for letters of credit issued by leading banks for customers. The remainder of the receivable risk is covered by a doubtful account provision considered appropriate. Given the structural difficulties of the domestic appliance sector, particularly in mature markets, it is possible that new situations of financial difficulty and insolvency could arise.
For more information, see Note 35 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

Risks connected to the presence in emerging economies

30% of Sabaf Group sales are registered on markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.
The Group's main markets outside Europe include the Middle East and North Africa (which accounted for 6% and 4% respectively of direct Group sales in 2011, as well as indirect sales registered by our customers, which are difficult to quantify). Any embargos or major political or economic stability, or changes in the regulatory and/or local law systems, or new tariffs or taxes imposed in the future could affect a portion of Group sales and the related profitability.

Sustainability of the hinges business

The environment in which the Hinges unit operates became more difficult in 2011, following a decline on the core market and growing competitive pressure on standard products. As a priority, this business should be relaunched via the development of new products able to provide extra benefits (for example, the soft closing and/or opening of the oven door). If these initiatives are unsuccessful, the Group cannot rule out the need for further write-downs of the value of assets allocated to the Hinges business.
For more information, see Note 3 of the consolidated financial statements.

Group Governance

The Sabaf Group is going through a process of growing internationalisation, with the opening of new companies, production facilities and sales offices in countries considered strategic for the future development of its business. This process requires appropriate measures, which include the appropriate definition of the spheres and responsibilities of management action, careful planning of activities in implementing new projects, and a detailed analysis of the regulatory environment in various countries.

Risks related to the loss of key staff

Group results depend to a large extent on the work of executive directors and management. The loss of a key staff member for the Group without an adequate replacement and the inability to attract new resources could have negative effects on the future of the Group and on the quality of financial and economic results.

RESEARCH & DEVELOPMENT

In 2011, the Group completed the industrialisation of the aluminium valve with safety devices for dual hobs, and designed an aluminium valve with safety devices for cookers with side outlets.
As regards burners, the main projects of the year related to:
- completion of the industrialisation of the range of new-generation dual burners and high-efficiency burners;
- completion of the design and testing of special burners for the Indian market, which can also be developed in a version that complies with European regulations;
- start of the design of a new range of dual burners for the Chinese market.

As regards hinges, the Group developed an external shock-absorbing system for internal cam hinges, and continued to develop a special shock-absorbing hinge with a moving part within the door and the base within the oven.
Improvements were made to production processes across the entire Group, which were accompanied by development and creation of machinery, utensils and moulds.
Development costs to the tune of €648,000 were capitalised, as all the conditions set by the international accounting standards were met; in other cases, they were charged to the income statement. Research costs are booked to the income statement.

SAP IMPLEMENTATION

In order to align subsidiaries' operational and management model with that of Sabaf S.p.A., the Group has extended the implementation of the SAP IT system to other production units. As expected, from 1 January 2012, SAP was successfully implemented at Faringosi Hinges; since that date, all Group production companies have therefore been managed using the same IT system.

SUSTAINABILITY

Since 2005, Sabaf has drawn up a single report on its economic performance and its social and environmental sustainability. In 2005, this was a pioneering and almost experimental move, but today, the trend emerging at international level suggests that integrated reporting unquestionably represents best practice.
In 2011, Sabaf introduced further innovations to its Annual Report, taking into account the guidelines defined by the International Integrated Reporting Council from the outset.
Compared with previous editions, the Annual Report aims to focus more on Sabaf's business model and to provide a complete representation of the risk management system developed over the last few years.

PERSONNEL / STAFF

At 31 December 2011, the Sabaf Group had 714 employees, up by 11 compared to year-end 2010. In 2011, the Sabaf Group suffered no on-the-job deaths or serious accidents that led to serious or very serious injury of staff, for which the Group has been definitively held responsible, nor was it held responsible for occupational illnesses of employees or former employees, or causes of mobbing.
For more information, see the "Sabaf and employees" section of the Annual Report.

ENVIRONMENT

In 2011, there were no:
- environmental issues for which the Group has been found guilty;
- fines or penalties imposed on the Group for environmental crimes or damages.

For more information, see the "Environmental Sustainability" section of the Annual Report.

CORPORATE GOVERNANCE

For a complete description of the corporate governance system of the Sabaf Group, see the report on corporate governance and on the ownership structure, available in the Investor Relations section of the company website.

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The internal control system on financial reporting is analytically described in the report on corporate governance and on ownership structure.
With reference to the "conditions for listing shares of parent companies set up and regulated by the law of states not belonging to the European Union" pursuant to articles 36 and 39 of the Market Regulations, the Company and its subsidiaries have administrative and accounting systems that can provide the public with the accounting situations prepared for drafting the consolidated report of the companies that fall in the area of this regulation and can supply management and the auditors of the Parent Company with the data necessary for drafting the consolidated financial statements. The Sabaf Group has also set up an effective information flow to the independent auditor and continuous information on the composition of the company officers of the subsidiaries, complete with information on the roles covered and requires the systematic and centralized gathering and regular updates of the formal documents relating to the bylaws and granting of powers to company officers. The conditions exist as required by article 36, letters a), b) and c) Market Regulations issued by CONSOB. In the year, no acquisitions were made of

companies in countries not belonging to the European Union which, considered independently, would have a significant relevance for the purposes of the regulation in question.

MODEL 231

The Organisation, Management and Control Model, adopted pursuant to Legislative Decree 231/2001, is described in the report on company governance and on the ownership structure, which should be reviewed for reference.

PERSONAL DATA PROTECTION

With regard to Legislative Decree 196 of 30 June 2003, in 2011 the Group continued its work to ensure compliance with current regulations.

DERIVATIVE FINANCIAL INSTRUMENTS

Comments on this item are provided in Note 35 to the consolidated financial statements.

ABNORMAL OR UNUSUAL TRANSACTIONS

Sabaf Group companies did not execute any unusual or abnormal transactions in 2011.

SECONDARY OFFICES

Neither Sabaf S.p.A. nor its subsidiaries have secondary offices.

DIRECTION AND CO-ORDINATION

Although Sabaf S.p.A. is controlled by the ultimate parent company, Giuseppe Saleri S.a.p.A., the Board of Directors holds that the Company is not subject to management and co-ordination of 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 annual 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.

Sabaf S.p.A. exercises direction and co-ordination activity over its Italian subsidiaries, Faringosi-Hinges s.r.l. and Sabaf Immobiliare s.r.l.

INFRAGROUP AND RELATED-PARTY TRANSACTIONS

Transactions between Group companies, including those with the ultimate parent company, are regulated at arm's length conditions, as are those with related parties as defined by IAS 24. Details of infragroup and other transactions with related parties are provided in Note 36 to the consolidated financial statements and in Note 36 of the annual financial statements of Sabaf S.p.A.

FISCAL CONSOLIDATION

In June 2010 Sabaf S.p.A. approved the renewal for 2010-2012 of the fiscal consolidation contract with the ultimate parent company Giuseppe Saleri S.a.p.A. and its subsidiaries, Faringosi-Hinges S.r.l. and Sabaf Immobiliare S.r.l.. For Sabaf Group companies, joining the fiscal consolidation does not imply higher taxes, as it makes no difference if these are paid to the tax authorities or to its parent company at the expiration dates. Having made the offsets and adjustments necessary, the parent company will handle payment and be liable for any damages the subsidiaries may incur for the former's failure to comply.

MAJOR EVENTS OCCURRING AFTER YEAR-END AND OUTLOOK

No significant events took place subsequent to the end of the year and up to the date of this report that would be considered worthy of mention.
The household appliance market in Europe continues to struggle at the start of 2012, while the outlook in other countries is encouraging. For FY 2012, the Group believes that it will be able to register sales and profitability levels in line with those of 2011. However, compared with 2011, Sabaf expects a weaker first half of the year and a gradual recovery in the second half, partly thanks to the contribution of new supply contracts that will gradually come into force over the year.
These targets assume a macroeconomic scenario not affected by unpredictable events. If the economic situation were to change significantly, actual figures might diverge from forecasts.

SABAF S.P.A. BUSINESS AND FINANCIAL STATUS

(Amounts in euro' 000)	2011	2010	Change 2011/2010	Change %
Sales revenue	132,514	132,176	338	+0.3%
EBITDA	24,564	30,739	(6,175)	-25.1%
Operating profit (EBIT)	12,898	20,664	(7,766)	-37.6%
Pre-tax profit	15,368	19,793	(4,425)	-22.4%
Net profit	11,122	13,246	(2,124)	-16.0%

Balance sheet and financial position

Reclassification based on financial criteria is as shown below:

(Amounts in euro' 000)	31/12/2011	31/12/2010
Non-current assets	*82,756*	*84,221*
Short-term assets[5]	65,877	64,814
Short-term liabilities[6]	(31,895)	(30,506)
Working capital[7]	*33,982*	*34,308*
Short-term financial assets	*1,546*	-
Reserves for risks and contingencies and Post-employment benefit reserve	*(2,666)*	*(2,830)*
Deferred tax	*(46)*	-
Net capital employed	**115,572**	**115,699**
Net short-term financial position	(3,236)	(1,473)
Net medium/long-term financial position	(3,873)	(7,707)
Net financial position	**(7,109)**	**(9,180)**
Shareholders' equity	**108,463**	**106,519**

5 - Sum of inventories, trade receivables, tax credits, and other current receivables
6 - Sum of trade payables, tax payables, and other payables
7 - Difference between current assets and current liabilities

Cash flows during the year are summarised in the following table:

(Amounts in euro' 000)	2011	2010
Cash and cash equivalents – opening balance	***5,026***	***5,550***
Operating cash flow	21,235	18,869
Cash flow from investments	(8,440)	(10,985)
Cash flow from financing activities	(8,641)	(8,408)
Cash flow for the period	**4,154**	**(524)**
Cash and cash equivalents – closing balance	***9,180***	***5,026***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 21 of the statutory accounts, as required by the CONSOB memorandum of 28 July 2006.

In 2011, the Group recorded sales revenue in line with that of 2010. Confirming the trend in place in the last few years, light alloy valves are gradually replacing brass valves; the net effect on valve sales has however been negative. Sales of burners registered moderate growth. Average selling prices, which were slightly higher than in 2010, were not sufficient to offset the impact of higher commodity and energy prices. Business volumes were also not sufficient to guarantee adequate absorption of fixed costs, and all profitability indicators therefore show a decline compared with 2010: EBITDA came in at €24.6 million, equivalent to 18.5% of sales (€30.7 million in 2010, 23.3% of sales), EBIT was €12.9 million, or 9.7% of sales (vs. €20.7 million in 2010, 15.6%), and net profit was €11.1 million, equivalent to 8.4% of sales (€13.2 million in 2010, 10%).

The actual cost of the main raw materials (brass, aluminium alloys and steel) was approximately 20% higher compared to 2010.
The impact of the cost of labour on sales fell slightly, from 20.9% in 2010 to 20.6% in 2011.

Net finance expense as a percentage of sales was minimal, at 0.65% (0.73% in 2010), given the low level of financial debt.

Operating cash flow (net profit plus depreciation & amortisation) decreased from €23.4 million to €21.3 million, equivalent to 16.1% of sales (vs. 17.7% in 2010).

In 2011, SABAF S.p.A. invested approximately €8 million, mainly in the industrialisation of new products, in addition to around €2 million in the establishment of a subsidiary in Turkey, where the Group plans to launch the production of burners by the end of 2012.

Working capital amounted to €34 million, versus €34.3 million in the previous year: it remained at 26% as a percentage of sales.

Self-financing generated by operating cash flow totalled €21.2 million vs. €18.9 million in 2010, because of the different trend in working capital.

Net financial debt was €7 million, against €9.2 million at 31 December 2010. The net medium- to long-term financial position was negative to the tune of €3.9 million and consisted entirely of unsecured loans due by the end of 2014, incurred at a EURIBOR 3-month rate plus a spread of 1.10%-1.40%. The exchange rate risk was partially hedged by entering into two interest rate swap contracts.
The net short-term financial position was negative to the tune of €3.2 million and consisted of cash and cash equivalents of €9.2 million and short-term debts of €12.4 million, which included the current portion of long-term borrowings (€3.8 million) and short-term bank loans (€8.6 million).

Shareholders' equity amounted to €108.5 million, against €106.5 million at year-end 2010. The ratio of net financial debt to shareholders' equity is 0.07, versus 0.09 in 2010.

See Note 38 of the financial statements for information on the impact of non-recurring components on the Company's net financial position.

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD

Pursuant to the CONSOB memorandum of 28 July 2006, below is a reconciliation statement of the results of the 2011 financial year and Group shareholders' equity at 31 December 2011 with the same values of parent company Sabaf S.p.A.:

	31.12.2011		31.12.2010	
Description	Net profit	Shareholders' equity	Net profit	Shareholders' equity
Net profit and shareholders' equity of Sabaf S.p.A.	**11,122**	**108,463**	**13,246**	**106,519**
Shareholders' equity and net result of consolidated companies	2,390	41,989	4,402	43,617
Elimination of consolidated equity investments' carrying value	(1,128)	(34,231)	(853)	(35,034)
Goodwill	(1,129)	5,473	0	6,602
Equity investments booked at net equity	0	5	0	0
Intercompany eliminations:				
Dividends	(2,718)	0	0	0
Other intercompany eliminations	(18)	124	72	142
Group net profit and shareholders' equity	**10,775**	**121,823**	**16,867**	**121,846**

EQUITY INTERESTS HELD BY MEMBERS OF THE BOARD, BY STATUTORY AUDITORS, BY MANAGING DIRECTORS AND BY EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Pursuant to Article 79 of CONSOB's Issuers Regulations, below is a list of Sabaf S.p.A.'s equity interests held by directors, statutory auditors and executives with strategic responsibilities. Note that the managing director position was never established in Sabaf:

Full name	*Type of ownership*	*Number of shares held at 01.01.11*	*Number of shares acquired*	*Number of shares sold*	*Number of shares at 31.12.11*
Giuseppe Saleri	Indirect, through the subsidiary Giuseppe Saleri S.a.p.A.	6,425,003	-	-	6,425,003
Angelo Bettinzoli	Direct	22,000	-	-	22,000
Gianbattista Saleri	Direct	12,000	-	-	12,000
Gianbattista Saleri	Indirect through spouse	4,051	-	-	4,051
Ettore Saleri	Direct	-	10,095	888	9,207
Alberto Bartoli	Direct	7,500	-	-	7,500
Alberto Bartoli	Indirect through spouse	660	340	-	1,000
Salvatore Bragantini	Direct	3,000	2,000	-	5,000
Giuseppe Cavalli	Indirect through spouse	2,860	-	-	2,860
Executives with strategic responsibilities (2)	Direct	2,000	-	-	2,000

USE OF THE LONGER DEADLINE TO CALL THE SHAREHOLDERS' MEETING

Pursuant to paragraph 2 of Article 2364 of the Italian Civil Code, in light of the need to consolidate the financial statements of Group companies and to prepare all the supporting documentation, the directors intend to make use of the longer deadline granted to companies obliged to prepare consolidated financial statements relating to the calling of the Ordinary Shareholders' Meeting to approve the 2011 Annual Financial Report. The same meeting will also be called to elect the members of the board of directors and board of statutory auditors, and must therefore be called at least 40 days previously pursuant to Article 125-bis of the TUF. The meeting is convened (single call) for 8 May 2012.

ALLOCATION OF 2011 EARNINGS

First and foremost, we would like to thank our employees, the Board of Statutory Auditors, the independent auditors and the supervisory authorities for their invaluable cooperation. We recommend approving the financial statements for the year ended 31 December 2011, with the recommendation to allocate the year's profits of €11,122,020 as follows:
- the payment of a dividend of €0.60 per share to shareholders, with payment date on 24 May 2012 (ex-date: 21 May 2012).
With regard to own shares, we recommend allocating an amount corresponding to the dividend of company shares in the portfolio on the ex-date to the extraordinary reserve;
- the remainder to the extraordinary reserve.

Ospitaletto, 26 March 2012

The Board of Directors

6 CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2011

Man in his arrogance thinks himself a great work worthy the interposition of a deity. More humble and I think truer to consider him created from animals.

Charles Darwin

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in euro' 000)	Notes	31.12.2011	31.12.2010
Assets			
Non-current assets			
Property, plant and equipment	**1**	80,769	79,070
Investment property	**2**	7,626	7,859
Intangible assets	**3**	9,082	10,409
Equity investments	**4**	810	964
Non-current receivables	**5**	168	140
Deferred tax assets (prepaid taxes)	**20**	3,855	2,190
Total non-current assets		**102,310**	**100,632**
Current assets			
Inventories	**6**	26,883	26,082
Trade receivables	**7**	42,774	43,755
Tax receivables	**8**	2,512	1,304
Other current receivables	**9**	595	776
Cash and cash equivalents	**10**	14,208	9,769
Total current assets		**86,972**	**81,686**
Total assets		**189,282**	**182,318**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	**11**	11,533	11,533
Retained earnings, other reserves		99,515	93,446
Net profit for period		10,775	16,867
Total equity attributable to the Group parent company		121,823	121,846
Minority interest		0	0
Total shareholders' equity		**121,823**	**121,846**
Non-current liabilities			
Loans	**13**	11,939	16,416
Post-employment benefit reserve (TFR) and retirement reserves	**15**	2,509	2,627
Provisions for risks and contingencies	**16**	731	767
Deferred tax	**20**	366	323
Total non-current liabilities		**15,545**	**20,133**
Current liabilities			
Loans	**13**	17,032	5,843
Other financial liabilities	**14**	33	55
Trade payables	**17**	27,808	24,185
Tax payables	**18**	803	3,485
Other liabilities	**19**	6,238	6,771
Total current liabilities		**51,914**	**40,339**
Total liabilities & shareholders' equity		**189,282**	**182,318**

CONSOLIDATED INCOME STATEMENT

(Amounts in euro' 000)	Notes	2011	2010
Continuing operations			
Operating revenue and income			
Revenue	22	148,583	150,897
Other income	23	5,032	4,773
Total operating revenue and income		**153,615**	**155,670**
Operating costs			
Materials	24	(59,103)	(57,919)
Change in inventories		910	4,656
Services	25	(34,168)	(32,280)
Payroll costs	26	(30,740)	(30,920)
Other operating costs	27	(1,403)	(1,628)
Costs for capitalised in-house work		981	937
Total operating cost		**(123,523)**	**(117,154)**
Operating profit before depreciation & amortisation, capital gains/ losses, and write-downs/write-backs of non-current assets		**30,092**	**38,516**
Depreciation and amortisation	1,2,3	(12,420)	(12,438)
Capital gains/(losses) on disposal of non-current assets		23	(34)
Write-downs/write-backs of non-current assets	28	(1,129)	(251)
Operating profit		**16,566**	**25,793**
Financial income		162	132
Financial expenses	29	(1,308)	(1,239)
Foreign exchange gains/losses	30	390	(151)
Profits and losses from equity investments	4	(356)	(759)
Pre-tax profit		**15,454**	**23,776**
Income tax	31	(4,679)	(6,909)
Minority interests		0	0
Net profit for the year		**10,775**	**16,867**

Earnings per share (eps)	32		
Base		**0.937 euro**	**1.467 euro**
Diluted		**0.937 euro**	**1.467 euro**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Amounts in euro' 000)	2011	2010
Net profit for the year	**10,775**	**16,867**
Others profit/losses		
Forex differences from translation of items in currency	(1,619)	1,625
Earnings/losses from cash flow hedges	22	(29)
Total profits/(losses) net of taxes for the year	**(1,597)**	**1,596**
Total profits	**9,178**	**18,463**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Amounts in euro' 000)	Share capital	Share premium reserve	Legal reserve	Own shares	Conversion reserve	Cash flow hedge reserves	Other reserves	Net profit for period	Total Group shareholders' equity	Minority interest	Total shareholders' equit
Balance at 31.12.09	**11,533**	**10,002**	**2,307**	**(328)**	**1,575**	**0**	**72,461**	**11,583**	**109,133**	**0**	**109,133**
Allocation of 2009 earnings											
- dividends paid								(5,750)	(5,750)		(5,750)
- to reserves							5,833	(5,833)	0		0
Total profit at 31.12.10					1,625	(29)	0	16,867	18,463		18,463
Balance at 31.12.10	**11,533**	**10,002**	**2,307**	**(328)**	**3,200**	**(29)**	**78,294**	**16,867**	**121,846**	**0**	**121,846**
Allocation of 2010 earnings											
- Dividends paid								(9,201)	(9,201)		(9,201)
- to reserves							7,666	(7,666)	0		0
Total profit at 31.12.11					(1,619)	22	0	10,775	9,178		9,178
Balance at 31.12.11	**11,533**	**10,002**	**2,307**	**(328)**	**1,581**	**(7)**	**85,960**	**10,775**	**121,823**	**0**	**121,823**

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in euro' 000)	**12M 2011**	**12M 2010**
Cash and cash equivalents at beginning of year	**9,769**	**9,154**
Net profit for period	10,775	16,867
Adjustments for:		
- Depreciation and amortisation	12,420	12,438
- Realised gains/losses	(23)	34
- Write-downs of non-current assets	1,129	251
- Losses from equity investments	356	759
- Net financial income and expenses	1,146	1,107
- Income tax	4,679	6,909
Change in staff severance fund	(223)	(289)
Change in general provisions	(36)	(12)
Change in trade receivables	981	(3,187)
Change in inventories	(801)	(4,635)
Change in trade payables	3,623	(659)
Change in net working capital	**3,803**	**(8,481)**
Change in other receivables and payables, deferred tax liabilities	(387)	864
Payment of taxes	(10,159)	(4,342)
Payment of financial expenses	(1,203)	(1,239)
Collection of financial income	162	132
Cash flow from operations	**22,439**	**24,998**
Investments in non-current assets		
- intangible	(786)	(636)
- tangible	(13,704)	(12,733)
- financial	(200)	(500)
Disposal of non-current assets	235	525
Net investments	***(14,455)***	***(13,344)***
Repayment of loans	(5,856)	(6,052)
New loans	12,546	0
Payment of dividends	(9,201)	(5,750)
Cash flow from operations	**(2,511)**	**(11,802)**
Foreign exchange differences	(1,034)	763
Net financial flows for the year	**4,439**	**615**
Cash and cash equivalents at end of year	**14,208**	**9,769**
Current net financial debt	17,065	5,898
Non-current financial debt	11,939	16,416
Net financial debt	**14,796**	**12,545**

EXPLANATORY NOTES

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

Consolidated year-end accounts of the Sabaf Group for the financial year 2011 have been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with full-year financial statements for the previous year, prepared according to the same standards. The report consists of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and is considered a going concern. The Group found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) on the continuity of the Company, including due to the strong competitive position, high profitability and solidity of the financial structure.

Financial statements

The Group has adopted the following formats:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Group's capital, business, and financial status.

Scope of consolidation

The scope of consolidation at 31 December 2011 comprises the direct parent company Sabaf S.p.A. and the following companies that Sabaf S.p.A. controls:

- Faringosi Hinges s.r.l.
- Sabaf Immobiliare s.r.l.
- Sabaf do Brasil Ltda.
- Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)

Since 1 January 2011, the scope of consolidation has included Sabaf Turkey, a company formed by Sabaf S.p.A. at the beginning of 2011 with the objective of directly supplying the Turkish market, the second largest for the Group after Italy. During the year, the company acquired land in Manisa, and building work began on a new facility covering approximately 10,000 sqm for the production of burners, which will begin by the end of 2012.

Control is the power to directly or indirectly determine the financial and operating policies of an entity in order to obtain benefits from its activities. Controlled companies (i.e. subsidiaries) are consolidated from the date when such control starts until the date when it ends.

Consolidation policies

The data used for consolidation have been taken from the income statements and balance sheets prepared by the directors of individual subsidiary companies. These figures have been appropriately amended and restated, when necessary, to align them with international accounting standards and with uniform group-wide classification policies.
The policies applied for consolidation are as follows:

a) Assets and liabilities, income and costs in financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to subsidiary companies.
b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, since 1 January 2004, the Group has not amortised goodwill and instead subjects it to impairment testing.
c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.
d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated balance sheet and income statement.

Conversion into euro of foreign-currency income statements and balance sheets

Separate financial statements of each company belonging to the Group are prepared in the currency of the country in which that company operates (functional currency). For the purposes of the consolidated financial statements, each company's financial statements are expressed in euro, which is the Group's functional currency and the reporting currency for the consolidated financial statements.
Balance-sheet items in accounts expressed in currencies other than euro are converted by applying current end-of-year exchange rates. Income-statement items are converted at average exchange rates for the year.
Foreign exchange differences arising from the comparison between opening shareholders' equity converted at current exchange rates and at historical exchange rates, together with the difference between the net result expressed at average and current exchange rates, are allocated to "Other Reserves" in shareholders' equity.
Exchange rates used for conversion into euro of Sabaf do Brasil's annual report and accounts, prepared in Brazilian real, are in the following table:

Currency	Exchange rate at 31.12.11	Average exchange rate 2011	Exchange rate at 31.12.10	Average exchange rate 2010
Brazilian real	2.4159	2.3265	2.218	2.331
Turkish lira	2.4432	2.3378	-	-

Reconciliation between parent company and consolidated shareholders' equity and net profit for the year

Description	31.12.2011 Net profit	Shareholders' equity	31.12.2010 Net profit	Shareholders' equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**11,122**	**108,463**	**13,246**	**106,519**
Shareholders' equity and net result of consolidated companies	2,390	41,989	4,402	43,617
Elimination of consolidated equity investments' carrying value	1,128	(34,231)	(853)	(35,034)
Goodwill	(1,129)	5,473	0	6,602
Equity investments booked at net equity	0	5	0	0
Intercompany eliminations:				
Dividends	(2,718)	0	0	0
Other intercompany eliminations	(18)	124	72	142
Group net profit and shareholders' equity	**10,775**	**121,823**	**16,867**	**121,846**

Segment reporting
The Group's operating segments in accordance with IFRS 8 - Operating Segment are identified in the business segments that generate revenue and costs, whose results are periodically reassessed by top management in order to assess performance and decisions regarding resource allocation. The Group operating segments are the following:
- gas components
- hinges.

Accounting policies
The accounting standards and policies applied for the preparation of the consolidated financial statements as at 31 December 2011, unchanged versus the previous year, are shown below:

Property, plant and equipment
These assets are reported at purchase or construction cost. The cost includes directly attributable accessory costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers. Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life, in years, is as follows:

Buildings	33
Light constructions	10
General plant	10
Plant and machinery	6 - 10
Equipment	4 - 10
Furniture	8
Electronic equipment	5
Vehicles and other transport means	4 - 5

Ordinary maintenance costs are expensed in the year they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer. Land is not depreciated.

Leased assets
Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the consolidated annual financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, finance charges pertaining to the period are charged to the income statement.

Goodwill
Goodwill is the difference between the purchase price and fair value of subsidiary companies' identifiable assets and liabilities on the date of acquisition.
As regards acquisitions completed prior to the date of IFRS adoption, the Sabaf Group has used the option provided by IFRS 1 to refrain from applying IFRS 3 – concerning business combinations – to acquisitions that took place prior to the transition date. Consequently, goodwill arising in relation to past acquisitions has not been recalculated and has been posted in accordance with Italian GAAPs, net of amortisation reported up to 31 December 2003 and any losses caused by a permanent value impairment.
After the transition date, goodwill – as an intangible asset with an indefinite useful life – is not amortised but subjected annually to impairment testing to check for value loss, or more frequently if there are signs that the asset may have suffered impairment.

Other intangible assets
As established by IAS 38, other intangible assets acquired or internally produced are recognised as assets when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably.
Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.
The useful life of projects for which development costs are capitalised is estimated to be 10 years.
The SAP management system is amortised over five years.

Impairment of value

At each balance-sheet date, the Group reviews the carrying value of its tangible and intangible assets to see whether there are signs of impairment of the value of these assets. If such signs exist, the recoverable value is estimated in order to determine the write-down amount. If it is not possible to estimate recoverable value individually, the Group estimates the recoverable value of the cash-generating unit (CGU) to which the asset belongs.
In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity which the capitalised assets refer to) is verified by determining the value of use. The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The assumptions used for calculating the value of use concerns the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for calculation, during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sale prices are based on past experience and on the expected future changes in the market.
The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the consolidated companies, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Investment property

As allowed by IAS 40, non-operating buildings and constructions are assessed at cost net of depreciation and losses due to cumulative impairment of value. The depreciation criterion applied is the asset's estimated useful life, which is considered to be 33 years.
If the recoverable amount of investment property – determined based on the market value of the real estate – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Equity investments and non-current receivables

The investment in subsidiary Sabaf Appliance Components (Kunshan) Co., Ltd., a company formed in 2009 and which at 31 December 2011 had yet to initiate purchase, production and sales operations, is booked at equity, to reflect in the consolidated financial statements the results of the subsidiary, which is incurring start-up costs resulting in losses, pending the launch of sales and production activity.
Other equity investments not classified as held for sale are stated in the accounts at cost, reduced for impairment. The original value is written back in subsequent years if the reasons for write-down cease to exist.
Non-current receivables are stated at their presumed realisable value.

Inventories

Inventories are measured at the lower out of purchase or production cost – determined according to the weighted average cost method – and the corresponding fair value consisting of replacement cost for purchased materials and of the presumed realisable value for finished and semi-processed products – calculated taking into account any conversion costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Obsolete or slow-moving stocks are written down according to their possibility of use or realisation or recovery. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Receivables

Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned on a no-recourse basis, even though they have been transferred in legal terms, continue to be recognised among "Trade receivables" until the time of related cash-in, which is never in advance of the due date with respect to the expiration date. Trade receivables overdue or assigned on a no-recourse basis are recognised with "other current receivables".

Current financial assets

Financial assets held for trading are measured at the fair value, allocating profit and loss effects to finance income or expense.

Reserves for risks and contingencies

Reserves for risks and contingencies are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the impact is major, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect fair market valuations of the present cost of money and specific risks associated with the liability.

Reserve for post-employment benefit obligations

The reserve is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Until 31 December 2006, post-employment benefits were considered to be a defined-benefit plan and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulation of this fund was changed by Law 296 of 27 December 2006 as amended by subsequent decrees and laws passed in early 2007. In light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid as at balance-sheet). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains and losses are posted in the income statement.

Payables

Payables are recognised at the face value. The portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest-rate method.
Loans are classified among current liabilities unless the Group has the unconditional right to defer discharge of a liability by at least 12 months after the date of reference.

Policy for conversion of foreign-currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at year-end and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices, and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to future transactions planned.
The Group does not use derivatives for trading purposes.
Derivatives are initially recognised at cost and are then adjusted to the fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedging future cash flows relating to the Group's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement. If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in the fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are recognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue recognition

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and rewards associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenue of a financial nature is reported on an accrual-accounting basis.

Financial income

Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recognised in the income statement when it accrues, considering effective yield.

Financial expenses

Financial expense includes interest payable on financial debt calculated using the effective interest method and bank expenses.

Income taxes for the year

Income taxes include all taxes calculated on the Group's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned according to the global liability provisioning method. They are calculated on all temporary differences emerging between the taxable base of an asset and liability and its book value in the consolidated balance sheet, with the exception of goodwill that is not tax-deductible and of differences stemming from investments in subsidiaries for which cancellation is not envisaged in the foreseeable future. Deferred tax assets on unused tax losses and tax credits carried forward are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable, according to the respective regulations of the countries where the Group operates, in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Own shares

Own shares are booked as a reduction of shareholders' equity. The carrying value of own shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Earnings per share

Basic EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit or loss attributable to the direct parent company's shareholders by the weighted average number of shares outstanding, adjusted to take into account the effects of all potential ordinary shares with dilutive effects.

Use of estimates

Preparation of the financial statements and notes in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities as of the balance sheet date. Actual results could differ from these estimates. Estimates are used to measure tangible and intangible assets subject to impairment testing, as described earlier, as well as to measure credit risks, inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves, and balancing payments for electricity charges. Specifically:

Recoverable value of tangible and intangible assets
The procedure for determining impairment of value in tangible and intangible assets described under "Impairment of value" implies – in estimating the value of use – the use of the Business Plan of subsidiaries, which are based on a series of assumptions and hypotheses relating to future events and actions of the subsidiaries' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for credit risks
Credit is adjusted by the related provision for doubtful accounts to take into account its recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical trends.

Provisions for inventory obsolescence
Warehouse inventories subject to obsolescence and slow turnover are periodically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from their experience and historical results.

Employee benefits
The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, the rates of future salary increases, mortality and resignation rates. Any change in the abovementioned assumptions could have significant effects on liabilities for pension benefits.

Income tax
The Group is subject to different bodies of tax legislation on income. Determining liabilities for Group taxes requires the use of management valuations in relation to transactions whose tax implications are not certain on the balance sheet date. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that could change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves
In estimating the risk of potential liabilities from disputes, management relies on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Group in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Balancing payment for electricity charges
Determining the equalisation payments for electricity used for production at Sabaf S.p.A.'s Ospitaletto facility was based on estimates – based on the Group's metering equipment – up until the end of 2010; electricity consumption was therefore valued based on the Company's best available knowledge pending a check of the reaonsableness of the estimates to be conducted on the occasion of the first inspection following the contention with ENEL and the energy supplier. In this context, following the check carried out in 2011 by ENEL engineers on the electricity metering equipment, an equalisation payment was defined by the energy supplier for consumption prior to 31 December 2010, which led to the recognition in 2011 of an additional charge of approximately €1.6 million relating to previous years, an amount that could not be predicted in those years (Note 25). The Company and the electricity supplier however agreed on the current procedure to record consumption in light of the results of the inspection conducted, and consequently, the charge for electricity reflected in the income statement from the date of the inspection is no longer subject to estimates and uncertainty.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

There were no significant changes over the year to the accounting standards applied in these consolidated financial statements.

Accounting standards, amendments and interpretations effective from 1 January 2011 and not relevant for the Group.

The following amendments, improvements and interpretations, effective from 1 January 2011, govern matters and cases that are not present within the Group as of the date of these annual financial statements, but which could have accounting effects on future transactions or agreements:

- Amendment to IAS 32 - **Financial instruments: Presentation: Classification of rights issues**;
- Amendment to IFRIC 14 - **Pre-payments of a minimum funding agreement**;
- IFRIC 19 - **Extinguishing financial liabilities with equity instruments**;
- **Improvements** to IAS/IFRS (2010).

Accounting standards not yet applicable and not adopted in advance by the Group

On 12 November 2009, the IASB published the standard IFRS 9 - *Financial instruments* which was then amended on 28 October 2010. The standard, applicable retrospectively from 1 January 2015, represents the first step in a process intended to completely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. Specifically, for financial assets, the new standard uses a single approach based on the procedures for management of financial instruments and the characteristics of contractual cash flows of the financial assets to determine the measurement method, replacing the different rules established by IAS 39. For financial liabilities, the main change concerns the accounting treatment of fair value changes of a financial liability designated as at fair value through the income statement, in the case that these are due to the change in the creditworthiness of the liability itself. According to the new standard, these changes must be booked under Other Comprehensive Income, and will no longer be transferred to the income statement.

On 12 May 2011, the IASB issued the standard IFRS 10 - *Consolidated Financial Statements*, which will replace SIC-12 *Consolidation - Special-purpose entities* and parts of IAS 27 - *Consolidated and separate financial statements*, which will be renamed *Separate financial statements*, and will regulate the accounting treatment of equity investments in the separate financial statements. The new standard is a move from existing standards, identifying the concept of control, according to a new definition thereof, as the determining factor in the consolidation of a company in the consolidated financial statements of the parent company. It also provides a guide to determining the existence of control where it is difficult to ascertain (*de facto* control, potential votes, special purpose entities, etc). The standard is to be applied retrospectively from 1 January 2013.

On 12 May, the IASB issued standard IFRS 11 - *Joint arrangements*, which will replace IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Joint-controlled entities - Non-monetary contributions by Venturers*. The new standard provides the criteria for identifying joint arrangements based on rights and obligations resulting from agreements rather than their legal form, and establishes the equity method as the only method of accounting for interests in joint ventures in consolidated financial statements. The standard is to be applied retrospectively from 1 January 2013. Following the issuing of the standard, IAS 28 - *Investments in Associates* has been amended to include interests in joint ventures in its scope from the date the standard becomes effective.

On 12 May 2011, the IASB issued standard IFRS 12 - *Disclosure of interests in other entities*, a new and complete standard on the additional information to be provided for every type of interest, including those in subsidiaries, joint arrangements, affiliates, special purpose vehicles and other non-consolidated entities. The standard is to be applied retrospectively from 1 January 2013.

On 12 May 2011, the IASB issued the standard IFRS 13 - *Fair value measurement*, which clarifies how fair value must be measured for the purpose of financial statements. It applies to all IFRS standards that require or allow for the measurement of fair value or the presentation of information based on fair value. The standard is to be applied on a prospective basis from 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 - *Presentation of financial statements* to require companies to group all the components presented under "Other comprehensive income" according to whether or not they can subsequently be reclassified to the profit and loss section of the income statement. The amendment is applicable from the years beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amendment to IAS 19 - *Employee Benefits*, which eliminates the option to defer the recognition of actuarial gains and losses with the corridor method, requiring the presentation in the statement of financial position and income statement of the deficit or surplus of the fund as a whole, and the separate recognition on the income statement of cost components arising from employees providing service and net financial charges, and the recognition of actuarial gains and losses resulting from the remeasurement of assets and liabilities under "Other comprehensive income". Furthermore, the interest on assets included under net financial charges must be calculated on the basis of the discount rate of liabilities and no longer on the expected return on the assets. Finally, the amendment introduced new information to be provided in the Explanatory Notes to the Financial Statements. The amendment is applicable retrospectively from years beginning on or after 1 January 2013.

On 16 December 2011, the IASB published an amendment to IAS 32 - *Financial Instruments: Presentation and* IFRS 7 - *Financial Instruments*: Disclosures with reference to the rules on offsetting of financial assets and liabilities. The IASB clarified that offsetting rights must be available on the balance-sheet date, rather than being contingent on a future event, and must be enforceable by any counterparty both in the normal course of business or in the event of insolvency/bankruptcy (according to the specific legislation that governs the contract between the parties and the bankruptcy rights of this legislation). The amendments to IFRS 7 concerned the disclosure of financial instruments (derivatives) subject to enforceable master netting agreements and similar contracts, if not offset according to the criteria of IAS 32. The disclosure amendments relating to the offsetting of financial instruments are to be applied for years beginning on or after 1 January 2013 (with retrospective application of comparative reporting).

As of the date of annual financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of the standards described above.

COMMENTS ON SIGNIFICANT BALANCE SHEET ITEMS

1 - Property, plant and equipment

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31.12.09	**43,819**	**139,966**	**24,773**	**3,005**	**211,563**
Increases	403	5,849	2,991	3,495	12,738
Disposals	-	(106)	(342)	(5)	(453)
Reclassifications	5	2,036	192	(2,233)	-
Forex differences	396	708	160	-	1,264
At 31.12.10	**44,623**	**148,453**	**27,774**	**4,262**	**225,112**
Increases	3,615	6,318	2,053	1,718	13,704
Disposals	-	(397)	(277)	-	(674)
Reclassifications	1,183	1,639	87	(2,909)	-
Forex differences	(283)	(558)	(143)	-	(984)
At 31.12.11	**49,138**	**155,455**	**29,494**	**3,071**	**237,158**
Accumulated depreciation					
At 31.12.09	**7,576**	**106,215**	**20,840**	**-**	**134,631**
Depreciation of the year	1,176	8,265	1,877	-	11,318
Eliminations for disposals	-	(90)	(336)	-	(426)
Reclassifications	(11)	99	(22)	-	66
Forex differences	32	308	113	-	453
At 31.12.10	**8,773**	**114,797**	**22,472**	**-**	**146,042**
Depreciation of the year	1,192	7,901	2,144	-	11,237
Eliminations for disposals	-	(364)	(217)	-	(581)
Reclassifications	29	46	15	-	90
Forex differences	(30)	(272)	(97)	-	(399)
at 31.12.11	**9,964**	**122,108**	**24,317**	**-**	**156,389**
Carrying value					
at 31.12.11	**39,174**	**33,347**	**5,177**	**3,071**	**80,769**
at 31.12.10	**35,850**	**33,656**	**5,302**	**4,262**	**79,070**

The breakdown of the net carrying value of Property was as follows:

	31.12.2011	31.12.2010	Change
Land	7,233	6,547	686
Industrial buildings	31,941	29,303	2,638
Total	**39,174**	**35,850**	**3,324**

The carrying value of industrial property includes an amount of €8,031,000 (€8,198,000 in 2010) relating to industrial buildings and related land held under finance leases.
The main investments in the year were those for the industrialisation of new products (notably including a new model for light alloy valves for hobs) and the construction of a new warehouse of approximately 4,000 sqm within the Ospitaletto industrial complex, to be used by the coining department. In 2011, Sabaf acquired land covering approximately 10,000 sqm in Manisa (Turkey), where it began to build a new production unit. Furthermore, investments were made in maintenance and replacement to keep the property, plant and equipment constantly up to date.

At 31 December 2011, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2 - Investment property

Cost	
At 31.12.09	**12,673**
Increases	-
Disposals	(416)
At 31.12.10	**12,257**
Increases	-
Disposals	-
At 31.12.11	**12,257**

Accumulated depreciation	
At 31.12.09	**3,939**
Depreciation of the year	236
Write-downs for impairment	251
Eliminations for disposals	(28)
At 31.12.10	**4,398**
Depreciation of the year	233
Write-downs for impairment	-
Eliminations for disposals	-
At 31.12.11	**4,631**

Carrying value	
At 31.12.11	7,626
At 31.12.10	7,859

This entry includes non-instrumental property belonging to the Group. This is mainly property for residential use reserved for lease or sale.
At 31 December 2011, the Group found no endogenous or exogenous indicators of impairment of its investment property.

3 - Intangible assets

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
Cost					
At 31.12.09	**9,008**	**4,881**	**1,548**	**1,490**	**16,927**
Increases	-	87	524	26	637
Decreases	-	-	(63)	(5)	(68)
Reclassifications	-	204	796	(1,000)	-
At 31.12.10	**9,008**	**5,172**	**2,805**	**511**	**17,496**
Increases	-	103	648	35	786
Decreases	-	(3)	(5)	-	(8)
At 31.12.11	**9,008**	**5,272**	**3,448**	**546**	**18,274**
Amortisation/Write-downs					
At 31.12.09	**2,406**	**2,797**	**641**	**391**	**6,235**
Amortisation 2010	-	671	196	14	881
Decreases	-	-	-	(29)	(29)
At 31.12.10	**2,406**	**3,468**	**837**	**376**	**7,087**
Amortisation 2011	-	672	266	17	955
Write-downs	1,129	-	-	-	1,129
Decreases/Adjustments	-	(3)	-	24	21
At 31.12.11	**3,535**	**4,137**	**1,103**	**417**	**9,192**
Carrying value					
At 31.12.11	**5,473**	**1,135**	**2,345**	**129**	**9,082**
At 31.12.10	**6,602**	**1,704**	**1,968**	**135**	**10,409**

The Group verifies the ability to recover goodwill at least once a year or more frequently if there may be value impairment. Recoverable value is determined through value of use, by discounting expected cash flows. Goodwill booked in the balance sheet mainly arises from acquisition of Faringosi Hinges S.r.l. and is allocated to the "Hinges" CGU (cash generating unit).
The environment in which the Hinges unit operates became more difficult in 2011, following a decline on the core market. To combat this situation, the Group acted promptly to improve its product range and adjust its production process. The 2012-2016 plan, approved by the subsidiary's Board of Directors and reviewed by the Parent Company's Board of Directors in a meeting prior to that convened to approve the consolidated financial statements, projects a gradual recovery in sales and profitability. However, given that there are various elements of uncertainty implicit in realising this plan, it was considered preferable to prepare a multi-scenario analysis, which contemplates the following three hypotheses:
- a "best estimate" scenario, that is the most probable scenario, which considers 100% of new production flows;
- a "steady state" scenario (or "worst case"), which completely excludes new production flows and hypotheses the continuation of the present state;
- an intermediate scenario, which incorporates the realisation risk and considers only 75% of flows related to new production.
The impairment test was conducted on a prudential basis, considering this last scenario.
Cash flows for the period 2012-2016 were augmented by the so-called terminal value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity.

Value in use was calculated based on a discount rate (WACC) of 8.84% and a growth rate (g) of 1.50%.

The recoverable value determined based on the assumptions and assessment techniques mentioned above is €8.6 million, compared with a carrying value of the assets allocated to the Hinges CGU of €9.7 million; goodwill was therefore written down by €1.1 million in these consolidated financial statements.
Sensitivity analysis
The table below shows the changes in recoverable value depending on changes in the WACC discount rate and growth.

factor g, also in the "best estimate" and "steady state" scenarios:

(millions of euro)	Scenario 1 – best estimate growth rate			Scenario 2 – steady state growth rate			Scenario 3 – intermediate growth rate		
discount rate	1.25%	1.50%	1.75%	1.25%	1.50%	1.75%	1.25%	1.50%	1.75%
8.00%	11.6	12.0	12.4	4.2	4.3	4.5	9.5	9.8	10.1
8.50%	10.7	11.0	11.4	3.9	4.0	4.1	8.7	9.0	9.3
8.84%	10.1	10.4	10.8	3.7	3.8	3.9	8.3	**8.6**	8.8
9.00%	9.9	10.2	10.5	3.6	3.7	3.8	8.1	8.3	8.6
9.50%	9.2	9.4	9.7	3.4	3.5	3.6	7.6	7.8	8.0

The table shows that the value in use is highly sensitive to changes in the discount rate, the growth rate and the success of initiatives undertaken to improve the product range and adapt the production process, which is also conditioned by factors that cannot be controlled by the Group. The Board of Directors cannot therefore rule out that, in the future, the final profitability figure may diverge from that set out in forward data, requiring further goodwill impairment. Given the uncertainty of any process estimating future events not dependent on variables that can be controlled, the directors will systematically monitor the actual balance sheet and income statement data of the Hinges CGU to assess the need to adjust forecasts and at the same time reflect any losses in value.

Other intangible assets have a finite useful life and are consequently amortised based on this lifetime. The useful life of projects for which development costs are capitalised is estimated to be 10 years.

The main investments in the year related to the development of new products, including various versions of high-efficiency dual burners (research and development activities conducted over the year are set out in the Report on Operations).

4 - Equity investments

	31.12.2010	Capital increases	Gains (losses) from equity investments	Forex differences	31.12.2011
Sabaf Appliance Components (Kunshan)	244	200	(356)	2	90
Sabaf Mexico	548	-	-	-	548
Sabaf US	139	-	-	-	139
Other shareholdings	33	-	-	-	33
Total	**964**	**200**	**(356)**	**2**	**810**

The value of the equity investment in Sabaf Appliance Components (Kunshan) increased by €200,000 owing to capital increases made in the period, and was reduced by €356,000 following the valuation of the stake at equity. The loss relates to operating costs sustained by the company pending the launch of sales and production activity on the local market.

Sabaf Mexico and Sabaf U.S. have not been consolidated in that they are immaterial for the purposes of consolidation. At 31 December 2011, the Group found no endogenous or exogenous indicators of impairment for these equity investments.

5 - Non-current receivables

	31.12.2011	31.12.2010	Change
Tax receivables	128	108	20
Guarantee deposits	9	12	(3)
Others	31	20	11
Total	**168**	**140**	**28**

6 - Inventories

	31.12.2011	31.12.2010	Change
Raw materials	9,363	8,821	542
Semi-processed goods	11,264	11,323	(59)
Finished products	8,280	7,979	301
Obsolescence provision	(2,024)	(2,041)	17
Total	**26,883**	**26,082**	**801**

The value of inventory at 31 December 2011 is not significantly different from the value at year-end 2010. The obsolescence provision amounted to €0.4 million for raw materials, €0.7 million for semi-processed goods and €0.9 million for finished products remained unchanged, since the results of analyses conducted at the end of the year on the obsolescence risk for merchandise in stock were in line with those of 2010.

7 - Trade receivables

The geographical breakdown of trade receivables was as follows:

	31.12.2011	31.12.2010	Change
Italy	21,482	20,793	689
Western Europe	2,501	2,520	(19)
Eastern Europe and Turkey	9,002	9,828	(826)
Asia and Oceania	5,569	6,368	(799)
South America	4,305	2,975	1,330
Africa	633	1,999	(1,366)
US, Canada & Mexico	847	622	225
Gross total	**44,339**	**45,105**	**(766)**
Provision for doubtful accounts	(1,565)	(1,350)	(215)
Net total	**42,774**	**43,755**	**(981)**

At 31 December 2011, the value of trade receivables was broadly in line with that of 31 December 2010. At 31 December 2011, trade receivables included balances of USD 5,349,000, posted at the EUR/USD exchange rate as at 31 December 2011, i.e. 1.2939. The amount of trade receivables recognised in the accounts includes €13.3 million of receivables assigned on a no-recourse basis (€16.4 million at 31 December 2010).
The decline in average payment times that can be deduced from an analysis of receivables by age shown in the table below, as a result of the crisis on the market and some specific credit positions, is constantly monitored by the Group. The doubtful account provision was adjusted at the end of the year, to reflect the better estimate of the credit risk.

	31.12.2011	31.12.2010	Change
Current receivables (not past due)	37,935	41,005	(3,070)
Outstanding up to 30 days	2,749	2,718	31
Outstanding from 30 to 60 days	948	175	773
Outstanding from 60 to 90 days	1,667	191	1,476
Outstanding over 90 days	1,040	1,016	24
Total	**44,339**	**45,105**	**(766)**

8 - Tax receivables

	31.12.2011	31.12.2010	Change
From Giuseppe Saleri SapA for IRES	761	-	761
From inland revenue for VAT	749	386	363
From inland revenue for IRAP	214	-	214
Other tax receivables	788	918	(130)
Total	**2,512**	**1,304**	**1,208**

Since 2004, Italian companies of the Group have been part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. This option was renewed in 2010 for another three years. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acts as the consolidating company and the receivable reported in the financial statements at 31 December 2011 refers to the balance for income taxes transferred to the parent company.
At 31 December 2011, the Group had income tax credits, owing to the higher estimated tax payments made versus the actual tax burden for the year.
Other tax receivables mainly refer to receivables in respect of indirect Brazilian taxes.

9 - Other current receivables

	31.12.2011	31.12.2010	Change
Advances to suppliers	80	224	(144)
Receivables from factoring companies	167	167	-
Receivables from suppliers	68	166	(98)
Others	280	219	61
Total	**595**	**776**	**(181)**

10 - Cash and cash equivalents

Cash and cash equivalents, which amounted to €14,208,000 at 31 December 2011 (€9,769,000 at 31 December 2010) consisted of bank current-account balances of approximately €11.9 million and sight deposits €2.3 million. At 31 December 2011, cash and cash equivalents included positive bank account balances of around USD 1.3 million, arising from collection of trade receivables and posted at the current EUR/USD exchange rate of 1.2939.

11 - Share capital

At 31 December 2010, the parent company's share capital consisted of 11,533,450 shares of a par value of €1.00 each. Subscribed and paid-in share capital did not change during the year.

12 - Own shares

Group companies did not buy or sell shares in Sabaf S.p.A in 2011. At 31 December 2011 the parent company held 32,503 own shares, equivalent to 0.282% of the share capital.

13 - Loans

	31.12.2011		31.12.2010	
	Current	Non Current	Current	Non Current
Property leasing	1,289	2,888	1,250	4,176
Property mortgages	860	3,678	849	4,533
Unsecured loans	3,838	3,873	3,744	7,707
Other bank loans	11,045	1,500	-	-
Total	**17,032**	**11,939**	**5,843**	**16,416**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor, with the exception of a short-term loan of USD 2 million.
To meet the Group's financial needs, at 31 December 2011, loans totalling €12,545,000 were taken out during the year, of which €8,545,000 were short-term and €4 million repayable within 18 months. These loans were partly offset by cash in current accounts (Note 10), largely used at the beginning of 2012 to meet ordinary payments relating to operations.
Property mortgage loans are secured by mortgages on Group properties. Finance lease payments are guaranteed to the lessor through rights on leased assets. The loans are not bound by

contractual provisions (covenants).
Note 35 provides information on financial risks, pursuant to IFRS 7.

14 - Other financial liabilities

	31.12.2011	31.12.2010	Change
Derivative instruments on interest rates	33	55	(22)
Total	**33**	**55**	**(22)**

This item includes the negative fair value of the derivative financial instruments at year-end that hedge interest rate risks (Note 35).

15 - Post-employment benefit reserve (tfr) and retirement reserves

	31.12.2011		31.12.2010	
	Post-employment benefits	Retirement reserves	Post-employment benefits	Retirement reserves
Liabilities at 1 January	**2,607**	**20**	**2,906**	**10**
Social security costs	-	10	11	10
Financial expenses	108	-	85	-
Amounts paid out	(236)	-	(395)	-
Liabilities at 31 December	**2,479**	**30**	**2,607**	**20**

The post-employment benefit reserve (TFR) is valued on the basis of the following assumptions:

Financial assumptions	31.12. 2011	31.12.2010
Discount rate	4.30%	4.00%
Inflation	2.00%	2.00%

Demographic assumptions	31.12. 2011	31.12.2010
Mortality rate	ISTAT 2002 M/W	ISTAT 2002 M/W
Disability rate	INPS 1998 M/W	INPS 1998 M/W
Staff turnover	variable from 3% to 6% per year depending on company	variable from 3% to 6% per year depending on company
Advance payouts	variable from 5% to 7% per year depending on company	variable from 5% to 7% per year depending on company
Retirement age	in agreement with the legislation in force from 1 January 2012	65 years for men and 60 for women, 40 years of employment

16 - Provisions for risks and contingencies

	31.12.2010	Allocations	Forex differences	Uses	Release of excess	31.12.2011
Reserve for agents' indemnities	381	13	-	-	(15)	379
Product warranty reserve	60	43	-	(18)	-	85
Reserve for legal risks	125	143	(4)	-	-	264
Other provisions for risks	201	-	-	(198)	-	3
Total	**767**	**199**	**(4)**	**(216)**	**(15)**	**731**

The reserve for agents' indemnities covers amounts payable to agents if the Group terminates the agency relationship.
The product warranty reserve covers the risk of returns or charges by customers for products already sold. It was partially utilised in the year against returns from prior year sales and replenished at year end, leading to a provision on the basis of analyses conducted and past experience.
The reserve for tax risks and other provisions for risks, allocated for disputes of a modest size, were adjusted and used during the year following the development of existing disputes.
The provisions booked to the reserve for risks and contingencies, which represent the estimate of future payments made based on historic experience, have not been time-discounted because the effect is considered negligible.

17 - Trade payables

The geographical breakdown of trade payables was as follows:

	31.12.2011	31.12.2010	Change
Italy	23,727	20,169	3,558
Western Europe	2,948	3,277	(329)
Eastern Europe and Turkey	536	76	460
Asia	241	218	23
South America	217	308	(91)
US, Canada & Mexico	139	137	2
Total	**27,808**	**24,185**	**3,623**

The increase in trade payables versus the end of the previous year was partly due to higher commodity prices. Trade payables also include €2.3 million relating to the balancing payment for electricity used in previous years and billed in 2011, for which a deferred payment was agreed with the supplier. Average payment terms did not change. At 31 December 2011, there were no overdue payables of a significant amount, and the Group had not received any injunctions for overdue payables.

18 - Tax payables

	31.12.2011	31.12.2010	Change
From Giuseppe Saleri SapA for IRES	-	2,241	(2,241)
From inland revenue for IRAP	-	524	(524)
IRPEF withholdings	749	720	29
Other tax payables	54	-	54
Total	**803**	**3,485**	**(2,682)**

19 - Other current payables

	31.12.2011	31.12.2010	Change
Due to employees	3,609	3,963	(354)
Due to social security institutions	2,150	2,076	74
Due to agents	289	541	(252)
Payments to clients	62	49	13
Other current payables	128	142	(14)
Total	**6,238**	**6,771**	**(533)**

20 - Deferred tax assets and liabilities

	31.12.2011	31.12.2010
Deferred tax assets (prepaid taxes)	3,855	2,190
Deferred tax liabilities	(366)	(323)
Net position	**3,489**	**1,867**

The table below analyses the nature of the temporary differences that determines the recognition of deferred tax liabilities and assets and their movements during the year and the previous year.

	Tax losses of previous years	Depreciation, amortisation and leasing	Provisions and value adjustments	Fair value of derivatives	Equity investments/ Goodwill	Other temporary differences	Total
At 31.12.09	**0**	**(118)**	**1,096**	**0**	**0**	**16**	**994**
To the income statement	454	2	56	-	-	350	862
To shareholders' equity	-	-	-	11	-	-	11
At 31.12.10	**454**	**(116)**	**1,152**	**11**	**0**	**366**	**1,867**
To the income statement	(45)	20	17	-	1,993	(303)	1,682
To shareholders' equity	-	-	-	(8)	-	-	(8)
Forex differences	(36)	-	(16)	-	-	-	(52)
At 31.12.11	**373**	**(96)**	**1,153**	**3**	**1,993**	**63**	**3,489**

In 2011, Sabaf S.p.A. used the option – provided by Legislative Decree 98 of 6 July 2011 – to recognise for tax purposes the value of its shareholding in Faringosi Hinges S.r.l. in the amount of €6.3 million, corresponding to the residual goodwill booked in the consolidated financial statements of 2010 relating to this shareholding. The release led to the payment of substitute tax totalling €1,015,000 (Note 31) and the recognition of a future tax benefit of €1,993,000, which may be obtained in ten annual instalments from 2013.

These consolidated financial statements include €374,000 booked as deferred tax assets on the residual losses carried forward of Sabaf do Brasil Ltda. At the balance-sheet date, the Group had further unused tax losses carried forward totalling approximately €3 million accumulated by the subsidiaries. Due to the difficulty of predicting future taxable amounts, no prepaid tax assets were booked against the amount of these previous losses.

21 - Net financial position

As required by the CONSOB memorandum of 28 July 2006, we disclose that the Company's net financial position is as follows:

		31.12.2011	31.12.2010	Change
A.	Cash	8	11	(3)
B.	Positive balances of unrestricted bank accounts	11,868	9,105	2,763
C.	Other liquidities	2,332	653	1,679
D.	**Cash and cash equivalents (A+B+C)**	**14,208**	**9,769**	**4,439**
E.	Current bank payables (Note 13)	8,546	0	8,546
F.	Current portion of non-current debt (Note 13)	8,486	5,843	2,643
G.	Other current financial payables (Note 14)	33	55	(22)
H.	**Current financial debt (E+F+G)**	**17,065**	**5,898**	**11,167**
I.	**Current net financial debt (H-D)**	**2,857**	**(3,871)**	**6,728**
J.	Non-current bank payables	9,051	12,240	(3,189)
K.	Other non-current financial payables	2,888	4,176	(1,288)
L.	**Non-current financial debt (J+K)**	**11,939**	**16,416**	**(4,477)**
M.	**Net financial debt (I+L)**	**14,796**	**12,545**	**2,251**

The consolidated cash flow statement provides changes in cash and cash equivalents (letter D of this schedule).

COMMENTS ON KEY INCOME STATEMENT ITEMS

22 - Revenue

Sales revenue totalled €148,583,000 in 2011, down by €2,314,000 (-1.5%) vs. 2010.

Revenue by product family	**2011**	*%*	**2010**	*%*	***Change %***
Brass valves	26,537	*17.9%*	31,788	*21.0%*	-16.5%
Light alloy valves	23,265	*15.7%*	20,027	*13.3%*	+16.2%
Thermostats	14,560	*9.8%*	14,829	*9.8%*	-1.8%
Standard burners	42,631	*28.7%*	41,405	*27.4%*	+3.0%
Special burners	22,210	*14.9%*	21,097	*14.0%*	+5.3%
Accessories	10,598	*7.1%*	10,959	*7.3%*	-3.3%
Total gas components	*139,801*	*94.1%*	*140,105*	*92.8%*	**-0.2%**
Hinges	*8,782*	*5.9%*	*10,792*	*7.2%*	-18.6%
Total	**148,583**	*100%*	**150,897**	*100%*	**-1.5%**

As described in the Report on Operations, the trend to replace brass valves with light alloy valves continued in 2011. Average sales prices in 2011 were slightly higher than those of 2010, but not enough to fully make up for the rises in commodity prices over the year.

Geographical breakdown of revenue	**2011**	*%*	**2010**	*%*	***Change %***
Italy	56,321	*37.9%*	61,648	*40.8%*	-8.6%
Western Europe	11,215	*7.5%*	11,561	*7.6%*	-3.0%
Eastern Europe and Turkey	37,459	*25.2%*	32,553	*21.6%*	15.1%
Asia and Oceania	13,328	*9.0%*	15,476	*10.3%*	-13.9%
Central and South America	19,838	*13.4%*	17,467	*11.6%*	13.6%
Africa	6,524	*4.4%*	7,056	*4.7%*	-7.5%
US, Canada & Mexico	3,898	*2.6%*	5,136	*3.4%*	-24.1%
Total	**148,583**	*100%*	**150,897**	*100%*	**-1.5%**

2011 was marked by a gradual slowdown in demand on traditional markets (Italy and Western Europe), owing to the weakness of the economy in these areas, which had a strong impact on the household appliance market.
In contrast, sales in Eastern Europe registered solid growth, mainly thanks to the contribution of Turkey, a country that is consolidating its position of strength in the production of cooking appliances.
Sales in Africa and Asia were affected by the political problems that beset some North African and Middle Eastern markets, while in 2011, South America again registered very positive growth rates.

23 - Other income

	31.12.2011	**31.12.2010**	**Change**
Sale of scraps	4,101	3,524	577
Contingent income	279	398	(119)
Dedicated equipment	7	189	(182)
Use of provisions for risks and contingencies	187	113	74
Rental income	111	106	5
Other income	347	443	(96)
Total	**5,032**	**4,773**	**259**

The increase in sales of production scraps was due to the increase in the price of commodities (and as a result, scraps).

24 - Materials

	31.12.2011	31.12.2010	Change
Raw materials and purchases	54,367	53,296	1,071
Consumables	4,736	4,623	113
Total	**59,103**	**57,919**	**1,184**

The average actual cost of raw materials (brass, aluminium alloys and steel) fell by around 20% compared to 2010, while the cost of other components did not change significantly. Consumption (purchases plus change in inventory) as a percentage of sales was 39.2% in 2011, compared with 35.3% in 2010.

25 - Costs for services

	31.12.2011	31.12.2010	Change
Outsourced processing	13,059	13,860	(801)
Natural gas and power	6,496	3,953	2,543
Maintenance	4,597	4,303	294
Freight, carriage, transport	1,790	1,906	(116)
Commissions	955	1,113	(158)
Advisory services	1,304	1,353	(49)
Directors' remuneration	992	1,071	(79)
Temporary agency workers	232	345	(113)
Travel expenses and allowances	434	454	(20)
Canteen	395	406	(11)
Insurance	344	295	49
Other payroll costs	3,570	3,221	349
Total	**34,168**	**32,280**	**1,888**

The item "Natural gas and electricity" includes €4,889,000 in consumption costs for the year, and €1,607,000 in additional charges relating to December 2008 and the years 2009 and 2010. As stated in the "Use of estimates" section above, following certain anomalies detected, the Parent Company asked ENEL to conduct a check on its electricity metering system. This check revealed an error in the recording and billing of electricity for the period December 2008 – February 2011, for which the Company received invoices for equalisation charges in July.
Other costs for services did not vary significantly from 2010.

26 - Payroll costs

	31.12.2011	31.12.2010	Change
Salaries and wages	20,731	19,910	821
Social security costs	6,795	6,533	262
Temporary agency workers	1,830	2,733	(903)
Post-employment benefit reserve and Other payroll costs	1,384	1,744	(360)
Total	**30,740**	**30,920**	**(180)**

Average Group headcount in 2011 totalled 713 employees (530 blue-collars, 145 white-collars and supervisors, and 8 managers), compared with 690 in 2010 (530 blue-collars, 149 white-collars and supervisors, and 11 managers). The average number of temporary staff was 68 in 2011 (102 in 2010).

27 - Other operating costs

	31.12.2011	31.12.2010	Change
Other taxes	494	263	231
Other administration expenses	350	236	114
Doubtful account provision	250	577	(327)
Provisions for risks	167	160	7
Contingent liabilities	122	211	(89)
Others provisions	13	31	(18)
Dedicated equipment	7	150	(143)
Total	**1,403**	**1,628**	**(225)**

Non-income taxes chiefly include property tax and the tax on the disposal of municipal solid waste.
Receivables were written down to adjust the related reserve to the risk of insolvency by some clients, in view of the difficult environment on some markets and the existence of past due accounts. Provisions refer to the allocations to the reserves described in Note 16.

28 - Write-downs/write-backs of non-current assets

	31.12.2011	31.12.2010	Change
Goodwill impairment	1,129	-	1,129
Write-down of investment property	-	251	(251)
Total	**1,129**	**251**	**878**

For details on goodwill impairment, see Note 3.

29 - Financial expenses

	31.12.2011	31.12.2010	Change
Interest paid to banks	560	434	126
Interest paid on finance lease contracts	129	125	4
IRS spreads payable	59	139	(80)
Banking expenses	461	436	25
Other finance expense	99	105	(6)
Total	**1,308**	**1,239**	**69**

30 - Foreign exchange gains/losses

In 2011, the Company reported net foreign exchange gains of €390,000, versus net losses of €151,000 in 2010. Foreign exchange gains in 2011 include the booking of a foreign exchange gain of €396,000, following the reduction of the share capital of Sabaf do Brasil of approximately 4.8 million Brazilian real. Stripping out this non-recurring item, the foreign exchange gain would have been negligible.

31 - Income tax

	31.12.2011	31.12.2010	Change
Current tax	5,412	7,840	(2,428)
Deferred tax	329	(823)	1,152
Substitute tax, under Decree Law 98/2011	1,015	-	1,015
Accounting of deferred tax assets, under Decree Law 98/2011	(1,993)	-	(1,993)
Balance of previous FY	(84)	(108)	24
Total	**4,679**	**6,909**	**(2,230)**

Current income taxes include corporate income tax (IRES) of €3,885,000 and Italian regional business tax (IRAP) of €1,434,000 and Brazilian income tax of €93,000 (respectively €5,671,000, €1,814,000 and €355,000 in 2010).

Sabaf S.p.A. used the option – provided by Legislative Decree 98 of 6 July 2011 – to recognise for tax purposes the value of its shareholding in Faringosi Hinges S.r.l. in the amount of €6,346,000, corresponding to the residual goodwill booked in the consolidated financial statements of 2010 relating to this shareholding. The release led to the payment of substitute tax totalling €1,015,000 and the recognition of a future tax benefit of €1,993,000, which may be obtained in ten annual instalments from 2013.

Reconciliation between the tax burden booked in year-end financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the table.

	31.12.2011	31.12.2010
Theoretical income tax	4,249	6,538
Tax effect on permanent differences	503	424
Taxes relating to previous years	(50)	(29)
Tax effect from different foreign tax rates	7	87
Accounting of tax effect on tax losses carried forward	-	(432)
Accounting of tax effect on temporary differences carried forward	-	(143)
Use of tax losses	(562)	(645)
Effect of detaxing investments pursuant to Law 78/09	-	(618)
Other differences	55	(5)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**4,202**	**5,176**
IRAP (current and deferred)	1,455	1,733
Substitute tax, under Decree Law 98/2011	1,015	-
Accounting of deferred tax assets, under Decree Law 98/2011	(1,993)	-
Total	**4,679**	**6,909**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. For the purposes of reconciliation, IRAP is not considered because its taxable base is different to that of pre-tax profit and inclusion of the tax would generate distortionary effects.

No significant tax disputes were pending at 31 December 2011.

32 - Earnings per share

Basic and diluted EPS are calculated based on the following data:

Profit	**2011**	**2010**
	Euro '000	*Euro '000*
Net profit for period	10,775	16,867

Number of shares	**2011**	**2010**
Weighted average number of ordinary shares for calculating basic EPS	11,500,947	11,500,947
Dilution effect arising from potential ordinary shares	---	---
Weighted average number of ordinary shares for calculating diluted EPS	11,500,947	11,500,947

Earnings per share (euro)	**2011**	**2010**
Basic earnings per share	0.937	1.467
Diluted earnings per share	0.937	1.467

Basic earnings per share is calculated on the average number of outstanding shares minus own shares, equal to 32,503 in both in 2011 and 2010.
Diluted earnings per share is calculated taking into account any shares approved but not yet subscribed, of which there were none in 2011 and 2010.

33 - Dividends

On 26 May 2011, shareholders were paid a dividend of €0.80 per share (total dividends of €9,201,000), €0.30 per share more than paid in 2010.
Directors have recommended payment of a dividend of euro 0.60 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting of Sabaf S.p.A. and was not included under liabilities. The dividend proposed is payable to all holders of shares at 21 may 2012 and is scheduled for payment as from 24 May 2012.

34. - Information by business segment

Below is the information by business segment for 2011 and 2010.

	FY 2011			FY 2010		
	Gas components	Hinges	Total	Gas components	Hinges	Total
Sales	139,801	8,782	**148,583**	140,129	10,768	**150,897**
Operating income (loss)	16,192	374	**16,566**	24,357	1,436	**25,793**

35 - Information on financial risk

Categories of financial instruments

In accordance with IFRS 7, below is breakdown of the financial instruments, among the categories set forth by IAS 39.

	31.12.2011	31.12.2010
Financial assets		
Amortised cost		
Cash and cash equivalents	14,208	9,769
Commercial receivables and other receivables	43,369	44,531
Other financial assets	-	-
Financial liabilities		
Comprehensive income statement fair value		
Derivative cash flow hedges	33	55
Amortised cost		
Loans	28,971	22,259
Trade payables	27,808	24,185

The Group is exposed to financial risks related to its operations, and mainly:
- to the risk of credit, with particular reference to the normal commercial relationships with customers;
- market risk, in relation to the volatility of the prices of commodities, exchange rates and rates;
- liquidity risk, which can be expressed with the inability to find financial resources necessary to ensure Group operations.

It is part of the Sabaf Group's policies to hedge exposure to changes in prices and in fluctuations in exchange and interest rates via derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Group does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management

The Group has trade receivables with domestic appliance manufacturers, multinational groups and smaller manufacturers present on a few or individual markets. It assesses the creditworthiness of all its customers at the start of the supply and systemically on at least an annual basis. After this assessment, each client is assigned a credit limit.
A significant amount of risk (approximately 30% of the maximum theoretical exposure) is transferred by assignment through no-recourse factoring transactions to primary financial institutions.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit, confirmed by key banks.

Forex risk management

The key currencies other than the euro which the Group is exposed to are the US dollar and the Brazilian real, in relation to sales made in dollars (chiefly on some Asian and American markets) and the production unit in Brazil. Sales in US dollars represented approximately 10% of total revenue in 2011, while purchases in dollars represented about 2% of total revenue. Transactions in dollars were not hedged by derivative financial instruments.

Sensitivity analysis

With reference to financial assets and liabilities in US dollars at 31 December 2011, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of approximately €510,000.

Interest rate risk management

The Group borrows money at a floating rate; to reach an optimal mix of floating and fixed rates in the structure of the loans, the Group uses derivative financial instruments designating them to cash flow hedges. In 2009, the Group entered into two IRS agreements to convert from 2010 two loans of equal amount from a floating to fixed interest rate, both falling due by the end of 2014. The chart below shows the salient characteristics of the IRS in effect at 31 December 2011 and 31 December 2010:

At 31 December 2011	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.12%	4,491	(10)
from 1 to 2 years	2.14%	1,890	(22)
from 2 to 3 years	2.20%	321	(1)
from 3 to 5 years	-	-	-
more than 5 years	-	-	-
Total			**(33)**

At 31 December 2010	average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.11%	7,250	(46)
from 1 to 2 years	2.12%	4,491	(21)
from 2 to 3 years	2.14%	1,696	8
from 3 to 5 years	2.20%	1,732	1
more than 5 years	-	-	-
Total			**(58)**

Sensitivity analysis

With reference to financial assets and liabilities at floating rate at 31 December 2011 and 31 December 2010, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2011		31.12.2010	
	Financial charges	**Cash flow hedge reserves**	**Financial charges**	**Cash flow hedge reserves**
Increase of 100 base points	26	101	133	122
Decrease of 100 base points	(222)	(67)	(87)	(119)

Commodity price risk management

A significant portion of the Group's acquisitions are represented by brass, steel and aluminium alloys. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments. In 2011 and 2010, the Group did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, establishing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Group operates with a low debt ratio (net debt / shareholders' equity at 31 December 2011 equal to 0.10) and has unused short-term lines of credit of approximately €45 million. To minimise the risk of liquidity, the Administration and Finance Department:

- regularly assesses expected financial needs in order to make the best decisions;
- maintains correct balance of net financial debt, financing investments with capital and with medium- to long-term debt.

Below is an analysis by expiration date of the financial payables at 31 December 2011 and 31 December 2010:

A 31 December 2011	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term bank loans	8,546	8,546	8,546	-	-	-
Medium-term bank loans	4,000	4,122	1,011	1,574	1,537	-
Unsecured loans	7,711	7,957	1,004	3,010	3,943	-
Property mortgages	4,538	4,876	-	975	3,901	-
Finance leases	4,176	4,738	347	1,040	1,344	2,007
Total financial payables	**28,971**	**30,239**	**10,908**	**6,599**	**10,725**	**2,007**
Trade payables	27,808	27,808	24,663	3,145	-	-
Total	**56,779**	**58,047**	**35,571**	**9,744**	**10,725**	**2,007**

At 31 December 2010	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	11,451	11,888	993	2,984	7,911	-
Property mortgages	5,382	5,774	-	962	3,849	962
Finance leases	5,425	6,126	347	1,041	2,543	2,196
Total financial payables	**22,258**	**23,788**	**1,340**	**4,987**	**14,303**	**3,158**
Trade payables	24,185	24,185	23,675	510	-	-
Total	**46,443**	**47,973**	**25,015**	**5,497**	**14,303**	**3,158**

The various due dates are based on the period between the balance sheet date and the contractual expiration date of the commitments, the values indicated in the chart correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at 31 December 2010 and increased by the spread set forth in each contract.

Hierarchical levels of the fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at the fair value be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 includes the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 - input other than prices listed under the previous point, which can be observed (prices) or indirectly (derivatives from prices) on the market;
- Level 3 – input that are based on observable market data.

The following table shows the assets and liabilities that are valued at the fair value at 31 December 2011, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (derivatives on currency)	-	33	-	33
Total liabilities	**0**	**33**	**0**	**33**

36 - Related-party transactions

Transactions between consolidated companies were eliminated from the consolidated financial statements and are not reported in these notes. The table below illustrates the impact of all transactions between the Group and other related parties on the balance sheet and income statement.

Impact of related-party transactions on balance sheet accounts

	Total 2011	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	42,774	-	89	-	89	0.21%
Tax receivables	2,512	761	-	-	761	30.29%
Trade payables	27,808	-	128	8	136	0.49%

	Total 2010	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	43,755	-	133	-	133	0.30%
Trade payables	(24,185)	-	(127)	(4)	(131)	0.54%
Tax payables	(3,485)	(2,241)	-	-	(2,241)	64.30%

Impact of related-party transactions on income statement accounts

	Total 2011	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	5,032	80	-	-	80	1.59%
Materials	(59,103)	-	-	(27)	(27)	0.05%
Services	(34,168)	-	(153)	-	(153)	0.45%
Profits and losses from equity investments	(356)	-	(356)	-	(356)	100%

	Total 2010	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Revenue	150,897	-	176	-	176	0.12%
Other income	4,773	60	-	-	60	1.26%
Materials	(57,919)	-	-	(17)	(17)	0.03%
Services	(32,280)	-	(165)	-	(165)	0.51%
Profits and losses from equity investments	(759)	-	(759)	-	(759)	100%

Transactions with the ultimate parent company, Giuseppe Saleri S.a.p.A., comprise:

- administration services provided by Sabaf S.p.A. to the parent company;
- transactions as part of the domestic tax consolidation scheme, which generated the payables and receivables shown in the tables.

Transactions are regulated by specific contracts regulated at arm's length conditions.

Transactions with non-consolidated subsidiaries were solely of a commercial nature. Losses from equity investments in 2011 related to the valuation of Sabaf Appliance Components (Kunshan) at equity, as described in more detail in Note 4.

Transactions with other related parties refer to the purchase of components from Eng.In Group S.r.l., a company of which Mr. Flavio Pasotti, a director of Sabaf S.p.A., is chairman.

Remuneration to directors, statutory auditors and executives with strategic responsibilities
Please see the 2011 Report on Remuneration for this information.

37 - Share-based payments

At 31 December 2011, there were no equity-based incentive plans for the Group's directors and employees.

38 - Significant non-recurring events and transactions

Pursuant to the Consob Communication dated 28 July 2006, below is a breakdown of the significant, non-recurring events, whose consequences are reflected in the income statement, balance sheet, and cash flow of the Group:

	Shareholders' equity		Net profit for period		Net financial debt	Cash flow
Financial statement items (A)	**121,823**		**10,775**		**14,796**	**4,439**
Electricity equalisation payment (Note 25)	1,607	1.3%	1,607	14.9%	-	-
Tax effect	(505)	-0.4%	(505)	-4.7%	-	-
Exchange rate gain on reduction of Sabaf do Brasil share capital (Note 30)	(38)	0.0%	(396)	-3.7%	-	-
Tax effect	109	0.1%	109	1.0%	-	-
Release of shareholding in Faringosi Hinges (Note 31)	(977)	-0.8%	(977)	-9.0%	(1,015)	1,015
Total non-recurring transactions (B)	**196**	**0.2%**	**(162)**	**-1.5%**	**(1,015)**	**1,015**
Figurative financial statement value (A+B)	**123,148**		**10,613**		**13,781**	**5,454**

As well as the effect of the non-recurring events mentioned above, the 2011 result incorporates €1,129,000 for the write-down of the shareholding in Faringosi Hinges S.r.l., part of the normal process of valuation of the assets booked in the accounts and analytically described in Note 3.

39 - Atypical and/or unusual transactions

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2011.

40 - Commitments

Guarantees issued

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by banks to Group employees for a total of €7,098,000 (€6,852,000 at 31 December 2010).

41 - Consolidation area and significant equity investments

Companies consolidated on a 100% line-by-line basis

Company name	Registered office	Share capital	Shareholders	% Ownership
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 27,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRK 7,500,000	Sabaf S.p.A.	100%

Non-consolidated companies valued at equity

Company name	Registered office	Share capital	Shareholders	% Ownership
Sabaf Appliance Components Ltd.	Kunshan (China)	EUR 1,200,000	Sabaf S.p.A.	100%

Non-consolidated companies valued at cost

Company name	Registered office	Share capital	Shareholders	% Ownership
Sabaf Mexico S.A. de c.v.	San Luis Potosì (Mexico)	MXN 8,247,580	Sabaf S.p.A.	100%
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%

Other significant equity investments: none

42. General information on the parent company

Registered and administrative office:
Via dei Carpini, 1 - 25035 Ospitaletto (Brescia)

Contacts:
Tel: +39 030 - 6843001 - Fax: +39 030 - 6848249
E-mail: info@sabaf.it - Website: http://www.sabaf.it

Tax information:
R.E.A. Brescia 347512 - Tax code 03244470179

VAT Reg. No. 01786910982

Appendix
Information as required by Article 149/12 of the Issuers' Regulation

The following table, prepared pursuant to Article 149/12 of the CONSOB Issuers' Regulation, shows fees relating to 2011 for the independent auditor and for services other than auditing provided by the same auditing firm and its network.

(Amounts in euro' 000)	**Party that provides the service**	**Recipient**	**Considerations for the year 2011**
Audit	Deloitte & Touche S.p.A.	Direct parent company	50
	Deloitte & Touche S.p.A.	Italian subsidiaries	19
	Deloitte network	Sabaf do Brasil	33
Certification services	Deloitte & Touche S.p.A.	Direct parent company	4 (1)
	Deloitte & Touche S.p.A.	Italian subsidiaries	2 (1)
Other services	Deloitte & Touche S.p.A.	Direct parent company	12 (2)
	Deloitte network	Sabaf do Brasil	8 (3)
Total			**128**

(1) signing of Unico, IRAP and 770 forms and stamp of approval of VAT declaration
(2) audit procedures relating to the Interim Report on Operations
(3) Tax assistance regarding transfer pricing

SABAF TECHNOLOGY AND SAFETY

http://www.sabaf.it - sabaf@sabaf.it

Certification of the Consolidated Annual Report and Accounts, in accordance with Article 154 bis of Legislative Decree 58/98

Angelo Bettinzoli, the Chief Executive Officer, and Alberto Bartoli, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Legislative Decree 58 of 24 February 1998 and can certify

- the appropriateness in relation to the characteristics of the company and
- the actual application

of the administrative and accounting principles for drafting the consolidated annual report and accounts in 2011.

They also certify that:

- the Consolidated Annual Report and Accounts :

- were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and Article 9 of Leg. Decree 38/2005;
- correspond to the results of the accounting entries and ledgers;
- are appropriate to provide a truthful and correct picture of the income statement, balance sheet, and cash flow of the issuer and the companies included in the consolidation;

- the interim report includes a credible analysis of the performance and results of operations, the situation at the issuer, and the companies included in the area of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 26 March 2012

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

SABAF S. p. A. • Via dei Carpini, 1 • 25035 Ospitaletto (Brescia) • Italia
Tel. + 39 030 6843001 • Fax + 39 030 6848249 • Capitale Sociale € 11.533.450 i. v.

Deloitte.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39

OF JANUARY 27, 2010

To the Shareholders of
SABAF S.p.A.

1. We have audited the consolidated financial statements of SABAF S.p.A. and subsidiaries (the "SABAF Group"), which comprise the consolidated statement of financial position as of December 31, 2011, and the consolidated income statement, consolidated comprehensive income statement, statement of changes in consolidated equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 6, 2011.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SABAF Group as of December 31, 2011, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure, published in the section "*Investor Relations*" of the internet website of SABAF S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the SABAF Group as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
April 10, 2012

This report has been translated into the English language solely for the convenience of international readers.

If all mankind were to disappear, the world would regenerate back to the rich state of equilibrium that existed ten thousand years ago. If insects were to vanish, the environment would collapse into chaos.

E.O. Wilson

STATUTORY ANNUAL REPORT &

ACCOUNTS AT 31 DECEMBER 2011

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STATEMENT OF FINANCIAL POSITION

(in euro)	Notes	31.12.2011	31.12.2010
Assets			
Non-current assets			
Property, plant and equipment	1	38,060,804	39,876,790
Investment property	2	2,612,083	2,808,192
Intangible assets	3	3,897,787	4,141,235
Equity investments	4	35,027,421	35,998,577
Non-current receivables		6,800	9,708
Deferred tax assets (prepaid taxes)	20	3,151,331	1,386,306
Total non-current assets		**82,756,226**	**84,220,808**
Current assets			
Inventories	5	24,433,461	23,425,726
Trade receivables	6	39,561,007	40,173,836
Tax receivables	7	1,492,609	338,824
- of which from related parties	*36*	*730,693*	*0*
Other current receivables	8	389,795	876,742
Current financial assets	9	1,545,714	0
- of which from related parties	*36*	*1,545,714*	*0*
Cash and cash equivalents	10	9,180,481	5,026,100
Total current assets		**76,603,067**	**69,841,228**
Total assets		**159,359,293**	**154,062,036**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	11	11,533,450	11,533,450
Retained earnings, other reserves		85,807,315	81,740,276
Net profit for period		11,122,020	13,245,691
Total shareholders' equity		**108,462,785**	**106,519,417**
Non-current liabilities			
Loans	13	3,873,406	7,706,678
Post-employment benefit reserve (TFR) and retirement reserves	15	2,199,065	2,309,707
Provisions for risks and contingencies	16	466,987	520,087
Deferred tax	20	46,242	267
Total non-current liabilities		**6,585,700**	**10,536,739**
Current liabilities			
Loans	13	12,383,057	6,444,427
- of which from related parties	*36*	*0*	*2,700,000*
Other financial liabilities	14	32,727	55,410
Trade payables	17	24,928,499	21,029,676
Tax payables	18	687,612	3,149,800
- of which from related parties	*36*	*0*	*2,052,024*
Other liabilities	19	6,278,913	6,326,567
Total current liabilities		**44,310,808**	**37,005,880**
Total liabilities & shareholders' equity		**159,359,293**	**154,062,036**

INCOME STATEMENT

(in euro)	Notes	2011	2010
Continuing operations			
Operating revenue and income			
Revenue	22	132,513,660	132,176,431
Other income	23	4,417,258	3,845,485
Total operating revenue and income		**136,930,918**	**136,021,916**
Operating costs			
Materials	24	(52,278,310)	(49,907,820)
Change in inventories		1,007,735	4,075,861
Services	25	(33,778,172)	(31,618,058)
- from related parties	36		*(3,606,424)*
Payroll costs	26	(27,359,436)	(27,566,627)
Other operating costs	27	(934,290)	(1,175,478)
Costs for capitalised in-house work		975,919	909,116
Total operating cost		**(112,366,554)**	**(105,283,006)**
Operating profit before depreciation and amortisation, capital gains/losses, write-downs/write-backs of non-current assets		**24,564,364**	**30,738,910**
Depreciation and amortisation	1,2,3	(10,220,658)	(10,157,691)
Capital gains/(losses) on disposal of non-current assets		37,798	(11,326)
Write-downs/write-backs of non-current assets	28	(1,483,735)	93,739
Operating profit		**12,897,769**	**20,663,632**
Financial income		57,101	14,589
Financial expenses	29	(920,446)	(978,660)
Foreign exchange gains/losses	30	616,364	93,491
Profits and losses from equity investments	31	2,717,531	207
- from related parties	36	*2,717,531*	*0*
Pre-tax profit		**15,368,319**	**19,793,259**
Income tax	32	(4,246,299)	(6,547,568)
Net profit for the year		**11,122,020**	**13,245,691**

COMPREHENSIVE INCOME STATEMENT

(in euro)	2011	2010
Profit for the year	**11,122,020**	**13,245,691**
Others profit/losses		
Cash hedge flows	22,105	(28,335)
TOTAL PROFITS	**11,144,125**	**13,217,356**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in euro' 000)	Share capital	Share premium reserve	Legal reserve	Own shares	Reserve cash hedge flows	Other reserves	Profit of the year	Total Shareholders' equity
Balance at 31.12.09	**11,533**	**10,002**	**2,307**	**(328)**	**(1)**	**67,167**	**8,373**	**99,053**
Allocation of 2009 earnings								
- dividends paid							(5,751)	(5,751)
- to reserves						2,622	(2,622)	0
Total profit at 31.12.10					(29)		13,246	13,217
Balance at 31.12.10	**11,533**	**10,002**	**2,307**	**(328)**	**(30)**	**69,789**	**13,246**	**106,519**
Allocation of 2010 earnings								
- dividends paid							(9,201)	(9,201)
- to reserves						4,045	(4,045)	0
Total profit at 31.12.11					23	0	11,122	11,145
Balance at 31.12.11	**11,533**	**10,002**	**2,307**	**(328)**	**(7)**	**73,834**	**11,122**	**108,463**

CASH FLOW STATEMENT

(Amounts in euro' 000)	FY 2011	FY 2010
Cash and cash equivalents at beginning of year	**5,026**	**5,550**
Net profit for period	11,122	13,246
Adjustments for:		
- Depreciation and amortisation	10,221	10,158
- Realised gains/losses	(38)	11
- Write-downs (write-backs) of non-current assets	1,484	(94)
- Net financial income and expenses	863	964
- Income tax	4,246	6,548
Change in staff severance fund	(206)	(289)
Change in general provisions	(53)	(40)
Change in trade receivables	613	(2,672)
Change in inventories	(1,008)	(4,076)
Change in trade payables	3,899	(1,453)
Change in net working capital	**3,504**	**(8,201)**
Change in other receivables and payables, deferred tax liabilities	361	1,225
Payment of taxes	(9,501)	(3,695)
Payment of financial expenses	(825)	(979)
Collection of financial income	57	15
Cash flow from operations	**21,235**	**18,869**
Investments in non-current assets		
- Intangible	(797)	(912)
- tangible	(7,263)	(9,652)
- financial	(2,219)	(501)
Disposal of non-current assets	1,839	80
Net investments	***(8,440)***	***(10,985)***
Repayment of loans	(6,440)	(3,658)
New loans	8,545	1,000
New financial assets	(1,545)	0
Payment of dividends	(9,201)	(5,750)
Cash flow from operations	**(8,641)**	**(8,408)**
Total financial flows	**4,154**	**(524)**
Cash and cash equivalents at end of year	**9,180**	**5,026**
Current net financial debt	12,416	6,499
Non-current financial debt	3,873	7,707
Net financial debt	**7,109**	**9,180**

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

Sabaf S.p.A. individual year-end accounts for the financial year 2011 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).

The statutory financial statements are drawn up in euro, which is the currency in the economy in which the Company operates. The income statement and the statement of financial position schedules are prepared in euro, while the comprehensive income statement, the cash flow, and the changes in shareholders' equity schedules and the values reported in the explanatory notes are in thousands of euro.

The financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and is considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) on the continuity of the Company, including due to the strong competitive position, high profitability and solidity of the financial structure.

Sabaf S.p.A., as the Parent Company, also prepared the consolidated financial state-ments of the Sabaf Group at 31 December 2011.

Financial statements

The Company has adopted the following formats and policies for financial statements:

- current and non-current assets and current and non-current liabilities are stated separately in the statement of financial position;
- an income statement that expresses costs using a classification based on the nature of each item;
- a cash flow statement that presents financial flows originating from operating activity, using the indirect method.

Use of these formats permits the most meaningful representation of the Company's capital, business, and financial status.

Accounting policies

The accounting standards and policies applied for preparation of the financial statements as at 31 December 2011 are described below.

Property, plant and equipment

These assets are reported at purchase or construction cost. The cost includes directly attributable accessory costs. These costs also include revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.

Depreciation is calculated according to rates deemed appropriate to spread the carrying value of tangible assets over their useful working life. Estimated useful working life, in years, is as follows:

Buildings	33
Light constructions	10
General plant	10
Plant and machinery	6 - 10
Equipment	4
Furniture	8
Electronic equipment	5
Vehicles and other transport means	5

Ordinary maintenance costs are expensed in the year they are incurred; costs that increase the asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.

Land is not depreciated.

Leased assets

Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the financial statements applying the same policy followed for Company-owned property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short- and medium-/long-term payables. In addition, finance charges pertaining to the period are charged to the income statement.

Investment property

Investment property is valued at cost, including revaluations undertaken in the past based on monetary revaluation rules or pursuant to company mergers.

The depreciation is calculated based on the estimated useful life, considered to be 33 years.

If the recoverable amount of investment property – determined based on the market value of the real estate – is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.

When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Intangible assets

Intangible assets acquired or internally produced are recognised as assets, as established by IAS 38, when it is probable that use of the asset will generate future economic benefits and when asset cost can be measured reliably.

Such assets are measured at purchase or production cost and - if the assets concerned have a finite useful life - are amortised on a straight-line basis over their estimated useful life.

The useful life of projects for which development costs are capitalised is estimated to be 10 years.

The SAP management system is amortised over five years.

Equity investments and non-current receivables

Equity investments not classified as held for sale are booked at cost, reduced for impairment.
Non-current receivables are stated at their presumed realisable value.

Impairment of value

At each balance-sheet date, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to see whether there are signs of impairment of the value of these assets. If such signs exist, the recoverable value is estimated in order to determine the write-down amount. If it is not possible to estimate recoverable value individually, the Company estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs. In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity which the capitalised assets refer to) is verified by determining the value of use. The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The assumptions used for calculating the value of use concerns the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for calculation, during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sale prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the subsidiaries, draws up four-year forecasts and determines the so-called "terminal" value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
Furthermore, the Company checks the recoverable value of its subsidiaries at least once a year when the annual accounts are prepared.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying val-ue of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Inventories

Inventories are measured at the lower of purchase or production cost – determined using the weighted average cost method – and the corresponding fair value represented by the replacement cost for purchased materials and of the presumed realisable value for finished and semi-processed products – calculated taking into account any conversion costs and direct selling costs yet to be incurred. Inventory cost includes accessory costs and the portion of direct and indirect manufacturing costs that can reasonably be assigned to inventory items. Obsolete or slow-moving stocks are written down according to their possibility of use or realisation or recovery. Inventory write-downs are eliminated in subsequent years if the reasons for such write-downs cease to exist.

Receivables

Receivables are recognised at their presumed realisable value. Their face value is adjusted to a lower realisable value via specific provisioning directly reducing the item based on in-depth analysis of individual positions. Trade receivables assigned on a no-recourse basis, even though they have been transferred in legal terms, continue to be recognised among "Trade receivables" until the time of related cash-in, which is never in advance of the due date with respect to the expiration date. Trade receivables overdue or assigned on a no-recourse basis are recognised with "other current receivables".

Current financial assets

Financial assets held for trading are measured at the fair value, allocating profit and loss effects to finance income or expense.

Reserves for risks and contingencies

Reserves for risks and contingencies are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the year. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the impact is major, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect fair market valuations of the present cost of money and specific risks associated with the liability.

Reserve for post-employment benefit obligations

The reserve is provisioned to cover the entire liability accruing vis-à-vis employees in compliance with current legislation and with national and supplementary company collective labour contracts. This liability is subject to revaluation via application of indices fixed by current regulations. Until 31 December 2006, post-employment benefits were considered to be a defined-benefit plan and accounted for in compliance with IAS 19, using the projected unit-credit method. The regulation of this fund was changed by Law 296 of 27 December 2006 as amended by subsequent decrees and laws passed in early 2007. In light of these changes, and, in particular, for companies with at least 50 employees, post-employment benefits must now be considered a defined-benefit plan only for the portions accruing before 1 January 2007 (and not yet paid as at balance-sheet). Conversely, portions accruing after that date are treated as defined-contribution plans. Actuarial gains and losses are posted in the income statement.

Payables

Payables are recognised at the face value. The portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

Loans

Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest-rate method.
Loans are classified among current liabilities unless the company

has the unconditional right to defer discharge of a liability by at least 12 months after the date of reference.

Policy for conversion of foreign-currency items

Receivables and payables originally expressed in foreign currencies are converted into euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at year-end and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

Derivative instruments and hedge accounting

The Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices, and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.
The Company does not use derivatives for trading purposes. Derivatives are initially recognised at cost and are then adjusted to the fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for hedg-ing future cash flows relating to the Company's contractual commitments and planned transactions are recognised directly in shareholders' equity, while the ineffective portion is immediately posted in the income statement.
If the contractual commitments or planned transactions materialise in the recognition of assets or liabilities, when such assets or liabilities are recognised, the gains or losses on the derivative that were directly recognised in equity are factored back into the initial valuation of the cost of acquisition or carrying value of the asset or liability. For cash flow hedges that do not lead to recognition of assets or liabilities, the amounts that were directly recognised in equity are included in the income statement in the same period when the contractual commitment or planned transaction hedged impacts profit and loss – for example, when a planned sale actually takes place.
For effective hedges of exposure to changes in fair value, the item hedged is adjusted for the changes in the fair value attributable to the risk hedged and recognised in the income statement. Gains and losses stemming from the derivative's valuation are also posted in the income statement.
Changes in the fair value of derivatives not designated as hedging instruments are rec-ognised in the income statement in the period when they occur.
Hedge accounting is discontinued when the hedging instrument expires, is sold or is exercised, or when it no longer qualifies as a hedge. At this time, the cumulative gains or losses of the hedging instrument recognised in equity are kept in the latter until the planned transaction actually takes place. If the transaction hedged is not expected to take place, cumulative gains or losses recognised directly in equity are transferred to the year's income statement.
Embedded derivatives included in other financial instruments or contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of their host contracts and the latter are not measured at fair value with posting of related gains and losses in the income statement.

Revenue recognition

Revenue is reported net of return sales, discounts, allowances and bonuses, as well as of the taxes directly associated with sale of goods and rendering of services.
Sales revenue is reported when the company has transferred the significant risks and rewards associated with ownership of the goods and the amount of revenue can be reliably measured.
Revenue of a financial nature is reported on an accrual-accounting basis.

Financial income

Finance income includes interest receivable on funds invested and income from financial instruments, when not offset as part of hedging transactions. Interest income is recognised in the income statement when it accrues, considering effective yield.

Financial expenses

Financial expense includes interest payable on financial debt calculated using the effective interest method and bank expenses.

Income taxes for the year

Income taxes include all taxes calculated on the Company's taxable income. Income taxes are directly recognised in the income statement, with the exception of those concerning items directly debited or credited to shareholders' equity, in which case the tax effect is recognised directly in shareholders' equity. Other taxes not relating to income, such as property taxes, are included among operating expenses. Deferred taxes are provisioned according to the global liability provisioning method. They are calculated on all temporary differences emerging between the taxable base of an asset and liability and the carrying value. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable in the years when temporary differences will be realised or settled.

Dividends

Dividends are posted on an accrual basis when the right to receive them materialises, i.e. when shareholders approve dividend distribution.

Own shares

Own shares are booked in a specific reserve as a reduction of shareholders' equity. The carrying value of own shares and revenues from any subsequent sales are recognised in the form of changes in shareholders' equity.

Use of estimates

Preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities as of the balance sheet date. Actual results could differ from these estimates. Estimates are used to measure tangible and intangible assets subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, credit risks, inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, other provisions and reserves, and balancing payments for electricity charges. Specifically:

Recoverable value of tangible and intangible assets
The procedure for determining impairment of value in tangible and intangible assets described under "Impairment of value" implies – in estimating the value of use – the use of the Business Plan of subsidiaries, which are based on a series of assumptions and hypotheses relating to future events and actions of the subsidiaries' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.

Provisions for credit risks
Credit is adjusted by the related provision for doubtful accounts to take into account its recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical trends.

Provisions for inventory obsolescence
Warehouse inventories subject to obsolescence and slow turnover are periodically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from their experience and historical results.

Employee benefits
The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, the rates of future salary increases, mortality and resignation rates. Any change in the abovementioned assumptions could have an effect on liabilities for pension benefits.

Income tax
Determining liabilities for company taxes requires the use of management valuations in relation to transactions whose tax implications are not certain on the balance sheet date. Furthermore, the valuation of deferred taxes is based on income expectations for future years; the valuation of expected income depends on factors that could change over time and have a significant effect on the valuation of deferred tax assets.

Other provisions and reserves
In estimating the risk of potential liabilities from disputes, management relies on communications regarding the status of recovery procedures and disputes from the lawyers who represent the Company in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.

Balancing payment for electricity charges
Determining the equalisation payments for electricity used for production at Sabaf S.p.A.'s Ospitaletto facility was based on estimates – based on the Company's metering equipment – up until the end of 2010; electricity consumption was therefore valued based on the Company's best available knowledge pending a check of the reasonableness of the estimates to be conducted on the occasion of the first inspection following the dispute with ENEL and the energy supplier. In this context, following the check carried out in March 2011 by ENEL engineers on the electricity metering equipment, an equalisation payment was defined by the energy supplier for consumption prior to 31 December 2010, which led to the recognition in 2011 of an additional charge of approximately €1.6 million relating to previous years, an amount that could not be predicted in those years (Note 25). The Company and the electricity supplier however agreed on the current procedure to record consumption in light of the results of the inspection conducted, and consequently, the charge for electricity reflected in the income statement from the date of the inspection is no longer subject to estimates and uncertainty.

Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

New accounting standards

There were no significant changes over the year to the accounting standards applied in these consolidated financial statements.

Accounting standards, amendments and interpretations effective from 1 January 2011 and not relevant for the Company

The following amendments, improvements and interpretations, effective from 1 January 2011, govern matters and cases that are not present within the Company as of the date of these annual financial statements, but which could have accounting effects on future transactions or agreements:

- *Amendment to IAS 32 – Financial instruments: Presentation: Classification of rights issues;*
- *Amendment to IFRIC 14 – Pre-payments of a minimum funding agreement;*
- *IFRIC 19 – Extinguishing financial liabilities with equity instruments;*
- *Improvements to IAS/IFRS (2010).*

Accounting standards not yet applicable and not adopted in advance by the Company

On 12 November 2009, the IASB published the standard IFRS 9 – *Financial instruments*, which was then amended on 28 October 2010. The standard, applicable retrospectively from 1 January 2015, represents the first step in a process intended to completely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. Specifically, for financial assets, the new standard uses a single approach based on the procedures for management of financial instruments and the characteristics of contractual cash flows of the financial assets to determine the measurement method, replacing the different rules established by IAS 39. For financial liabilities, the main change concerns the accounting treatment of fair value changes of a financial liability designated as at fair value through the income statement, in the case that these are due to the change in the creditworthiness of the liability itself. According to the new standard, these changes must be booked under Other Comprehensive Income, and will no longer be transferred to the income statement.

On 12 May 2011, the IASB issued the standard IFRS 10 – *Consolidated Financial Statements*, which will replace SIC-12 *Consolidation – Special-purpose entities* and parts of IAS 27

– *Consolidated and separate financial statements*, which will be renamed Separate financial statements, and will regulate the accounting treatment of equity investments in the separate financial statements. The new standard is a move from existing standards, identifying the concept of control, according to a new definition thereof, as the determining factor in the consolidation of a company in the consolidated financial statements of the parent company. It also provides a guide to determining the existence of control where it is difficult to ascertain (*de facto* control, potential votes, special purpose entities, etc). The standard is to be applied retrospectively from 1 January 2013.

On 12 May, the IASB issued standard IFRS 11 - *Joint arrangements*, which will replace IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Joint-controlled entities – Non-monetary contributions by Venturers*. The new standard provides the criteria for identifying joint arrangements based on rights and obligations resulting from agreements rather than their legal form, and establishes the equity method as the only method of accounting for interests in joint ventures in consolidated financial statements. The standard is to be applied retrospectively from 1 January 2013. Following the issuing of the standard, IAS 28 - *Investments in Associates* has been amended to include interests in joint ventures in its scope from the date the standard becomes effective.

On 12 May 2011, the IASB issued standard IFRS 12 - *Disclosure of interests in other entities*, a new and complete standard on the additional information to be provided for every type of interest, including those in subsidiaries, joint arrangements, affiliates, special purpose vehicles and other non-consolidated entities. The standard is to be applied retrospectively from 1 January 2013.

On 12 May 2011, the IASB issued the standard IFRS 13 - *Fair value measurement*, which clarifies how fair value must be measured for the purpose of financial statements. It applies to all IFRS standards that require or allow for the measurement of fair value or the presentation of information based on fair value. The standard is to be applied on a prospective basis from 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 - *Presentation of financial statements* to require companies to group all the components presented under "Other comprehensive income" according to whether or not they can subsequently be reclassified to the profit and loss section of the income statement. The amendment is applicable from the years beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amendment to IAS 19 - *Employee Benefits*, which eliminates the option to defer the recognition of actuarial gains and losses with the corridor method, requiring the presentation in the statement of financial position and income statement of the deficit or surplus of the fund as a whole, and the separate recognition on the income statement of cost components arising from employees providing service and net financial charges, and the recognition of actuarial gains and losses resulting from the remeasurement of assets and liabilities under "Other comprehensive income". Furthermore, the interest on assets included under net financial charges must be calculated on the basis of the discount rate of liabilities and no longer on the expected return on the assets. Finally, the amendment introduced new information to be provided in the Explanatory Notes to the Financial Statements. The amendment is applicable retrospectively from years beginning on or after 1 January 2013.

On 16 December 2011, the IASB published an amendment to IAS 32 - *Financial Instruments: Presentation* and IFRS 7 - *Financial Instruments: Disclosures* with reference to the rules on offsetting of financial assets and liabilities. The IASB clarified that offsetting rights must be available on the balance-sheet date, rather than being contingent on a future event, and must be enforceable by any counterparty both in the normal course of business or in the event of insolvency/bankruptcy (according to the specific legislation that governs the contract between the parties and the bankruptcy rights of this legislation). The amendments to IFRS 7 concerned the disclosure of financial instruments (derivatives) subject to enforceable master netting agreements and similar contracts, if not offset according to the criteria of IAS 32. The disclosure amendments relating to the offsetting of financial instruments are to be applied for years beginning on or after 1 January 2013 (with retrospective application for comparative information).

As of the date of annual financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of the standards described above.

COMMENT ON THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

1- Property, plant and equipment

	Property	Plant and equipment	Other assets	Assets under construction	Total
Cost					
At 31.12.09	**5,699**	**127,590**	**20,481**	**2,627**	**156,397**
Increases	162	4,783	2,402	2,306	9,653
Disposals	-	(67)	(256)	(5)	(328)
Reclassification	-	1,531	324	(1,855)	-
At 31.12.10	**5,861**	**133,837**	**22,951**	**3,073**	**165,722**
Increases	70	4,630	1,730	833	7,263
Disposals	-	(377)	(191)	-	(568)
Reclassification	-	1,673	53	(1,726)	-
At 31.12.11	**5,931**	**139,763**	**24,543**	**2,180**	**172,417**
Depreciation and amortisation accumulated					
At 31.12.09	**1,697**	**97,935**	**17,480**	**-**	**117,112**
Depreciation of the year	163	7,335	1,539	-	9,037
Eliminations for disposals	-	(54)	(250)	-	(304)
At 31.12.10	**1,860**	**105,216**	**18,769**	**-**	**125,845**
Depreciation of the year	169	7,048	1,773	-	8,990
Eliminations for disposals	-	(344)	(135)	-	(479)
At 31.12.11	**2,029**	**111,920**	**20,407**	**-**	**134,356**
Carrying value					
At 31.12.11	**3,902**	**27,843**	**4,136**	**2,180**	**38,061**
At 31.12.10	**4,001**	**28,621**	**4,182**	**3,073**	**39,877**

The breakdown of the net carrying value of Property was as follows:

	31.12.2011	31.12.2010	Change
Land	1,291	1,291	-
Industrial buildings	2,611	2,710	(99)
Total	**3,902**	**4,001**	**(99)**

The main investments in the year concerned the industrialisation of new products, including new models for light alloy valves for hobs and special burners. Furthermore, investments were made in maintenance and replacement to keep the property, plant and equipment constantly up to date.
At 31 December 2011, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.

2 - Investment property

Cost	
at 31.12.09	**6,675**
Increases	-
Disposals	-
at 31.12.10	**6,675**
Increases	-
Disposals	-
at 31.12.11	**6,675**

Accumulated depreciation	
at 31.12.09	**3,668**
Depreciation of the year	199
at 31.12.10	**3,867**
Depreciation of the year	196
at 31.12.11	**4,063**

Carrying value	
at 31.12.11	2,612
at 31.12.10	2,808

This entry includes non-instrumental property belonging to the Company. This item did not change during the year, except for depreciation charges pertaining to the period. At 31 December 2011, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of property, plant and equipment was not submitted to impairment testing.

3 - Intangible assets

	Patents, know-how and software	Development costs	Other intangible assets	Total
Cost				
at 31.12.09	**4,800**	**1,548**	**1,933**	**8,281**
Increases	76	524	311	911
Reclassifications	204	796	(1,000)	-
Decreases	-	(63)	(5)	(68)
at 31.12.10	**5,080**	**2,805**	**1,240**	**9,125**
Increases	83	648	68	799
Decreases	(3)	(5)	-	(8)
at 31.12.11	**5,160**	**3,448**	**1,308**	**9,916**
Amortisation				
at 31.12.09	**2,727**	**641**	**694**	**4,062**
2010 portion	657	196	69	922
Decreases	-	-	-	-
at 31.12.10	**3,384**	**837**	**763**	**4,984**
2011 portion	664	266	107	1,037
Decreases	(3)	-	-	(3)
at 31.12.11	**4,045**	**1,103**	**870**	**6,018**
Carrying value				
at 31.12.11	**1,115**	**2,345**	**438**	**3,898**
at 31.12.10	**1,696**	**1,968**	**477**	**4,141**

Intangible assets have a finite useful life and are consequently amortised based on this lifetime. The main investments in the year related to the development of new products, including various versions of high-efficiency dual burners (research and development activities conducted over the year are set out in the Report on Operations). At 31 December 2011, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of intangible assets was not submitted to impairment testing.

4 - Equity investements

	31.12.2011	31.12.2010	Change
In subsidiary companies	34,994	35,966	(972)
Other shareholdings	33	33	-
Total	**35,027**	**35,999**	**(972)**

Changes in equity investments in subsidiaries are shown in the following table:

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf Mexico	Sabaf U.S.	Sabaf Appliance Comp. China	Sabaf Turkey	Total
Historical cost								
At 31.12.09	**13,475**	**10,329**	**11,234**	**548**	**139**	**500**	**-**	**36,225**
Capital increases	-	-	-	-	-	500	-	500
At 31.12.10	**13,475**	**10,329**	**11,234**	**548**	**139**	**1,000**	**-**	**36,725**
Capital increases/reductions	-	-	(1,706)	-	-	200	2,018	512
At 31.12.11	**13,475**	**10,329**	**9,528**	**548**	**139**	**1,200**	**2,018**	**37,237**
Write-down reserve								
At 31.12.09	**-**	**-**	**853**	**-**	**-**	**-**	**-**	**853**
Write-downs /Write-backs	-	-	(853)	-	-	759	-	(94)
At 31.12.10	**-**	**-**	**-**	**-**	**-**	**759**	**-**	**759**
Write-downs /Write-backs	-	1,128	-	-	-	356	-	1,484
At 31.12.11	**-**	**1,128**	**-**	**-**	**-**	**1,115**	**-**	**2,243**
Carrying value								
At 31.12.11	**13,475**	**9,201**	**9,528**	**548**	**139**	**85**	**2,018**	**34,994**
At 31.12.10	**13,475**	**10,329**	**11,234**	**548**	**139**	**241**	**0**	**35,966**
Shareholders' equity (determined in accordance with IAS/IFRS)								
At 31.12.11	22,890	5,191	12,010	291	73	85	1,899	42,439
At 31.12.10	20,960	7,700	14,957	275	77	244	0	44,213
Difference between shareholders' equity and book value								
At 31.12.11	9,415	(4,010)	2,482	(257)	(66)	0	(119)	7,445
At 31.12.10	7,485	(2,629)	3,723	(273)	(62)	3	0	8,247

Faringosi Hinges s.r.l.

The operating environment for Faringosi Hinges, which produces hinges for household appliances, became more difficult in 2011, following a decline on the core market. To combat this situation, Faringosi Hinges acted promptly to improve its product range and adjust its production process.
At 31 December 2011, Sabaf S.p.A. tested the carrying value of its shareholding in Faringosi Hinges for impairment, determining its recoverable value, considered to be equal to its value in use, by discounting expected future cash flow. The 2012-2016 plan projects a gradual recovery in sales and profitability. However, given that there are various elements of uncertainty implicit in realising this plan, it was considered preferable to prepare a multi-scenario analysis, which contemplates the following three hypotheses:
- a "best estimate" scenario, that is the most probable scenario, which considers 100% of new production flows;
- a "steady state" scenario (or "worst case"), which completely excludes new production flows and hypotheses the continuation of the present state;
- an intermediate scenario, which incorporates the realisation risk and considers only 75% of flows related to new production. The impairment test was conducted on a prudential basis, considering this last scenario.

Cash flows for the period 2012-2016 were augmented by the so-called terminal value, which expresses the operating flows that the company is expected to generate from the sixth year to infinity. Value in use was calculated based on a discount rate (WACC) of 8.84% and a growth rate (g) of 1.50%.

The recoverable value determined based on the assumptions and assessment techniques mentioned above is €9.2 million. The equity investment was therefore written down by €1.1 million in the current financial statements (Note 28).

Sensitivity analysis
The table below shows the changes in recoverable value depending on changes in the WACC discount rate and growth factor g, also in the "best estimate" and "steady state" scenarios:

millions of euro	Scenario 1 - best estimate			Scenario 2 - steady state			Scenario 3 - intermediate		
Discount rate	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**
8.00%	12.4	12.4	12.9	5.3	5.4	5.6	10.1	10.4	10.8
8.50%	11.5	11.5	11.9	5.0	5.1	5.2	9.4	9.7	10.0
8.84%	10.9	10.9	11.2	4.8	4.9	5.0	9.0	**9.2**	9.5
9.00%	10.7	10.7	11.0	4.8	4.9	5.0	8.8	9.0	9.2
9.50%	10.0	10.0	10.2	4.5	4.6	4.7	8.2	8.4	8.6

The table shows that the recoverable value is highly sensitive to changes in the discount rate, the growth rate and the success of initiatives undertaken to improve the product range and adapt the production process, which is also conditioned by factors that cannot be controlled by the Company. The Board of Directors cannot therefore rule out that, in the future, the final profitability figure may diverge from that set out in forward data, requiring further write-downs of the equity investment. Given the uncertainty of any process estimating future events not dependent on variables that can be controlled, the directors will systematically monitor the actual balance sheet and income statement data of the subsidiary to assess the need to adjust forecasts and at the same time reflect any losses in value.

Sabaf do Brasil

In 2011, Sabaf do Brasil partially reapid Sabaf S.p.A. the capital paid in in previous years, since it was surplus to the subsidiary's operational requirements. The reduction in capital from BRL 31,835,400 to BRL 27,000,000 led to a positive exchange rate difference of €396,000, owing to the difference in the euro/real rate between the dates of the original contributions and the repayment date. This difference is booked in the income statement of these financial statements under foreign exchange gains (Note 30).

Sabaf Appliance Components

Sabaf Appliance Components (Kunshan) Co., Ltd., the Chinese company formed in 2009, has not yet launched purchase, production and sales operations. In 2011, the subsidiary's capital was increased by €200,000. The value of the investment was reduced by €356,000, in light of losses sustained by the subsidiary over the year and considered permanent, given the current uncertainty of the initiative launched in China.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)

Sabaf Turkey was formed by Sabaf S.p.A. at the beginning of 2011, with the objective of supplying the Turkish market, the second largest for the Company after Italy, directly. During the year, it acquired land in Manisa, and building work began on a new facility covering approximately 10,000 sqm for the production of burners, which is expected to begin by the end of 2012.

5 - Inventories

	31.12.2011	31.12.2010	Change
Raw materials	8,678	7,931	747
Semi-processed goods	10,479	10,456	23
Finished products	7,076	6,839	237
Obsolescence provision	(1,800)	(1,800)	-
Total	**24,433**	**23,426**	**1,007**

The value of inventory at 31 December 2011 is not significantly different from the value at year-end 2010. The obsolescence provision amounted to €0.4 million for raw materials, €0.6 million for semi-processed goods and €0.8 million for finished products remained unchanged, since the results of analyses conducted at the end of the year on the obsolescence risk for merchandise in stock were in line with those of 2010.

6 - Trade receivables

The geographical breakdown of trade receivables was as follows:

	31.12.2011	31.12.2010	Change
Italy	20,522	19,720	802
Western Europe	2,032	2,130	(98)
Eastern Europe and Turkey	8,807	9,587	(780)
Asia and Oceania	5,563	6,367	(804)
South America	2,700	1,261	1,439
Africa	633	1,999	(1,366)
US, Canada & Mexico	625	260	365
Gross total	**40,882**	**41,324**	**(442)**
Provision for doubtful accounts	(1,321)	(1,150)	(171)
Net total	**39,561**	**40,174**	**(613)**

At 31 December 2011, the value of trade receivables was broadly in line with that of 31 December 2010. At 31 December 2011, trade receivables included balances of USD 2,870,000, posted at the EUR/USD exchange rate as at 31 December 2011, i.e. 1.2939. The amount of trade receivables recognised in accounts includes €13.2 million of receivables assigned on a no-recourse basis (€16.1 million at 31 December 2010). The decline in average payment times that can be deduced from an analysis of receivables by age shown in the table below, as a result of the crisis on the market and some specific credit positions, is constantly monitored by the Company. The doubtful account provision was adjusted at the end of the year, to reflect the better estimate of the credit risk.

	31.12.2011	31.12.2010	Change
Current receivables (not past due)	35,622	38,208	(2,586)
Outstanding up to 30 days	1,843	2,078	(235)
Outstanding from 31 to 60 days	903	70	833
Outstanding from 61 to 90 days	1,667	176	1,491
Outstanding over 90 days	847	792	55
Total	**40,882**	**41,324**	**(442)**

7 - Tax receivables

	31.12.2011	31.12.2010	Change
From inland revenue for VAT	559	339	220
From inland revenue for IRAP	203	-	203
From Giuseppe Saleri SapA for IRES	731	-	731
Total	**1,493**	**339**	**1,154**

Sabaf S.p.A. was part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. This option was renewed in 2010 for another three years. In this scheme, the ultimate parent company Giuseppe Saleri S.a.p.A. acts as the consolidating company and the receivable reported in the financial statements at 31 December 2011 refer to the balance for income taxes transferred to the parent company. At 31 December 2011, the Company had income tax credits, owing to the higher estimated tax payments made versus the actual tax burden for the year.

8 - Other current receivables

	31.12.2011	31.12.2010	Change
Receivables from factoring companies	158	158	-
Receivables from suppliers	65	158	(93)
Advances to suppliers	23	223	(200)
Receivables to the parent company for Group VAT	-	226	(226)
Others	144	112	32
Total	**390**	**877**	**(487)**

9 - Short-term financial assets

	31.12.2011	31.12.2010	Change
Financial receivables from subsidiaries	1,546	-	1,546
Total	**1,546**	**0**	**1,546**

At 31 December 2011, this item included a short-term loan of USD 2 million granted to subsidiary Sabaf do Brasil, in order to optimise the Group's treasury management and exposure to exchange rate risk.

10 - Cash and cash equivalents

Cash and cash equivalents, which amounted to €9,180,000 as at 31 December 2011 (€5,026,000 at 31 December 2010) consisted almost exclusively of bank current account balances. At 31 December 2011, cash and cash equivalents included positive bank account balances of around USD 1 million, arising from collection of trade receivables and posted at the current EUR/USD exchange rate of 1.2939.

11 - Share capital

At 31 December 2011, the Company's share capital consisted of 11,533,450 shares with a par value of €1.00 each. Subscribed and paid-in share capital did not change during the year.

12 - Own shares

In 2011, the Company did not buy or sell own shares. At 31 December 2011, the Company held 32,503 own shares, equivalent to 0.282% of the share capital..

13 - Loans

	31.12.2011		31.12.2010	
	Current	**Non Current**	**Current**	**Non Current**
Unsecured loans	3,838	3,873	3,744	7,707
Short-term bank loans	8,545	-	-	-
Loans from subsidiary companies	-	-	2,700	-
Total	**12,383**	**3,873**	**6,444**	**7,707**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor, with the exception of a short-term loan of USD 2 million.
To meet the Company's financial requirements, at 31 December 2011, short-term loans totalling €8,545,000 were taken out during the year. These loans were partly offset by cash in current accounts (Note 10), largely used at the beginning of 2012 to meet ordinary payments relating to operations.
The loan from subsidiaries outstanding at 31 December 2010, which had been obtained from Faringosi Hinges S.r.l. in order to optimise the Group's treasury management, was paid off in 2011.
The loans are not bound by contractual provisions (covenants).
Note 35 provides information on financial risks, pursuant to IFRS 7.

14 - Other financial liabilities

	31.12.2011	31.12.2010	Change
Derivative instruments on interest rates	33	55	(22)
Total	**33**	**55**	**(22)**

This item includes the negative fair value of the derivative financial instruments at year end that hedge interest rate risks (Note 35).

15 - Post-employment benefits

	31.12.2011	31.12.2010
Liabilities at 1 January	**2,310**	**2,599**
Financial expenses	95	83
Amounts paid out	(206)	(372)
Liabilities at 31 December	**2,199**	**2,310**

The post-employment benefit reserve (TFR) is valued on the basis of the following assumptions:

Financial assumptions	31.12. 2011	31.12.2010
Discount rate	4.00%	4.10%
Inflation	2.00%	2.00%

Demographic assumptions	31.12. 2011	31.12.2010
Mortality rate	ISTAT 2002 M/W	ISTAT 2002 M/W
Disability rate	INPS 1998 M/W	INPS 1998 M/W
Staff turnover	6% per year on all ages	6% per year on all ages
Advance payouts	5% per year based on age/seniority	5% per year based on age/seniority
Retirement age	in agreement with the legislation in force from 1 January 2012	65 years for men and 60 for women, 40 years of employment

16 - Provisions for risks and contingencies

	31.12.2010	Provisions	Use	Release of excess	31.12.2011
Reserve for agents' indemnities	310	13	-	(14)	309
Product warranty reserve	60	43	(18)	-	85
Reserve for tax risks	150	-	(147)	-	3
Reserve for legal risks	0	70	-	-	70
Total	**520**	**126**	**(165)**	**(14)**	**467**

The reserve for agents' indemnities covers amounts payable to agents if the company terminates the agency relationship.
The product warranty reserve covers the risk of returns or charges by customers for products already sold. The fund was adjusted at the end of the year, on the basis of analyses conducted and past experience.
The reserve for tax risks and the reserve for legal risks, provisioned for disputes of a modest size, were adjusted and used during the year following the development of existing disputes.
The provisions booked to the reserve for risks and contingencies, which represent the estimate of future payments made based on historic experience, have not been time-discounted because the effect is considered negligible.

17 - Trade payables

The geographical breakdown of trade payables was as follows:

	31.12.2011	31.12.2010	Change
Italy	21,564	17,384	4,180
Western Europe	2,876	3,180	(304)
Eastern Europe and Turkey	108	72	36
Asia	241	218	23
US, Canada & Mexico	135	132	3
South America	4	44	(40)
Total	**24,928**	**21,030**	**3,898**

The increase in trade payables versus the end of the previous year was partly due to higher commodity prices. Trade payables also include €2.3 million relating to the balancing payment for electricity used in previous years and billed in 2011, for which a deferred payment was agreed with the supplier (Note 25). Average payment terms did not change. The amount of trade payables in currencies other than the euro was insignificant. At 31 December 2011, there were no overdue payables of a significant amount, and the Company had not received any injunctions for overdue payables.

18 - Tax payables

	31.12.2011	31.12.2010	Change
For IRPEF withholdings	688	621	67
From Giuseppe Saleri S.a.p.A. for IRES	-	2,052	(2,052)
For IRAP	-	477	(477)
Total	**688**	**3,150**	**(2,462)**

19 - Other current payables

	31.12.2011	31.12.2010	Change
Due to employees	3,336	3,740	(404)
Due to social security institutions	2,026	1,949	77
Payments to clients	559	46	513
Due to agents	245	520	(275)
Other current payables	113	72	41
Total	**6,279**	**6,327**	**(48)**

At 31 December 2011, payments to clients included €500,000 received from subsidiary Sabaf Turkey, paid as advances for future sales of equipment from the Parent Company to the subsidiary.

20 - Deferred tax assets and liabilities

	31.12.2011	31.12.2010
Deferred tax assets (prepaid taxes)	3,151	1,386
Deferred tax liabilities	(46)	-
Net position	**3,105**	**1,386**

The table below analyses the nature of the temporary differences that determines the recognition of deferred tax liabilities and assets and their movements during the year and the previous year.

	Amortisation and leasing	Adjustments and value adjustments	Fair value of derivatives	Equity investments	Other temporary differences	Total
At 31.12.09	**42**	**998**	**0**	**0**	**39**	**1,079**
To the income statement	53	(84)	-	-	327	296
To shareholders' equity	-	-	11	-	-	11
At 31.12.10	**95**	**914**	**11**	**0**	**366**	**1,386**
To the income statement	53	41	-	1,993	(360)	1,727
To shareholders' equity	-	-	(8)	-	-	(8)
At 31.12.11	**148**	**955**	**3**	**1,993**	**6**	**3,105**

In 2011, Sabaf S.p.A. used the option – provided by Legislative Decree 98 of 6 July 2011 – to recognise for tax purposes the value of its shareholding in Faringosi Hinges S.r.l. in the amount of €6.3 million, corresponding to the residual goodwill booked in the consolidated financial statements of 2010 relating to this shareholding. The release led to the payment of substitute tax totalling €1,015,000 (Note 32) and the recognition of a future tax benefit of €1,993,000, which may be obtained in ten annual instalments from 2013.

21 - Net financial position

As required by the CONSOB memorandum of 28 July 2006, we disclose that the Company's net financial position is as follows:

		31.12.2011	31.12.2010	Change
A.	Cash	4	8	(4)
B.	Positive balances of unrestricted bank accounts	9,176	5,018	4,158
C.	Other liquidities	0	0	0
D.	**Cash and cash equivalents (A+B+C)**	**9,180**	**5,026**	**4,154**
E.	Current bank payables (Note 13)	8,545	0	8,545
F.	Current portion of non-current debt (Note 13)	3,838	3,744	94
G.	Other current financial payables (Notes 13, 14)	33	2,755	(2,722)
H.	**Current financial debt (E+F+G)**	**12,416**	**6,499**	**5,917**
I.	**Current net financial debt (H-D)**	**3,236**	**1,473**	**1,763**
J.	Current bank payables (Note 13)	3,873	7,707	(3,834)
K.	Other non-current financial payables	0	0	0
L.	**Non-current financial debt (J+K)**	**3,873**	**7,707**	**(3,834)**
M.	**Net financial debt (I+L)**	**7,109**	**9,180**	**(2,071)**

The cash flow statement provides changes in cash and cash equivalents (letter D of this schedule).

COMMENTS ON KEY INCOME STATEMENT ITEMS

22 - Revenue

Sales revenue totalled €132,514,000 in 2011, up by €338,000 (+0.3%) vs. 2010.

Revenue by product family	2011	2010	Change	Change %
Brass valves	26,537	31,788	(5,251)	-16.5%
Light alloy valves	23,265	20,027	3,238	+16.2%
Thermostats	14,560	14,829	(269)	-1.8%
Total taps and thermostats	64,362	66,644	(2,282)	-3.4%
Standard burners	34,900	33,154	1,746	+5.3%
Special burners	22,230	21,097	1,133	+5.4%
Burners	57,130	54,251	2,879	+5.3%
Accessories and other revenues	11,022	11,281	(259)	-2.3%
Total	**132,514**	**132,176**	**338**	**+0.3%**

As described in the Report on Operations, the trend to replace brass valves with light alloy valves continued in 2011. Average sales prices in 2011 were slightly higher than those of 2010, but not enough to fully make up for the rises in commodity prices over the year.

Geographical breakdown of revenue	2011	%	2010	%	Change %
Italy	53,407	40.3%	58,688	44.4%	-9.0%
Western Europe	8,097	6.1%	8,355	6.3%	-3.1%
Eastern Europe and Turkey	36,992	27.9%	31,739	24.0%	+16.6%
Asia and Oceania	13,253	10.0%	15,399	11.6%	-13.9%
Central and South America	12,097	9.1%	9,066	6.9%	+33.4%
Africa	6,379	4.8%	6,964	5.3%	-8.4%
US, Canada & Mexico	2,289	1.7%	1,965	1.5%	+16.5%
Total	**132,514**	**100%**	**132,176**	**100%**	**+0.3%**

2011 was marked by a gradual slowdown in demand on traditional markets (Italy and Western Europe), owing to the weakness of the economy in these areas, which had a strong impact on the household appliance market.
In contrast, sales in Eastern Europe registered solid growth, mainly thanks to the contribution of Turkey, a country that is consolidating its position of strength in the production of cooking appliances.
Sales in Africa and Asia were affected by the political problems that beset some North African and Middle Eastern markets, while in 2011, South America again registered very positive growth rates.

23 - Other income

	31.12.2011	31.12.2010	Change
Sale of scraps	3,324	2,725	599
Use of provisions for risks and contingencies	179	112	67
Rental income	111	106	5
Services to subsidiary companies	92	101	(9)
Services to the subsidiary companies	80	60	20
Contingent income	279	344	(65)
Others	352	397	(45)
Total	**4,417**	**3,845**	**572**

The increase in sales of production scraps was due to the increase in the price of commodities (and as a result, scraps).
Services to subsidiary companies and the parent company refer to administrative, commercial, and technical services provided in the Group.

24 - Purchases

	31.12.2011	31.12.2010	Change
Raw materials and purchases	48,069	45,869	2,200
Consumables	4,210	4,039	171
Total	**52,279**	**49,908**	**2,371**

The average actual cost of raw materials (brass, aluminium alloys and steel) fell by around 20% compared to 2010, while the cost of other components did not change significantly.
Consumption (purchases plus change in inventory) as a percentage of sales was 38.7% in 2011, compared with 34.7% in 2010.

25 - Costs for services

	31.12.2011	31.12.2010	Change
Outsourced processing	12,422	12,778	(356)
Natural gas and power	5,954	3,431	2,523
Lease payments	3,496	3,443	53
Maintenance	3,392	3,052	340
Transport and export costs	1,398	1,409	(11)
Advisory services	905	1,001	(96)
Directors' remuneration	811	890	(79)
Commissions	742	880	(138)
Waste disposal	575	512	63
Travel expenses and allowances	388	385	3
Canteen	355	367	(12)
Factoring commissions	330	418	(88)
Insurance	319	274	45
Temporary agency workers	232	345	(113)
Other payroll costs	2,459	2,433	26
Total	**33,778**	**31,618**	**2,160**

The item "Natural gas and electricity" includes €4,347,000 in consumption costs for the year, and €1,607,000 in additional charges relating to December 2008 and the years 2009 and 2010. As stated in the "Use of estimates" section above, following certain anomalies detected, Sabaf S.p.A. asked ENEL to conduct a check on its electricity metering system. This check revealed an error in the recording and billing of electricity for the period December 2008 – February 2011, for which the Company received invoices for equalisation charges in July.
Other costs for services did not vary significantly from 2010.

26 - Payroll costs

	31.12.2011	31.12.2010	Change
Salaries and wages	18,366	17,591	775
Social security costs	6,029	5,783	246
Temporary agency workers	1,716	2,586	(870)
Post-employment benefit reserve and Other payroll costs	1,248	1,607	(359)
Total	**27,359**	**27,567**	**(208)**

Average group headcount in 2011 totalled 596 employees (473 blue-collars, 116 white-collars and supervisors, and 7 managers) compared with 579 in 2010 (456 blue-collars, 115 white-collars and supervisors, and 8 managers). The average number of temporary staff was 56 in 2011 (85 in 2010).

27 - Other operating costs

	31.12.2011	31.12.2010	Change
Duties and taxes other than income taxes	317	107	210
Doubtful account provision	200	557	(357)
Other administration expenses	201	118	83
Contingent liabilities	90	211	(121)
Provisions for risks	113	160	(47)
Others provisions	13	22	(9)
Total	**934**	**1,175**	**(241)**

Non-income taxes chiefly include municipal property tax (ICI) and the tax on the disposal of municipal solid waste. Receivables were written down to adjust the related reserve to the risk of insolvency by some clients, in view of the difficult environment on some markets and the existence of past due accounts. Provisions for liabilities refer to the allocations to the risk reserve described in Note 16.

28 - Write-downs/write-backs of non-current assets

	31.12.2011	31.12.2010	Change
Write-down of Faringosi Hinges	1,128	-	1,128
Write-down of Sabaf Appliance Components	356	760	(404)
Write-back of Sabaf do Brasil	-	(854)	854
Total	**1,484**	**(94)**	**1,578**

For more details on the write-down of the stake in Faringiosi Hinges, see Note 4.

29 - Financial expenses

	31.12.2011	31.12.2010	Change
Interest paid to banks	465	475	(10)
Banking expenses	358	412	(54)
Other finance expense	98	92	6
Total	**921**	**979**	**(58)**

30 - Foreign exchange gains/losses

In 2011, the Company reported net foreign exchange gains of €616,000 (€93,000 in 2010). As illustrated in Notes 4 and 37, this item includes a foreign exchange gain of €396,000 following the partial repayment of capital by subsidiary Sabaf do Brasil Ltda. over the year. The other exchange rate differences are attributable to changes in the euro/dollar rate.

31 - Gains from equity investments

	31.12.2011	31.12.2010	Change
Dividends Faringosi Hinges	2,718	-	2,718
Total	**2,718**	**0**	**2,718**

In 2011, Sabaf S.p.A received dividends from subsidiary Faringosi Hinges S.r.l. on the earnings of 2010 and previous years of €2,718,000.

32 - Income tax

	31.12.2011	31.12.2010	Change
Current tax	5,019	6,930	(1,911)
Substitute tax, under Decree Law 98/2011	1,015	-	1,015
Accounting of deferred tax assets, under Decree Law 98/2011	(1,993)	-	(1,993)
Other deferred tax assets and liabilities	266	(296)	562
Balance of previous FY	(61)	(86)	25
Total	**4,246**	**6,548**	**(2,302)**

Current taxes include IRES for €3,736,000 and IRAP for €1,283,000 (respectively €5,310,000 and €1,620,000 in 2010).
The Company used the option – provided by Legislative Decree 98 of 6 July 2011 – to recognise for tax purposes the value of its shareholding in Faringosi Hinges S.r.l. in the amount of €6,346,000, corresponding to the residual goodwill booked in the consolidated financial statements of 2010 relating to this shareholding. The release led to the payment of substitute tax totalling €1,015,000 and the recognition of a future tax benefit of €1,993,000 (Note 20), which may be obtained in ten annual instalments from 2013.

Reconciliation between the tax burden booked in year-end financial statements and the theoretical tax burden calculated according to the statutory tax rates currently in force in Italy is shown in the table.

	31.12.2011	31.12.2010
Theoretical income tax	4,226	5,443
Tax effect on permanent differences	473	165
Effect of dividends from subsidiaries not subject to taxation	(710)	-
Taxes relating to previous years	(34)	(18)
Effect of detaxing investments pursuant to Law 78/09	-	(548)
Other differences	(7)	(4)
IRES (current and deferred)	**3,948**	**5,038**
IRAP (current and deferred)	1,276	1,510
Substitute tax, under Decree Law 98/2011	1,015	-
Accounting of deferred tax assets, under Decree Law 98/2011	(1,993)	-
Total	**4,246**	**6,548**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. For the purposes of reconciliation, IRAP is not considered because its taxable base is different to that of pre-tax profit and inclusion of the tax would generate distortionary effects.

Tax status
No significant tax disputes were pending at 31 December 2011.

33 - Dividends

On 26 May 2011, shareholders were paid a dividend of €0.80 per share (total dividends of €9,201,000), €0.30 per share more than paid in 2010.
Directors have recommended payment of a dividend of €0.60 per share this year. This dividend is subject to approval of shareholders in the annual Shareholders' Meeting and was not included under liabilities.
The dividend proposed for 2012 is payable to all holders of shares at 25 May 2012 and is scheduled for payment from 24 May 2012.

34 - Segment disclosure

Sabaf works exclusively in the gas components segment in the Sabaf Group. The consolidated financial statements provide the disclosure on the various segments in which the Group operates.

35 - Information on financial risk

Categories of financial instruments
In accordance with IFRS 7, below is breakdown of the financial instruments according to the categories set out by IAS 39.

	31.12.2011	31.12.2010
Financial assets		
Amortised cost		
Cash and cash equivalents	9,180	5,026
Commercial receivables and other receivables	39,951	41,051
Current loans	1,546	-
Financial liabilities		
Comprehensive income statement fair value		
Derivative cash flow hedges	33	55
Amortised cost		
Loans	16,256	14,151
Payables to suppliers	24,928	21,030

The Company is exposed to financial risks related to its operations, and mainly:
- to the risk of credit, with particular reference to the normal commercial relationships with customers;
- market risk, in relation to the volatility of the prices of commodities, exchange rates and rates;
- liquidity risk, which can be expressed with the inability to find financial resources necessary to ensure Company operations.

Sabaf policy is to hedge exposure to changes in prices and in exchange and interest rates using derivative financial instruments. Hedging is done using forward contracts, options or combinations of these instruments. Generally speaking, the maximum duration covered by such hedging does not exceed 18 months. The Company does not enter into speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Credit risk management
The Company has trade receivables with domestic appliance manufacturers, multinational groups and smaller manufacturers present on a few or individual markets. The Company assesses the creditworthiness of all its customers at the start of the supply and systemically on at least an annual basis. After this assessment, each client is assigned a credit limit.
A significant amount of risk (more than 30% of the maximum theoretical exposure) is transferred by assignment through no-recourse factoring transactions to primary financial institutions. Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit, confirmed by key banks.

Forex risk management
The key currencies other than the euro which the Company is exposed to are the US dollar in relation to sales conducted in dollars (chiefly on some Asian and North American markets), and to a lesser extent to some purchases (chiefly from Asian producers). Sales in US dollars represented approximately 5% of total revenue in 2011, while purchases in dollars represented about 2% of total revenue. Transactions in dollars were not hedged by derivative financial instruments.
Sensitivity analysis
With reference to financial assets and liabilities in US dollars at 31 December 2011, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of approximately €254,000.

Interest rate risk management
The Company borrows money at a floating rate; to reach an optimal mix of floating and fixed rates in the structure of the loans, the Company uses derivative financial instruments designating them to cash flow hedges. In 2009, the Company entered into two IRS agreements to convert from 2010 two loans of equal amount from a floating to fixed interest rate, both falling due by the end of 2014. The chart below shows the salient characteristics of the IRS in effect at 31 December 2011 and 31 December 2010:

At 31.12.11	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.12%	4,491	(10)
From 1 to 2 years	2.14%	1,890	(22)
From 2 to 3 years	2.20%	321	(1)
From 3 to 5 years	-	-	-
More than 5 years	-	-	-
Total			**(33)**

At 31.12.10	Average interest rates of the cotracts	Notional value	Fair value
Within 1 year	2.11%	7,250	(46)
from 1 to 2 years	2.12%	4,491	(21)
from 2 to 3 years	2.14%	1,696	8
from 3 to 5 years	2.20%	1,732	1
more than 5 years	-	-	-
Total			**(58)**

Sensitivity analysis
With reference to financial assets and liabilities at variable rate at 31 December 2011 and 31 December 2010, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date – all other variables being equal - would lead to the following effects:

	31.12.2011		31.12.2010	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	27	101	66	122
Decrease of 100 base points	(25)	(67)	(8)	(119)

Commodity price risk management
A significant portion of the company's acquisitions are represented by brass, steel and aluminium alloys. The sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients changes in the prices of commodities that occur during the year. The Company protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In FY 2011 and 2010, the Company did not use financial derivatives on commodities. To stabilise the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, establishing prices with suppliers for immediate and deferred delivery.

Liquidity risk management

The Company operates with a low debt ratio (net debt / shareholders' equity at 31 December 2011 equal to 6.6%) and has unused short-term lines of credit of approximately e€45 million.
To minimise the risk of liquidity, the Administration and Finance Department:
- regularly assesses expected financial needs in order to make the best decisions;
- maintains correct balance of net financial debt, financing investments with capital and with medium- to long-term debt.
Below is an analysis by expiration date of financial payables at 31 December 2011 and 31 December 2010:

At 31.12.11	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	7,711	7,957	1,004	3,010	3,943	-
Short-term bank loans	8,545	8,545	8,545	-	-	-
Total financial payables	**16,256**	**16,502**	**9,549**	**3,010**	**3,943**	**0**
Trade payables	24,928	24,928	-	-	-	-
Total	**41,184**	**41,430**	**9,549**	**3,010**	**3,943**	**0**

At 31.12.10	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	11,451	11,888	993	2,984	7,911	-
Loans from subsidiaries	2,700	2,700	2,700	-	-	-
Total financial payables	**14,151**	**14,588**	**3,693**	**2,984**	**7,911**	**0**
Trade payables	21,030	21,030	20,558	472	-	-
Total	**35,181**	**35,618**	**24,251**	**3,456**	**7,911**	**0**

The various due dates are based on the period between the balance sheet date and the contractual expiration date of the commitments, the values indicated in the chart correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at 31 December 2009 and increased by the spread set forth in each contract.

Hierarchical levels of the fair value assessment

The revised IFRS 7 requires that financial instruments reported in the statement of financial position at the fair value be classified based on a hierarchy that reflects the significance of the input used in determining the fair value. IFRS 7 includes the following levels:

- Level 1 – quotations found on an active market for assets or liabilities subject to assessment;
- Level 2 – input other than prices listed under the previous point, which can be observed (prices) or indirectly (derivatives from prices) on the market;
- Level 3 – input that are based on observable market data.

The following table shows the assets and liabilities that are valued at the fair value at 31 December 2011, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (derivatives on currency)	-	33	-	33
Total liabilities	**0**	**33**	**0**	**33**

36 - Related-party and infragroup transactions

The table below illustrates the impact of all transactions between Sabaf S.p.A. and related parties on the balance sheet and income statement, with the exception of remuneration paid to directors, statutory auditors and executives with strategic responsibilities, which are shown in the Report on Remuneration.

Impact of related-party transactions or positions on items in the statement of financial position

	Total 2011	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	39,561	243	-	-	243	0.61%
Other current receivables	1,493	-	731	-	731	48.96%
Current financial assets	1,546	1,546	-	-	1,546	100.00%
Trade payables	24,928	395	-	8	403	1.62%
Other current payables	6,279	500	-	-	500	7.96%

	Total 2010	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	40,174	449	-	-	449	1.12%
Other current receivables	877	283	-	-	283	32.27%
Tax receivables	21,030	198	-	4	202	0.96%
Trade payables	3,150	-	2,052	-	2,052	65.14%
Current loans	6,444	2,700	-	-	2,700	41.90%

Impact of related-party transactions on income statement accounts

	Total 2011	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Revenue	132,514	528	-	-	528	0.40%
Other income	4,417	117	80	-	197	4.46%
Materials	(52,278)	(287)	-	(27)	(314)	0.60%
Services	(33,778)	(3,489)	-	-	(3,489)	10.33%
Capital gains on non-current assets	38	17	-	-	17	44.74%
Write-downs/write-backs of non-current assets	(1,484)	(1,484)	-	-	(1,484)	100.00%
Financial income	57	21	-	-	21	36.84%
Financial expenses	(920)	(22)	-	-	(22)	2.39%
Foreign exchange gains/losses	616	396	-	-	396	64.29%
Profits and losses from equity investments	2,718	2,718	-	-	2,718	100.00%

	Total 2010	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Revenue	132,176	569	-	-	569	0.43%
Other income	3,845	135	60	-	195	5.07%
Materials	(49,908)	(298)	-	(17)	(315)	0.63%
Services	(31,618)	(3,606)	-	-	(3,606)	11.40%
Write-downs/write-backs of non-current assets	94	94	-	-	94	100.00%
Financial expenses	(979)	(23)	-	-	(23)	2.35%

Transactions with the subsidiaries consist mainly of:

- business relationships with Sabaf do Brazil and Faringosi Hinges pertaining to purchases and sales of finished products or intermediate products;
- rents for premises from Sabaf Immobiliare;
- infragroup loans;
- Group VAT settlement.

Transactions with the ultimate parent company, Giuseppe Saleri S.a.p.A., which does not perform activities of direction and coordination pursuant to article 2497 of the Italian Civil Code, consist of:

- providing administrative services;
- transactions as part of the domestic tax consolidation scheme, which generated the payables and receivables shown in the tables.

Transactions with other related parties in 2011 refer to the purchase of components from Eng.In Group S.r.l., a company of which Mr. Flavio Pasotti, a director of Sabaf S.p.A., is chairman.

Transactions are regulated by specific contracts regulated at arm's length conditions.

37 - Significant non-recurring events and transactions

Pursuant to the Consob Communication dated 28 July 2006, below is a breakdown of the significant, non-recurring events, whose consequences are reflected in the income statement, balance sheet, and cash flow of the Group:

	Shareholders' equity	Net profit	Net financial debt	Cash flow
Financial statement items (A)	**108,463**	**11,122**	**7,109**	**4,154**
Electricity equalisation payment (Note 25)	1,607	1,607	-	-
Tax effect	(505)	(505)	-	-
Exchange rate gain on reduction of Sabaf do Brasil share capital (Note 4)	(38)	(396)	-	-
Tax effect	109	109	-	-
Release of shareholding in Faringosi Hinges (Note 32)	(977)	(977)	(1,015)	1,015
Total non-recurring transactions (B)	196	(162)	(1,015)	1,015
Figurative financial statement value (A+B)	**108,659**	**10,960**	**6,094**	**5,169**

As well as the effect of the non-recurring events mentioned above, the 2011 result incorporates €1,128,000 for the write-down of the shareholding in Faringosi Hinges S.r.l., part of the normal process of valuation of the assets booked in the accounts and analytically described in Note 4.

38 - Atypical and/or unusual transactions

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2011 it did not execute any abnormal and/or unusual transactions as defined by the CONSOB memorandum.

39 - Commitments

Guarantees issued

Sabaf S.p.A. provided guarantees against mortgage loans to subsidiaries. Related residual debt at 31 December 2011 was €4,538,000 (€5,381,000 as at 31 December 2010).
Sabaf S.p.A. has also issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to its employees for a total of €7,098,000 (€6,852,000 as at 31 December 2010).

40 - Remuneration to directors, statutory auditors and executives with strategic responsibilities

The remuneration paid to directors, statutory auditors and executives with strategic responsibilities is shown in the Report on Remuneration, which will be presented to the shareholders' meeting convened to approve these financial statements.

41 - Share-based payments

At 31 December 2011, there were no equity-based incentive plans for the Company's directors and employees.

List of equity investments with additional information requested by Consob (memorandum dem76064293 of 28 july 2006)

In subsidiaries[1]

Company name	Registered office	Share capital at 31.12.11	Shareholders	% of ownership	Equity at 31.12.11	Results of the year 2011
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 5,191,237	EUR 209,164
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 16,923,698	EUR 885,328
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 27,000,000	Sabaf S.p.A.	100%	BRL 29,014,623	BRL 619,115
Sabaf Mexico S.A. de C.V.	San Luis Potosì (Mexico)	MXN 8,247,580	Sabaf S.p.A.	100%	MXN 4,511,233	MXN -35,976
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%	USD 95,034	USD -7,355
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	CNY 10,795,325	Sabaf S.p.A.	100%	CNY 10,795,325	---
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRL 4,735,062	Sabaf S.p.A. Faringosi Hinges s.r.l.	99.99% 0.01%	TRL 4,638,436	TRL -96,626

Other significant equity investments

None

Origin, possibility of use, and availability of reserves

Description	Amount	Possibility of use	Amount available	Amount subject to taxation against the company in the event of distribution
Capital reserves:				
Share premium reserve	10,002	A, B, C	10,002	0
Reserve for revaluation, law 413/91	42	A, B, C	42	42
Reserve for revaluation, law 342/00	1,592	A, B, C	1,592	1,592
Revenue reserves:				
Legal reserve	2,307	B	0	0
Other retained earnings	71,864	A, B, C	71,864	0
Total	**85,807**		**83,500**	**1,634**

Key:
A: for capital increases
B: for coverage of losses
C: for distribution to shareholders

1 - Amounts taken from the annual financial statements of the subsidiaries, prepared in accordance with the accounting standards applicable in the country

		Gross value	Accumulated amortisation and depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	Merger 1989	516	(356)	160
	Law 413/1991	47	(29)	18
	Merger 1994	1,483	(776)	707
	Law 342/2000	2,870	(1,852)	1,018
		5,053	**(3,150)**	**1,903**
Plant and equipment	Law 576/75	205	(205)	0
	Law 72/1983	2,299	(2,299)	0
	Merger 1989	6,249	(6,249)	0
	Merger 1994	7,080	(7,080)	0
		15,833	**(15,833)**	**0**
Industrial and commercial equipment	Law 72/1983	161	(161)	0
Other assets	Law 72/1983	50	(50)	0
Total		**21,097**	**(19,194)**	**1,903**

General information

Sabaf S.p.A. is a company incorporated according to Italian law.

Registered and administrative office:
Via dei Carpini, 1 - 25035 Ospitaletto (Brescia)

Contacts:
Tel: +39 030 - 6843001 - Fax: +39 030 - 6848249
E-mail: info@sabaf.it - Website: http://www.sabaf.it

Tax information:
R.E.A. Brescia 347512 - Tax code 03244470179
VAT Reg. No. 01786910982

Appendix

Information as required by Article 149/12 of the Issuers' Regulation

The following table, prepared pursuant to Article 149/12 of the CONSOB Issuers' Regulation, shows fees relating to 2011 for the independent auditor and for services other than independent auditing provided by the same auditing firm. There were no services rendered by entities belonging to the firm's network.

(Amount in euro' 000)	Party that provides the service	Considerations for the year 2011
Audit	Deloitte & Touche S.p.A.	50
Certification services	Deloitte & Touche S.p.A.	5 (1)
Other services	Deloitte & Touche S.p.A.	12 (2)
Total		**67**

(1) signing of Unico, IRAP and 770 forms and stamp of approval of VAT declaration
(2) audit procedures relating to the Interim Report on Operations

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http://www.sabaf.it - sabaf@sabaf.it

Certification of the Annual Report and Accounts, under article 154 bis of Leg. Decree 58/98

Angelo Bettinzoli, the Chief Executive Officer, and Alberto Bartoli, the Financial Re-porting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Leg. Decree no. 58 of 24 February 1998 and can certify

- the appropriateness in relation to the characteristics of the company and
- the actual application

of the administrative and accounting principles for drafting the annual report and accounts in 2011.

They also certify that:

- the annual report and accounts

- were prepared in accordance with the international accounting policies recognised in the European Community in accordance with EC regula-tion 1606/2002 of the European Parliament and Council of 19 July 2002 and Article 9 of Leg. Decree 38/2005;
- correspond to the results of the accounting entries and ledgers;
- provides a true and correct representation of the business, capital and financial situation of the issuer;

- the Report on Operations includes a credible analysis of the performance and results of operations, the situation at the issuer, and a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 26 March 2012

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

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AUDITORS' REPORT ON THE STATUTORY FINANCIAL STATEMENTS

PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39

OF JANUARY 27, 2010

To the Shareholders of
SABAF S.p.A.

1. We have audited the financial statements of SABAF S.p.A., which comprise the statement of financial position as of December 31, 2011, and the income statement, comprehensive income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on April 6, 2011.

3. In our opinion, the financial statements give a true and fair view of the financial position of SABAF S.p.A. as of December 31, 2011, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure, published in the section "*Investor Relations*" of the internet website of SABAF S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the financial statements of SABAF S.p.A. as of December 31, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
April 10, 2012

This report has been translated into the English language solely for the convenience of international readers.

BOARD OF STATUTORY AUDITOR'S REPORT TO THE SABAF S.P.A. SHAREHOLDERS' MEETING

Pursuant to Article 153 of Legislative Decree 58/1998

Shareholders,

The Board of Statutory Auditors of Sabaf S.p.A. ("Sabaf" or "the Company" or "the Parent Company") hereby reports to you on the supervision carried out and the results thereof, pursuant to Article 2429 of Legislative Decree 58/1998 (the "Consolidated Law on Finance"), and taking into account CONSOB recommendations for companies listed on regulated markets.

This report is divided into the following sections:
1) supervision in fiscal year 2011;
2) ignificant business, financial and capital transactions, atypical and/or unusual transactions, and related party transactions;
3) organisational structure, administrative and accounting system and internal control system;
4) corporate governance;
5) conclusions regarding supervision and the financial statements for the year ended 31 December 2011.

1. Supervision in fiscal year 2011

During the year ended 31 December 2011, the Board of Statutory Auditors performed the supervision required by law, taking into account CONSOB recommendations on corporate governance and industry codes of conduct for boards of statutory auditors.

In terms of the work carried out, the Board of Statutory Auditors reports that:
- it held seven board meetings, each attended by all members in office;
- it attended the seven meetings of the Board of Directors;
- it attended the six meetings of the Internal Control and Audit Committee;
- it attended two meetings between supervisory bodies (independent auditor, Internal Control and Audit Committee, Supervisory Committee), in the presence of the financial reporting officer and chief internal auditor;
- it took part in the Shareholders' Meeting held on 28 April 2011;
- it remained in constant communication with the independent auditor, with a view to the timely exchange of data and information relating to the performance of their respective tasks; it met regularly both with staff from Protiviti S.r.l. ("Protiviti"), to which the internal audit has been outsourced, and the chief internal auditor;
- it compiled the documents and information considered relevant by executive directors and managers from other company departments where necessary.

During meetings of the Board of Directors, the Board of Statutory Auditors was informed of the management activities carried out and, where relevant, the most significant business, financial and capital transactions performed by the Company or its subsidiaries in 2011.

In terms of supervision, the board of statutory auditors observes that in the areas within its purview, the principles of sound management have been applied by the company.
Within the context of its supervision activities, and during meetings and discussions with managers from Deloitte & Touche S.p.A. (the "independent auditor"), the Board of Statutory Auditors confirms that no reprehensible actions were detected, nor any actions otherwise worthy of mention.

Specifically with reference to the work of the independent auditor, the Board of Statutory Auditors examined the review procedures adopted during the year, and discussed the main issues to emerge during its supervision with the independent auditors; the Board of Statutory Auditors also received the technical information requested concerning the accounting standards adopted, in addition to the reporting criteria for the most significant business, financial and capital transactions.
The Board of Statutory Auditors checked the procedure adopted by the Board of Directors regarding the impairment test conducted on the shareholding in Faringosi Hinges S.r.l., noting that the Company commissioned two external experts, belonging to the Association of Chartered Accountants of Brescia, to check the value of the goodwill recorded in the consolidated financial statements and of the controlling interest recorded in the annual financial statements; the impairment test revealed a loss in value, thereby leading to a write-down in both the annual financial statements and the consolidated financial statements, duly justified and explained in the explanatory notes. On this issue, the Board of Statutory Auditors did not detect any anomalies worthy of mention.

Finally, in relation to the supervision activities conducted, the Board of Statutory Auditors reports that, on 7 July 2011, the Chairman of the Board received a complaint pursuant to Article 2408 of the Italian Civil Code from a shareholder who claimed not to have received answers to some questions submitted by certified mail to the Company pursuant to Article 127-ter of the Consolidated Law on Finance. On this point, the Board of Statutory Auditors acknowledged that this was a remediable lapse, and acted promptly to ensure the Company provided full and exhaustive answers to the shareholder, as well as, for its information, CONSOB.

The Board also reports that, during 2011, it did not issue any opinions in the legal sense.

Sabaf S.p.A. manages and coordinates the following companies:
- Faringosi Hinges S.r.l.;
- Sabaf Immobiliare S.r.l.
Both companies have duly satisfied the obligations prescribed by the Italian civil code concerning management and coordination.

Sabaf S.p.A. is controlled by Giuseppe Saleri S.a.p.A., which is not responsible for management and coordination, as mentioned and explained in the Report on Operations approved by the Board of Directors at its meeting on 26 March 2012.

2. Significant business, financial and capital transactions, atypical and/or unusual transactions, and related party transactions

In relation to the most significant business, financial and capital transactions carried out by the Company and the Group over the year, the Board of Statutory Auditors reports that:

- the company "Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki" ("Sabaf Turkey"), a 100%-owned subsidiary, was established, in order to supply the strategic Turkish market directly; land covering approximately 10,000 sqm was also purchased in Manisa (Turkey), where building work was started on the new production facility;
- Sabaf Do Brasil partially repaid Sabaf the capital paid in in previous years, since it was surplus to the subsidiary's operational requirements; the economic and financial effects of this transaction, including exchange rate differences, were duly shown and explained in the explanatory notes;
- part of the investment made by the Company was allocated to the construction of a new production facility, of approximately 4,000 sqm, in the Ospitaletto industrial complex, to be used by the coining department.

In general, based on the supervision carried out, the Board of Statutory Auditors considers that, in the performance of the aforementioned transactions, the law, the articles of association and the principles of sound management were followed in the areas within its purview.

The Board of Statutory Auditors has also found that the aforementioned transactions were not manifestly imprudent or risky, potentially causing a conflict of interests, contrary to the resolutions adopted by the Shareholders' Meeting or otherwise liable to compromise the Company's integrity; finally, based on the information received, the Board has found that said transactions were consistent with the principles of economic rationality, without this constituting any opinion on the merits of directors' management decisions.

The Board of Statutory Auditors has not identified nor received information from the independent auditor or the chief internal auditor about atypical and/or unusual transactions as defined in CONSOB Communication of 6 April 2001, carried out with third parties, related parties or within the Group. In the Report on Operations, approved by the Board of Directors at its meeting on 26 March 2012, the directors indicated that group companies did not engage in any atypical and/or unusual transactions in 2011.

In the same Report on Operations, the directors also gave an account of related-party transactions. Details of the nature and amount of these transactions can be found in the notes to the annual financial statements and consolidated financial statements.
Related-party transactions are of minor importance compared with group activity as a whole; they also seem consistent with and beneficial to the interests of the Company.
Taking this into account, the information supplied on related-party transactions seems adequate.

There were some significant non-recurring transactions and events, as defined by CONSOB Communication 6064293 of 28 July 2006: these events and significant non-recurring transactions were duly identified and shown in the Notes to the Accounts and in the Report on Operations. The Board of Auditors does not have any specific observation or report to make in this regard.

3. Organisational structure, administrative and accounting system and internal control system

The Board of Statutory Auditors verified the existence of an adequate organisational structure in relation to the size and structure of the business and the objectives pursued, in compliance with the legislation in force.
In particular, the Board of Statutory Auditors identified the existence of adequate procedures, as well as the presence of a system of delegated powers and proxies consistent with the responsibilities assigned.

The Company has adopted an organisational model in accordance with the provisions of legislative decree 231/2001. This model is periodically updated.

The Company has also adopted a Code of Ethics, and has demonstrated its commitment to health, safety and the environment.

The Board of Statutory Auditors verified the suitability of the internal control system and the administrative and accounting system, in addition to its ability to give a true and fair view of the business, through: a) examining the chief internal auditor's report on Sabaf's internal control system; b) examining the periodic internal audit reports, outsourced to Protiviti; c) obtaining information from the heads of the various corporate functions; d) examining company documents considered significant; e) analysing the results of the work conducted and being conducted by the independent auditor; f) liaising with the supervisory bodies of subsidiaries; g) being permanently involved in the work of the Internal Control and Audit Committee.
Specifically, the Board of Statutory Auditors acknowledges that the chief internal auditor is actively and constantly involved in monitoring the internal control system, reporting to the Chief Executive Officer and submitting frequent and regular reports to the Internal Control and Audit Committee and Board of Statutory Auditors, to which he also submits the annual work programme.

Based on the work carried out, the Board believes Sabaf's internal control system to be adequate and, in its capacity as the Internal Control and Audit Committee, acknowledges that it has no observations to make to the Shareholders' Meeting.

The Report on Corporate Governance and Ownership Structure contains, in accordance with article 123-bis of the Italian Consolidated Law on Finance, detailed information about the features of the risk management and internal control system in relation to the financial reporting process.

The main risk factors to which the Group is exposed, together with the measures adopted by the Company in order to address them, are suitably classified and described in detail in the notes to the financial statements and in the Report on Operations.

With reference to the administrative and accounting system, the Company complies with the provisions of Law 262/2005 by appointing a financial reporting officer.

The administrative and accounting system as a whole is found to be comprehensive, integrated (including the information procedures) and consistent with the size and organisational structure of the Company and the Group.

Finally, special administrative and accounting procedures have been adopted relating to the periodic closing of the accounts, the preparation of the financial statements and the preparation of reporting packages by subsidiaries.

The financial reporting officer has performed an administrative and accounting assessment of the internal control system, with testing carried out independently by the Internal Audit division.

With reference to the continuous reporting obligations referred to in Article 114(1) of the Consolidated Law on Finance, the Company has issued special instructions to its subsidiaries to comply with the reporting obligations laid down in article 114(2) of that law, within the scope of internal regulations on privileged information.

All group companies within the basis of consolidation, with the exception of Sabaf Turkey, are audited by Deloitte & Touche S.p.A., appointed on the recommendation of the Board of Statutory Auditors at the Shareholders' Meeting of 28 April 2009.

The Board of Statutory Auditors acknowledges that, in addition to the audit, Deloitte & Touche S.p.A. – directly or through members of its network – was paid by the Group in 2011 to perform the following duties:
- certification services relating to the signing of tax returns and stamp of approval, for a fee of €6,000;
- audit procedures relating to interim management reports, for a fee of €2,000;
- tax advice on transfer pricing, for a fee of €8,000.

The annual and consolidated financial statements for the year ended 31 December 2011 contain the information required by article 149-duodecies of the Issuers' Regulation.

Having established that the independent auditor satisfied independence requirements at the time of its appointment, the Board of Statutory Auditors confirms that during the year and until today's date, no critical issues emerged concerning the independence of the independent auditor.

The Board of Statutory Auditors acknowledges that on 10 April 2012, Deloitte & Touche S.p.A. submitted the report pursuant to Article 19(3) of Legislative Decree 39/2010, indicating that no fundamental issues had emerged during the audit, nor were there any material deficiencies in terms of financial reporting within the internal control system.

4. Corporate governance

Detailed information about the procedures used to implement the corporate governance principles approved by Borsa Italiana, as contained in the relative Corporate Governance Code for listed companies, is provided by the directors in the annual Report on Corporate Governance and Ownership Structure.

The Company has signed up to the Corporate Governance Code of listed companies approved by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A.; it has also begun analysis of any adjustments that will become necessary on application of the new version of the Corporate Governance Code published in 2011 and in force from this year.
The Board of Statutory Auditors acknowledges that the Company has verified the independence of directors classed as "independent"; in this regard, the Board confirms that the criteria and procedures used to determine the independence of directors pursuant to the Corporate Governance Code are correctly applied. The Board of Statutory Auditors has also confirmed that its members continue to satisfy the independence criteria, as required by the Corporate Governance Code.

5. Conclusions regarding supervision and the financial statements for the year ended 31 December 2011

Sabaf's consolidated financial statements at 31 December 2011 show a consolidated net profit of €10,775 thousand; the annual financial statements of the Parent Company for the year ended 31 December 2011 show a net profit of €11,122 thousand.
The draft financial statements, with the accompanying notes and directors' Report on Operations, were approved within the statutory time limit and were prepared in accordance with International Financial Reporting Standards (IFRS) approved by the European Union, which are mandatory for listed companies.

The consolidated statement of financial position at 31 December 2011 shows net debt of €7,109 thousand while the Parent Company closed its financial statements at 31 December 2011 with net debt of €14,796 thousand .

Consolidated shareholders' equity at 31 December 2011 was €121,823 thousand, compared with €121,846 thousand in the consolidated financial statements at 31 December 2010; the annual financial statements of the Parent Company report shareholders' equity of €108,463 thousand, compared with €106,519 thousand for the year ended 31 December 2010.

Based on these factors, in view of the general position of the Company and Group, in addition to the directors' forecasts, the Board does not detect the presence of any events or circumstances that might raise doubts over the going concern assumption applied.

The independent auditor, in the report issued on 10 April 2012, expressed an unqualified opinion without requesting additional information on the annual and consolidated financial statements for the year ended 31 December 2011. Furthermore, in its reports, the independent auditor also concludes that the Report on Operations, in addition to the information referred to in sections 1(c), (d), (f), (l), and (m) and section 2(b) of Article 123-bis of Legislative Decree 58/1998, contained in the Report on Corporate Governance and Ownership Structure, is consistent with Sabaf's financial statements at 31 December 2011.

The annual and consolidated financial statements are accompanied by the declarations of the financial reporting officer and Chief Executive Officer required by article 154-bis of the Italian Consolidated Law on Finance.

Based on the work carried out during the year, the Board of Statutory Auditors found no impediment to the approval of the annual financial statements for the year ended 31 December 2011 or to the recommendations made by the Board of Directors.

Brescia, 11 aprile 2012

Board of Statutory Auditors

Chairman	Alessandro Busi
Member	Enrico Broli
Member	Renato Camodeca

A language is a dialect with an army and navy. Yiddish was the language of art with no weapons and great literature: novels, philosophical writings, poetry. Exceptional for a language with no state.

Max Weinreich

8 REPORT ON REMUNERATION

REPORT ON REMUNERATION

pursuant to Article 123-ter of the TUF and Article 84-quater of the Issuers' Regulation

Section I - Remuneration policy

Sabaf S.p.A.'s remuneration policy, approved by the Board of Directors on 22 December 2011, defines the criteria and guidelines for the remuneration of members of the Board of Directors, executives with strategic responsibilities and members of the Board of Statutory Auditors.
The remuneration policy was prepared:
- pursuant to Article 7 of the Corporate Governance Code for listed companies, as per the new text approved in March 2010;
- in line with Recommendations 2004/913/EC and 2009/385, which were incorporated into law with Article 123-ter of the Consolidated Law on Finance;
and was applied from the date of approval by the Board of Directors. This policy will be fully implemented in 2012 following the appointment of the new management bodies.

A remuneration policy had never officially been approved; the remuneration system in place, however, has not changed significantly, except for the introduction of a long-term incentive component.

Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

The Remuneration Committee (consisting of directors Fausto Gardoni as Chairman, Giuseppe Cavalli, Flavio Pasotti and Leonardo Cossu, all independent pursuant to the TUF) was requested by the Board of Directors to prepare a draft of this policy, in line with the aforementioned legislation and self-regulatory standards.
No independent experts or advisors contributed to the preparation of the policy, nor were the remuneration policies of other companies used for reference purposes.
The final draft of the remuneration policy was presented by the Remuneration Committee to the Board of Directors on 22 December 2011, which approved it without amendment.

The Board of Directors is responsible for correctly implementing the remuneration policy.

It is the responsibility of the Remuneration Committee:
- to make proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the CEO and directors holding specific positions;
- to make suggestions concerning the setting of targets to which the annual variable component and long-term incentives should be linked, in order to ensure shareholders' long-term interests are in line with the company's strategy;
- to evaluate the criteria for the remuneration of executives with strategic responsibilities and make appropriate recommendations to the Board;
- to monitor the application of decisions adopted by the Board.

It is the Human Resources Department's responsibility to implement operationally the decisions made by the Board.

Purposes of the remuneration policy

The Company's intention is that the remuneration policy:
- attracts, motivates and increases the loyalty of persons with appropriate professional expertise;
- brings the interests of the management into line with those of the shareholders;
-favours the creation of sustainable value for shareholders in the medium to long term, and maintains an appropriate level of competitiveness for the company in the sector in which it operates.

Fixed annual component

Directors

On the proposal of the Board of Directors, having heard the opinion of the Remuneration Committee, the shareholders determine a maximum total for the remuneration of all members of the Board, including a fixed amount and attendance fees.

In accordance with this maximum total, on the proposal of the Remuneration Committee and subject to the opinion of the Board of Statutory Auditors, the Board of Directors determines additional remuneration for directors vested with special powers.

The fixed component is such that it is able to attract and motivate individuals with appropriate expertise for the roles entrusted to them within the Board, and is set with reference to the remuneration awarded for the same positions by other listed Italian industrial groups of a similar size.

It is Sabaf S.p.A.'s practice to appoint to the roles of Chairman and Deputy Chairmen members of the Saleri family, the controlling shareholder of the Company through Giuseppe Saleri S.a.p.A. Though executive directors, these directors are not granted any variable remuneration, but only remuneration additional to that of directors vested with special powers.

Directors who sit on committees (Internal Control and Audit Committee, Remuneration Committee) are granted a fixed salary intended to reward the commitment required of them.

Other executives with strategic responsibilities

Employment relationships with the Finance Director and other executives with strategic responsibilities are governed by the Collective National Contract for Industrial Managers. In this regard, fixed remuneration is determined so that it is sufficient in itself to guarantee an appropriate basic salary level, even in the event that the variable components are not paid owing to a failure to reach objectives.

Board of Statutory Auditors

The amount of remuneration for Auditors is set by the shareholders' meeting, which establishes a fixed amount for the Chairman and the other Statutory Auditors.

Annual variable component

Executive directors (excluding the Chairman and Deputy Chairmen) and other executives with strategic responsibilities are granted annual variable remuneration related to an MBO plan.

This plan sets a common objective (Group EBIT, which is considered to be the Group's main indicator of financial performance) and quantifiable and measurable individual objectives, both economic-financial and technical-productive in nature. All objectives are set by the Board of Directors, on the proposal of the Remuneration Committee, in accordance with the budget.

The variable component may not exceed 25% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met.

75% of the variable component is paid out in the April of the following year, and 25% in the January of the second subsequent year.

The MBO plan also extends to other managers identified by the Chief Executive who report directly thereto or who report to the abovementioned managers.

Non-executive directors are not granted any variable remuneration.

Long-term incentives

This policy introduces a long-term financial incentive dependent on measurable and predetermined performance targets relating to the creation of value for shareholders over the long term.

The incentive extends over three years and is exclusively aimed at executive directors (excluding the Chairman and Deputy Chairmen) and executives with strategic responsibilities.

The performance targets, set in accordance with the three-year business plan, are proposed by the Remuneration Committee to the Board of Directors, as the body responsible for approving the long-term financial incentive.

The targets that set the parameters for the long-term incentive will be defined by the Board of Directors to be appointed in 2012.

The total long-term variable component for three years may not exceed 50% of the fixed annual gross salary; it may be only partially granted in the event that the objectives are not completely met. In the event that 100% of the objectives assigned are met, an increase on 50% of the gross fixed annual salary may be granted.

The variable component is paid in full following the approval of the financial statements of the third year to which the incentive relates.

Incentives based on financial instruments

The remuneration policy in force does not provide for the use of incentives based on financial instruments (stock options, stock grants, phantom stocks or others).

Remuneration for offices in subsidiaries

Directors and other executives with strategic responsibilities may be granted remuneration – exclusively as a fixed amount – for offices held in subsidiaries. As well as the approval of the subsidiaries' corporate bodies, this remuneration is subject to the favourable opinion of the Remuneration Committee

Non-monetary benefits

The Company has taken out a third-party civil liability insurance policy in favour of directors, statutory auditors and executives for unlawful acts committed in the exercise of their respective duties, in violation of obligations established by law and the by-laws, with the sole exclusion of deliberate intent. The stipulation of this policy was passed by the shareholders' meeting.

The Company also provides for executives a life insurance policy and cover for medical expenses (FASI), as established by the Collective National Contract for Industrial Managers; moreover, it has stipulated an additional policy to cover medical expenses not covered by FASI repayments.

No director or executive with strategic responsibilities has a company car.

Indemnity against the early termination of employment

There are no agreements for directors or other executives with strategic responsibilities governing ex ante financial settlements following the early termination of the employment relationship.

For the end of the relationship for reasons other than just cause or justified reasons provided by the employer, it is the Company's policy to pursue consensual agreements to end the employment relationship, in accordance with legal and contractual obligations.

At present, the company does not provide directors with benefits subsequent to the end of their mandate.

There are no agreements providing for payment in return for non-compete commitments after the end of the employment relationship.

Section II - Remuneration of the members of the board of directors and the board of statutory auditors and other executives with strategic responsibilities in 2011

Remuneration of Directors for 2011

The remuneration granted to directors for 2011, in accordance with the Policy described in Section I with the exception of the long-term variable component not yet put into effect, consisted of the following elements:

- fixed remuneration, approved by the Shareholders' Meeting of 28 April 2009, totalling €153,000, of which €18,000 is to be allocated to every executive director, €15,000 to every member of the Internal Control and Audit Committee and €6,000 to other directors;
- fixed remuneration, approved by the Shareholders' Meeting of 28 April 2009, totalling €588,000 divided among directors vested with special powers (Chairman, Vice-chairmen and Chief Executive Officer) as detailed in the table below;
- an attendance fee of €2,000, due to non-executive directors only, for every occasion on which they attend Board of Directors' meetings.

Chief Executive Officer Angelo Bettinzoli has also been allocated variable remuneration of €85,000, paid in 2011 in relation to the variable incentive plan (MBO) of 2010. This remuneration was linked to the achievement of two objectives (consolidated EBIT in 2010 and average price of the Sabaf share in December 2010), which were both fully met.

Director Alberto Bartoli, the Chief Financial Officer of Sabaf S.p.A., was also granted fixed employee compensation of €158,496 and variable remuneration of €42,588 paid in 2011 in relation to the 2010 variable incentive plan (MBO).
The variable remuneration was linked to the achievement of two objectives (consolidated EBIT in 2010 and average price of the Sabaf share in December 2010), which were both fully met.

Note that in relation to the 2011 variable incentive plan (MBO) for directors Angelo Bettinzoli and Alberto Bartoli, no remuneration was accrued over the year, as the objectives set were not met.

Some directors hold positions in other Group companies, for which they accrued fixed remuneration in 2011, detailed in the table below.

There are no incentive plans based on financial instruments outstanding. No indemnities for the departure from office or the termination of the employment relationship were provided for or paid out.

Remuneration of Statutory Auditors for 2011

The remuneration granted to the Statutory Auditors for 2011 consists of a fixed payment determined by the Shareholders' Meeting of 28 April 2009.

Remuneration of executives with strategic responsibilities for 2011

The remuneration of two executives with strategic responsibilities consists of fixed employee compensation totalling €229,601 and variable remuneration of €49,367 paid in 2011 in relation to the 2010 variable incentive plan (MBO). Other payments of €7,500 were also made in relation to specific duties, and €22,500 by subsidiary companies.
In 2011, variable remuneration of €3,843 was accrued for the partial achievement of some of the objectives of the 2011 MBO plan. Its payment is deferred and dependent upon the continuation of the employment relationship.
There are no incentive plans based on financial instruments outstanding. No indemnities for the departure from office or the termination of the employment relationship were provided for or paid out.

Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Variable remuneration (non equity)		Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
						Bonuses and other incentives	Profit sharing					
Giuseppe Saleri	Chairman of the Board of Directors	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A.				120,000 [a]	0	0	0	0	0	120,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) Total				128,000	0	0	0	0	0	128,000	0	0

(a) of which €18,000 as director and €102,000 as chairman

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Gianbattista Saleri	Vice-chairman of the Board of Directors	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A				100,000 [a]	0	0	0	0	0	100,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0,000	0	0
(III) Total				100,000	0	0	0	0	0	100,000	0	0

(a) of which €18,000 as director and €82,000 as vice-chairman

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Ettore Saleri	Vice-chairman of the Board of Directors	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A				100,000 [a]	0	0	0	0	0	100,000	0	0
(II) Remuneration from subsidiaries and affiliates				8,000	0	0	0	0	0	8,000	0	0
(III) Total				108,000	0	0	0	0	0	108,000	0	0

(a) di cui €18.000 quale compenso di amministratore ed €82.000 quale compenso per la carica di Vicepresidente

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Angelo Bettinzoli	Chief Executive Officer	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A.				340,000 [a]	0	85,000	0	0	0	425,000	0	0
(II) Remuneration from subsidiaries and affiliates				10,000	0	0	0	0	0	10,000	0	0
(III) Total				350,000	0	85,000	0	0	0	435,000	0	0

(a) of which €18,000 as director and €332,000 as Chief Executive Officer

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Alberto Bartoli	Director	1 January - 31 December 2011	Approval of 2011 financial statements1									
(I) Remuneration at Sabaf S.p.A.				176,496 [a]	0	42,588	0	8,240	0	227,324	0	0
(II) Remuneration from subsidiaries and affiliates				10,000	0	0	0	0	0	10,000	0	0
(III) Total				186,496	0	42,588	0	8,240	0	237,324	0	0

(a) of which €18,000 as director and €158,496 in fixed employee compensation

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Leonardo Cossu	Director	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A.				29,000 [a]	0	0	0	0	0	29,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				29,000	0	0	0	0	0	29,000	0	0

(a) of which €15,000 as member of the Internal Control and Audit Committee and €14,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Giuseppe Cavalli	Director	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A.				20,000 [a]	0	0	0	0	0	20,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				20,000	0	0	0	0	0	20,000	0	0

(a) of which €6,000 as director and €14,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Bonuses and other incentives	Profit sharing	Non-monetary benefits	Other remuneration	Total	Fair Value of equity remuneration	Indemnity for end of office or employment relationship
Gregorio Gitti	Director	1 January - 31 December 2011	Approval of 2011 financial statements									
(I) Remuneration at Sabaf S.p.A.				21,000 [a]	0	0	0	0	0	21,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				21,000	0	0	0	0	0	21,000	0	0

(a) of which €15,000 as member of the Internal Control and Audit Committee and €6,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Variable remuneration (non equity): Bonuses and other incentives	Variable remuneration (non equity): Profit sharing	Non-monetary benefitsi	Other remunerationi	Total	Fair Value of equity emuneration	Indemnity for end of office or employment relationship
Flavio Pasotti	**Director**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				18,000 [(a)]	0	0	0	0	0	18,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				18,000	0	0	0	0	0	18,000	0	0

(a) of which €6,000 as director and €12,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Variable remuneration (non equity): Bonuses and other incentives	Variable remuneration (non equity): Profit sharing	Non-monetary benefitsi	Other remunerationi	Total	Fair Value of equity emuneration	Indemnity for end of office or employment relationship
Salvatore Bragantini	**Director**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				25,000 [(a)]	0	0	0	0	0	25,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				25,000	0	0	0	0	0	25,000	0	0

(a) of which €15,000 as member of the Internal Control and Audit Committee and €10,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Variable remuneration (non equity): Bonuses and other incentives	Variable remuneration (non equity): Profit sharing	Non-monetary benefitsi	Other remunerationi	Total	Fair Value of equity emuneration	Indemnity for end of office or employment relationship
Fausto Gardoni	**Director**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				20,000 [(a)]	0	0	0	0	0	20,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				20,000	0	0	0	0	0	20,000	0	0

(a) of which €6,000 as member of the Internal Control and Audit Committee and €14,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remunerations for sitting on committees	Variable remuneration (non equity): Bonuses and other incentives	Variable remuneration (non equity): Profit sharing	Non-monetary benefitsi	Other remunerationi	Total	Fair Value of equity emuneration	Indemnity for end of office or employment relationship
Alessandro Busi	**Chairman of the Board of Statutory Auditors**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				24,000	0	0	0	0	0	24,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				24,000	0	0	0	0	0	24,000	0	0
Enrico Broli	**Statutory Auditor**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				16,000	0	0	0	0	0	16,000	0	0
Renato Camodeca	**Director**	**1 January - 31 December 2011**	**Approval of 2011 financial statements**									
(I) Remuneration at Sabaf S.p.A.				16,000	0	0	0	0	0	16,000	0	0
(II) Remuneration from subsidiaries and affiliates				4,000	0	0	0	0	0	4,000	0	0
(III) Total				20,000	0	0	0	0	0	20,000	0	0
Other executives with strategic responsibilities (2)		**1 January - 31 December 2011**	**n/a**									
(I) Remuneration at Sabaf S.p.A.				229,601	0	49,367	0	10,033	7,500	296,501	0	0
(II) Remuneration from subsidiaries and affiliates				22,500	0	0	0	0	0	22,500	0	0
(III) Total				252,101	0	49,367	0	10,033	7,500	319,001	0	0

Monetary incentive plans for members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities

Full name	Position	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			Payable/Paid	Deferred	Deferment period	No longer payable	Payable/Paid	Still deferred	
Angelo Bettinzoli	**Chief Executive Officer**								
Remuneration at Sabaf S.p.A.		MBO Plan 2010 (23 march 2010)					85,000		
Total							**85,000**		
Alberto Bartoli	**Director, Chief Financial Officer**								
Remuneration at Sabaf S.p.A.		MBO Plan 2010 (23 march 2010)					42,588		
Total							**42,588**		
Other executives with strategic responsibilities (2)									
Remuneration at Sabaf S.p.A.		MBO Plan 2010 (23 march 2010)					49,367		
Remuneration at Sabaf S.p.A.		MBO Plan 2011 (21 march 2011)		3,843	75% march 12 25% december 12				
Total				**3,843**			**49,367**		

Concept: TAND&M srl
Editorial coordination: Riccardo Corvo
Graphic design: Debora Colombi
Illustrations: Dida
Still life: TAND&M srl

Print: Color Art srl
Printed on paper Fedrigoni Freelife Kendo

This editions
is also available on the website
www.sabaf.it

a printed copy can be obtained from:

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