ANNUAL REPORT 2012

SABAF EXPRESSION OF VALUE

Values are the pillars that determine strategic and productive actions, influence behaviour and regulate social relations inside and outside the company.
The Principles extrapolated from the Charter of Values become digital illustrations, in which solids and voids lead to the visual perception of different and highly symbolic shapes. A philosophy of Gestalt applied to graphics, which favours understanding - making immediate the message conveyed through the simplification and the extreme synthesis of signs. Illustrations part the sections of the document, inside which information and data are conveyed by means of graphic virtuosity that motivate the reader, brighten up the account and highlight the particularities and main points. A fair and balanced relationship between aesthetics and efficiency.

ENVIRONMENT

PERSON

ECONOMY

TECHNOLOGY

INDEX

ANNUAL REPORT 2012

Alberto Bartoli

Chief Executive Officer's letter to stakeholders

Dear Shareholders and Stakeholders,

I am writing my first letter to you as the C.E.O. of Sabaf at a critical moment for manufacturing and a time of political uncertainty in Italy.

For a long time, we looked forward to a political change in our country that could meet the needs and problems caused by the emergence of new challenges with continually more global and aggressive competition that, in many cases, does not respect the rules that Sabaf has imposed with its code of ethics. Now that this desire for change seems to have been realized in one way or another with the results of the latest political elections last February, the worrisome fallout is that we are at an impasse that makes some decisions even more difficult than in the past. My unfortunate feeling is that there are few men and companies who fully dedicate themselves to their work lately while everyone else is blocked, waiting for the future, but by doing so push it off further and further.

The tax burden, which we have expected to decrease for years through the Tax-Cut Fund where profits from the fight against tax evasion are deposited, remains excessive and penalizes both companies and employees whose purchase power is no longer able to sustain internal demand. Regarding investments, tax reduction provisions would be helpful to increase the growth of undercapitalized companies and improve their credibility abroad.

We feel that, despite everything, Italy could continue to be one of the best countries in terms of investing in and operating companies but growth and streamlining opportunities are constantly wasted.

Because complex challenges on the global market can only be dealt with by using group strategies and policies, the fact that we only operate individually does not help us compete on large international markets.

On one hand, the numbers are unequivocal: Europe is growing much slower than the rest of the world: analysts estimate that between now and 2014, European growth will be around 1% while China and India will surpass 7%. Turkey is estimated to be around 5%, Brazil around 4%, etc.

These are markets where Sabaf is already present and that offer enormous potential to companies who know how to interpret needs. They are also places where companies can grow and that are confirming themselves as actors. Based on those numbers, they are destined to become true international leaders. With this type of competition, it is no longer possible to watch from the sidelines, believing that the brand's quality and name can continue to make a difference.

This type of choice would mean submitting our competitive capacity to a slow and inevitable scaling back with dramatic consequences from the point of view of turnover and hiring.

Destiny requires us to be key players where growth offers market opportunities. That is the only way to protect our identity and continue to establish a presence in the places where our company was established and grew in the early days of our history.

In other words, this means getting away from self-referencing mechanisms that are often used by the industry in our country in favour of looking for partnerships and alliances that can open new frontiers. This means setting aside the old misapprehension that the industrial process is a top-down mechanism, reaching outward to the farthest areas like the old pioneers' caravans. This is the basis for the operations that Sabaf has implemented, or intends to implement, in China, India, Brazil and Turkey.

Multidisciplinary skills, shared strategies, analyses and group planning are necessary for this. With the teamwork that Sabaf sees both in and outside its walls, the model is no longer company-centric with all input and external flows originating from the company. This clearly proves that the period of the man at the helm is over.

For all these reasons, Sabaf intends to emphasize its human, professional and creative abilities in the future, both in and outside the company.

But we have an asset that our competitors do not have: economic solidity that allows us to look toward the future with faith in it. We have big shoulders and sufficient preparation to face any challenge with optimism. Including the most difficult. We have to do all this together, following the rules and respecting our history and the culture of the countries where we want to be key players.

We are a true global company with
our heart in Italy and our head
focused on the rest of the world.

Alberto Bartoli

INTRODUCTION TO THE ANNUAL REPORT

SABAF'S PROGRESS TOWARDS INTEGRATED REPORTING

The growing international attention of the financial community, institutions and companies on integrated economic, social and environmental performance reporting confirms the value of the path taken by Sabaf with the publication of the first "Integrated Annual Report" in 2005. For the eighth consecutive year, the Group has in fact presented an integrated financial statement for its stakeholders in order to share the strategies, governance and performance that lead to the creation of its short-, mid- and long-term value. The objective is in line with that set forth by the *International Integrated Reporting Council (IIRC)*[1] in the *"Prototype of the International <IR> Framework,"* published during 2012 to provide updates on the changes in preparing integrated reports.

Sabaf, one of the first companies in the world to develop integrated reporting, intends to progressively comply with the guidelines provided by IIRC and the best practices with the goal of highlighting the connections between the financial and "non financial" performances and between the business and sustainability objectives.

Following the path taken in years prior, the 2012 Annual Report is not a mere report of the fiscal year results but a document that 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.

Methodology

Sections **1 – Business Model and strategic approach, 2 – International operations and core markets** and **4 – Social and environmental sustainability** comprise the Annual Report at 31 December 2012, 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 2012.

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 Annual Report does not include the subsidiaries Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey) and Sabaf Appliance Components Trading (Kunshan) Co., Ltd., which are instead included in the consolidated financial statements. Sabaf Turkey began production in the last quarter of 2012 and Sabaf A.C. Trading was incorporated at the end of 2012 to market products made in Italy in China. This different reporting scope does not have any material effect on the 2012 annual report. In particular, at the end of 2012, there were 23 employees at Sabaf Turkey while Sabaf A.C. Trading does not have any employees.

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 28 March 2013 and presented to shareholders at the Annual General Meeting held on 30 April 2013.

1 The IIRC (International Integrated Reporting Council), established in August 2010, is a group formed by international leaders from all sectors that aims at furthering the international debate on integrated reporting in order to define a framework. The following are members of the IIRC: IOSCO (International Organization of Securities Commissions), World Bank, Financial Accounting Standards Board, International Federation of Accountants, IASB International Accounting Standards Board, International Monetary Fund and Global Reporting Initiative.

Key issues for Group operations

In order to identify the key issues to be explored in the 2012 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	• Environmental impact • Eco-efficiency and quality management
Suppliers	• Monitoring of the Supply Chain
Shareholders	• Corporate governance and protection of minority shareholders
Society	• 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 2012 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”.

Alberto Bartoli

The 10 principles Global Compact

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 or 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; and
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)

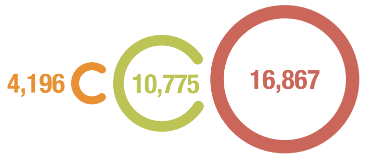
Key: 2012 2011 2010 Change

FINANCIAL INDICATORS

Income statement

(AMOUNTS IN €'000)	2012	2011	2010
Sales revenues	130,733	148,583	150,897
EBITDA	21,813	30,092	38,516
Operating profit (EBIT)	7,920	16,566	25,793
Pre-tax profit	6,219	15,454	23,776
NET PROFIT	**4,196**	**10,775**	**16,867**

NET PROFIT



Balance sheet and financial position

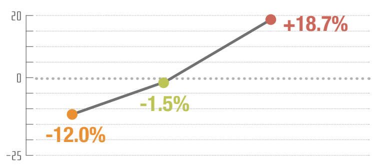
(AMOUNTS IN €'000)	31/12/2012	31/12/2011	31/12/2010
Non-current assets	101,728	102,310	100,632
Working capital	41,086	37,915	37,476
Provisions for risks, employee benefits and deferred taxes	(3,392)	(3,606)	(3,717)
Capital employed	**139,422**	**136,619**	**134,391**
Shareholders' equity	115,626	121,823	121,846
Net financial debt	23,796	14,796	12,545
TOTAL SOURCES	**139,422**	**136,619**	**134,391**

TOTAL SOURCES

Other financial indicators

	2012	2011	2010
ROCE (return on capital employed)	5.7%	12.1%	19.2%
Dividend per share (€)	0.35[2]	0.60	0.80
Net debt/equity ratio	21%	12%	10%
Market capitalisation (at 31/12) /equity ratio	0.88	1.06	2.41
Change in sales	-12.0%	-1.5%	+18.7%

CHANGE IN SALES



(AMOUNTS IN €'000)	2012	2011	2010
Investments in research & development	369	648	524
Other investments	13,628	13,842	12,845

(AMOUNTS IN €'000)	2012	2011	2010
Value of outsourced goods & services			
• brass pressing and aluminium die-casting	4,682	5,049	5,824
• other processing	6,734	8,010	8,036

2 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).

(€'000)	2012	2011	CHANGE
Economic value generated by Group	**132,260**	**153,276**	**(21,016)**
Revenue	130,733	148,583	(17,850)
Other income	3,592	4,871	(1,279)
Financial income	219	162	57
Adjustments	1,056	981	75
Doubtful account provision	(1,608)	(250)	(1,358)
Foreign exchange loss (gain)	(293)	391	(684)
Income/expenses from sale of tangible and intangible fixed assets	54	23	31
Adjustments to tangible and intangible fixed assets	(1,028)	(1,129)	(101)
Gains/losses from equity investments	(465)	(356)	(109)
Economic value distributed by Group	**119,230**	**136,974**	**(17,744)**
Remuneration of suppliers	82,661	93,270	(10,619)
of which environmental costs	*716*	*834*	*(118)*
Employee compensation	29,302	30,740	(1,438)
Remuneration of lenders	1,162	1,308	(146)
Shareholder earnings[3]	4,037	6,901	(2,864)
Government levies[4]	2,023	4,679	(2,656)
External donations	45	76	(31)
Economic value retained by Group	**13,030**	**16,301**	**(3,271)**
Depreciation and amortisation	12,919	12,421	498
Allocations	21	167	(146)
Use of provisions	(69)	(161)	92
Reserves	159	3,874	(3,715)

3 For 2012, the amount is estimated based on the proposed dividend.
4 Includes deferred taxes

NON-FINANCIAL INDICATORS

Human capital

		2012	2011	2010
AVERAGE AGE OF EMPLOYEES (sum of age of employees/total employees at 31/12)	years	36.2	35.9	35.4
LEVEL OF EDUCATION (number of university and high school graduates/total employees at 31/12)	%	51.7	50.7	49.4
STAFF TURNOVER (employees who resign or are dismissed/total employees at 31/12)	%	5.6	5.0	6.5
HOURS OF TRAINING PER EMPLOYEE (average hours of training per employee)	hours	16.1	12.3	12.5
INVESTMENT IN TRAINING/SALES[5]	%	0.44	0.42	0.39

Structural capital

	2012	2011	2010
IT BUDGET (capital expenditure + current expenses) /SALES	0.8	0.6	1.1
HOURS SPENT ON NEW PRODUCT DEVELOPMENT/TOTAL HOURS WORKED	2.0	1.8	1.7
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)	2.7	2.5	2.3
CAPITAL EXPENDITURE ON TANGIBLE ASSETS/SALES	10.1	9.2	8.4
CAPITAL EXPENDITURE ON INTANGIBLE ASSETS/SALES	0.6	0.5	0.4
CURRENT EXPENSES FOR QUALITY/SALES	0.09	0.11	0.09

[5] The index has been recalculated to include temporary staff training costs.

Environmental indicators

MATERIALS USED

		2012	2011	2010
BRASS	t	1,186	1,384	1,938
ALUMINIUM ALLOYS	t	6,847	7,928	8,055
STEEL	t	5,853	6,948	7,548

WASTE

		2012	2011	2010
MUNICIPAL-TYPE WASTE	t	176	178	244
HAZARDOUS WASTE	t	3,053	3,345	2,602
NON-HAZARDOUS WASTE	t	5,230	6,402	6,331

		2012	2011	2010
NATURAL GAS CONSUMPTION	m3 x 000	2,726	3,308	3,542
ELECTRICITY CONSUMPTION	MWh	29,290	31,098	30,488
CO_2 EMISSIONS	t	17,133	18,898	19,063
CURRENT ENVIRONMENTAL SPENDING/ SALES AT 31/12	%	0.55	0.56	0.47
ENVIRONMENTAL INVESTMENT/ SALES AT 31/12	%	0.00	0.06	0.12

Key: 2012 2011 2010

	2012	2011	2010
CAPITAL EXPENDITURE FOR QUALITY/SALES	0.02	0.04	0.09
CUSTOMER REJECTS (customer charge-backs and credit notes for returned goods/sales)	0.06	0.06	0.06
IN-HOUSE PRODUCTION REJECTS/SALES (production rejects/sales)	1.25	1.32	1.15
CUSTOMER REJECTS + IN-HOUSE REJECTS/SALES (production rejects + customer returns/sales)	1.31	1.38	1.21

Relational capital

		2012	2011	2010
HOURS OF INDUSTRIAL ACTION FOR INTERNAL CAUSES	N°	0	0	21
AVERAGE SALES PER CUSTOMER (total sales/number of customers)	€/000	424	516	519
% SALES FROM NEW CUSTOMERS (sales to new customers/sales)	%	0.34	0.38	0.87
% WEIGHTING OF TOP 10 CUSTOMERS	%	49	49	49
% WEIGHTING OF TOP 20 CUSTOMERS	%	70	73	73
NUMBER OF SAMPLES PRODUCED FOR CUSTOMERS	N°	1,178	1,059	1,168
NUMBER OF DIFFERENT PRODUCT SKUS (stock-keeping units) SUPPLIED TO TOP 10 CUSTOMERS	N°	2,344	2,283	2,301
CUSTOMER COMPLAINTS	N°	302	446	459
CERTIFIED SUPPLIER SALES (certified supplier sales/sales)	%	54.7	54.2	53.9
NUMBER OF FINANCIAL ANALYSTS FOLLOWING SABAF STOCK ON AN ONGOING BASIS	N°	2	3	4
LAWSUITS FILED AGAINST GROUP COMPANIES	N°	2	3	2

Social indicators

		2012	2011	2010
TOTAL EMPLOYEE HEADCOUNT	N°	702	714	703
• MEN	%	65.4	65.7	64.6
• WOMEN	%	34.6	34.3	35.4
SICKNESS RATE (Sick leave hours/total workable hours)	%	2.7	2.8	2.8
ACCIDENT FREQUENCY INDEX (No. of accidents (excluding accidents in transit) per 1 million hours worked)		12.00	18.48	18.55
ACCIDENT SEVERITY INDEX (days of absence (excluding accidents in transit) per 1,000 hours worked)		0.15	0.27	0.54
JOBS CREATED (lost)	N°	(12)	11	30
% OF SUPPLIER SALES IN PROVINCE OF BRESCIA	%	53.3	52.3	51.2
DONATIONS/NET PROFIT	%	1.07	0.71	0.15

Key: 2012 2011 2010

Central Role of the Person

PAGE 13

1

Business model and strategic approach

BUSINESS MODEL AND STRATEGIC APPROACH

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.

Customers and markets

Competitors

Sales management

The development of **partnerships with customers** is a key aspect of Sabaf's sales policy. As part of this cooperation with strategic customers, the Group seeks to anticipate **changes in the market** by offering appropriate technological and production solutions.

Environment

Society

External relations management

Shareholders

Lenders

Business-financial management

Staff

Services and support structures

Human resources management

Suppliers

Procurement management

Sabaf ensures careful management of its relations with suppliers, by developing **lasting relations over time** alsto with a view to constantly **monitoring the potential risks** associated with the supply chain.

Internal and vertical design

Components
Products

Machinery
Tools
Moulds

SABAF

Know How

Innovation, eco-efficiency, safety, development of internal expertise

Components
Products

Machinery
Tools
Moulds

Internal and vertical production

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.

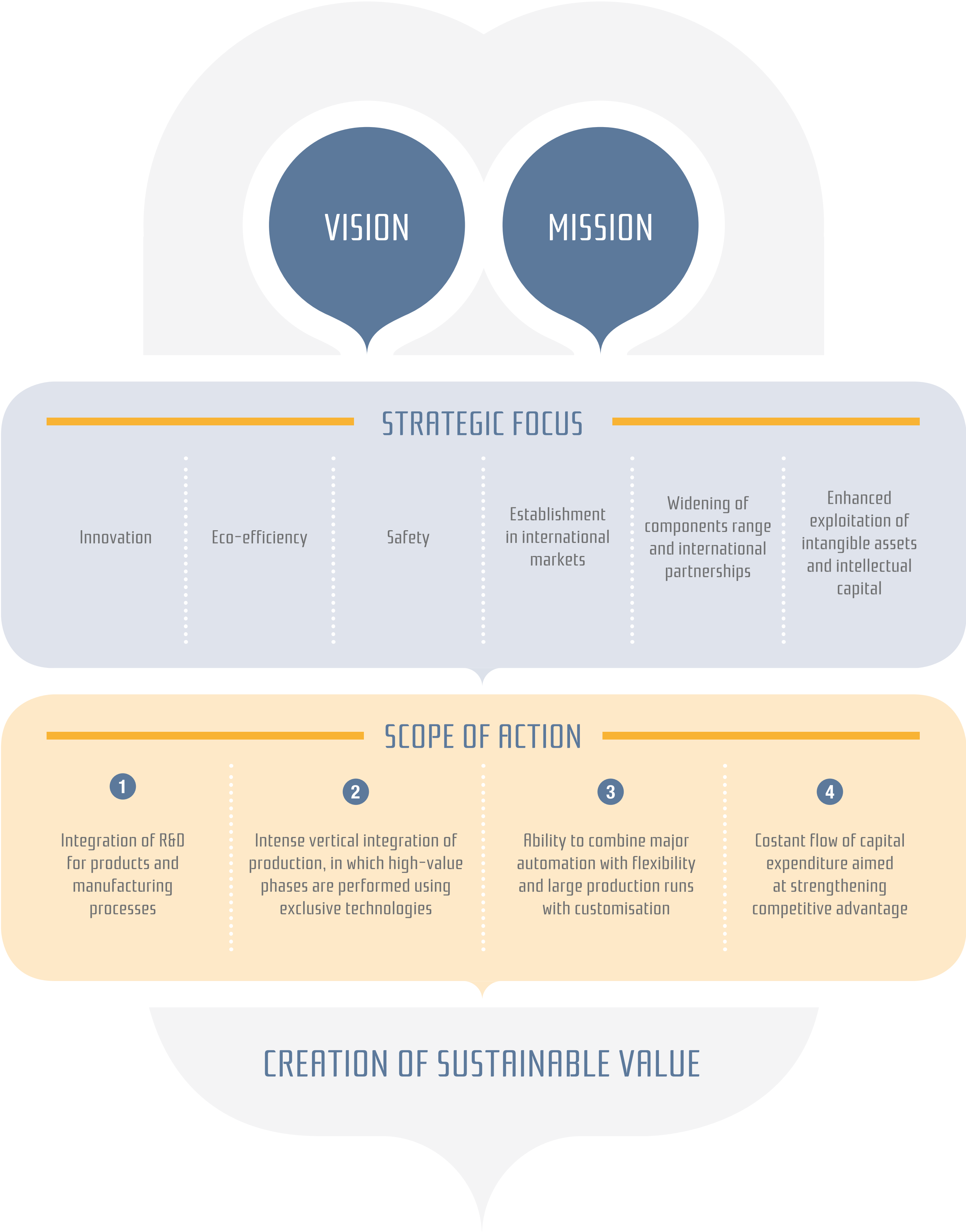
QUALITY, PERFORMANCE, ECO-COMPATIBILITY

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

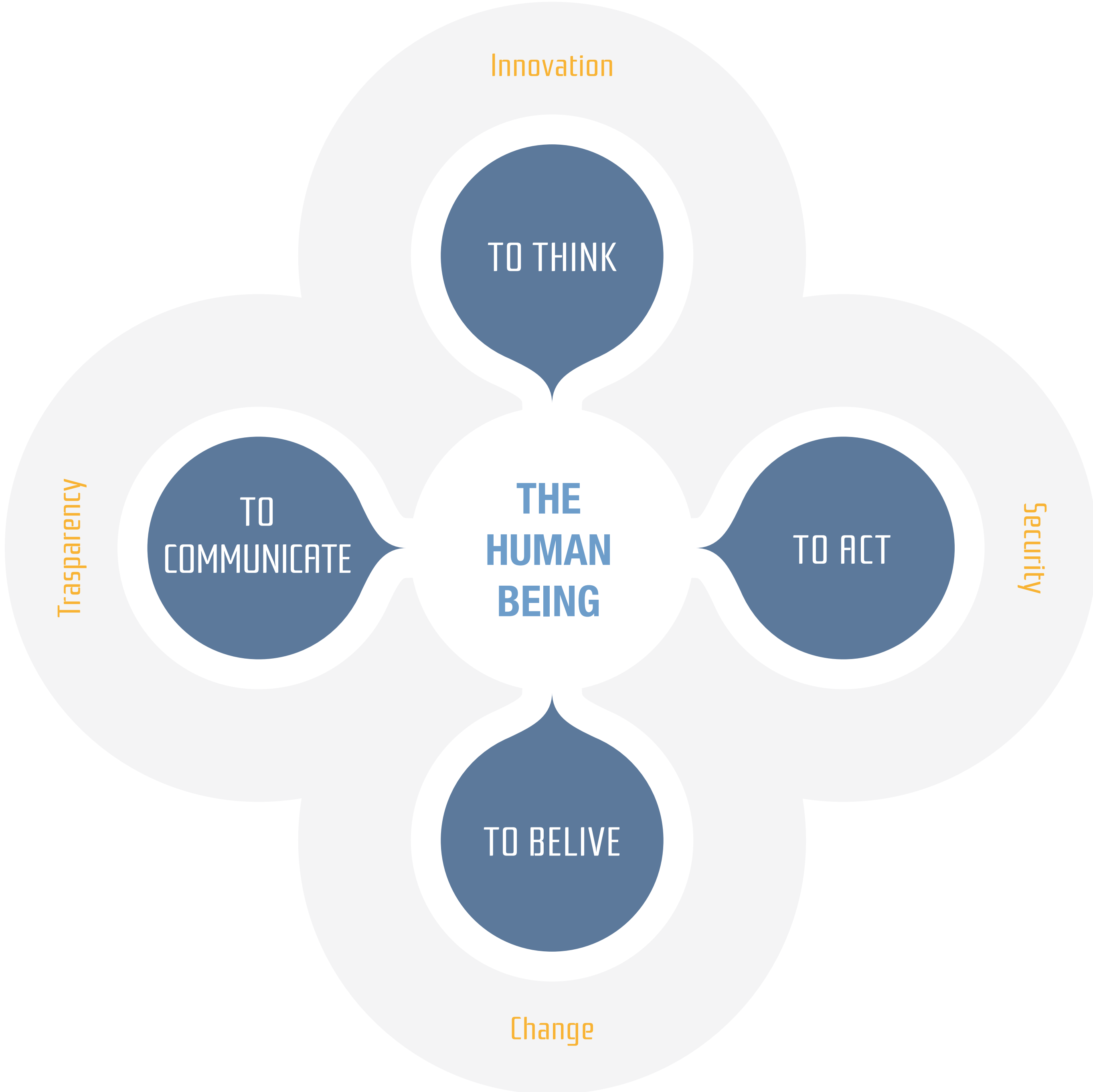


Values, vision and mission

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.

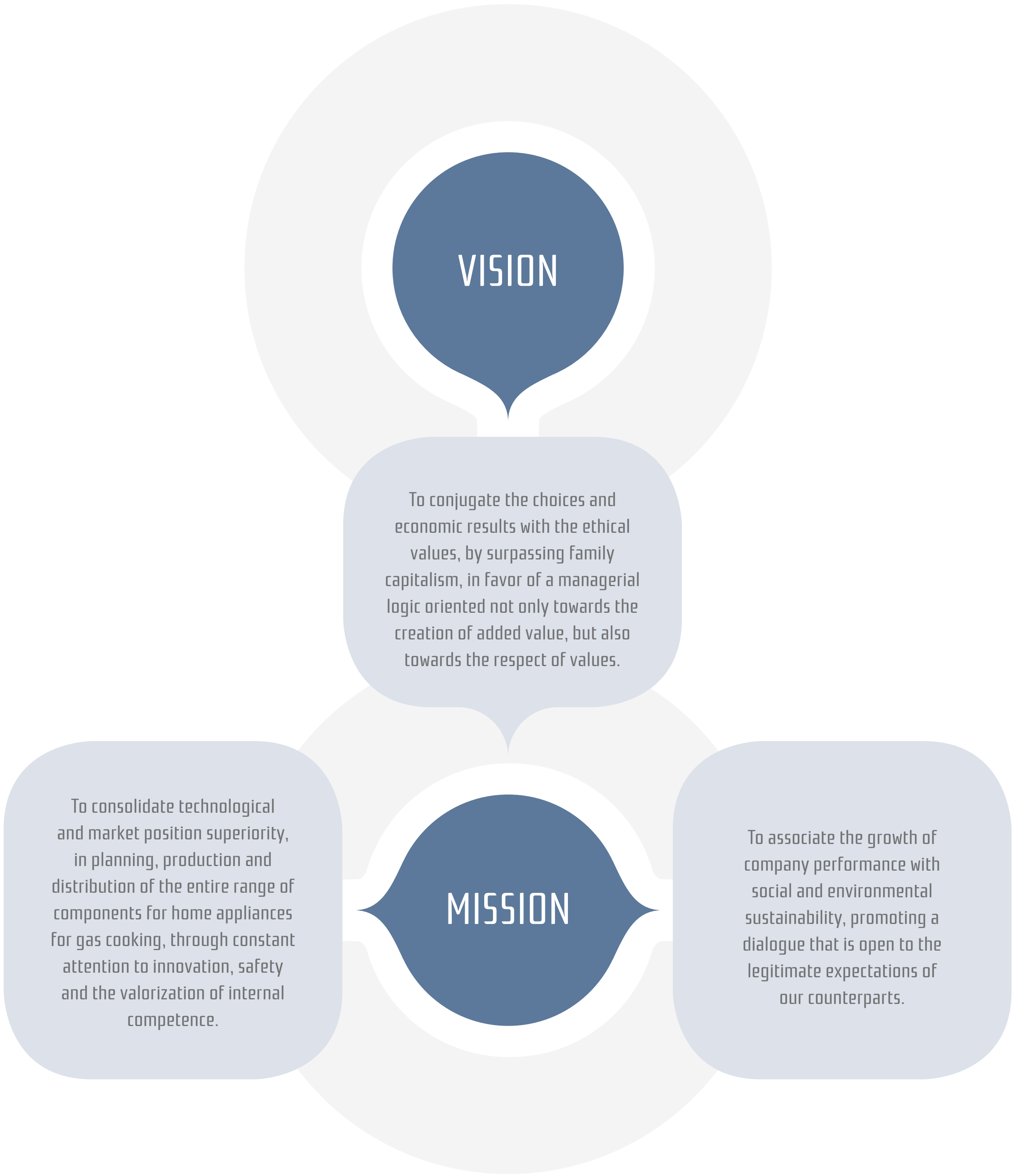
Respecting the value of the individual means, first and foremost, making "being" a priority before "doing" and "having," and thus protecting and enhancing the "quintessential" manifestations that allow people to express themselves fully.



The Sabaf Charter of Values

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:

1. the **sharing of values, mission and sustainability strategy;**
2. **training** and **communication;**
3. an **internal control and audit system** capable of monitoring risks (including ethical and reputational risks) and of verifying that commitments to stakeholders are fulfilled;
4. **key performance indicators (KPIs)** capable of monitoring our economic, social and environmental performance;
5. a clear and complete **reporting system** able to inform the various categories of stakeholder effectively;
6. 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 strengthening the social value of its business activities through the careful management of its relations with stakeholders. The Company intends to establish an open and transparent 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 stakeholder are provided below. The relevant themes from these activities are provided under Social and Environmental Sustainability.

STAKEHOLDER	*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

Respect cultural diversity

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2

International operations and Core Markets

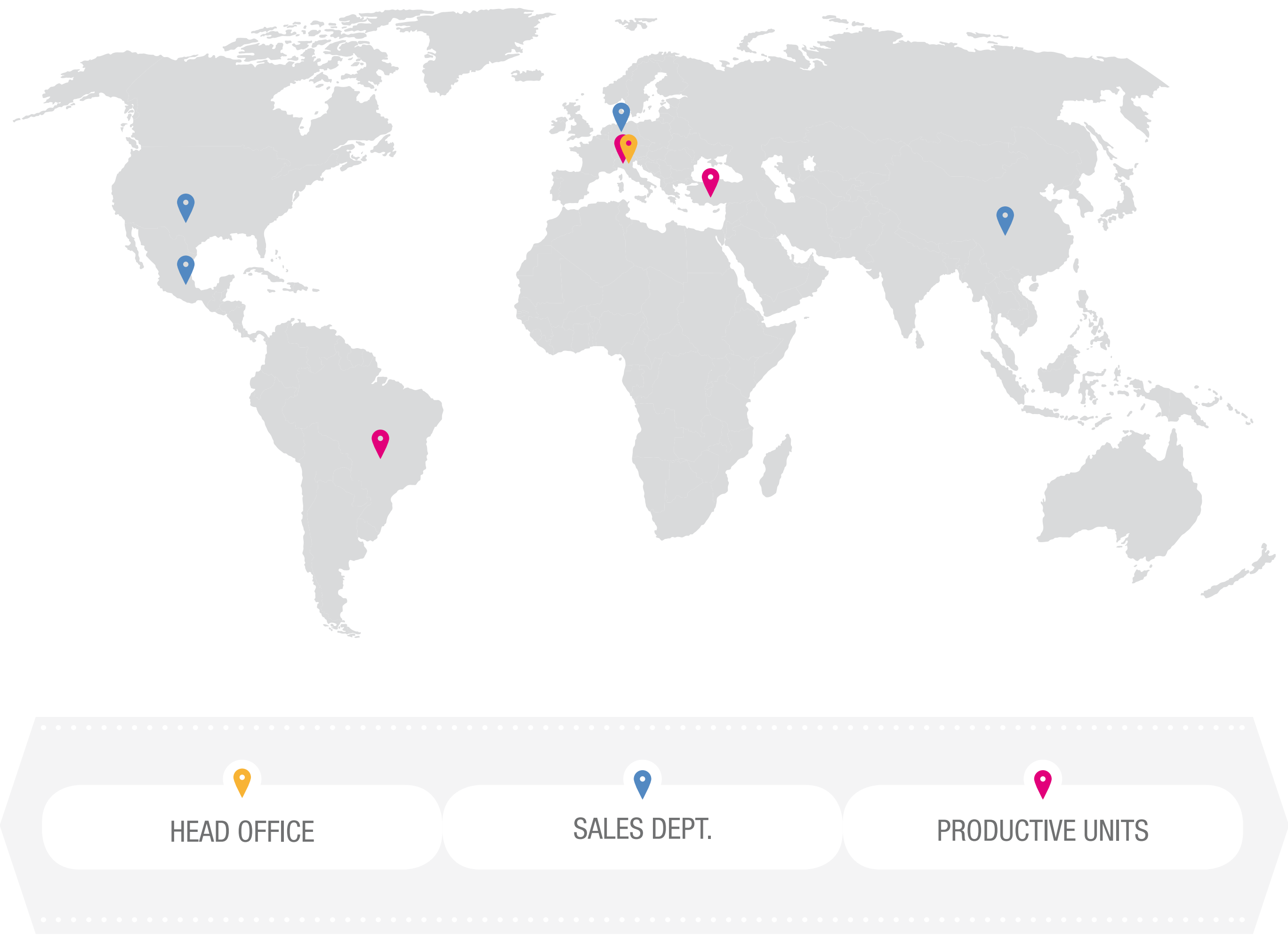
SABAF

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.

A market share of around 50% in Europe and a global share of about 10%.



Main production lines

Valves and thermostats

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.

Accessories

The Group also produces and markets an extensive range of accessories, which supplement the offering of the main product lines.

Sales by product line

IN THOUSANDS OF EURO	2012	2011	2010
Brass valves	18,601	26,537	31,788
Light alloy valves	23,524	23,265	20,027
Thermostats	13,074	14,560	14,829
Standard burners	39,337	42,631	41,405
Special burners	18,850	22,210	21,097
Accessories and other revenues	11,226	10,598	10,959
Hinges	6,121	8,782	10,792
TOTAL	**130,733**	**148,583**	**150,897**

SABAF'S INTERNATIONAL GROWTH: CHALLENGES AND OPPORTUNITIES

Sales by geographical area

Revenue (in thousands of Euro) and incidence% of the total

Italy

2012	2011	2010
45,597 34.9%	56,321 37.9%	61,648 40.8%

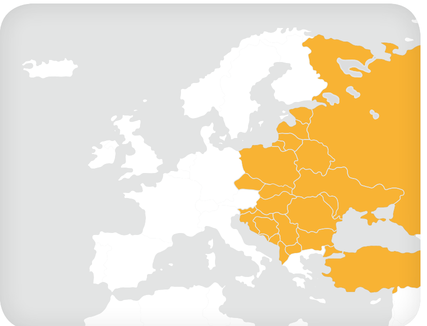
Italy – traditionally the main producer of appliances in Europe – is losing its position.
Some customers have limited their business in Italy; others have completely abandoned the country or have interrupted their business due to financial problems.
Sabaf – which has a consolidated presence on the Italian market – is focusing on **differentiating its products** and increasing its attention on **energy efficiency** to deal with a market that is facing structural problems.

Western Europe

2012	2011	2010
7,337 5.6%	11,215 7.5%	11,561 7.6%

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.

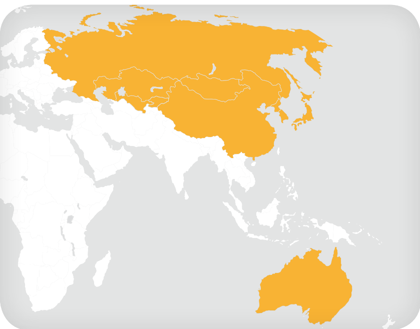
Eastern Europe and Turkey



2012	2011	2010
33,236 25.4%	37,459 25.2%	32,553 21.6%

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 during 2012** and the development of new trade relations are key to growth.

Asia and Oceania



2012	2011	2010
12,306 9.4%	13,328 9%	15,476 10.3%

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.

Central and South America

2012	2011	2010
21,895 16.8%	19,838 13.4%	17,467 11.6%

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.

Africa

2012	2011	2010
6,950 5.3%	6,524 4.4%	7,056 4.7%

Sabaf intends to increase its presence in the area by leveraging its brand reputation, geographical proximity and long-term presence.
City expansion plans in North Africa and the Middle East represent a driver for possible market opportunities despite the difficulties related to the current situation in some of the main countries.

US, Canada & Mexico

2012	2011	2010
3,412 2.6%	3,898 2.6%	5,136 3.4%

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 opportunities.
Sabaf's market share is constantly growing for the **built-in segment. Growing security** needs have emerged in different market sectors.

TRENDS IN THE COOKING APPLIANCE MANUFACTURING SECTOR

For years now the sector has tended to outsource component design and production to highly specialised suppliers, who, 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.

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. Therefore, the appliances sector has been particularly hit by the progressive worsening of the macroeconomic situation in Europe.

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 or large free-standing kitchens for example).

Safety

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3

Corporate governance, Risk management, Compliance and Remuneration

SABAF

CORPORATE GOVERNANCE

Overview

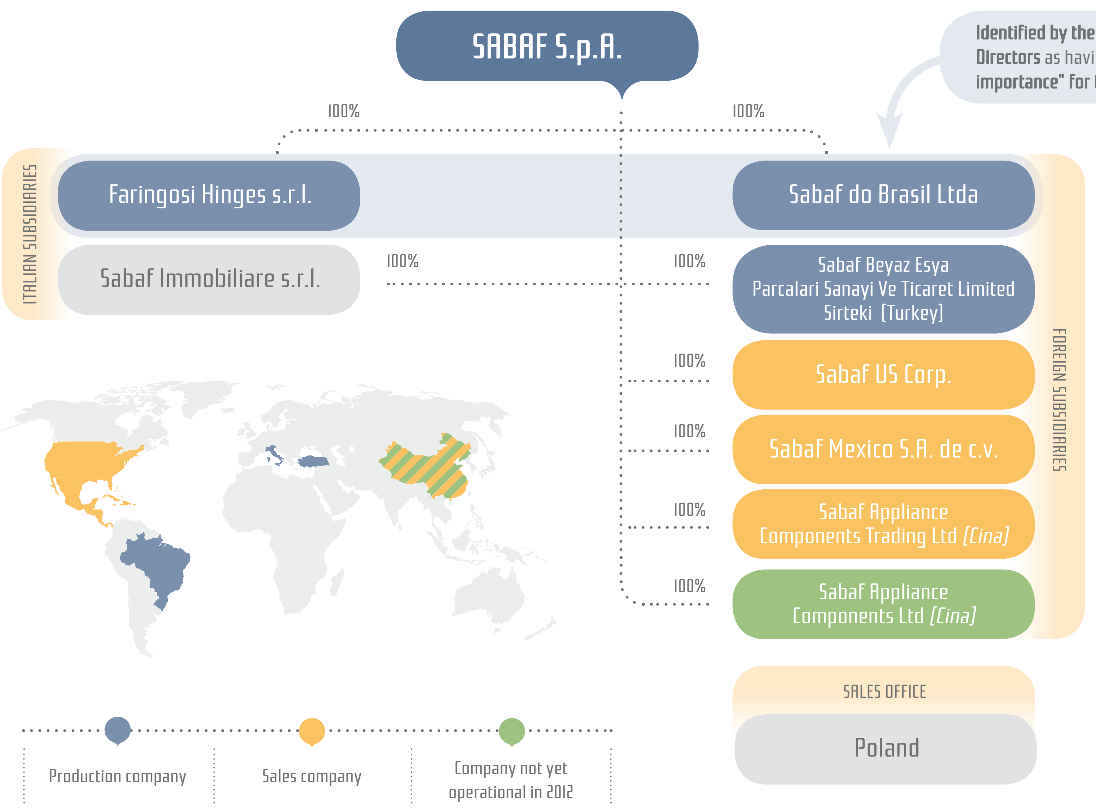
The corporate governance model adopted by Sabaf is based on the decision to strictly separate the interests and choices of the reference shareholder – the Saleri family – from those of the Company and the Group, and therefore assign corporate management to managers who are distinct from the reference 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 the values set at the head of the creation of value are able to orient decisions in a manner consistent with corporate culture and contribute significantly to assuring the Company's sustainable long-term growth. To this end, Sabaf has created and published a Charter of Values (available in the Sustainability section of the website, **www.sabaf.it**), 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.

This section of the report is intended to show the decisions taken by Sabaf and the special features of its governance system, revised in the light of the changes introduced by Italy's Corporate Governance Code (Codice di Autodisciplina) published in December 2011. Where possible, a comparison is also provided with other listed companies, using information taken from Assonime in its annual report on Corporate Governance in Italy, published in February 2013 and based on the Corporate Governance reports for the year 2011, published in 2012, of 255 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 2012 and available in the Investor Relations/Corporate Governance section of the website **www.sabaf.it**



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

a) 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 subsidiary in Turkey, burners, from the end of 2012.

b) The subsidiaries in Mexico and the United States, and the trading company in China are commercial enterprises.

c) 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;

- **a Board of Directors**, responsible for management of Company operations.

In accordance with the Code of Corporate Governance which the Company follows, this model is supplemented by:

a) committees set up at the time of the reappointment of corporate bodies by the Board of Directors internally, each charged to make proposals and provide advice on specific matters and without any decision-making powers, such as:

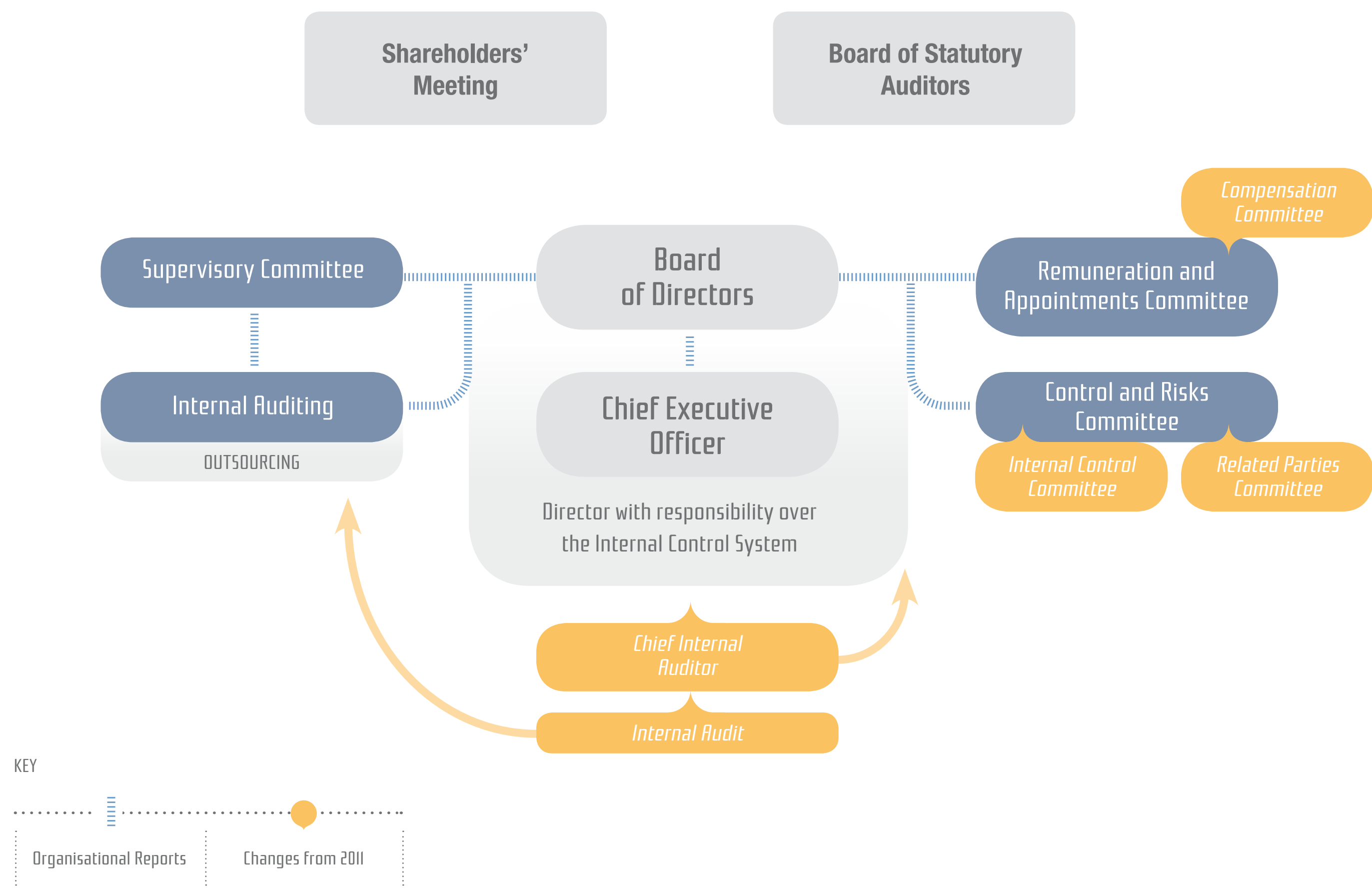
- **Control and Risks Committee**, formerly Internal Control Committee during the previous mandate, which also assumes the functions (until May 2012, corporate bodies reappointment date) of the Related Parties Committee;

- **Remuneration and Appointments Committee**, which assumes the functions given to the Compensation Committee during the previous mandate, supplementing them with the corporate body appointment and membership duties indicated in the Code,

b) the **Internal Auditing**, responsible for checking that the internal control and risk management committee is up and running and adequate.

Finally, the management and control model of the Group is completed by the presence of the **Supervisory Committee**, set up following the adoption of the organisation and control model pursuant to Legislative Decree 231/2001, which was adopted by Sabaf in 2006 as part of the first-stage approval.

THE GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

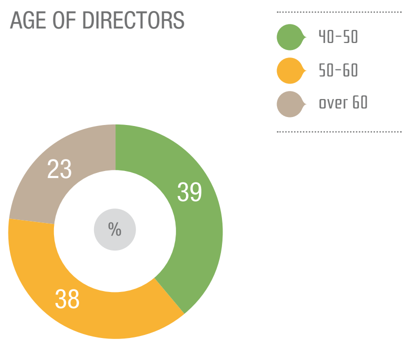
COMPOSITION

The term of the Board of Directors, appointed by the Shareholders' Meeting on 28 April 2009, has expired.
On 8 May 2012, the Shareholders' Meeting appointed the new Board of Directors which is currently serving and consists of 13 members.

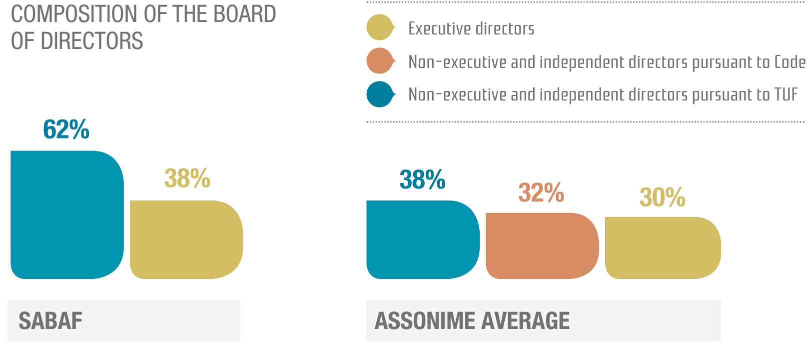
The ***Curricula Vitae*** of individual directors are available on the Company website.

	OFFICE	COMPONENTS	
	Chairman	Giuseppe Saleri	EXECUTIVE DIRECTORS
	Deputy Chairman	Gianbattista Saleri	EXECUTIVE DIRECTORS
	Deputy Chairman	Ettore Saleri	EXECUTIVE DIRECTORS
New appointment. Member of the Saleri family.	Deputy Chairman	Cinzia Saleri	EXECUTIVE DIRECTORS
Previous **executive director** and **Chief Financial Officer**.	Chief Executive Officer	Alberto Bartoli	EXECUTIVE DIRECTORS
	Director	Leonardo Cossu [1]	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
	Director	Salvatore Bragantini	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
	Director	Giuseppe Cavalli	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
	Director	Fausto Gardoni	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
	Director	Gregorio Gitti	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
Previous member of the Board of Statutory Auditors of Sabaf S.p.A. (until May 2012). Appointed **Lead Independent Director**.	Director	Renato Camodeca	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
New appointment, formerly **Chairman of the Supervisory Committee** of Sabaf S.p.A. and of the subsidiary Faringosi Hinges s.r.l.	Director	Nicla Picchi	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*
New appointment.	Director	Riccardo Rizza	NON-EXECUTIVE AND INDEPENDENT DIRECTORS *PURSUANT TO TUF AND CODE*

AGE OF DIRECTORS

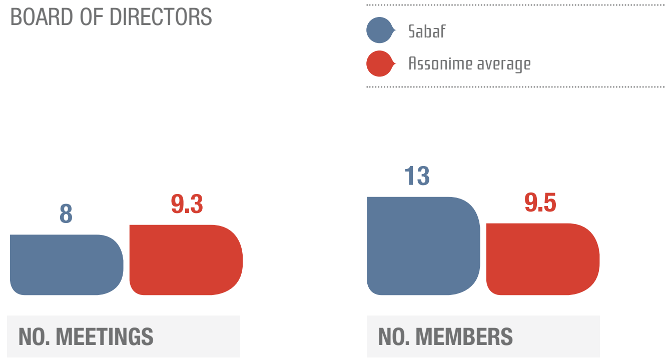


COMPOSITION OF THE BOARD OF DIRECTORS



1 Despite him having been a member of the Board of Directors of Sabaf S.p.A for more than nine years, the Board evaluated Leonardo Cossu's independence pursuant to the TUF and the Code of Corporate Governance, in view of his actual independent judgement shown during the previous mandates, therefore having more to do with substance than form.

BOARD OF DIRECTORS



Observations

The Board of Directors of Sabaf, elected by the Shareholders' Meeting on 8 May 2012, consists of 13 directors, the majority of which are non-executive and independent (8 members), one of which is from the minority list (in line with 84% of the sample analysed by Assonime).
Around 40% of the members are aged between 40 and 50 years old.

In 2012, the Board met 8 times with almost full attendance from each member (97% on average). The number of board meetings is slightly less than the average number of meetings of non-financial listed companies, as shown in Assonime's study (9.3).
The *Board of Statutory Directors* and the Company's Administration, Finance and Control Manager participated in all the meetings, as did Sabaf's managers, who had been invited to attend and report on specific matters on the agenda.

BOARD OF STATUTORY AUDITORS

COMPOSITION

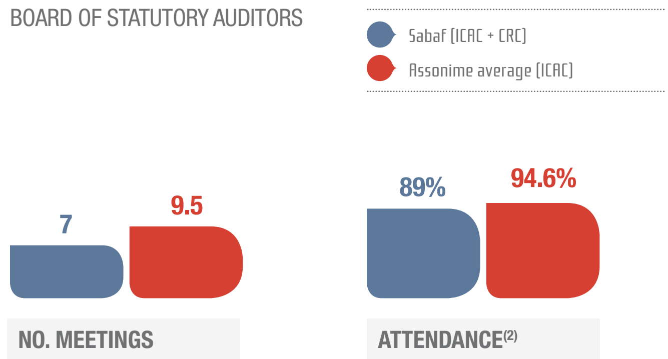
The term of the Board of Statutory Auditors, appointed on 28 April 2009, expired on 8 May 2012. The Shareholders' Meeting appointed members (some of whom were reappointed from the previous mandate) for the 2012 - 2014 period.

The Chairman of the Board of Statutory Auditors is from the minority list.

The ***Curricula Vitae*** of each statutory auditor are available on the Company website.

	OFFICE	COMPONENTS
	Chairman	Alessandro Busi
	Statutory Auditor	Enrico Broli
New appointment	Statutory Auditor	Anna Domenighini
New appointment	Alternate Auditor	Maurizio Fioretti
	Alternate Auditor	Paolo Guidetti

BOARD OF STATUTORY AUDITORS



2 Assonime panel including financial companies

Observations

The Sabaf Board of Statutory Auditors met seven times in 2012, slightly fewer times than the Assonime average.
Member attendance was around 90% on average.

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 Control and Risks Committee, the half-yearly collective meetings with the supervisory bodies and the individual meetings with the statutory auditing firm.

CONTROL AND RISKS COMMITTEE

COMPOSITION

In accordance with the Code of Corporate Governance published in 2011, the Board of Directors of Sabaf assigned the Control and Risks Committee from 8 May 2012 (date on which the Board of Directors currently in force was appointed) the tasks which the Internal Control Committee was previously responsible for.
The Committee was also given the functions of the Related Parties Committee, as set out in the previous mandate.
The Committee, set up within the Board, consists entirely of 4 non-executive and independent directors (Assonime average: 3 members).

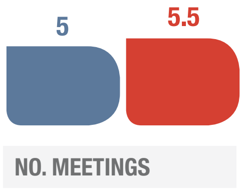
OFFICE	COMPONENTS
Chairman	Leonardo Cossu
Member	Salvatore Bragantini
Member	Renato Camodeca
Member	Nicla Picchi

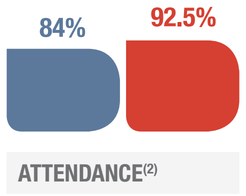
New appointment

Sul sito internet della Società sono disponibili i *Curricula Vitae* dei singoli membri.

CONTROL AND RISKS COMMITTEE
(internal Control and Audit Commitee)

Sabaf (ICAC + CRC)
Assonime average (ICAC)





Observations

In 2012, the Committee met 5 times, in line with the Assonime average.

Attendance by Committee members at these meetings is high, but slightly lower than the average shown in the Assonime study.

2 Assonime panel including financial companies

REMUNERATION AND APPOINTMENTS COMMITTEE

COMPOSITION

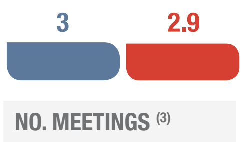
On 8 May 2012, the Board appointed a Remuneration and Appointments Committee, grouping in it the functions assigned by the Code for each single duty and assuming the previous responsibilities of the Compensation Committee of the previous mandate.

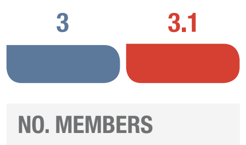
The Committee, set up within the Board, consists entirely of 3 non-executive and independent directors (Assonime average: 3.1 members).

OFFICE	COMPONENTS
Chairman	Fausto Gardoni
Member	Giuseppe Cavalli
Member	Leonardo Cossu

REMUNERATION AND APPOINTMENTS COMMITTEE

Sabaf
Assonime average





Observations

In 2012, the Committee met 3 times, in line with the Assonime average, and with the full attendance of each member.

3 Data on the Compensation Committee alone

INTERNAL AUDIT HEAD AND SUPERVISORY COMMITTEE

INTERNAL AUDIT

After obtaining the approval of the Control and Risks Committee and consulting with the Board of Statutory Auditors, on 8 May 2012 the Board of Directors appointed an external company, Protiviti s.r.l., as internal auditor for the three-year period 2012-2014, selecting Emma Marcandalli, Managing Director of the company, as head of the internal auditing. This choice was made in view of the greater expertise and efficiency that a specialist third party can ensure in internal auditing, taking into account Sabaf's size.

The Head of Internal Auditing is responsible for checking that the internal control and risk management committee is up and running and adequate. The Head reports to the Board of Directors, is not in charge of any operating areas and serves for the entire duration of the Board which has appointed them.

SUPERVISORY COMMITTEE

The term of the Supervisory Committee appointed for the three-year period 2009 - 2012 expired during the financial year. On 8 May 2012, the Board of Directors appointed the current Supervisory Committee consisting entirely of members from outside the Company.

Reappointed from the previous mandate. Also appointed member of the Board of Directors as **independent director**

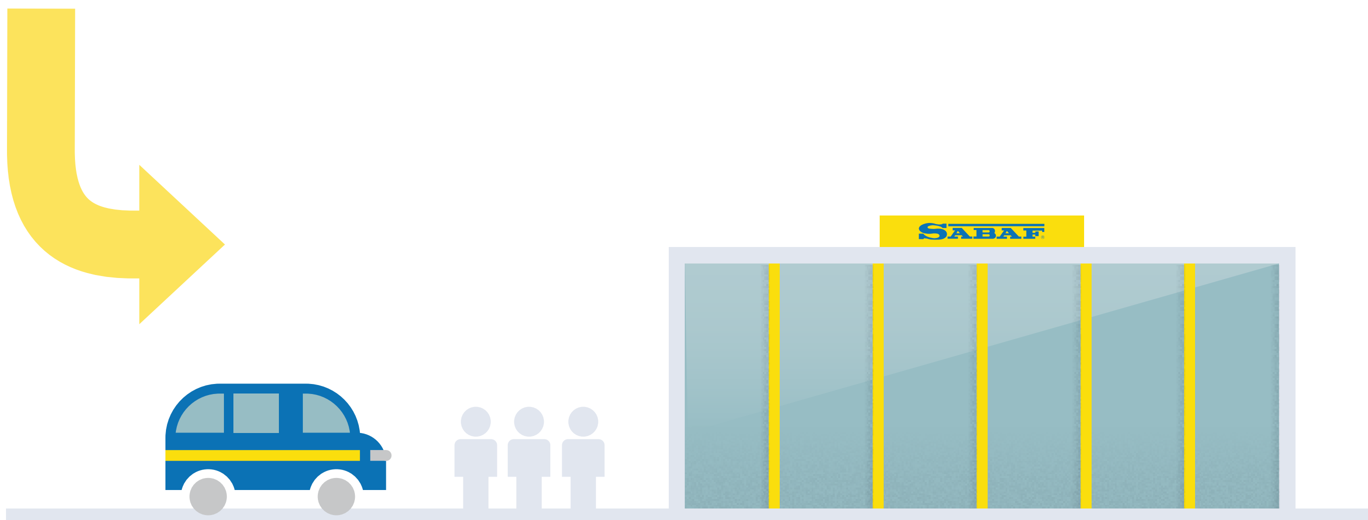
OFFICE	COMPONENTS
Chairman	Nicla Picchi
Member	Emma Marcandalli

Also appointed **Head of Internal Auditing.** Representative of the third party company to which Internal Auditing is outsourced

In 2012, Sabaf's Supervisory Committee met 9 times, requesting the attendance of the company's management to consult on specific matters.

INDUCTION PROGRAMME

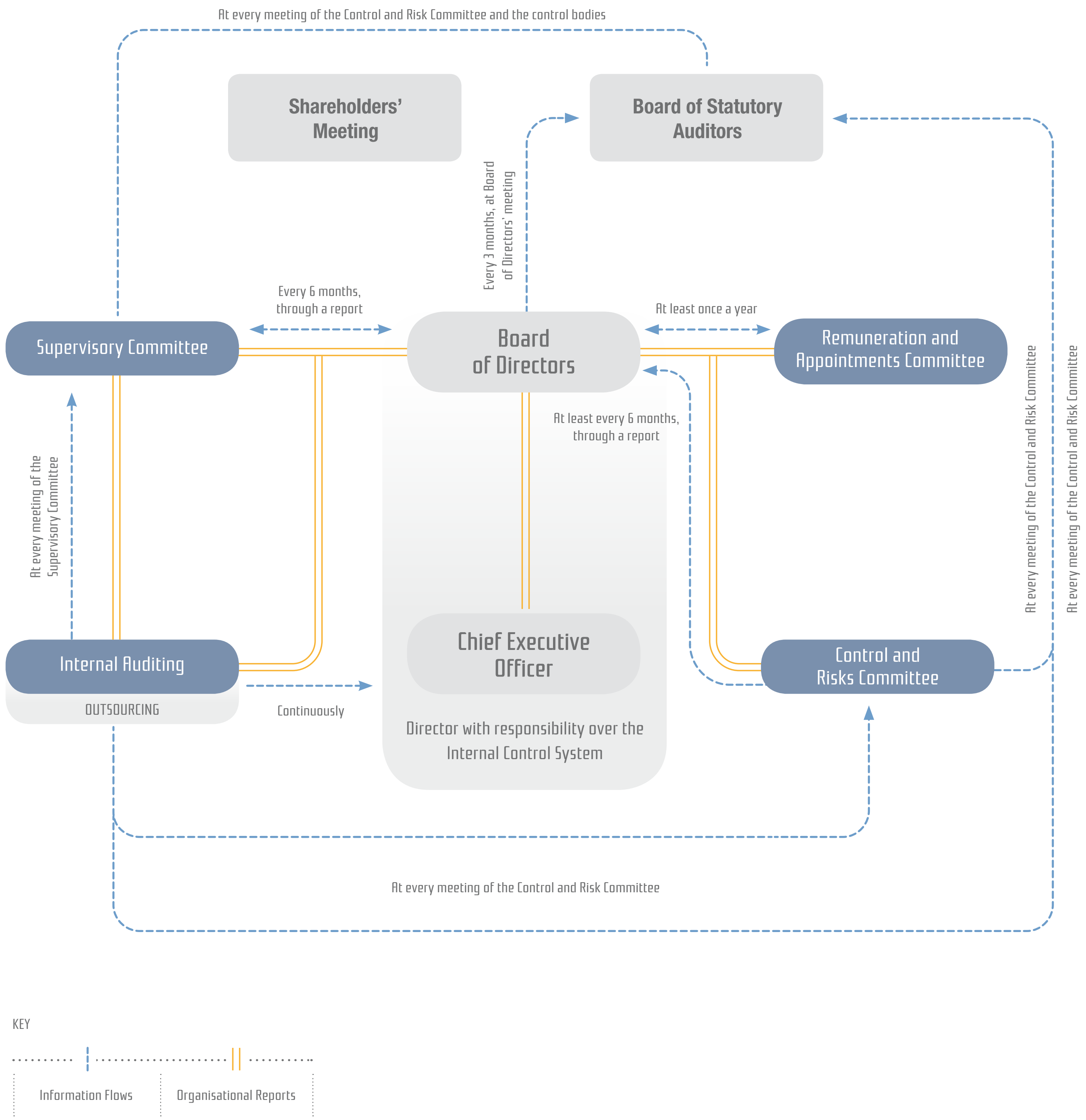
In 2012, the Company organised an induction day for newly-appointed statutory auditors and directors, which involved visiting the plant located in Ospitaletto to make the participants aware of the production processes and special features of the business of the Sabaf Group.



INFORMATION FLOWS

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.

INFORMATION FLOWS WITHIN THE CORPORATE GOVERNANCE STRUCTURE

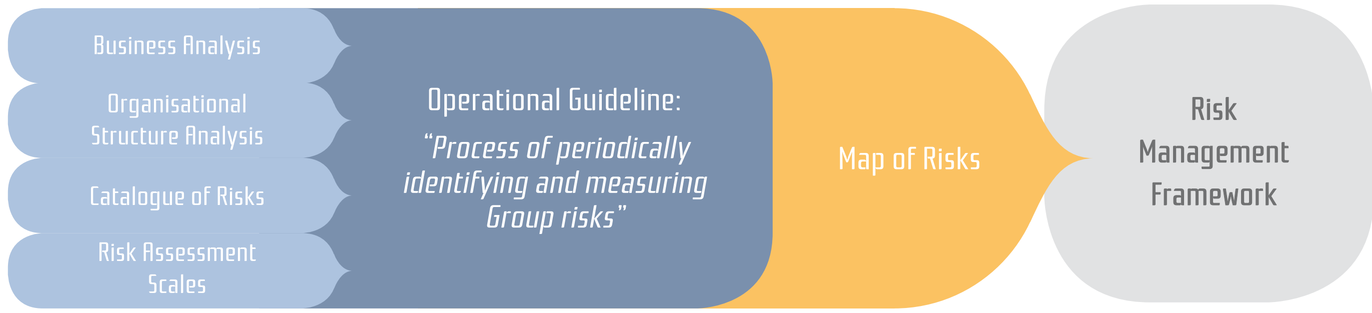


RISK MANAGEMENT

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.

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*.

ASSESSMENT SCALES		1	2	3	4
IMPACT	**Financial losses**	*Approx. 1% Ebit*	*Approx. 1% - 2.5% Ebit*	*Approx. 2.5% - 10% Ebit*	*Approx. 10% Ebit*
	Damage to persons	Limited effects on health	Average consequences for health	Serious risks for health	Irreversible effects
	Damage to image	Effects at local level	Effects at regional level	Effects at national level	Effects at international level
LIKELIHOOD	**Frequency**	Once every 3 years or more	Once every 2 years	Once a year	Several times a year
	Qualitative information	Unlikely/ Remote	Not very likely	Likely	Very likely
LEVEL OF RISK MANAGEMENT		*Unsuitable*	*Should be strengthened*	*Suitable (with limited room for improvement)*	*Excellent*

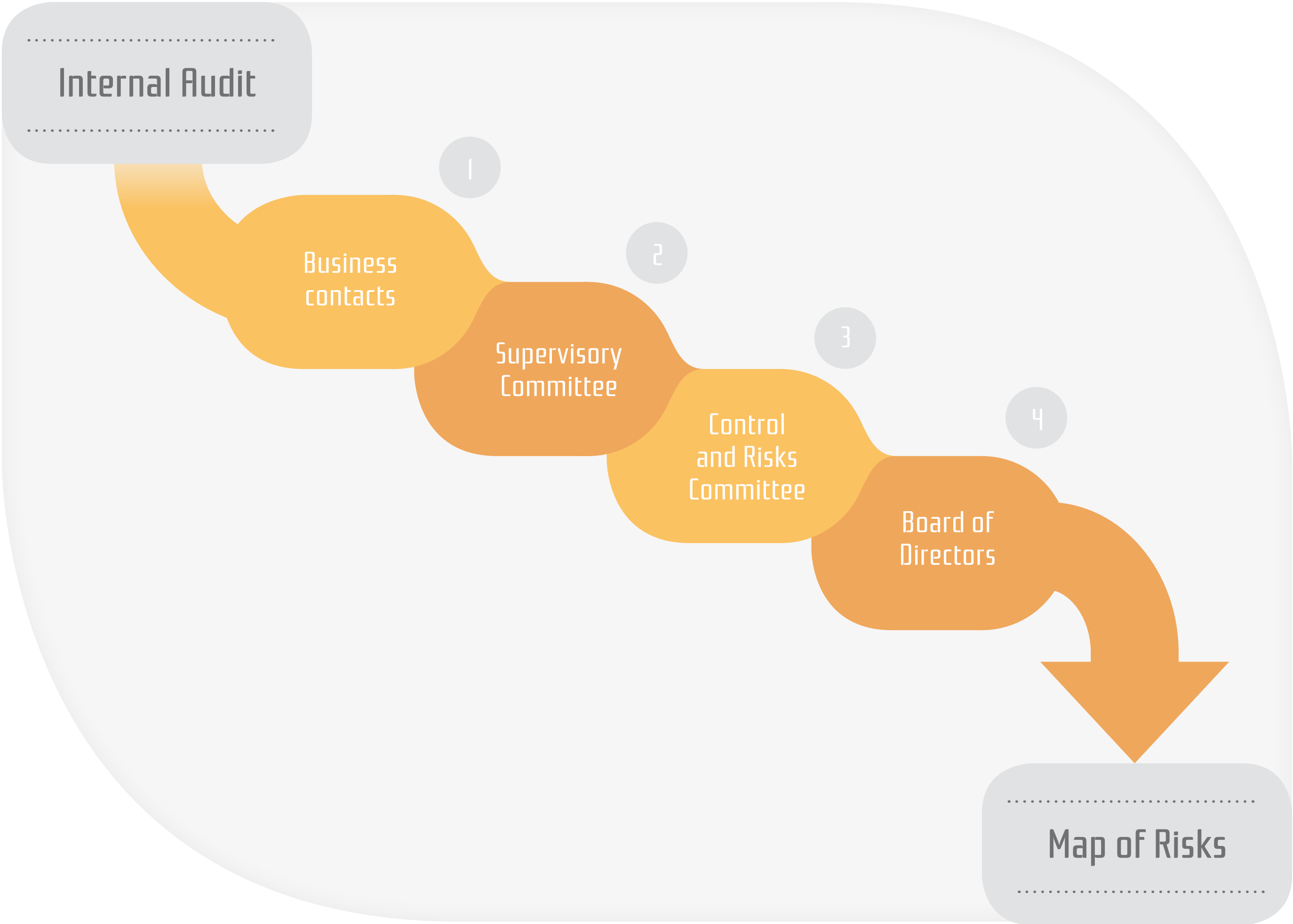
RISK ASSESSMENT 2012 – RESULTS

During the last few months of 2012, Internal Auditing conducted its regular process of risk assessment to identify and evaluate the Group's risks, with the involvement, according to their scope of authority, of:

- Chief Executive Officer
- Management, Finance and Control Manager — acting also as Financial Reporting Officer
- Production Manager — also acting as Employer and Environmental and Safety Manager
- Technical Manager
- Supervisory Committee

During the assessment process, which involves the control bodies, the risks take shape and are allocated on the map.

RISK ASSESSMENT PROCESS



The results of Sabaf's 2012 risk assessment highlight, among other things, the following 12 main risks, selected for their importance 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.

MAIN RISKS OF THE GROUP

1 Drop in demand in mature markets

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 household appliances sector, which is the Group's target market, is cyclical and generally related to the performance of the real estate market, which was heavily hit by the progressive decline in the macroeconomic situation in Europe.

RISK MANAGEMENT MEASURES
The Group intends to maintain, and where possible, strengthen its position of leadership by (i) launching new products marked by superior performance than current market standards; (ii) expanding on high-growth markets; (iii) 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.
However, the weakness of its core market and household appliance manufacturers' increasing focus on purchase costs 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

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.

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 an integrated quality management system in place 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 Presence in emerging economies

35% 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 5% respectively of direct Group sales in 2012, 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.

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.

6 Sustainability of the hinges business

The Hinges business reported a significant drop in results in FY 2012, as a result of an additional decline in the target market.

RISK MANAGEMENT MEASURES
In view of this situation, the Group intensified its efforts to relaunch the business. Over the next few years steady demand is expected on the European market for special products (including dampened springs, which aid the soft opening and closing of the oven door).
The Group has developed new products which ensure top performance and which are currently not available on the market, and has made numerous contacts with clients to launch these products. 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.

7 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.

RISK MANAGEMENT MEASURES
To support this process of expansion, the Sabaf Group takes great care to establish 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 target countries.

8 Loss of key staff

The results of the Group largely depend on the action of executive directors and management and, considering the intense research and development activity carried out, special technical skills are also necessary to maintain the Group's competitive edge.
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.

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 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).

RISK MANAGEMENT MEASURES
As of the date of this report, the Group has no derivative contracts to hedge exchange rate risks. 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.

Key - Risk Trend compared with 2011:

Increasing Decreasing Stable

10 Trend 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 any changes in the prices of commodities.
Any further increase in the price of commodities not hedged could have negative effects on expected profits.

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. As of the date of this report, the Sabaf Group has already fixed purchase prices for around 50% of its expected requirements of aluminium and around 75% of its expected requirements of brass.

11 Sales concentration

The Group is characterised by a strong concentration in its revenue, with around 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. The country's recent economic circumstances, characterised amongst other things by a progressive concentration in the white goods market, means the Group has to pay closer attention to managing relations with clients. 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.

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 for the services offered. Sabaf is careful, however, to avoid situations of excessive dependence on one customer.

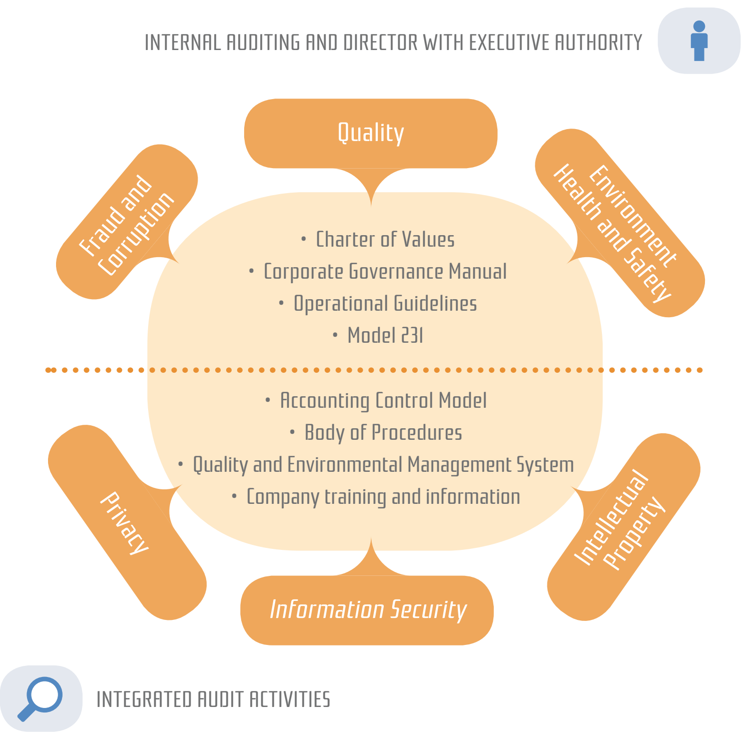
12 Customer insolvency

The high concentration of sales to 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, given the current European economic climate amongst other things.

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. 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.

COMPLIANCE

THE INTERNAL CONTROL SYSTEM



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 and risk management system;**
- concrete implementation procedures and mechanisms of the **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.

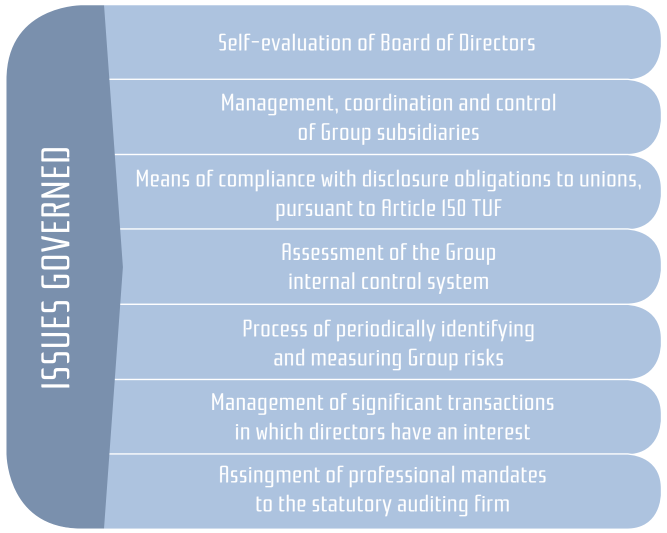
All this translates into a culture and tools based on *integrated compliance*

INTEGRATED COMPLIANCE AND THE 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, 2011 and, most recently, in September 2012. These guidelines were issued to ensure that the management and control bodies of Sabaf properly carry out their duties.

OPERATIONAL GUIDELINES



** The latest version of the text, which was brought in line with the Borsa Italiana Code of Corporate Governance as modified in December 2011 and which was approved at the Board meeting on 25 September 2012, is available on the website* ***www.sabaf.it*** *in the Corporate Governance section.*

INTEGRATED COMPLIANCE AND 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 changes in legislation that have occurred over time.
A new edition of the Model, which incorporates the offences introduced in the Decree in 2011 and in 2012, was approved by the Board of Directors in September 2012. Preliminary activities for *risk assessment* purposes are currently under way for the offences of "induced bribery" and "private bribery", which were introduced in November 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.

ACTIVITIES CONDUCTED IN 2012

- Systematic **checks** on the **Model's effectiveness**, through both audits conducted by Internal Auditing, and interviews with staff assigned to sensitive activities.
- **Updating of the Model**, relating to:
  - the introduction of a new Special Section on environmental offences;
  - the inclusion of organisational changes which have taken place during the year;
  - the updating/integration of information flows of the recipients of the Model to the Supervisory Committee and
  - other less important changes and updates;
- Provision of **information** and **training** to all employees regarding the updating of the Model.

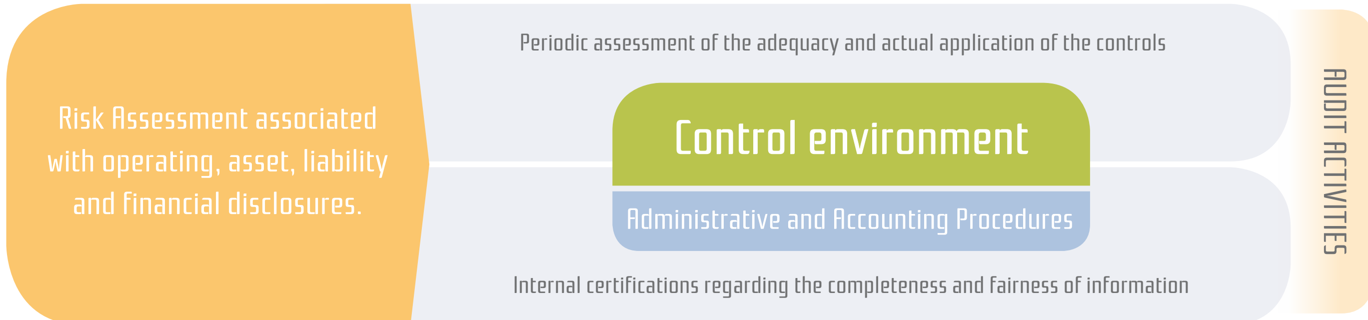
INTEGRATED COMPLIANCE AND LEGISLATIVE DECREE 262/2005

Sabaf considers the internal control and risk management 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.

FEATURES OF THE ACCOUNTING CONTROL MODEL

On 18 December 2012, the list of company procedures governing financial reporting, updated to take into account the organisational changes within Sabaf, were presented and approved by the Board of Directors, as part of a more general review of the Company's body of regulations.



GENERAL REMUNERATION POLICY

In accordance with regulation on remuneration, the Board of Directors approved the "General Remuneration Policy" on 22 December 2011. This Policy, applied from the date of approval by the Board, was fully implemented in 2012 following the appointment of the new corporate bodies.

The Policy sets out the criteria and guidelines for establishing 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 2012.

PURPOSE

BODIES INVOLVED IN THE APPROVAL PROCESS

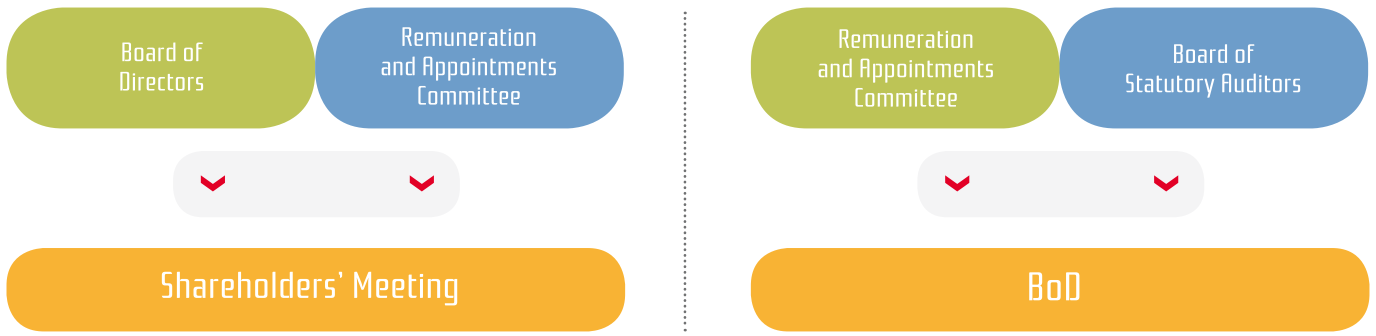
Fixed component

On the proposal of the Board of Directors and having heard the opinion of the Remuneration and Appointments 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 and Appointments 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*

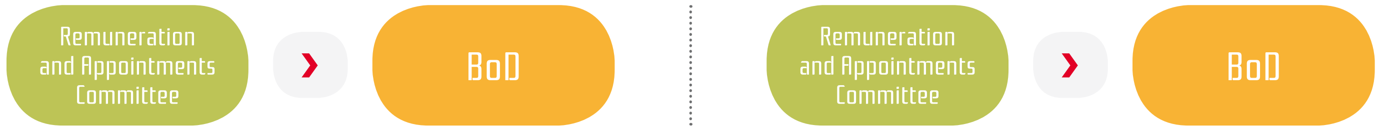


There are no incentive plans based on financial instruments or *ex ante* agreements governing financial settlements following the early termination of the working relationship.

Variable Component

Short-term:
On the proposal of the Remuneration and Appointments 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*

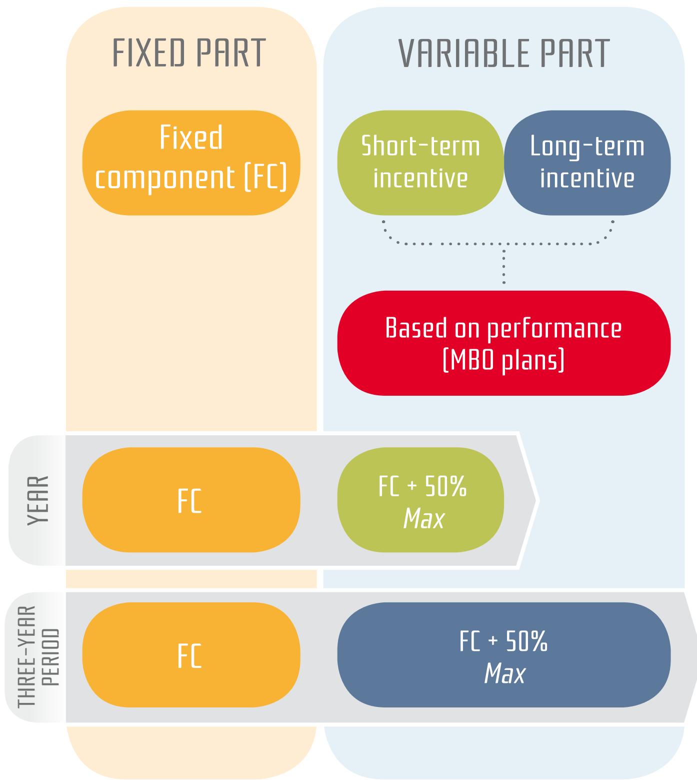
Long-term:
On the proposal of the Remuneration and Appointments Committee, the Board of Directors approves the long-term financial incentive for:
- *Chief Executive Officer*
- *Other executives with strategic responsibilities*



COMPONENTS OF THE REMUNERATION

Fixed component

- **Directors:** the total amount for the remuneration of members of the Board comprises a fixed sum and attendance fees.
- **Statutory Auditors:** the remuneration for Statutory Auditors is determined by the Shareholders' Meeting as a fixed amount.
- **Other executives with strategic responsibilities:** the fees are for employment relationships governed by the Collective National Contract for Industrial Managers.
- **Directors and executives with strategic responsibilities in subsidiary companies:** the fees are a fixed amount.



Variable component:

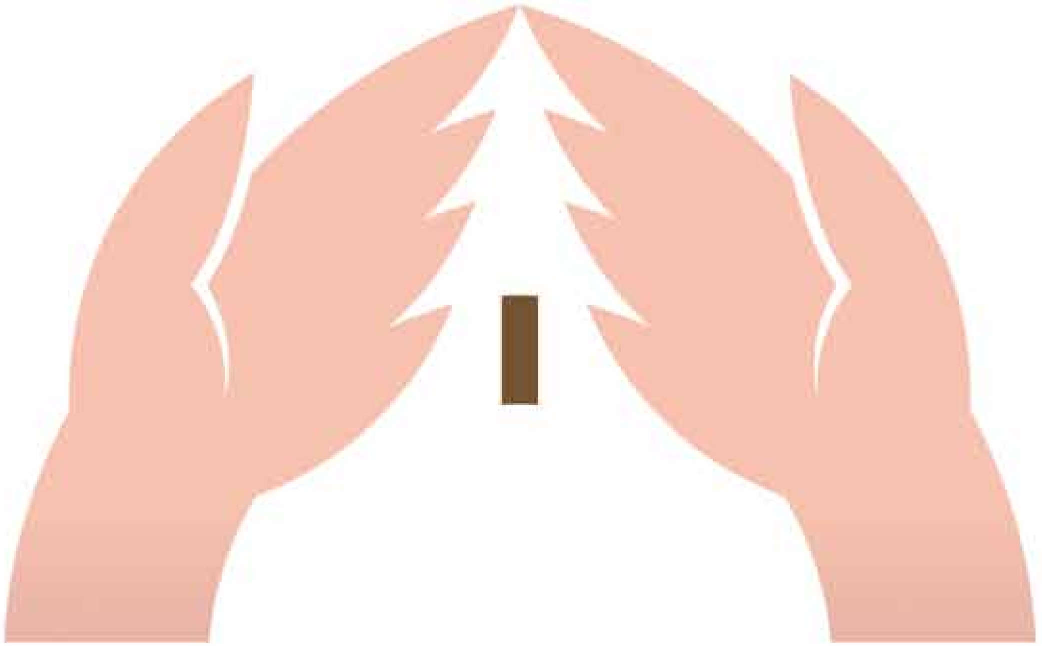
- **The short-term variable component** may reach 50% of the fixed gross annual remuneration (RAL) from 2013; it may also be granted partially in the event that the objectives are only partially been met.
  75% is paid out in the April of the following year, and 25% in the January of the second subsequent year.
- **The total long-term variable component** for three years may not exceed 50% of the fixed gross annual remuneration; it may be only partially granted in the event that the objectives are only partially 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.
  It is paid in full following the approval of the financial statements of the third year to which the incentive relates.

  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.

Non-monetary benefits:

- **Third-party civil liability insurance policy:** these are provided for directors, statutory auditors and managers to cover unlawful acts or breaches of obligations committed while carrying out their duties.
- **Life insurance policy and cover for medical expenses (FASI)**: these are provided for managers who, in addition to what is established by the Collective National Contract for Industrial Managers, benefit from a supplementary policy for medical fees not covered by FASI reimbursements.

Environmental Sustainability



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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 S.p.A. 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 2012, when auditors collected evidence of the Company's commitment to supporting the Social Accountability System, and no evidence of non-compliance emerged.

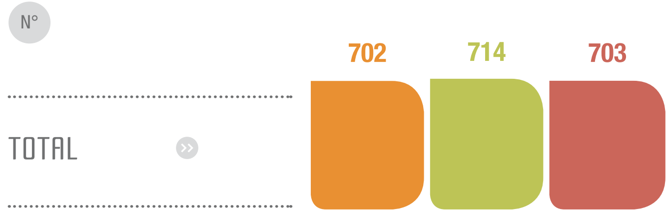
The corporate responsibility management system at Faringosi Hinges S.r.l was verified by the TUV NORD Certification Agency in January 2013. There were two minor findings and several opportunities for improvement.

HIRING POLICY, COMPOSITION AND CHANGES IN EMPLOYEES

As at 31 December 2012, the Sabaf Group had 702 employees, compared with 714 at 2011 year-end (-1.7%)[6].

As regards basic types of employment contracts, 694 employees (98.8%) had permanent contracts, 4 (0.6%) had training or apprenticeship contracts, and 4 (0.6%) had temporary contracts.

	31.12.2012	31.12.2011	31.12.2010
Sabaf S.p.A. (Ospitaletto, BS)	580	598	593
Faringosi Hinges (Bareggio, MI)	49	51	53
Sabaf do Brasil (Jundiaì, San Paolo)	73	65	57
TOTAL	**702**	**714**	**703**

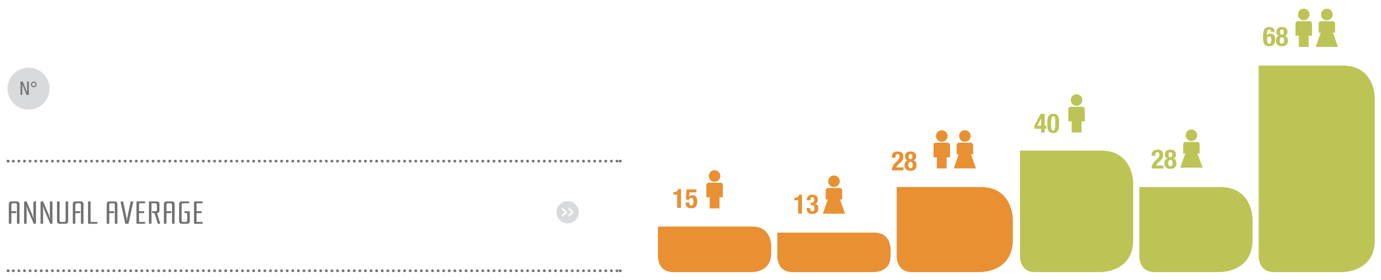


	31.12.2012			31.12.2011		
Permanent	451	243	694	441	244	685
Training or apprenticeship	4	0	4	19	1	20
Temporary	4	0	4	9	0	9
TOTAL	**459**	**243**	**702**	**469**	**245**	**714**

6 On 31 December 2012, there are also 23 employees at Sabaf Turkey, a company not included in the reporting since it only started operations in the later part of 2012.

Temporary staff (on an employment agency contract)

	2012			2011		
TEMPORARY STAFF						
January	26	31	57	44	22	66
February	28	26	54	44	27	71
March	25	19	44	43	29	72
April	8	4	12	44	31	75
May	12	10	22	39	27	66
June	12	15	27	29	30	59
July	17	15	32	42	31	73
August	19	12	31	42	32	74
September	12	8	20	44	27	71
October	7	3	10	36	28	64
November	7	7	14	36	31	67
December	4	6	10	31	26	57
ANNUAL AVERAGE	**15**	**13**	**28**	**40**	**28**	**68**



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 2011 owing to fewer peaks of intense activity.

During 2012, Sabaf Group companies hired 37 ex-temporary workers on a permanent basis (42 in 2011).

In 2012, Sabaf offered work placements to 14 students (29 in 2011). 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.

STAFF TURNOVER IN 2012

Sabaf S.p.A.

	31/12/11	New hires	Departures	Change in category	31/12/12
Senior management	7	0	1	2	8
Clerical staff and middle management	113	0	6	-1	106
Manual workers	478	3	14	-1	466
TOTAL	**598**	**3**	**21**	**0**	**580**

Faringosi Hinges s.r.l.

	31/12/11	New hires	Departures	Change in category	31/12/12
Senior management	1	0	0	0	1
Clerical staff and middle management	17	0	1	0	16
Manual workers	33	0	1	0	32
TOTAL	**51**	**0**	**2**	**0**	**49**

Sabaf Do Brasil Ltda

	31/12/11	New hires	Departures	Change in category	31/12/12
Senior management	0	0	0	0	0
Clerical staff and middle management	12	6	9	0	9
Manual workers	53	28	17	0	64
TOTAL	**65**	**34**	**26**	**0**	**73**

GROUP TOTAL

	31/12/11	New hires	Departures	Change in category	31/12/12
Senior management	8	0	1	2	9
Clerical staff and middle management	142	6	16	-1	131
Manual workers	564	31	32	-1	562
TOTAL	**714**	**37**	**49**	**0**	**702**

New hires by category and gender

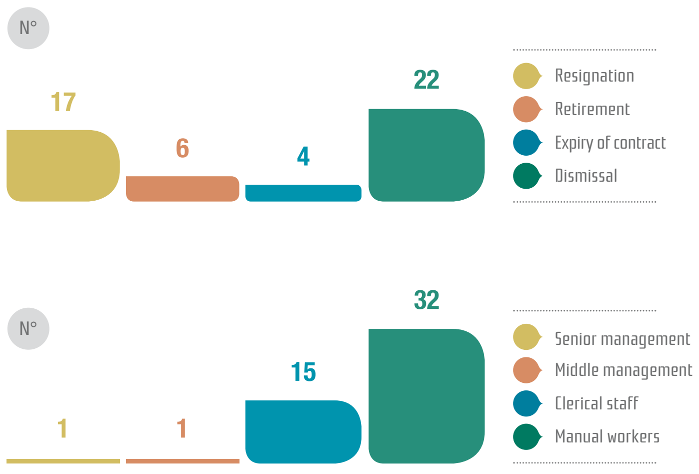
Description	2012			2011		
Senior management	0	0	**0**	0	0	**0**
Clerical staff and middle management	0	6	**6**	4	3	**7**
Manual workers	28	3	**31**	42	7	**49**

Redundancies by age bracket and gender

Description	2012			2011		
< 20 years	0	1	**1**	1	1	**2**
21-30 years	19	5	**24**	12	5	**17**
31-40 years	7	5	**12**	7	6	**13**
41-50 years	4	0	**4**	5	1	**6**
> 50 years	5	3	**8**	6	1	**7**

Reasons for termination of employment in 2012

Description	Senior management	Middle management	Clerical staff	Manual workers	TOTAL
Resignation	1	1	7	8	17
Retirement	0	0	2	4	6
Expiry of contract	0	0	0	4	4
Dismissal	0	0	6	16	22
TOTAL	**1**	**1**	**15**	**32**	**49**



TOTAL 49

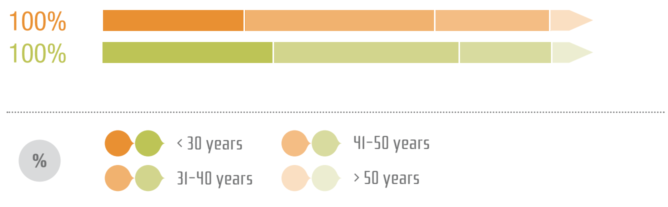
The initiatives undertaken in the last few years, including the review of remuneration policies, significantly reduced staff turnover at Sabaf do Brasil, which is still however higher than the Group average, because of the high demand for labour in the country, particularly in the area of Jundiaì.

Breakdown of employees by age

	31.12.2012	31.12.2011
< 30 years	28.8%	35.0%
31-40 years	38.5%	37.6%
41-50 years	23.6%	19.3%
> 50 years	9.1%	8.1%
Total	**100.0%**	**100.0%**

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.

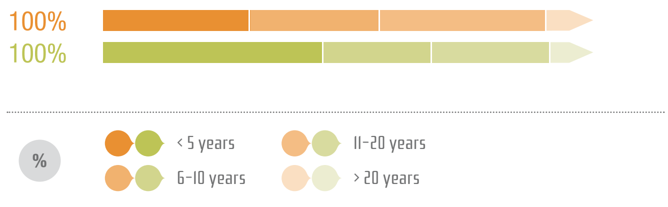
The minimum age of Group employees is 18 in Italy and 16 in Brazil.



Breakdown of employees by seniority

	31.12.2012	31.12.2011
< 5 years	29.9%	44.7%
6-10 years	26.5%	22.4%
11-20 years	34.2%	24.1%
> 20 years	9.4%	8.8%
Total	**100.0%**	**100.0%**

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.

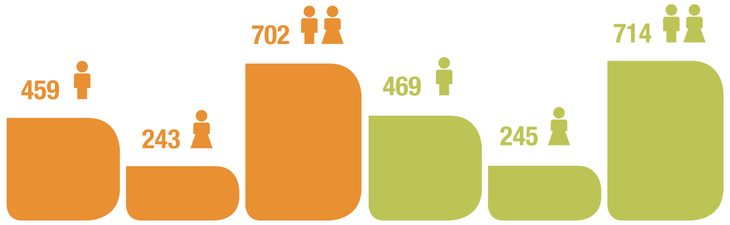


Staff breakdown by functional area

AREA	2012			2011		
Production	284	165	449	289	168	457
Quality	41	29	70	44	30	74
Research & development	75	4	79	78	4	82
Logistics	24	1	25	24	1	25
Administration	7	19	26	7	18	25
Sales	5	11	16	7	11	18
Services	19	12	31	16	11	27
Procurement	4	2	6	4	2	6
TOTAL	**459**	**243**	**702**	**469**	**245**	**714**

N°

ANNUAL AVERAGE



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

Educational qualification	2012				2011			
University degree	45	15	60	8.5%	35	9	44	6.2%
High school diploma	217	86	303	43.2%	228	90	318	44.5%
Middle school diploma	190	131	321	45.7%	198	137	335	46.9%
Primary school certificate	7	11	18	2.6%	8	9	17	2.4%
TOTAL	**459**	**243**	**702**	**100%**	**469**	**245**	**714**	**100%**

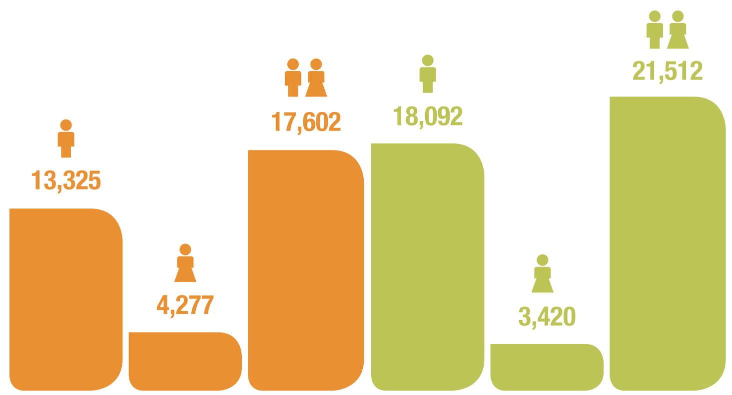
TRAINING

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.

	2012			2011		
Training for new recruits, apprentices, initial employment contracts	2,889	619	3,508	5,431	197	5,628
Information systems	112	31	143	445	423	868
Technical training	1,065	163	1,227	142	69	211
Safety, environment and social responsibility	3,717	1,077	4,794	1,317	283	1,600
Administration & organisation	269	306	575	231	148	379
Foreign languages	720	309	1,029	122	0	122
Total hours of training received	**8,772**	**2,504**	**11,276**	**7,688**	**1,120**	**8,808**
Of which: training hours provided by in-house trainers	4,553	1,773	6,326	10,404	2,300	12,704
TOTAL	**13,325**	**4,277**	**17,602**	**18,092**	**3,420**	**21,512**

N°

TOTAL



The training hours provided by in-house trainers also include the training given to employment agency staff (3,387 hours in 2012).

In terms of workplace safety, in 2012, Sabaf S.p.A. implemented and, for the most part, completed the compulsory training program for employees, managers and executives as well as periodic training in line with that set forth by the current law. In 2013, the company intends to complete compulsory training and provide training courses for specific tasks (at least 12 hours for each employee).

Significant commitment was dedicated to linguistic training, which involved technical and commercial staff in line with the continually more international vocation of the Group.

Per capita hours of training received by job category

	2012			2011		
Manual workers	15.9	8.2	13.2	14.5	5.9	11.5
Clerical staff and middle management	29.7	20.3	26.5	14.0	18.0	15.4
Senior management	24.7	61.75	30.0	21.2	n.a.	21.2
TOTAL	**18.7**	**10.2**	**15.9**	**14.5**	**8.2**	**12.3**

In 2012, the total cost of training Group employees was €499,000 (€396,000 in 2011).
In addition, training costs for temporary staff totalled €75,000 in 2012 (€224,000 in 2011).

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.

During 2012, the office staff had 1,442 appointments with consultants about work or personal issues.

In 2012 and 2013, the HR PORTAL program was launched, a program through which each worker with customized access can consult the information published by the company on: pay slips, tax and contribution data, agreements and collective communications.

Percentage distribution of employment by gender

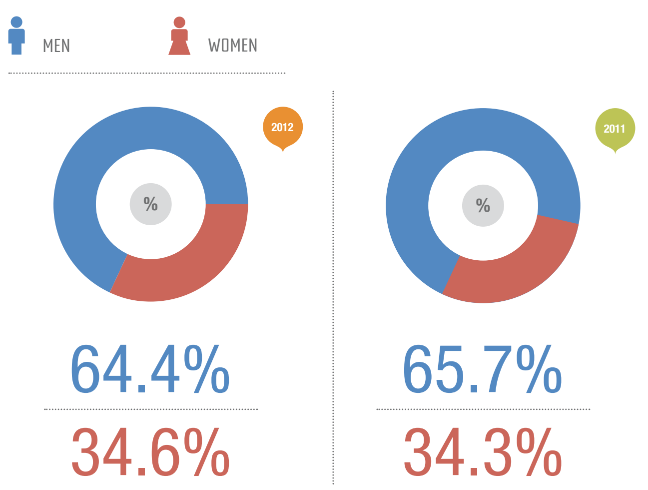
	2012		2011		BENCHMARK[7]
	Number	%	Number	%	%
Men	459	65.4	469	65.7	82.7
Women	243	34.6	245	34.3	17.3
TOTAL	**702**	**100**	**714**	**100**	**100**

DIVERSITY AND EQUAL OPPORTUNITIES

Sabaf is permanently committed to assuring equal opportunities for female staff, who today account for 34.6% of the workforce (34.3% in 2011).

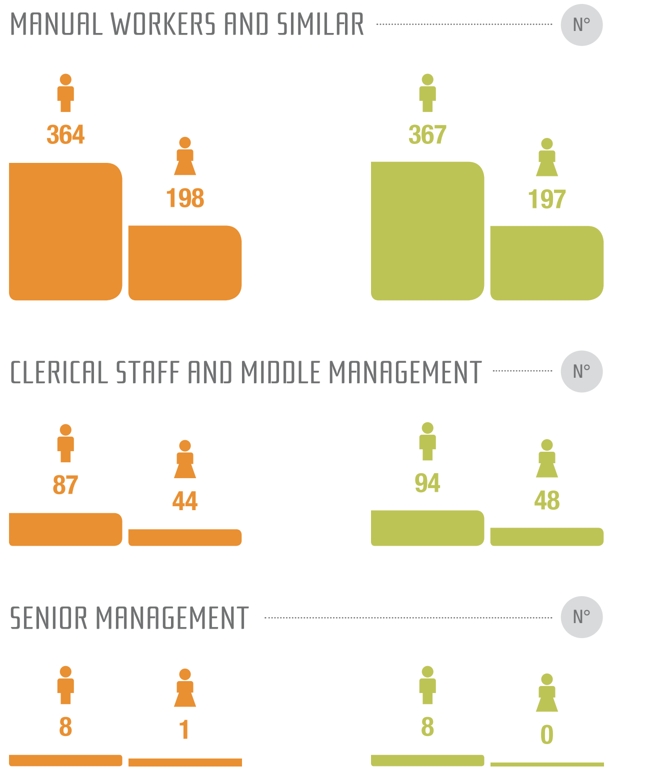
The Company – subject to organisational and production requirements – is mindful of staff family commitments. To date, the majority of requests to reduce working hours made by workers have been satisfied. In 2012, the Sabaf Group granted a total of 35 part-time contracts (three to female clerical staff, 29 to female manual workers and three to male manual workers), equivalent to 5% of the total (37 contracts in 2011).

15 disabled people work in the Sabaf Group, of which 5 on a part-time basis. 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 Gruppo Fraternità (a cooperative consortium based in Ospitaletto) on hiring of protected categories.



7 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Worker breakdown by gender (2008), [L'industria metalmeccanica in cifre (giugno 2011) – Distribuzione dell'occupazione per sesso (2008)]* http://www.federmeccanica.it

Breakdown by category



TOTAL 702 714

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

Non-EU workers[8]

	2012	2011	BENCHMARK[9]
Non-EU workers	66	68	
% of total employees	10.49%	10.48%	2.40%

At 31 December 2012, 14 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.

8 Figures refer to Italian companies only. Sabaf do Brasil is not included.
9 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Non-EU workers (2010) [L'industria metalmeccanica in cifre (giugno 2012) – Lavoratori extracomunitari (2010)]*, http://www.federmeccanica.it

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[10]	1,480.81	1,527.62	+3.2%
Brazil (BRL)	885	990	+11.9%

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

	2012	2011
Clerical staff, middle management and senior management	65%	68%
Manual workers	91%	93%

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.

Overtime

	2012		2011		BENCHMARK[11]	
	Clerical staff	Manual workers	Clerical staff	Manual workers	Clerical staff	Manual workers
Average number of workers per month who worked overtime	65	201	75	250	-	-
Number of hours of overtime	8,579	22,514	11,140	31,043	-	-
Annual hours of overtime per capita[12]	64	40	78	55	51	54

10 Gross salary of a manual worker/grade 3 clerical employee

11 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita overtime hours (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di lavoro straordinario (2009)]*, http://www.federmeccanica.it

12 in relation to the average number of employees

Total hours of absence

	2012			2011			BENCHMARK[13]
Total annual hours of absence	27,642	45,863	73,505	31,268	47,363	78,631	-
Hours of absence as % of workable hours	3.0%	9.7%	5.2%	3.4%	10.1%	5.6%	-
Average hours of absence per capita	59.7	185.6	103.6	66.9	192.3	110.2	126.3

Hours of sick leave

	2012			2011			BENCHMARK[14]
Total annual hours of sick leave	20,844	17,679	38,523	22,127	16,620	38,747	-
Hours of sick leave as % of workable hours	2.2%	3.7%	2.7%	2.4%	3.5%	2.8%	-
Per capita hours of sick leave	45.1	71.5	54.3	47.3	67.5	54.3	62.8

Hours of maternity leave

	2012			2011			BENCHMARK[15]
Total annual hours of maternity leave	672	25,378	26,050	1,328	26,664	27,992	-
Hours of maternity leave as % of workable hours	0.1%	5.4%	1.9%	0.1%	5.7%	2.0%	-
Per capita hours of maternity leave	1.5	102.7	36.7	2.8	108.3	39.2	15.5

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

13 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita hours of absence from work (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

14 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita hours of absence from work (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

15 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita hours of absence from work (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

Parental Leave[16]

Type of leave	2012				2011			
				% of workers in workforce after 12 months				% of workers in workforce after 12 months
Required maternity/ paternity leave	0	16	16	n.a.	1	16	17	94%
Early maternity leave	0	15	15	n.a.	0	14	14	100%
Optional maternity/ paternity leave	4	16	20	n.a.	2	16	18	94%
Child-rearing leave	1	9	10	n.a.	6	6	12	100%
Blood donation	5	2	7	n.a.	3	1	4	100%
Assistance for disabled family members (Law 104)	14	10	24	n.a.	7	8	15	100%
Leave of absence	3	1	4	n.a.	0	2	2	50%
Extraordinary parental leave	2	0	2	n.a.	2	1	3	100%

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

	2012	2011
Number of hours of statutory redundancy pay	28,920	1,540
Annual average number of hours per capita	45.43	2.18

During the year Italian Group, companies made use of government subsidised temporary lay-off benefits during periods when production requirements were low.

16 Figures refer to Sabaf S.p.A. only.

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

	2012			2011			BENCHMARK[17]
							-
On-site accidents	11	2	13	15	6	21	-
Off-site accidents	5	0	5	2	1	3	-
Average absence due to on-site accidents (days)	14.09	4.00	12.54	13.40	17.00	14.43	-
Average absence due to off-site accidents (days)	45.8	0	45.8	10.5	24.0	15.0	-
Total days of absence due to accidents	2,334	50	2,384	1,340	720	2,060	-
Per capita hours of absence due to accidents	**5.08**	**0.21**	**3.40**	**2.87**	**2.92**	**2.89**	**6.8**

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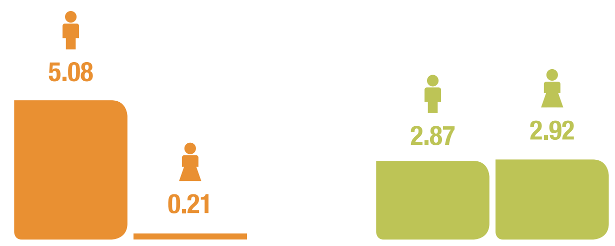
TOTAL 3.40 2.89



17 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita hours of absence from work (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

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

	2012			2011		
Index	14.62	6.04	12.00	18.44	18.58	18.48

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

	2012			2011		
Index	0.21	0.02	0.15	0.26	0.29	0.27

No serious accidents occurred in 2012. 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 2012, 2,082 medical check-ups were performed (2,387 in 2011).

Current expenditure on worker safety

(AMOUNTS IN €'000)	2012	2011
Plant, equipment and materials	35	95
Personal protective equipment (PPE)	60	98
External training	44	13
Advisory services	29	45
Analyses of workplace environment	7	3
Medical check-ups (including pre-hire check-ups)	53	51
Software and databases	0	1
TOTAL	**228**	**306**

Investments in worker safety

(AMOUNTS IN €'000)	2012	2011
Plant, equipment and materials	80	273
TOTAL	**80**	**273**

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 S.p.A.: FIOM, FIM and UILM. As at December 2012, 153 employees were card-carrying members, i.e. 21.8% of total employees (in 2011, 151 employees were card-carrying members, 21.2% of the total).
Relations between senior management and trade union representatives are based on mutual transparency and fairness. During the year, there were 26 meetings at Sabaf S.p.A. between management and trade union representatives.
The main issues addressed were:

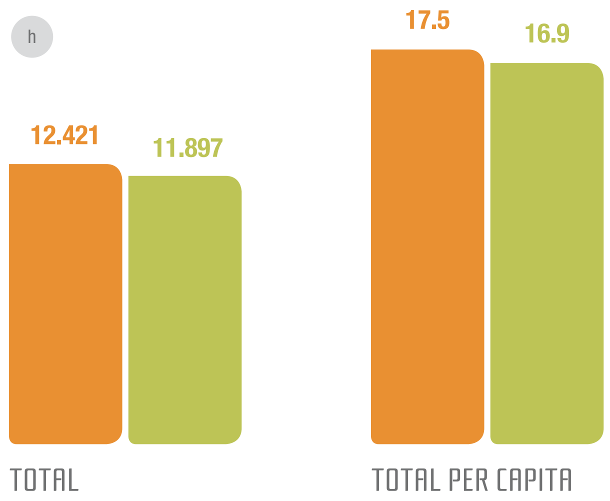
- announcements regarding changes in permanent staff and employment agency contracts, monitoring temporary and training contracts and planning of recruitment and training;
- definition of the company calendar;
- worker training in company safety.
- the election of employee candidates for SA 8000 certification
- government-subsidized temporary lay-off benefits

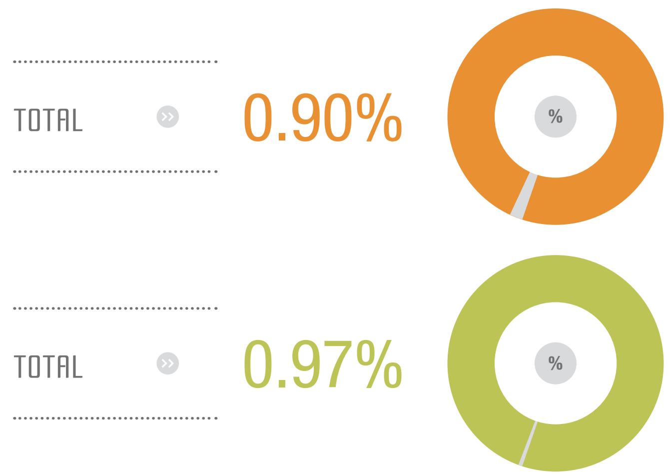
The hours spent taking part in trade union activities in 2012 were equivalent to 0.90% of workable hours.

PARTICIPATION IN TRADE UNION ACTIVITIES

	2012	2011	BENCHMARK[18]
UNION MEETINGS			
Number of hours	3,667	2,103	-
As % of workable hours	0.27%	0.17%	-
Number of hours per capita	5.2	3.0	-
UNION LEAVE OF ABSENCE			
Number of hours	1,972	1,823	-
As % of workable hours	0.14%	0.15%	-
Number of hours per capita	2.8	2.6	-
INDUSTRIAL ACTION			
Number of hours	6,782	7,971	-
As % of workable hours	0.49%	0.65%	-
Number of hours per capita	9.6	11.3	4.3
TOTAL			
Number of hours	12,421	11,897	-
As % of workable hours	0,90%	0,97%	-
Number of hours per capita	17.5	16.9	-

In 2012, a total of 43 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.





18 FEDERMECCANICA, *The metalworking industry in figures (June 2012) – Per capita hours of absence from work (2010) [L'industria metalmeccanica in cifre (giugno 2011) – Ore pro-capite di assenza dal lavoro (2009)]*, http://www.federmeccanica.it

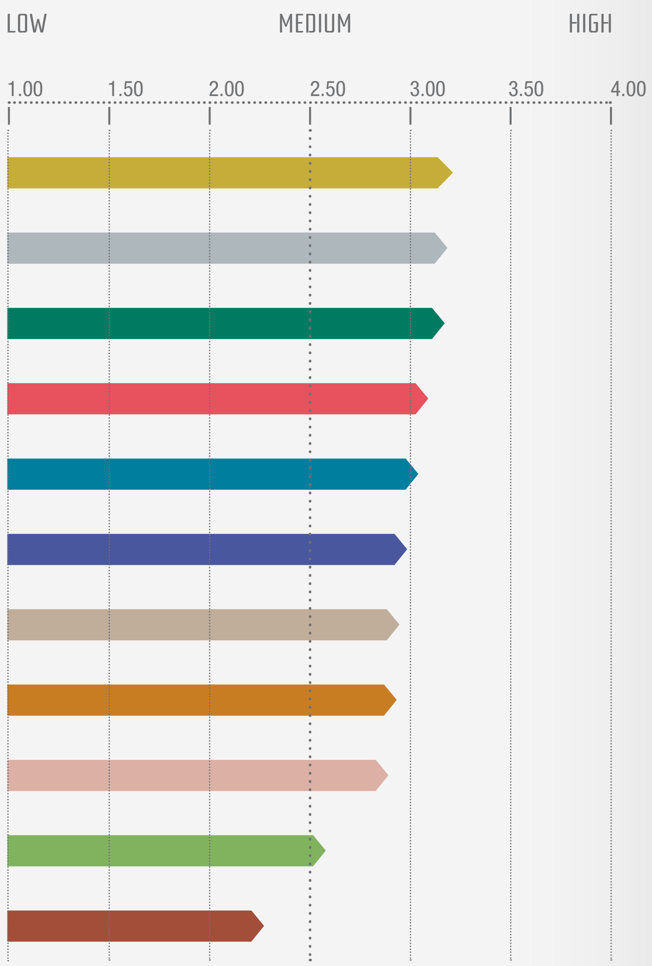
Climate Investigation

The Group intends to encourage a positive work environment by listening to the needs of its partners. For this reason, in October 2012, a second climate analysis was performed at Sabaf S.p.A. with the goal of surveying partners about work conditions and areas for improvement. The analysis, conducted by filling out an anonymous questionnaire, involved all 582 partners at the Ospitaletto offices and obtained about a 50% response rate.

The analysis focused on eleven areas: the characteristics of the workplace environment, sharing company values, workplace satisfaction, relations with supervisors, relations and dialogue with colleagues, valorisation, evaluation and incentives, safety, psychological-physical wellbeing, information and communication, job descriptions and openness to innovation. There was also a special space for "suggestions" where employees could provide ideas for improvement.

The results of the different survey areas are provided below:

Safety	3.20
Cooperation and dialogue with colleagues	3.16
Characteristics of working environment	3.14
psychological and physical wellbeing	3.08
Relations with Supervisors	3.01
openness to innovation	2.88
Information and communication	2.82
Job Satisfaction	2.80
Sharing corporate values	2.74
Characteristics of your own work	2.53
Enhancement, evaluation and incentive	2.25



Management feels that the results were generally positive. In particular, 76% of employees feel satisfied with the work done at Sabaf and share the company values. More than 75% of employees feel proud of the company where they work and 64% of employees claim they have never thought about changing jobs. Reviews were also positive about cooperation and dialogue with colleagues. The main areas to improve according to the survey involve evaluation, compensation and personal growth mechanisms.

Following the climate survey, a "dropdown" training program was scheduled in order to strengthen and develop several specific communication, listening and management skills that are necessary to effectively manage the supervisor/employee relationship. The intervention, initially focused on top line management and then on managers on various work teams, alternates between theoretical activities and active participation.

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: on 31 December 2012, 68 employees benefited from the agreement.

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 2012.

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

LITIGATION AND DISCIPLINARY MEASURES

During 2012, 72 disciplinary measures were taken against Group employees. These break down as follows:

- 4 verbal warnings
- 9 reminders concerning the use of personal protective equipment
- 27 written warnings
- 22 fines
- 8 suspensions
- 2 dismissals

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 2012, two lawsuits were pending with former employees.

SABAF and its shareholders

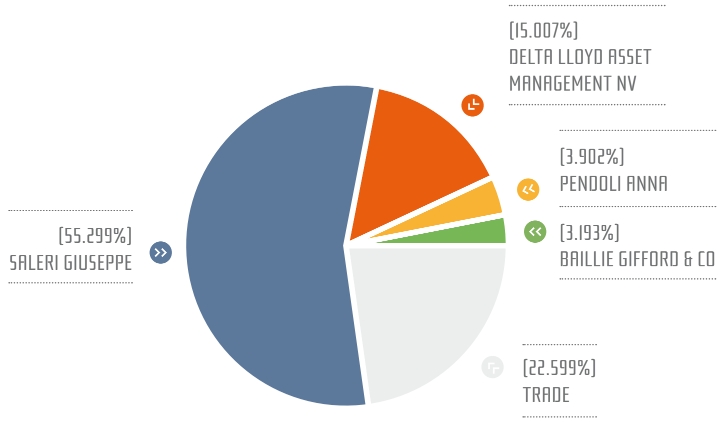
SHAREHOLDER BASE

As at 28.02.13, 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 26.4% of the share capital.

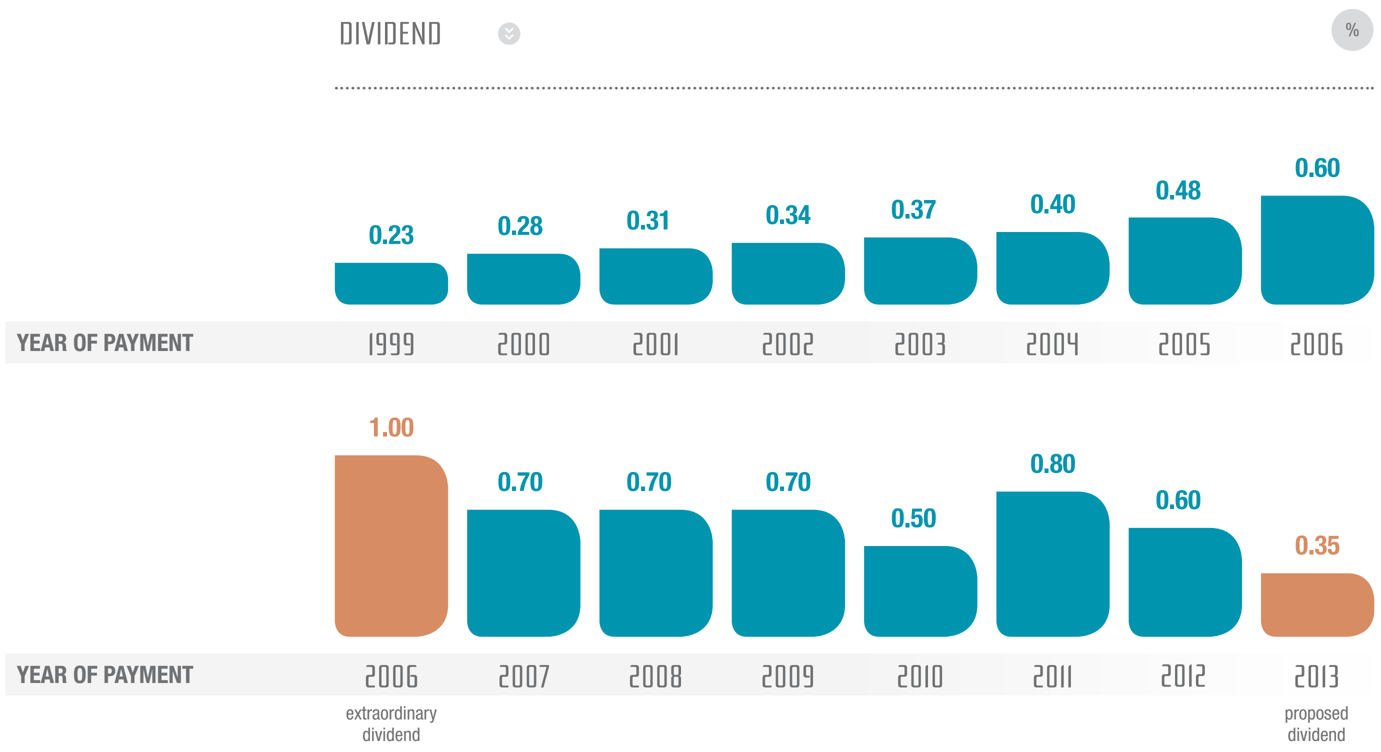
Institutional investors are very strongly present in share capital, accounting for approximately 90% of the free float.



SHAREHOLDER RETURN AND SHARE PERFORMANCE

During 2012, Sabaf shares reached their highest official price on 5 March (€ 14.295) and their lowest on 5 November (€ 7.599). Average daily trading volume was 7,879 shares, equivalent to an average daily total value of €78,000 (€143,000 in 2011).

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.



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 currently Equita and Banca Akros.

In 2012, the Company met with institutional investors at roadshows organised in Milan, London, Copenhagen, Edinburgh and Moscow.

SOCIALLY RESPONSIBLE INVESTMENTS

Sabaf shareholders also include ethical funds such as Kempen.

LITIGATION

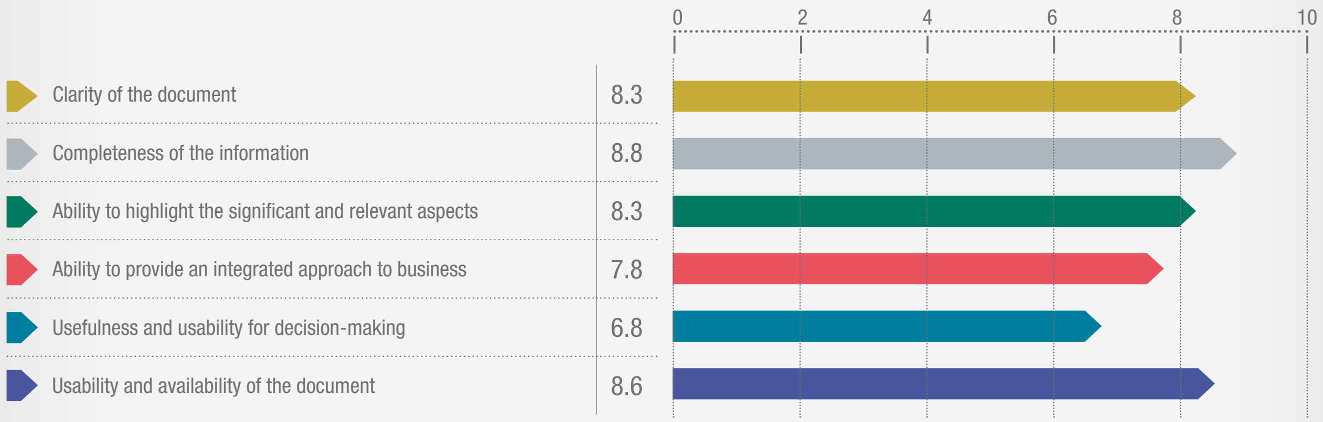
No lawsuits are pending with shareholders.

Dialogue between Investors and Analysts

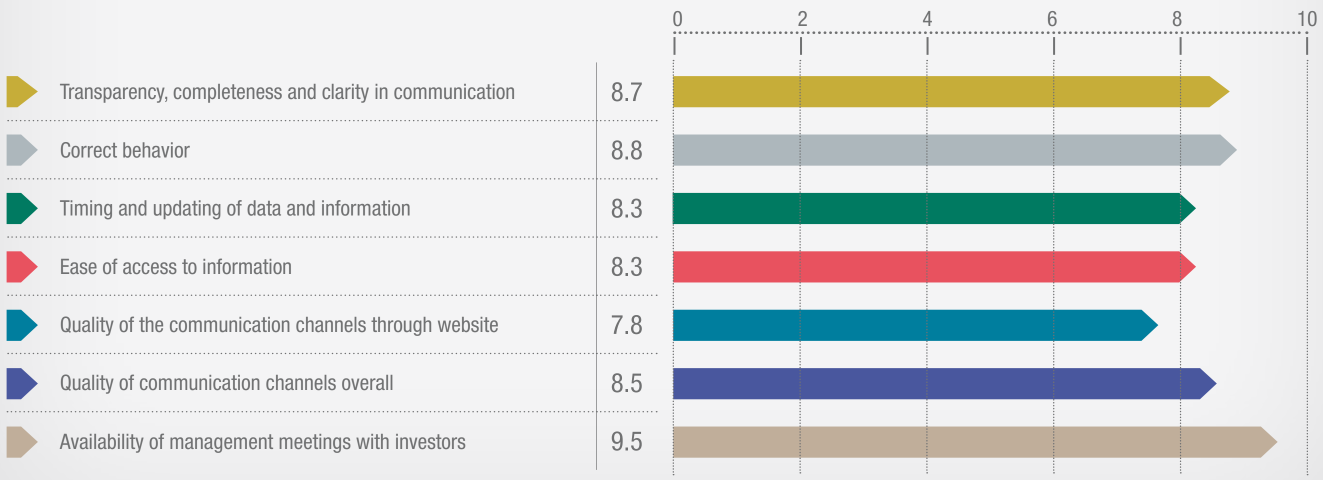
As part of the stakeholder participation, Sabaf performed a survey of institutional investors and analysts in 2013 aimed at understanding the rating that the financial community has given to the choices made by Sabaf regarding corporate responsibility, corporate governance and relations with investors. The work performed aims at focusing attention, among the various aspects, on external communication through the Integrated Annual Report. The survey was performed by giving a questionnaire to a panel of 27 people, including investors and analysts. The data collected was processed anonymously by a third party company.
Analysts and investors give particular importance to the sustainability of companies as drivers of the increase in company value in the mid to long term, improving the company's reputation and increasing its ability to meet stakeholders' expectations.
The Sabaf Annual Report was evaluated, in particular, for the accuracy of the information provided, for clarity and its ability to highlight relevant aspects. The quality of the information provided within the section on socio-environmental performance obtained a score of 9 (scale 1-10). The section on Risk Management obtained positive reviews.
In the future, suggestions included improving the graphic layout and expanding the reporting on strategic guidelines and the competitive scenario.

Transparency and timely financial communication were evaluated positively with a score of 8.7. The availability of management to meet with investors (9.5) along with communication transparency, completeness and clarity (8.7) were among the highest rated aspects. In order to expand the financial communication audience, a conference call in English was recommended. Moreover, it was recommended that annual site visits to the Sabaf offices, involving the managers at the different company departments, could contribute to improving relations with the financial community.

1. Analyst and Investor Assessment of the 2011 Annual Report



2. Sabaf Group relations with Analysts and Investors



SABAF and its customers

SALES ANALYSIS

Countries and customers

	2012	2011
Countries	60	60
Customers[19]	269	260

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.

Thirty customers provide us with annual sales of over €1 mn (33 in 2011). The breakdown by sales amount is as follows:

	2012	2011
< €1,000	39	28
€1,001-€50,000	165	158
€50,001-€100,000	19	19
€100,001-€500,000	41	42
€500,001-€1,000,000	14	8
€1,000,001-€5,000,000	24	27
€5,000,001-€10,000,000	4	4
>€10,000,000	2	2

In addition to the headquarters office at Ospitaletto, the commercial network is based on the subsidiaries located in Brazil, Turkey, the United States, Mexico and China and the branch in Poland. Eleven agency relationships are currently active, primarily in non-European markets.

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 €'000)	2012	2011
Product certification	74	93
Certification and management of quality system	5	5
Purchase of measuring instruments and equipment	5	12
Calibration of measuring instruments and equipment	27	49
Technical regulations, software and publications	1	2
Training	0	0
Trials and tests by independent laboratories	0	8
Total	**112**	**169**

INVESTMENTS IN QUALITY

(AMOUNTS IN €'000)	2012	2011
Purchase of measuring instruments and equipment	24	53
Total	**24**	**53**

19 With sales over €1,000

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

In May 2012, CSQ (IMQ Certification System) conducted its periodic audit of the Sabaf S.p.A. quality and environmental management system. This audit confirmed the adequate setup of the current quality and environmental management systems. Several strong points were highlighted:

- drafting the annual report that includes the re-examination of the quality system considering all the organization aspects of the company and meets all the regulatory requirements;
- the validity of the quality system implemented by the organization on all levels and normally considered a daily work tool;
- focus on improvements by involving the various company departments;
- optimizing productive processes.

No instances of non-compliance were found.

In terms of the subsidiary Sabaf do Brasil, in April 2012, the annual Quality System surveillance audit was successfully performed in compliance with regulation ISO 9001.

In September 2012, the Certification Agency TUV NORD conducted its periodic audit of the Faringosi Hinges S.r.l. quality and environmental management system. This audit confirmed the adequate setup of the current quality and environmental management systems. Several strong points were highlighted:

- the system used to manage customer orders is very good;
- the production programming system is well made.

No instances of non-compliance were found.

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.

Customer satisfaction

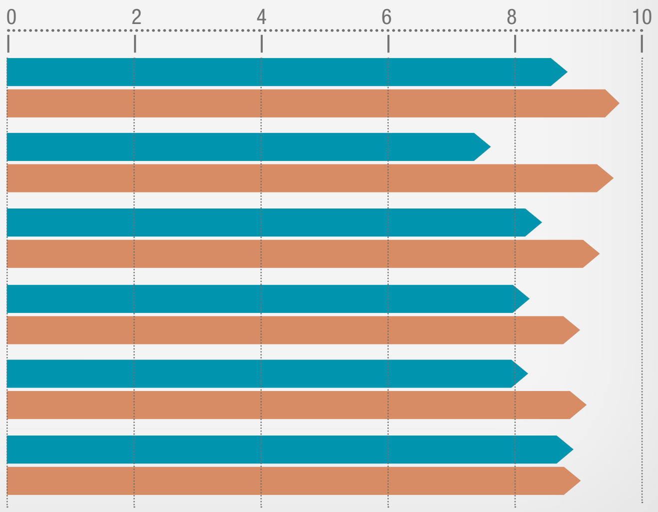
The customer satisfaction survey, conducted biannually, falls within the stakeholder engagement activities that Sabaf performs in order to constantly improve the quality level of services offered and to meet customer expectations.

The survey results, performed by sending structured questionnaires to most of the Group customers, confirm Sabaf's positive opinion because of its punctuality, professionalism and commercial assistance skills. Customers' opinion on Sabaf's Annual Report is positive.

Highlights of the survey carried out are illustrated below:

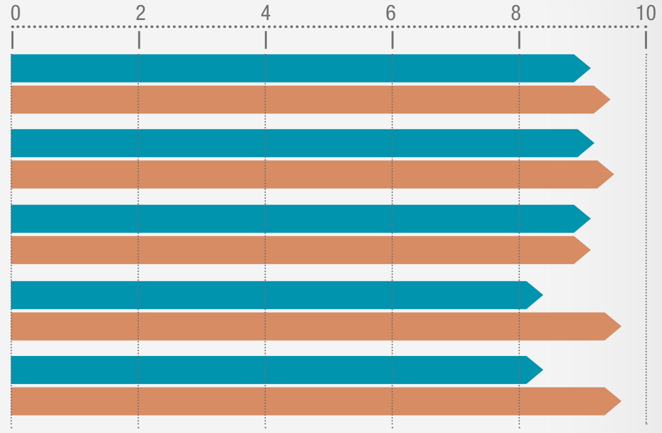
1. Product Assessment

	Score	Importance
Quality/reliability	8.7	9.5
Quality/price ratio	7.5	9.4
Level of innovation	8.3	9.2
Overall impression	8.1	8.9
Ability of Sabaf products to reduce end user's energy consumption	8.1	9.0
Environmental performance of product (e.g. efficient use of packaging, absence of environmentally harmful materials in products, etc.)	8.8	8.9



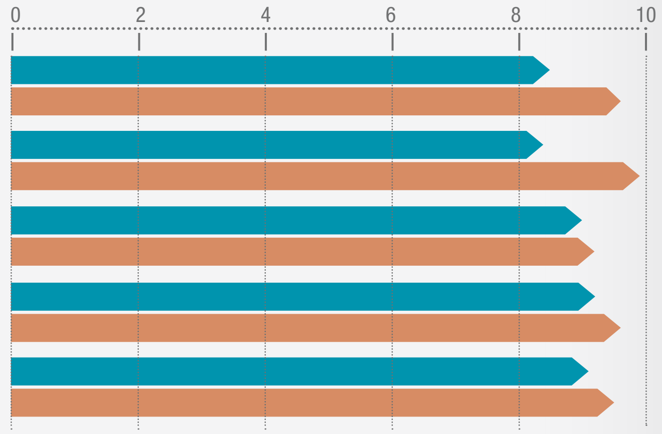
2. Assessment of Design and Technical Support

	Score	Importance
Timeliness	9.0	9.3
Professionalism and competence	9.1	9.4
Usefulness of B2B site	9.0	9.0
Ability to settle complaints	8.3	9.6
Willingness to settle complaints	8.3	9.6



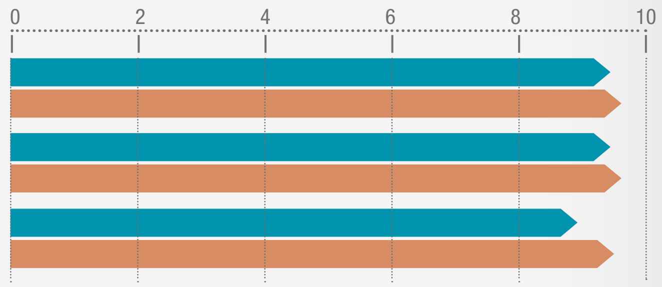
3. Service Assessment

	Score	Importance
Flexibility	8.4	9.5
Delivery on time	8.3	9.8
Correct quantities delivered	8.9	9.1
Packaging	9.1	9.5
Clarity of accompanying documents	9.0	9.4



4. Assessment of Sales Support

	Score	Importance
Timeliness	9.3	9.6
Professionalism and competence	9.3	9.6
Business integrity (trasparency and correct accounting/administration)	8.8	9.4



Score
Importance

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 2012, as in 2011, 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 67.8% of the total.

Sales generated outside the European Union mainly comes from suppliers in China, with components supplied totalling around €5,102,000 in 2012 (€3,135,000 in 2011). Chinese suppliers have signed a clause to comply with the principles set out in the SA 8000 standard.

Geographical distribution of suppliers[20]

	2012		2011	
(AMOUNTS IN €'000)	Sales	%	Sales	%
Province of Brescia	45,581	53.4	52,722	52.3
Province of Milan	1,750	2.0	2,284	2.3
Rest of Lombardy region	10,637	12.4	11,566	11.5
Italy	14,869	17.4	19,669	19.5
Rest of EU	6,455	7.5	10,058	10.0
Non-EU countries	6,238	7.3	4,580	4.5
Total	**85,530**	**100**	**100,879**	**100**

Sabaf do Brasil mainly purchases its production materials from local suppliers. The main machinery items used (transfer of 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.

20 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 2012 sales to Sabaf Group by suppliers with certified quality systems accounted for 54.7% of the total (vs. 54.2% in 2011).

Breakdown of purchases by category

	2012		2011	
(AMOUNTS IN €'000)	Sales	%	Sales	%
Raw materials	24,625	27.1	30,514	28.3
Components	20,786	22.8	25,699	23.9
Machinery & equipment	4,786	5.3	4,722	4.4
Services	40,785	44.8	46,787	43.4
Total	**90,982**	**100**	**107,722**	**100**

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

LITIGATION

There are no significant lawsuits pending with suppliers at end-2012.

SABAF and its lenders

BANKING RELATIONS

The Group operates with a low debt ratio (net indebtedness/shareholders' equity of 0.21 at 31 December 2012) and has ample unused short-term lines of credit.

At 31 December 2012, net debt was €23.8 mn, compared with €14.8 mn at 31 December 2011. All new loans in 2012 were exclusively short-term, using subject to collection advances on bank receipts. In the financial market's current state, the conditions that can be obtained from the banking industry are far better than for medium- to long-term borrowings.

The Group mainly deals with ten 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, Banca Popolare di Sondrio, Banca Passadore) and four foreign banks (Banco Santander, Banco Itau, Halkbank and Industrial & Commercial Bank of China).

LITIGATION

No lawsuits are pending with lenders.

SABAF and its competitors

THE SABAF GROUP'S MAIN ITALIAN AND INTERNATIONAL 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, with 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 (USA)	X	X	X	
CMI (Italy)				X
Copreci (Spain)	X	X		
Defendi Italy (Italy)	X		X	
Nuova Star (Italy)				X
Somipress (Italy)			X	

2010 and 2011 Profit & Loss highlights of principal Sabaf competitors[21]

	2011			2010		
(€ '000)	Sales	Operating profit	Net income	Sales	Operating profit	Net income
CMI	21,488	527	274	22,955	738	382
DEFENDI GROUP	51,220	2,868	739	47,019	2,008	658
NUOVA STAR	22,130	235	110	26,292	544	285
SOMIPRESS	33,387	4,773	2,926	28,654	4,295	2,930

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; the first degree ruling was in our favour.

21 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 2012 donations totalled around €45,000 (€76,000 in 2011), and mainly supported local social and humanitarian initiatives.

LONG-DISTANCE ADOPTION

Sabaf supports 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 Ospitaletto production site's environmental management system (which covers 85% of the Group's total production) had been certified as compliant with the ISO14001 standard since 2003. With implementation of the ISO14001 standard Sabaf has also pinpointed the main environmental risks associated with its 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. The 2012 analysis by product family shows, for the first time, sales of light alloy valves were higher than sales of brass valves, confirming the gradual shift towards the newer products by customers.

SERIES III, AE AND AEO 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.
Subsequently, 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.

HE BURNERS

In 2012, Sabaf launched a new line of high efficiency burners, HE burners, which can obtain a yield of up to 68%. HE burners also stand out because they are almost completely interchangeable with Series II burners.

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 2012 recycling made it possible to recover 95,690 kg of paper, cardboard and plastic packaging.

MATERIALS USED	2012 CONSUMPTION (t)	2011 CONSUMPTION (t)
Brass	1,186	1,384
Aluminium alloys	6,847	7,928
Zamak	80	78
Steel	5,853	6,948

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	2012 CONSUMPTION (MWh)	2011 CONSUMPTION (MWh)
Total	**29,290**	**31,098**

NATURAL GAS	2012 CONSUMPTION (m^3 x 1000)	2011 CONSUMPTION (m^3 x 1000)
Total	**2,726**	**3,308**

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	2012 CONSUMPTION (m^3)	2011 CONSUMPTION (m^3)
Mains water	29,895	23,744
Groundwater	40,374	46,424
Total	**70,269**	**70,168**

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)	2012	2011
Municipal-type waste	176	178
Non-hazardous (for disposal)	1,709	2,256
Non-hazardous (for recycling)	3,521	4,146
Total non-hazardous waste	**5,230**	**6,402**
Hazardous (for disposal)	1,922	2,266
Hazardous (for recycling)	1,131	1,079
Total hazardous waste	**3,053**	**3,345**

No major spills occurred in 2012.

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 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.

	2012		2011	
Origin of impact	Target less than[22]	Actual figure[22]	Target less than[22]	Actual figure[22]
Unit A: extractor for pressure die-casting islands	40%	5.5%	40%	18.9%
Unit A: extractor for smelting furnace	50%	9.2%	50%	22.5%
Unit A: sand blasters	40%	4.7%	40%	28.1%
Unit A: extractor for bar-processing lathes	30%	4.0%	30%	3.6%
Unit A: extractor for furnace scorification	30%	17.7%	30%	8.3%
Unit B: extractor for transfer machines/lathes	30%	3.1%	30%	2.0%
Unit B: metal parts washing machine	65%	10.5%	65%	8.6%
Unit B: electrical discharge machining eqpt.	40%	4.0%	40%	5.7%
Unit B: extractor for grinders	30%	2.8%	30%	6.7%
Unit C: sand blasters	40%	46.3%	40%	24.3%
Unit C: enamel application line and firing furnace	100%	57.7%	100%	62.4%

Monitoring performed during 2011 and 2012 showed compliance of all emissions with legal limits.

22 Data calculated in relation to legal limits

CO_2 EMISSIONS [23]

(TONNES)	2012	2011
Use of natural gas	5,358	6,546
Use of electricity	11,775	12,352
Total CO_2 emissions	17,133	18,898

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: CH_4, N_2O, HFCS and SF_6. 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.

ENVIRONMENTAL INVESTMENTS

Current environmental spending

(AMOUNTS IN €'000)	2012	2011
Waste disposal	654	751
Advisory services	24	49
Emissions analysis	23	32
Training	14	0
Plant, equipment and materials	1	2
TOTAL	716	834

Environmental investments

(AMOUNTS IN €'000)	2012	2011
Plant, equipment and materials	0	93
TOTAL	0	93

LITIGATION

No significant lawsuits are currently pending with regard to environmental matters.

23 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.

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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 2012 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" paragraph of the "Introduction to the Annual Report". 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 "Corporate 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.

SABAF Group
Limited assurance report
on the social report
31 December 2012

These procedures included:

- comparing the information and data presented in the "Generated and distributed economic value" paragraph 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 2012, on which other auditors issued their report dated 4 April 2013 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.

SABAF Group
Limited assurance report
on the social report
31 December 2012

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 13 April 2012.

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 2012 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, 5 April 2013

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

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4.4	Mechanisms for shareholders to provide recommendations	21, 31,36, 60, RCG	
4.5	Link between director and senior management remuneration and performance	44-45, 127, 174-181	
4.6	Conflicts of interest	170	
4.7	Qualifications of directors	32, RCG	
4.8	Mission, values, code of conduct and principles	16-17	
4.9	Procedures to identify and manage economic, environmental and social performance	4, 14-16, 20, RCG	
4.10	Process to assess performance of Board of Directors	42, 174-181, RCG	
4.11	Method of applying prudential principle or approach	20	
4.12	Adoption of external economic, social and environmental codes and principles	4, 6-7	
4.13	Membership of trade associations	74	
4.14	List of stakeholders engaged	21	
4.15	Basis for identification of stakeholders with whom to engage	21	
4.16	Initiatives to engage stakeholders	21, 62, 66, 68-69	
4.17	Key aspects and critical issues that emerged through engagement of stakeholders and related actions	21, 62, 66, 68-69	
	ECONOMIC PERFORMANCE		
DMA EC Core	Information on management procedures	8, 19, 52, 70-75	
EC1 Core	Direct economic value generated and distributed	8-9	
EC2 Core	Risks and opportunities posed by climate change	19-20, 75	7
EC3 Core	Coverage of pension obligations	55, 116, 153	
EC4 Core	Significant financial assistance received from government	No significant financial assistance from the government was received in 2012	
EC5 Add	Ratio between standard entry level wage and local minimum wage at significant locations of operation	55-56	
EC6 Core	Policies, practices and percentage of spending on local suppliers	70	6
EC7 Core	Procedures for local hiring	48, 52	
EC8 Core	Growth in investments provided mainly for public benefit	11, 74	

	PROFILE	Page	Global Compact Principle
	SOCIAL PERFORMANCE		
DMA LA Core	Information on management procedures	48	
LA1 Core	Breakdown of workforce by type, contract and region	48	
LA2 Core	Turnover by age group, gender and region	10, 50-51	6
LA3 Add	Benefits provided to full-time staff	55, 174	
LA4 Core	Percentage of employees covered by collective bargaining agreements	55	1-3
LA5 Core	Minimum notice period for operational changes	In Italy, this is regulated by the laws in force (Legislative Decree 18/2011 and Law 223/1991)	3
LA7 Core	Accidents at work and occupational diseases	11, 59-60	1
LA8 Core	Staff training programmes for the prevention and control of risks relating to ailments or serious illnesses	53, 59	1
LA9 Add	Agreements with trade unions on health and safety	61	
LA10 Core	Staff training	10, 53-54	
LA13 Core	Breakdown of staff by gender and other diversity indicators (e.g. disability)	54	1-6
LA14 Core	Ratio of basic salary women to men of the same category	55-56	1-6
	HUMAN RIGHTS		
DMA HR Core	Information on management procedures	6-7, 16-18, 48, 70	
HR1 Core	Operations that have undergone human rights screening	5-7, 48, 70	1-2-3-4-5-6
HR2 Core	Suppliers and contractors that have undergone human rights screening	70	1-2-3-4-5-6
HR3 Add	Total hours of training on human rights and percentage of employees trained	53-54	
HR4 Core	Incidents of discrimination	N/A there were no incidents of discrimination	1-2-6
HR5 Core	Activities in which freedom of association and the right to collective bargaining may be exposed to risks	48, 70	3
HR6 Core	Operations identified as high risk with regard to child labour	6-7, 48	5
HR7 Core	Operations identified as high risk with regard to forced labour	6-7, 48	1-2-4
	IMPACTS ON SOCIETY		
DMA SO Core	Information on management procedures	6-7, 16-18	
S01 Core	Management of impacts on community	19-20, 74	
S02 Core	Monitoring of corruption risk	7, 42-43	2
S03 Core	Staff trained in prevention of corruption offences	53	
S04 Core	Actions taken in response to cases of corruption	N/A there were no incidences of corruption	
S05 Core	Public policy positions and lobbying	74	1-10
S07 Add	Legal actions for anti-competitive behaviour	72-73	
S08 Core	Monetary and other sanctions for non-compliance with laws and regulations	68	

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

	PROFILE	Page	Global Compact Principle
	PRODUCT RESPONSIBILITY		
DMA PR Core	Information on management procedures	67	
PR1 Core	Health and safety of products and services	67-68	1
PR3 Core	Information required by procedures and services subject to such information requirements	6-7, 67-68	8
PR5 Add	Customer satisfaction	68-69	
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	68	
	ENVIRONMENTAL PERFORMANCE		
DMA EN	Information on management procedures	75-76	
EN1 Core	Raw materials used	76	8
EN2 Core	Reused or recycled materials	76	8-9
EN3Core	Direct energy consumption by source	76	8
EN4Core	Indirect energy consumption	76	8
EN5 Add	Energy saved	75	
EN6 Add	Energy-efficient or renewable energy-based products and services	75	
EN8 Core	Water withdrawal by source	76	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	76	
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	77-78	8
EN17 Core	Other significant indirect greenhouse gas emissions by weight	77-78	8
EN 18 Add	Initiatives to reduce greenhouse gas emissions	77-78	
EN19 Core	Emissions of ozone-depleting substances	77-78	
EN20 Core	Other atmospheric emissions	77-78	
EN21 Core	Water discharge	76	8
EN22 Core	Production of waste and disposal methods	12, 76	
EN23 Core	Total number and volume of spills	76	
EN26 Core	Initiatives to mitigate environmental impacts of products and services	19, 75	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	78	8
EN30 Add	Environmental protection expenditure and investment	78	7

Technology & Development

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Report on operations

SABAF

Group business and financial status

IN THOUSANDS OF EURO	2012	%	2011	%	Change 2012-2011	Change %
Sales revenue	130,733	100%	148,583	100%	-17,850	-12.0%
EBITDA	21,813	16.7%	30,092	20.3%	-8,279	-27.5%
Operating profit (EBIT)	7,920	6.1%	16,566	11.1%	-8,646	-52.2%
Pre-tax profit	6,219	4.8%	15,454	10.4%	-9,235	-59.8%
Net profit	4,196	3.2%	10,775	7.3%	-6,579	-61.1%
Earnings per share (euro)	0.367	-	0.937	-	-0.570	-60.8%
Diluted earnings per share (euro)	0.367	-	0.937	-	-0.570	-60.8%

The crisis on the core market of the main countries in which the Group operates, particularly Italy, marked the whole of 2012 and had a significant impact on the results of the Sabaf Group. The improvements achieved in markets outside Europe only marginally offset the decline in the European market.
The Sabaf Group recorded sales revenue of €130.7 million in 2012, down 12% on the figure of €148.6 million in 2011.
Average selling prices in 2012 were down by more than 1% compared to 2011, as a result of the heightened levels of competition created by over-supply.
There was no significant change in the average cost of raw materials, whereas increases in the cost of other production factors, particularly energy sources, had a negative impact.
However, profitability was most affected by the insufficient level of business, which resulted in a low capacity utilisation rate in the plants and a greater percentage of fixed industrial costs and structural costs.
The 2012 results also suffered from losses and write-downs of trade receivables for €1.6 million and the write-down of part of the goodwill allocated to the Hinges CGU for over €1 million.
In 2012, EBITDA represented 16.7% of sales (20.3% in 2011), EBIT was 6.1% of sales (11.1%) and net profit fell from 7.3% to 3.2% as a percentage of sales.

The breakdown of revenue by product line was as follows:

Sales by geographical area

IN THOUSANDS OF EURO	2012	2011	Change	Change %
Brass valves	18,601	26,537	(7,936)	-29.9%
Light alloy valves	23,524	23,265	259	+1.1%
Thermostats	13,074	14,560	(1,486)	-10.2%
Standard burners	39,337	42,631	(3,294)	-7.7%
Special burners	18,850	22,210	(3,360)	-15.1%
Accessories and other revenues	11,226	10,598	628	+5.9%
Total gas components	*124,612*	*139,801*	*(15,189)*	*-10.9%*
Hinges	6,121	8,782	(2,661)	-30.3%
TOTAL	**130,733**	**148,583**	**(17,850)**	**-12.0%**

All product families posted a drop in revenue, with the exception of light alloy valves, which recorded a slight increase, thanks to the contribution of new models that expanded the range. Sales of hinges registered a particularly negative trend, also affected by the end of production of some household appliances that used dedicated components.

The geographical breakdown of revenue was as follows:

Sales by geographical area

IN THOUSANDS OF EURO	2012	%	2011	%	Change %
Italy	45,597	*34.9%*	56,321	*37.9%*	-19.0%
Western Europe	7,337	*5.6%*	11,215	*7.5%*	-34.6%
Eastern Europe and Turkey	33,236	*25.4%*	37,459	*25.2%*	-11.3%
Asia and Oceania	12,306	*9.4%*	13,328	*9.0%*	-7.7%
South America	21,895	*16.8%*	19,838	*13.4%*	10.4%
Africa	6,950	*5.3%*	6,524	*4.4%*	6.5%
US, Canada & Mexico	3,412	*2.6%*	3,898	*2.6%*	-12.5%
TOTAL	**130,733**	***100%***	**148,583**	***100%***	**-12.0%**

2012 was marked by very weak 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, and cooking appliances in particular.
Sales in Eastern Europe also suffered from the decline in the economy in Western Europe, since a significant portion of the components that the Group supplies in Poland and Turkey is mounted on appliances that are then re-exported to Western Europe.
South America again registered very satisfactory growth rates and Africa showed signs of recovery after a difficult 2011, also caused by the political instability in Egypt.
Sales in Asia dipped, also because of the political difficulties affecting some Middle Eastern markets, due to the still limited contribution of exports to China and India. The North American market remains of secondary importance.

Neither the average actual cost of the main raw materials (brass, aluminium alloys and steel) nor the cost of other components changed significantly compared to 2011. Consumption (purchases plus change in inventory) as a percentage of sales was 39% in 2012, compared with 39.2% in 2011; this decrease was due to a different mix of products sold.

The impact of the cost of labour on sales rose from 20.7% in 2011 to 23.7% in 2012.

The impact of net financial charges on sales remains very low (0.7% in 2012, versus 0.8% in 2011), owing to the low level of debt and low interest rates.

Operating cash flow (net profit plus depreciation & amortisation) went from €23.2 million to €17.12 million, equivalent to 13.1% of sales (vs. 15.6% in 2011).

The tax rate in 2012 was 32.5%, lower than the ordinary rate because of a non-recurring benefit of €1.1 million described in the Explanatory Notes.

BALANCE SHEET AND FINANCIAL POSITION

Reclassification based on financial criteria is as shown below:

IN THOUSANDS OF EURO	31/12/2012	31/12/2011
Non-current assets	101,728	102,310
Short-term assets[1]	66,453	72,764
Short-term liabilities[2]	(25,367)	(34,849)
Working capital[3]	*41,086*	*37,915*
Provisions for risks, employee benefits and deferred taxes	*(3,392)*	*(3,606)*
CAPITALE INVESTITO NETTO	**139,422**	**136,619**
Net short-term financial position	(18,537)	(2,857)
Net medium/long-term financial position	(5,259)	(11,939)
NET FINANCIAL DEBT	**(23,796)**	**(14,796)**
SHAREHOLDERS' EQUITY	**115,626**	**121,823**

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

IN THOUSANDS OF EURO	2012	2011
Cash and cash equivalents – opening balance	***14,208***	***9,769***
Operating cash flow	15,163	22,439
Cash flow from investments	(14,316)	(14,455)
Cash flow from financing activities	(7,982)	(2,511)
Foreign exchange differences	(936)	(1,034)
Cash flow for the period	**(8,071)**	**4,439**
Cash and cash equivalents – closing balance	***6,137***	***14,208***

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

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 2012, the Sabaf Group invested more than €14 million. Investments included €6.2 million to complete the new production plant in Manisa (Turkey), where plant and machinery have been installed for the production of burners. Furthermore, investments were made in maintenance and replacement, mainly in the die-casting division, to keep plant, machinery and moulds up to date.
Working capital amounted to €41.1 million vs. €37.9 million in 2011: as a percentage of sales, it rose from 25.5% at end-2011 to 31.4% at end-2012. The increase is due to the lower trade payables, attributable to lower levels of business and lower investments in the latter part of the year. The amount of receivables past due also increased significantly due to the difficulties many customers experienced in meeting contractually agreed due dates.

Self-financing generated by operating cash flow totalled €15.2 million versus €22.4 million in the previous year, owing to a decline in profitability.
Net financial debt totalled €23.8 million, against the €14.8 million at 31 December 2011. The net medium- to long-term financial position was negative by €5.3 million (€11.9 million at 31 December 2011) and corresponded mainly to property leasing and mortgages.
The net short-term financial position was negative to the tune of €18.5 million (€2.9 million at 31 December 2011) and consisted of cash and cash equivalents of €6.1 million, short-term debts of €20.6 million, and the current portion of medium- to long-term borrowings of €4 million.
Only short-term borrowings were obtained in 2012. Given that the liquidity risk is under control even with increased short-term debt, in the financial market's current state the conditions that can be obtained from the banking industry are far better than for medium- to long-term borrowings.

Shareholders' equity amounted to €115.6 million, against €121.8 million at year-end 2011. The ratio of net financial debt to shareholders' equity was 0.21 against 0.12 in 2011.

Economic and financial indicators

	2012	2011
ROCE (return on capital employed)	5.7%	12.1%
Dividend per share (€)	0.35[4]	0.60
Net debt/equity ratio	21%	12%
Market capitalisation (31.12)/ equity ratio	0.88	1.06
Change in sales	-12.0%	-1.5%

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 progressive decline in the macroeconomic situation in Europe.
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.

Risks 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 50% of its expected aluminium requirements and 75% of its expected brass requirements.
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.

[4] Proposed dividend

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

35% 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 5% respectively of direct Group sales in 2012, 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 Hinges business recorded a significant dip in results in 2012, following a further deterioration in the core market. The Group therefore stepped up its efforts to relaunch the business. There is expected to be sustained demand for specialist products (including dampened springs for soft opening and closing of oven doors) on the European market over the coming years. The Group has developed new products which guarantee performance and are not currently available on the market and has begun talks with customers for the launch of these products. 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

The increased investment in research and development in 2012 was dedicated to burners. The main project related to development of the new platform of specialist "DCC" burners, which features:

- adoption of a single drip pan for six different models of burner heads
- the availability of three different power levels
- energy efficiency of above 6%
- a grill height which is 6 mm lower than the models currently available on the market.

The "DCC" platform comes in different models for the European, Chinese, Indian and North American markets.
Industrialisation of a special burner for the Indian market has also been completed.
As regards valves, new versions of light alloy valves with security devices for hobs and cookers are planned.
For hinges, the main activities related to the development of a high-performance internal cam hinge (25,000 life cycles, high static and dynamic loads) and the development of a shock-absorbing system applied to a support in the oven frame, with a plunger pin visible on the oven frame.
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 €369,000 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 is extending the implementation of the SAP IT system to all production units. SAP was successfully launched at Faringosi Hinges from 1 January 2012, and activities to implement SAP in Turkey were developed during the year, with the system being launched from 1 January 2013. During 2012, the SAP application area was also extended to managing the data of the Technical Department (PLM module).

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.

PERSONNEL / STAFF

At 31 December 2012, the Sabaf Group had 725 employees, up by 11 compared to year-end 2011. In 2012, 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 2012, 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) of the 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 2012 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 2012.

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 2013, while the outlook in other countries is encouraging. For FY 2013, the Group believes that it will be able to register slightly improved levels of sales and profitability compared with 2012, thanks to the greater contribution expected from markets outside Europe.
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

IN THOUSANDS OF EURO	2012	2011	Change 2012/2011	Change %
Sales revenue	116,202	132,514	(16,312)	-12.3%
EBITDA	15,830	24,564	(8,734)	-35.6%
Operating profit (EBIT)	3,765	12,898	(9,133)	-70.8%
Pre-tax profit	3,709	15,368	(11,659)	-75.9%
Net profit	**2,236**	**11,122**	**(8,886)**	**-79.9%**

Balance sheet and financial position

Reclassification based on financial criteria is as shown below:

IN THOUSANDS OF EURO	31/12/2012	31/12/2011
Non-current assets	*86,367*	*82,756*
Short-term assets[5]	59,993	65,877
Short-term liabilities[6]	(23,291)	(31,895)
Working capital[7]	*36,702*	*33,982*
Financial assets	*1,516*	*1,546*
Provisions for risks, employee benefits and deferred taxes	*(2,518)*	*(2,712)*
NET CAPITAL EMPLOYED	**122,067**	**115,572**
Net short-term financial position	(19,956)	(3,236)
Net medium/long-term financial position	(317)	(3,873)
NET FINANCIAL POSITION	**(20,273)**	**(7,109)**
SHAREHOLDERS' EQUITY	**101,794**	**108,463**

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

IN THOUSANDS OF EURO	2012	2011
Cash and cash equivalents – opening balance	***9,180***	***5,026***
Operating cash flow	11,226	21,235
Cash flow from investments	(15,509)	(8,440)
Cash flow from financing activities	(3,296)	(8,641)
Cash flow for the period	**(7,579)**	**4,154**
Cash and cash equivalents – closing balance	***1,601***	***9,180***

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.

FY 2012 ended with sales down by 12.3% compared to 2011. All product families registered a decline in sales, with the sole exception of light alloy valves, which continue to replace brass valves. Margins suffered from the dip in sales prices, the increase in energy costs and, above all, low business volumes, which were not sufficient to guarantee adequate absorption of fixed costs. All profitability indicators therefore show a significant decline against 2011: EBITDA came in at €15.8 million, equivalent to 13.6% of sales (€24.6 million in 2011, 18.5% of sales), EBIT was €3.8 million, or 3.2% of sales (vs. €12.9 million in 2011, 9.7%), and net profit was €2.2 million, equivalent to 1.9% of sales (€11.1 million in 2011, 8.4%).

The actual cost of the main raw materials (brass, aluminium alloys and steel) was in line with 2011.
The impact of the cost of labour on sales rose from 20.6% in 2011 to 22.3% in 2012.
Net finance expense as a percentage of sales was minimal, at 0.67% (0.65% in 2011), given the low level of financial debt and the low interest rates.

Operating cash flow (net profit plus depreciation & amortisation) went from €21.3 million to €12.6 million, equivalent to 10.9% of sales (vs. 16.1% in 2011).

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

In 2012 SABAF S.p.A. invested over €15.5 million. The most significant investment (€8.5 million) financed development of a subsidiary in Turkey, where the Group has launched production of burners. The Ospitaletto industrial complex also saw continued investment in both light alloy valve production and the die-casting division.

Working capital amounted to €36.7 million vs. €34 million in 2011: as a percentage of sales, it rose from 26% at the end of 2011 to 31.6%.

Self-financing generated by operating cash flow totalled €11.2 million vs. €21.2 million in 2011, negatively affected by the different trend in working capital.

Net financial debt stood at €20.3 million, compared to €7 million at 31 December 2011. With cash and cash equivalents of €1.6 million, the Company had short-term financial debt of €21.6 million (of which €5.6 million for subject to collection advances on bank receipts, €13.6 million for short-term bank borrowings – typically short-term credit facilities and import/export advances – and €2.4 million relating to the current portions of medium- to long-term debt). Residual debt maturing in more than one year was €0.3 million.

Shareholders' equity amounted to €101.8 million, against €108.5 million at year-end 2011. The ratio of net financial debt to shareholders' equity was 0.20 against 0.07 in 2011.

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.:

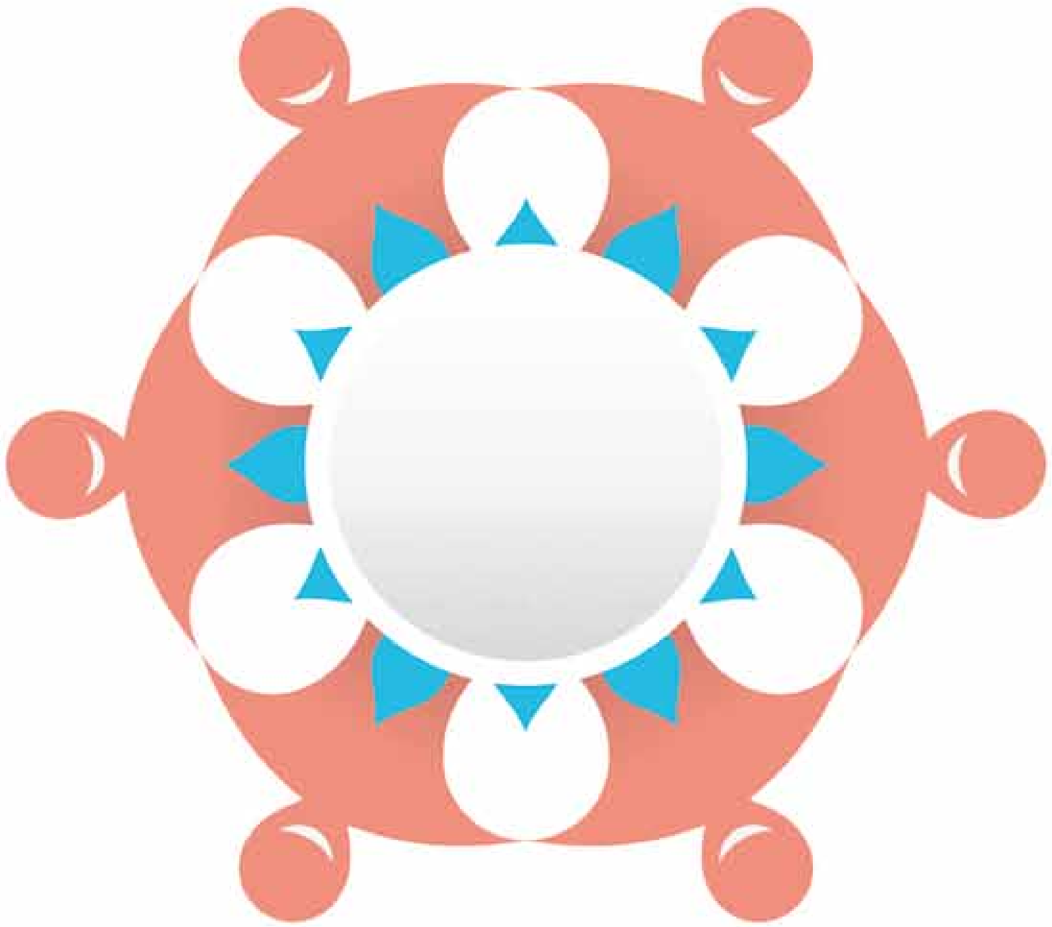
Description	31.12.2012		31.12.2011	
	Net profit	Shareholders' equity	Net profit	Shareholders' equity
NET PROFIT AND SHAREHOLDERS' EQUITY OF SABAF S.P.A.	**2,236**	**101,794**	**11,122**	**108,463**
Shareholders' equity and net result of consolidated companies	2,413	50,666	2,390	41,989
Elimination of consolidated equity investments' carrying value	1,586	(41,189)	(1,128)	(34,231)
Goodwill	(1,028)	4,445	(1,129)	5,473
Equity investments booked at net equity	0	5	0	5
Intercompany eliminations:				
Dividends	(792)	0	(2,718)	0
Other intercompany eliminations	(219)	(95)	(18)	124
GROUP NET PROFIT AND SHAREHOLDERS' EQUITY	**4,196**	**115,626**	**10,775**	**121,823**

Proposal for approval of the financial statements and proposed dividend

First and foremost, we would like to thank our employees, the Board of Auditors, the independent auditors and the supervisory authorities for their invaluable cooperation. We recommend approving the financial statements for the year ended 31 December 2012, which closed with a profit of €2,236,106.
The Board of Directors proposes the distribution to shareholders of an ordinary dividend of €0.35 per share, excluding treasury shares on the ex-date, by distribution of all the profit for 2012 and, for the remainder, by distribution of part of the extraordinary reserve. The dividend is scheduled for payment on 23 May 2013 (ex-date: 20 May 2013).

Ospitaletto, 20 March 2013
The Board of Directors

Transparency & Sharing



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Consolidated financial statements at 31 December 2012

Consolidated statement of financial position

IN THOUSANDS OF EURO	Notes	31.12.2012	31.12.2011
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	81,438	80,769
Investment property	2	7,393	7,626
Intangible assets	3	7,915	9,082
Equity investments	4	951	810
Non-current receivables	5	90	168
Deferred tax assets (prepaid taxes)	20	3,941	3,855
Total non-current assets		**101,728**	**102,310**
CURRENT ASSETS			
Inventories	6	24,036	26,883
Trade receivables	7	37,968	42,774
Tax receivables	8	3,627	2,512
Other current receivables	9	822	595
Cash and cash equivalents	10	6,137	14,208
Total current assets		**72,590**	**86,972**
TOTAL ASSETS		**174,318**	**189,282**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11	11,533	11,533
Retained earnings, other reserves		99,897	99,515
Net profit for period		4,196	10,775
Total equity attributable to the Group parent company		*115,626*	*121,823*
Minority interest		*0*	*0*
Total shareholders' equity		**115,626**	**121,823**
NON-CURRENT LIABILITIES			
Loans	13	5,259	11,939
Post-employment benefit reserve (TFR) and retirement reserves	15	2,374	2,509
Provisions for risks and contingencies	16	632	731
Deferred tax	20	386	366
Total non-current liabilities		**8,651**	**15,545**
CURRENT LIABILITIES			
Loans	13	24,641	17,032
Other financial liabilities	14	33	33
Trade payables	17	18,544	27,808
Tax payables	18	806	803
Other liabilities	19	6,017	6,238
Total current liabilities		**50,041**	**51,914**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**174,318**	**189,282**

Consolidated income statement

IN THOUSANDS OF EURO	Notes	2012	2011
CONTINUING OPERATIONS			
OPERATING REVENUE AND INCOME			
Revenue	22	130,733	148,583
Other income	23	3,661	5,032
Total operating revenue and income		**134,394**	**153,615**
OPERATING COSTS			
Materials	24	(47,748)	(59,103)
Change in inventories		(3,174)	910
Services	25	(30,989)	(34,168)
Payroll costs	26	(29,302)	(30,740)
Other operating costs	27	(2,424)	(1,403)
Costs for capitalised in-house work		1,056	981
Total operating cost		**(112,581)**	**(123,523)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**21,813**	**30,092**
Depreciation and amortisation	1 - 2 - 3	(12,919)	(12,420)
Capital gains/(losses) on disposal of non-current assets		54	23
Write-downs/write-backs of non-current assets	28	(1,028)	(1,129)
OPERATING PROFIT		**7,920**	**16,566**
Financial income		219	162
Financial expenses	29	(1,162)	(1,308)
Foreign exchange gains/losses	30	(293)	390
Profits and losses from equity investments	4	(465)	(356)
PRE-TAX PROFIT		**6,219**	**15,454**
Income tax	31	(2,023)	(4,679)
Minority interests		0	0
NET PROFIT FOR THE YEAR		**4,196**	**10,775**
EARNINGS PER SHARE (EPS)	32		
Base		**0.367 euro**	**0.937 euro**
Diluted		**0.367 euro**	**0.937 euro**

Consolidated comprehensive income statement

IN THOUSANDS OF EURO	2012	2011
NET PROFIT FOR THE YEAR	**4,196**	**10,775**
OTHERS PROFIT/LOSSES		
Forex differences from translation of items in currency	(1,488)	(1,619)
Earnings/losses from cash flow hedges	7	22
Total profits/(losses) net of taxes for the year	**(1,481)**	**(1,597)**
TOTAL PROFITS	**2,715**	**9,178**

Statement of changes in consolidated shareholders' equity

IN THOUSANDS OF EURO	Share capital	Share premium reserve	Legal reserve	Own shares	Conversion reserve	Cash flow hedge reserves	Other reserves	Net profit for period	Total Group sharehol ders' equity	Minority interest	Total sharehol ders' equity
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		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**
Allocation of 2011 earnings											
• Dividends paid								(6,901)	(6,901)		(6,901)
• to reserves							3,874	(3,874)	0		0
Acquisition own shares				(2,011)					(2,011)		(2,011)
Total profit at 31.12.12					(1,488)	7		4,196	2,715		2,715
BALANCE AT 31.12.12	**11,533**	**10,002**	**2,307**	**(2,339)**	**93**	**0**	**89,834**	**4,196**	**115,626**	**0**	**115,626**

Consolidated statement of cash flows

IN THOUSANDS OF EURO	12M 2012	12M 2011
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	***14,208***	***9,769***
Net profit for period	4,196	10,775
Adjustments for:		
• Depreciation and amortisation	12,919	12,420
• Realised gains/losses	(54)	(23)
• Write-downs of non-current assets	1,028	1,129
• Losses from equity investments	465	356
• Net financial income and expenses	943	1,146
• Income tax	2,023	4,679
Change in staff severance fund	(243)	(223)
Change in general provisions	(99)	(36)
Change in trade receivables	*4,806*	*981*
Change in inventories	*2,847*	*(801)*
Change in trade payables	*(9,264)*	*3,623*
Change in net working capital	**(1,611)**	**3,803**
Change in other receivables and payables, deferred tax liabilities	(692)	(387)
Payment of taxes	(2,877)	(10,159)
Payment of financial expenses	(1,054)	(1,203)
Collection of financial income	219	162
Cash flow from operations	**15,163**	**22,439**
Investments in non-current assets		
• intangible	(778)	(786)
• tangible	(13,219)	(13,704)
• financial	(600)	(200)
Disposal of non-current assets	281	235
Net investments	**(14,316)**	**(14,455)**
Repayment of loans	(11,627)	(5,856)
New loans	12,556	12,546
Acquisition own shares	(2,011)	0
Payment of dividends	(6,900)	(9,201)
Cash flow from operations	**(7,982)**	**(2,511)**
Foreign exchange differences	(936)	(1,034)
Net financial flows for the year	**(8,071)**	**4,439**
CASH AND CASH EQUIVALENTS AT END OF YEAR	***6,137***	***14,208***
Current net financial debt	24,674	17,065
Non-current financial debt	5,259	11,939
Net financial debt (Note 21)	***23,796***	***14,796***

Explanatory Notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

Consolidated year-end accounts of the Sabaf Group for the financial year 2012 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 comprehensive income statement, which shows revenue and cost items that are not found in the profit (loss) as required or allowed by the IFRS;
- 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 31.12.12 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 L.tda.
- Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)
- Sabaf Appliance Components Trading (Kunshan), Co. Ltd.

As from these consolidated financial statements, the scope of consolidation includes Sabaf Appliance Components Trading (Kunshan) Co., Ltd., a company established in 2012 which provides the function of distributor on the Chinese market of Sabaf products made in Italy. The effects arising from consolidation of this company are negligible; as a result, the disclosure deriving from changes to the scope of consolidation is not reported in these financial statements.

The investment in subsidiary Sabaf Appliance Components (Kunshan) Co., Ltd., a company formed in 2009 and which at 31 December 2012 had yet to initiate purchase, production and sales operations, is booked at equity, to reflect the results of the subsidiary in the consolidated financial statements, which is incurring start-up costs resulting in losses, pending the launch of sales and production activity.

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. If these subsidiaries exercise a significant influence, they are consolidated as from the date in which control begins until the date in which control ends so as to provide a correct representation of the Group's income, investments and cash flow.

Sabaf Mexico and Sabaf U.S. have not been consolidated since they are immaterial for the purposes of consolidation.

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 31.12.12	Average exchange rate 2012	Exchange rate at 31.12.11	Average exchange rate 2011
Brazilian real	2.7036	2.5084	2.4159	2.3265
Turkish lira	2.3551	2.3136	2.4432	2.3378
Chinese Renminbi	8.2207	8.1058	-	-

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

Description	31.12.2012		31.12.2011	
	Net profit	Shareholders' equity	Net profit	Shareholders' equity
NET PROFIT AND SHAREHOLDERS' EQUITY OF PARENT COMPANY SABAF S.P.A.	**2,236**	**101,794**	**11,122**	**108,463**
Shareholders' equity and net result of consolidated companies	2,413	50,666	2,390	41,989
Elimination of consolidated equity investments' carrying value	1,586	(41,189)	1,128	(34,231)
Goodwill	(1,028)	4,445	(1,129)	5,473
Equity investments booked at net equity	0	5	0	5
Intercompany eliminations:				
• Dividends	(792)	0	(2,718)	0
• Other intercompany eliminations	(219)	(95)	(18)	124
GROUP NET PROFIT AND SHAREHOLDERS' EQUITY	**4,196**	**115,626**	**10,775**	**121,823**

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 31.12.12, 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 31.12.12 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 recognised by applying the "corridor method".

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 electricity equalisation costs for previous years. 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.

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 2012 and not relevant for the Group

IOn 7 October 2010, the IASB published some amendments to *IFRS 7 – Financial instruments: Disclosures*. The amendments were issued in order to improve understanding of the derecognition (transfer) of financial assets. The adoption of this amendment did not have any effect on disclosure in the financial statements.

On 20 December 2010, the IASB issued a minor amendment to *IAS 12 – Income Taxes*, which requires a company to measure the deferred tax relating to assets assessed at the fair value, depending on how the company expects to recover the carrying amount of the asset (either through continuous use or sale). Adoption of this change has not produced any effect on assessment of the deferred tax assets at 31 December 2012.

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

IOn 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.

On 12 May 2011, 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.

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 in the consolidated financial statements for every type of interest, including those in subsidiaries, joint arrangements, affiliates, special purpose vehicles and other non-consolidated entities. The standard will be applied retrospectively from 1 January 2014.

On 12 May 2011, the IASB issued the standard **IFRS 13** – ***Fair value measurement,*** which illustrates how fair value must be measured for the purpose of financial statements. It applies to all standards that require or allow for the measurement at fair value or the presentation of information based on fair value, with few exceptions. In addition, the standard requires disclosure on a wider measurement of the fair value (fair value hierarchy) than currently required by IFRS 7. The standard is applicable on a prospective basis as from 1 January 2013.

On 16 December 2011, the IASB issued some amendments to **IAS 32** – ***Financial instruments:*** presentation to clarify the application of certain criteria regarding the offsetting of financial assets and liabilities present in IAS 32, making it more difficult. The amendments are applicable retrospectively from the years beginning on or after 1 January 2014.

On 16 December 2011, the IASB issued some amendments to **IFRS 7** – ***Financial instruments: Disclosures.*** The amendment requires disclosure on the effects or potential effects of offsetting financial assets and liabilities on the statement of financial position of a company. The amendments are applicable from the financial years beginning on or after 1 January 2013. The information must be supplied retrospectively.

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 be subsequently reclassified to 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 that recognition of actuarial gains and losses be immediately recorded under the item "Other comprehensive income" so that the entire net amount of the funds for defined benefits (net of the assets servicing the plan) be booked under consolidated financial statements. The amendments also requires that changes in the provision for defined benefits and assets to service the plan between one financial year and the next must be split into three parts: the cost components related to employees providing services in the year must be recorded in the income statement as "service costs"; the net financial charges calculated applying the appropriate discount rate to the net balance of the fund for defined benefits, net of assets at the start of the year must be booked to the income statement as such, and the actuarial gains and losses resulting from the remeasurement of assets and liabilities must be booked under "Other comprehensive income". Furthermore, the interest on assets included under net financial charges must be calculated as above, based on the discount rate of the 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 as of the year beginning after or as from 1 January 2013. As a result, starting from 1 January 2013, the Group will record the actuarial losses accumulated at 31 December 2012, in compliance with the new version of the IAS 19, which come to € 554,000.

Comments on significant balance sheet items

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
COST					
AT 31.12.10	**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**
Increases	2,951	5,520	2,018	2,730	13,219
Disposals	-	(804)	(344)	(8)	(1,156)
Reclassifications	1,403	1,162	37	(2,612)	(10)
Forex differences	(310)	(664)	(197)	46	(1,125)
AT 31.12.12	**53,182**	**160,669**	**31,008**	**3,227**	**248,086**
ACCUMULATED DEPRECIATION					
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**
Depreciation of the year	1,408	8,137	2,215	-	11,760
Eliminations for disposals	-	(709)	(274)	-	(983)
Reclassifications	7	35	12	-	54
Forex differences	(48)	(383)	(141)	-	(572)
AT 31.12.12	**11,331**	**129,188**	**26,129**	**-**	**166,648**
CARRYING VALUE					
At 31.12.12	41,851	31,481	4,879	3,227	81,438
At 31.12.11	39,174	33,347	5,177	3,071	80,769

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

	31.12.2012	31.12.2011	Variazione
Land	7,150	7,233	(83)
Industrial buildings	34,701	31,941	2,760
TOTAL	**41,851**	**39,174**	**2,677**

The carrying value of industrial property includes an amount of €7,744,000 (€8,031,000 at 31 December 2011) relating to industrial buildings and related land held under finance leases.
Investments include €6.2 million for completion of the new production site of Manisa (Turkey), where the plant and machinery were installed for burner production. Furthermore, investments were made in maintenance and replacement, chiefly in the die-casting division, to keep the property, plant and equipment constantly up to date.
At 31.12.12, 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 31.12.10	**12,257**
Increases	-
Disposals	-
AT 31.12.11	**12,257**
Increases	-
Disposals	-
AT 31.12.12	**12,257**
ACCUMULATED DEPRECIATION	
AT 31.12.10	**4,398**
Depreciation of the year	233
Write-downs for impairment	-
Eliminations for disposals	-
AT 31.12.11	**4,631**
Depreciation of the year	233
Write-downs for impairment	-
Eliminations for disposals	-
AT 31.12.12	**4,864**
CARRYING VALUE	
At 31.12.12	**7,393**
At 31.12.11	**7,626**

This entry includes non-instrumental property belonging to the Group. This is mainly property for residential use reserved for lease or sale.

At 31.12.12, 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 31.12.10	**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**
Increases	-	451	531	12	994
Decreases	-	(4)	(214)	-	(218)
AT 31.12.12	**9,008**	**5,729**	**3,765**	**558**	**19,060**
AMORTISATION/WRITE-DOWNS					
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**
Amortisation 2012	-	620	274	33	927
Write-downs	1,028	-	-	-	1,028
Decreases/Adjustments	-	(2)	-	-	(2)
AT 31.12.12	**4,563**	**4,757**	**1,377**	**450**	**11,145**
CARRYING VALUE					
At 31.12.12	**4,445**	**974**	**2,388**	**108**	**7,915**
At 31.12.11	**5,473**	**1,135**	**2,345**	**129**	**9,082**

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 Hinges CGU reported significantly lower results in 2012, further to an additional deterioration in the reference market. In view of this situation, the Group intensified its efforts to restart the CGU. In the coming years, sustained demand of special products (including dampened springs, which enable a softer opening and closing of the oven door) is expected on the European market. The Group has developed new products that deliver performance not presently available on the market and has also initiated new contacts for customers to introduce these products. The plan 2013-2016, drawn up at the end of 2012, projects an uptick in sales and profitability, to which the new products will make a contribution.
At 31 December 2012, Sabaf S.p.A. tested the carrying value of its Hinges CGU for impairment, determining its recoverable value, considered to be equivalent to its usable value, by discounting expected future cash flow. 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 incorporates the following three hypotheses:

- a "best estimate" scenario, which reflects the subsidiary's plan and considers 100% of flows from the new products;
- a "steady state" scenario (or "worst case"), which completely excludes flows from the new products and foresees the continuation of the present state;
- an intermediate scenario, which incorporates the realisation risk and considers only 75% of flows related to the new products. The 75% weighting was chosen by management based on the probability of success of the new products that the Group intends to introduce, considering the state of progress of the development projects (mostly already completed) and the advancement of the commercial transactions (being finalised for significant volumes of incremental sales). Impairment testing was done considering the last scenario, as it is considered achievable based on the above considerations.

Cash flows for the period 2013-2016 were augmented by the so-called terminal value, which expresses the operating flows that the company expects to generate from the fifth year in perpetuity and determined based on perpetual income. The value of use was calculated based on a discount rate (WACC) of 8.52% (8.84% in the impairment test conducted while drafting the consolidated financial statements at 31 December 2011) and a growth rate (g) of 1.50%, which is in line with historic data.

The recoverable value determined based on the assumptions and assessment techniques mentioned above is €7.4 million, compared with a carrying value of the assets allocated to the Hinges CGU of €8.4 million; goodwill was therefore written down by approximately €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:

	Scenario 1 best estimate			Scenario 2 steady state			Scenario 3 intermediate		
MILLIONS OF EURO	*growth rate*			*growth rate*			*growth rate*		
discount rate	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**
7.52%	11.2	11.6	12.1	1.8	1.9	2.0	8.4	8.8	9.1
8.02%	10.3	10.6	11.0	1.7	1.7	1.8	7.8	8.0	8.3
8.52%	9.5	9.8	10.1	1.6	1.6	1.7	7.2	**7.4**	7.7
9.02%	8.8	9.1	9.3	1.5	1.5	1.5	6.6	6.9	7.1
9.52%	8.2	8.4	8.7	1.4	1.4	1.4	6.2	6.4	6.6

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 of 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 further 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). Investments in software refer to the expansion of the application area and the reporting scope of the Group's management system (SAP).

4. EQUITY INVESTMENTS

	31.12.2011	Capital increases	Gains (losses) from equity investments	Forex differences	31.12.2012
Sabaf Appliance Components (Kunshan)	90	600	(465)	6	231
Sabaf Mexico	548	-	-	-	548
Sabaf US	139	-	-	-	139
Other shareholdings	33	-	-	-	33
TOTAL	**810**	**600**	**(465)**	**6**	**951**

The value of the equity investment in Sabaf Appliance Components (Kunshan) increased by €600,000 owing to capital increases made in the period, and was reduced by €466,000 following the valuation at equity of the stake. The loss relates to the operating costs sustained by the company pending the launch of production activity on the local market.

Sabaf Mexico and Sabaf U.S. were not consolidated since they are immaterial for the purposes of consolidation and are valued at cost. At 31.12.12, the Group found no endogenous or exogenous indicators of impairment for these equity investments.

5. NON-CURRENT RECEIVABLES

	31.12.2012	31.12.2011	Change
Tax receivables	35	128	(93)
Guarantee deposits	42	9	33
Others	13	31	(18)
TOTAL	**90**	**168**	**(78)**

6. INVENTORIES

	31.12.2012	31.12.2011	Change
Raw materials	9,239	9,363	(124)
Semi-processed goods	9,534	11,264	(1,730)
Finished products	7,524	8,280	(756)
Obsolescence provision	(2,261)	(2,024)	(237)
TOTAL	**24,036**	**26,883**	**(2,847)**

The value of ending inventories at 31 December 2012 decreased against the reductions in business compared to a year earlier. The obsolescence provision was adjusted at year-end to reflect the updated value of the risk of obsolescence, based on year-end analyses done.

7. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2012	31.12.2011	Change
Italy	17,739	21,482	(3,743)
Western Europe	2,146	2,501	(355)
Eastern Europe and Turkey	9,649	9,002	647
Asia and Oceania	5,122	5,569	(447)
South America	3,202	4,305	(1,103)
Africa	832	633	199
US, Canada & Mexico	714	847	(133)
GROSS TOTAL	**39,404**	**44,339**	**(4,935)**
Provision for doubtful accounts	(1,436)	(1,565)	129
NET TOTAL	**37,968**	**42,774**	**(4,806)**

At 31 December 2012, trade receivables decreased in value year-on-year, essentially in line with the reduction in sales. At 31 December 2012, trade receivables included balances of USD 2,484,000, posted at the EUR/USD exchange rate as at 31 December 2012, i.e. 1.3194. The amount of trade receivables recognised in accounts includes €11.4 million of receivables assigned on a no-recourse basis (€13.3 million at 31 December 2011). 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 reported at the start of the year was depleted to cover losses on receivables the Group incurred during 2012; at 31 December 2012, the provision was restored in the amount that reflects the best estimate of the credit risk.

	31.12.2012	31.12.2011	Change
Current receivables (not past due)	30,117	37,935	(7,818)
Outstanding up to 30 days	3,477	2,749	728
Outstanding from 30 to 60 days	678	948	(270)
Outstanding from 60 to 90 days	814	1,667	(853)
Outstanding over 90 days	4,318	1,040	3,278
TOTAL	**40,406**	**44,339**	**(3,933)**

8. TAX RECEIVABLES

	31.12.2012	31.12.2011	Change
From Giuseppe Saleri SapA for IRES	1,694	761	933
From inland revenue for VAT	427	749	(322)
From inland revenue for IRAP	30	214	(184)
Other tax receivables	1,475	788	687
TOTAL	**3,626**	**2,512**	**(1,114)**

As from the financial year 2004, the Italian companies of the Group took part in the national tax consolidation scheme (Group taxation) 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 31.12.12 refers to the balance for income taxes transferred to the parent company.

Article 2 of Decree Law 201 of 6 December 2011, amended by Italian law 214 of 22 December 2011, establishes, as from the financial year 2012, the ability to deduct the full amount of IRAP from the IRES taxable income base, related to expenses incurred for employees or associates. Article 4 of Decree Law 16, of 2 March 2012, amended to law 44 of 26 April 2012, expanded this deduction to years prior to 2012, including the ability to apply for a refund of the higher IRES tax paid in the 48 previous months when this option was not yet available. With the order issued on 17 December 2012, the Director of Tax Revenue office approved the refund application form, setting forth the methods and deadlines for filing the form; for groups that have opted to participate in the national tax consolidation, the procedure envisages that the consolidating company (Giuseppe Saleri S.a.p.A.) requests a refund of IRES paid in relation to the deductible IRAP of the consolidated companies. Considering the matters set forth in the agreement of the national tax consolidation scheme, the consolidating company Giuseppe Saleri S.a.p.A. shall sell back to the consolidated companies the portion of refunded IRES relating to the deductible IRAP, equal to €1,103,000 which was reported as a receivable in these consolidated financial statements. The receivable held by Giuseppe Saleri S.a.p.A. also includes €591,000 for the higher estimated taxes paid by the Sabaf Group companies with respect to the actual tax charges of the year.

Other tax receivables mainly refer to receivables in respect of indirect Brazilian and Turkish taxes.

9. OTHER CURRENT RECEIVABLES

	31.12.2012	31.12.2011	Change
Receivables from factoring companies	167	167	0
Advances to suppliers	62	80	(18)
Receivables from suppliers	35	68	(33)
Others	558	280	278
TOTAL	**822**	**595**	**227**

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to €6,137,000 at 31 December 2012 (€14,208,000 at 31 December 2011) consisted of bank current-account balances of approximately €3 million and sight deposits of €3.1 million.

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

As part of the share buyback programme approved by the shareholders' meeting on 8 May 2012 and launched on 8 June 2012, Sabaf S.p.A. purchased 228,147 own shares at an average price of €8.814 per share (€2,011,000) in the fourth quarter of 2012. At 30 December 2012, Sabaf S.p.A. held 260,650 own shares (2.26% of the share capital), reported in the financial statements at a unit value of €8.973, which does not differ significantly from the market price at year-end.
The shares in circulation at 31 December 2012 number 11,272,800 (11,500,947 at 31 December 2011).

13. LOANS

	31.12.2012		31.12.2011	
	Current	*Non Current*	*Current*	*Non Current*
Property leasing	716	2,171	1,289	2,888
Property mortgages	900	2,771	860	3,678
Unsecured loans	2,422	317	3,838	3,873
Short-term bank loans	15,017	-	11,045	1,500
c/c overdrafts (advances on bank receipts)	5,586	-	-	-
TOTAL	**24,641**	**5,259**	**17,032**	**11,939**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor, with the exception of two short-term loans of a total of USD 2 million.
To partially finance the Group's working capital, the Group has taken out short-term loans and advances on bank receipts for approximately €20.6 million.
All new loans opened in 2012 were exclusively short term, including using advances on bank receipts. Since liquidity risk is satisfactorily managed (note 35) with higher short-term debt, in the current financial market, the conditions that it is possible to obtain from the banking system are much better than the forms of medium- to long-term loans
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

	31.12.2012	31.12.2011	Change
Derivative instruments on interest rates	33	33	-
Total	**33**	**33**	**0**

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

	31.12.2012		31.12.2011	
	Post-employment benefits	*Retirement reserves*	*Post-employment benefits*	*Retirement reserves*
LIABILITIES AT 1 JANUARY	**2,479**	**30**	**2,607**	**20**
Social security costs	-	-	-	10
Financial expenses	108	-	108	-
Amounts paid out	(213)	(30)	(236)	-
LIABILITIES AT 31 DECEMBER	**2,374**	**0**	**2,479**	**30**

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

Financial assumptions

	31.12. 2012	31.12.2011
Discount rate	2.50%	4.30%
Inflation	2.00%	2.00%

Demographic assumptions

	31.12. 2012	31.12.2011
Mortality rate	ISTAT 2002 M/F	ISTAT 2002 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
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 prevailing legislation at 31 December 2012	in agreement with the legislation in force from 1 January 2012

16. PROVISIONS FOR RISKS AND CONTINGENCIES

	31.12.2011	Allocations	Forex differences	Uses	Release of excess	31.12.2012
Reserve for agents' indemnities	379	13	-	-	(33)	359
Product warranty reserve	85	8	-	(33)	-	60
Reserve for legal risks	264	13	(21)	(43)	-	213
Other provisions for risks	3	-	-	-	(3)	0
TOTAL	**731**	**34**	**(21)**	**(77)**	**(36)**	**632**

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:

	31.12.2012	31.12.2011	Change
Italy	16,104	23,727	(7,623)
Western Europe	1,433	2,948	(1,515)
Eastern Europe and Turkey	134	536	(402)
Asia	596	241	355
South America	151	217	(66)
US, Canada & Mexico	126	139	(13)
TOTAL	**18,544**	**27,808**	**(9,264)**

The decrease in trade payables year-on-year is due to the lower levels of business and lower investments made in the last part of the year. At 31 December 2011, trade payables included €2.3 million related to payable for electricity equalisation costs for previous years; the Group has made arrangements with the supplier to make instalment payments. Average payment terms did not change. At 31.12.12, there were no overdue payables of a significant amount, and the Group had not received any injunctions for overdue payables.

18. TAX PAYABLES

	31.12.2012	31.12.2011	Change
Withholding taxes	754	749	5
From inland revenue for IRAP	12	-	12
Other tax payables	40	54	(14)
Total	**806**	**803**	**3**

19. OTHER CURRENT PAYABLES

	31.12.2012	31.12.2011	Change
Due to employees	3,450	3,609	(159)
Due to social security institutions	2,023	2,150	(127)
Due to agents	297	289	8
Payments to clients	165	62	103
Other current payables	82	128	(46)
Total	**6,017**	**6,238**	**(221)**

20. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2012	31.12.2011
Deferred tax assets (prepaid taxes)	3,941	3,855
Deferred tax liabilities	(386)	(366)
Net position	**3,555**	**3,489**

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	Depreciation, amortisation and leasing	Provisions and value adjustments	Fair value of derivatives	Goodwill	Other temporary differences	Total
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**
To the income statement	(167)	81	86	-	-	117	117
To shareholders' equity	-	-	-	(3)	-	-	(3)
Forex differences	(26)	-	(16)	-	-	(6)	(48)
AT 31.12.12	**180**	**(15)**	**1,223**	**0**	**1,993**	**174**	**3,555**

Prepaid taxes related to goodwill of €1,993,000 refer to the percentage of the shareholding value in Faringosi Hinges s.r.l. in 2011. The future fiscal benefit can be reported in ten annual amounts as from the financial year 2018.
At the balance-sheet date, the Group had further unused tax losses carried forward totalling approximately €1.2 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:

		31.12.2012	31.12.2011	Change
A.	Cash	11	8	3
B.	Positive balances of unrestricted bank accounts	2,972	11,868	(8,896)
C.	Other liquidities	3,154	2,332	822
D.	**Cash and cash equivalents (A+B+C)**	**6,137**	**14,208**	**(8,071)**
E.	Current bank payables (Note 13)	20,602	8,546	12,056
F.	Current portion of non-current debt (Note 13)	4,039	8,486	(4,447)
G.	Other current financial payables (Note 14)	33	33	0
H.	**Current financial debt (E+F+G)**	**24,674**	**17,065**	**7,609**
I.	**Current net financial debt (H-D)**	**18,537**	**2,857**	**15,680**
J.	Non-current bank payables	3,087	9,051	(5,964)
K.	Other non-current financial payables	2,172	2,888	(716)
L.	**Non-current financial debt (J+K)**	**5,259**	**11,939**	**(6,680)**
M.	**Net financial debt (I+L)**	**23,796**	**14,796**	**9,000**

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 €130,733,000 in 2012, down by €17,850,000 (-12%) vs. 2011.

Revenue by product family

	2012	%	2011	%	Change %
Brass valves	18,601	*14.2%*	26,537	*17.9%*	-29.9%
Light alloy valves	23,524	*18.0%*	23,265	*15.7%*	+1.1%
Thermostats	13,074	*10.0%*	14,560	*9.8%*	-10.2%
Standard burners	39,337	*30.1%*	42,631	*28.7%*	-7.7%
Special burners	18,850	*14.4%*	22,210	*14.9%*	-15.1%
Accessories	11,226	*8.6%*	10,598	*7.1%*	+5.9%
Total gas components	124,612	*95.3%*	139,801	*94.1%*	-10.9%
Hinges	6,121	*4.7%*	8,782	*5.9%*	-30.3%
Total	**130,733**	***100%***	**148,583**	***100%***	**-12.0%**

Geographical breakdown of revenue

	2012	%	2011	%	Change %
Italy	45,597	*34.9%*	56,321	*37.9%*	-19.0%
Western Europe	7,337	*5.6%*	11,215	*7.5%*	-34.6%
Eastern Europe and Turkey	33,236	*25.4%*	37,459	*25.2%*	-11.3%
Asia and Oceania	12,306	*9.4%*	13,328	*9.0%*	-7.7%
Central and South America	21,895	*16.8%*	19,838	*13.4%*	+10.4%
Africa	6,950	*5.3%*	6,524	*4.4%*	+6.5%
US, Canada & Mexico	3,412	*2.6%*	3,898	*2.6%*	-12.5%
Total	**130,733**	***100%***	**148,583**	***100%***	**-12.0%**

As described in the Management Report, to which we refer, sales in 2012 were subjected to a marked reduction following the crisis in demand in Europe, which represents 65% of the Group's reference market. The crisis was particularly acute in Italy, largely due to the interruption or drastic decrease in business by a number of major clients. Sales on international markets have reported values in line with the previous year, with solid growth in South America and Africa. All the product families were affected by the decrease in demand. The trend continued to replace valves in brass with light alloy valves. Average sale prices in 2012 were slightly lower than 2011.

23. OTHER INCOME

	31.12.2012	31.12.2011	Change
Sale of scraps	2,926	4,101	(1,175)
Contingent income	320	279	41
Rental income	114	111	3
Use of provisions for risks and contingencies	69	187	(118)
Dedicated equipment	-	7	(7)
Other income	232	347	(115)
TOTAL	**3,661**	**5,032**	**(1,371)**

The lower sales of scraps deriving from production were a result of the lower levels of activity and technical changes to the die-casting moulds which resulted in less scrap.

24. MATERIALS

	31.12.2012	31.12.2011	Change
Raw materials and purchases	44,279	54,367	(10,088)
Consumables	3,469	4,736	(1,267)
TOTAL	**47,748**	**59,103**	**(11,355)**

The average real purchase prices of the raw materials (brass, aluminium alloys, and steel) have not been subject to significant changes with respect to 2011. The purchase cost of the other components have not suffered significant changes. Consumption (purchases plus inventories) on sales was equal to 39% in 2012, compared to 39.2% in 2011; the decrease is due to the different mix of the products sold.

25. COSTS FOR SERVICES

	31.12.2012	31.12.2011	Change
Outsourced processing	11,407	13,059	(1,652)
Natural gas and power	5,469	6,496	(1,027)
Maintenance	4,394	4,597	(203)
Freight, carriage, transport	1,674	1,790	(116)
Advisory services	1,463	1,304	159
Directors' remuneration	1,067	992	75
Commissions	805	955	(150)
Travel expenses and allowances	572	434	138
Insurance	349	344	5
Canteen	336	395	(59)
Temporary agency workers	83	232	(149)
Other payroll costs	3,370	3,570	(200)
TOTAL	**30,989**	**34,168**	**(3,179)**

In 2012, the costs of outsourced processing decreased pursuant to decreased production. In 2012, electricity and methane costs were subject to significant increases, the impact of which was partially compensated by lower volumes used. Note that in 2011, the item "Electricity and Methane" included €1,607,000 in higher charges not posted in previous years.
The other costs for variable services have decreased in proportion to the lower levels of business compared to 2011.

26. PAYROLL COSTS

	31.12.2012	31.12.2011	Change
Salaries and wages	20,337	20,731	(394)
Social security costs	6,650	6,795	(145)
Temporary agency workers	769	1,830	(1,061)
Post-employment benefit reserve and Other payroll costs	1,546	1,384	162
TOTAL	**29,302**	**30,740**	**(1,438)**

Average Group headcount in 2012 totalled 710 employees (565 blue-collars, 136 white-collars and supervisors, and 9 managers), as opposed to 713 in 2011 (560 blue-collars, 145 white-collars and supervisors, and 8 managers). The average number of temporary staff was 28 in 2012 (68 in 2011).
In the year, the Group made occasional use of the government's statutory redundancy pay scheme (Cassa Integrazione Guadagni Ordinaria) when production needs were low: this option allowed the Group to save €531,000 in personnel costs.

27. OTHER OPERATING COSTS

	31.12.2012	31.12.2011	Change
Other taxes	483	494	(11)
Other administration expenses	217	350	(133)
Losses and write-downs of trade receivables	1,608	250	1,358
Provisions for risks	21	167	(146)
Contingent liabilities	82	122	(40)
Others provisions	13	13	0
Dedicated equipment	-	7	(7)
Total	**2,424**	**1,403**	**1,021**

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

	31.12.2012	31.12.2011	Change
Goodwill impairment	1,028	1,129	(101)
Total	**1,028**	**1,129**	**(101)**

For details on goodwill impairment, see Note 3.

29. FINANCIAL EXPENSES

	31.12.2012	31.12.2011	Change
Interest paid to banks	631	560	71
Interest paid on finance lease contracts	75	129	(54)
IRS spreads payable	59	59	-
Banking expenses	295	461	(166)
Other finance expense	102	99	3
Total	**1,162**	**1,308**	**(146)**

30. FOREIGN EXCHANGE GAINS/LOSSES

The Group incurred net losses on currency exchange in 2012 in the amount of €293,000 (net gains of €390,000 in 2011, which included a positive non-recurring effect of €396,000, which emerged as a result of the decrease in share capital of Sabaf do Brasil). Exchange losses originated largely as a result devaluation of the Brazilian Real.

31. INCOME TAX

	31.12.2012	31.12.2011	Change
Current tax	3,263	5,412	(2,149)
Deferred tax	(125)	329	(454)
Reporting the IRES receivable, pursuant to D.L. 16/2012	(1,103)	-	(1,103)
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	(12)	(84)	72
Total	**2,023**	**4,679**	**(2,656)**

Current income taxes include corporate income tax (IRES) of €1,651,000 and Italian regional business tax (IRAP) of €1,196,000 and Brazilian income tax of €416,000 (respectively €3,885,000, €1,434,000 and €93,000 in 2011).
As mentioned in Note 8, in accordance with Legislative Decree 16 of 2 March 2012, at 31 December 2012, Group companies booked the tax credit resulting from the non-deduction of IRAP for personnel costs and similar for the period 2007-2011. As a result, taxes booked in the 2012 income statement were lower by € 1,103,000.

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.

	31.12.2012	31.12.2011
Theoretical income tax	1,831	4,249
Tax effect on permanent differences	296	503
Taxes relating to previous years	(19)	(50)
Tax effect from different foreign tax rates	98	7
Use of tax losses	(535)	(562)
Reporting the IRES receivable, pursuant to DL 16/2012	(1,103)	-
Other differences	235	55
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**803**	**4,202**
IRAP (current and deferred)	1,220	1,455
Substitute tax, under Decree Law 98/2011	-	1,015
Accounting of deferred tax assets, under Decree Law 98/2011	-	(1,993)
Total	**2,023**	**4,679**

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 31.12.12.

32. EARNINGS PER SHARE

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

PROFIT

	2012	2011
	Euro '000	*Euro '000*
Net profit for period	4,196	10,775

NUMBER OF SHARES

	2012	2011
Weighted average number of ordinary shares for calculating basic EPS	11,443,242	11,500,947
Dilution effect arising from potential ordinary shares	---	---
Weighted average number of ordinary shares for calculating diluted EPS	11,443,242	11,500,947

EARNINGS PER SHARE (€)

	2012	2011
Basic earnings per share	0.367	0.937
Diluted earnings per share	0.367	0.937

Basic earnings per share is calculated on the average number of outstanding shares minus own shares, equal to 90,208 in 2012(and 32,503 in 2011).
Diluted earnings per share is calculated taking into account any shares approved but not yet subscribed, of which there were none in 2011 and 2012.

33. DIVIDENDS

On 24 May 2012, shareholders were paid a dividend of €0.60 per share (total dividends of €6,901,000), €0.20 per share less than paid in 2010.
Directors recommended payment of a dividend of €0.35 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 20.05.13 and is scheduled for payment as from 23.05.13.

34. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2012 and 2011.

	FY 2012			FY 2011		
	Gas components	Hinges	Total	Gas components	Hinges	Total
Sales	124,631	6,102	130,733	139,801	8,782	**148,583**
Operating income (loss)	8,005	(85)	7,920	16,192	374	**16,566**

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.

	31.12.2012	31.12.2011
Financial assets		
Amortised cost		
• Cash and cash equivalents	6,137	14,208
• Commercial receivables and other receivables	38,790	43,369
Financial liabilities		
Comprehensive income statement fair value		
• Derivative cash flow hedges	33	33
Amortised cost		
• Loans	29,900	28,971
• Trade payables	18,544	27,808

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 Company 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 2012, 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 year-end 2012, a hypothetical and immediate revaluation of 10% of the Euro against the dollar would have led to a loss of approximately €233,000.

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 a floating to fixed interest rate - from 2010 - two loans of equal amount, both falling due by the end of 2014.

The chart below shows the salient characteristics of the IRS in effect at 31 December 2012 and 31 December 2011:

At 31.12.12

	average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.15%	1,680	(31)
from 1 to 2 years	2.20%	321	(2)
from 2 to 3 years	-	-	-
from 3 to 5 years	-	-	-
more than 5 years	-	-	-
Total	**-**	**-**	**(33)**

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)**

Sensitivity analysis
With reference to financial assets and liabilities at floating rate at 31 December 2012 and 31 December 2011, 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:

	31.12.2012		31.12.2011	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	0.2	18	26	101
Decrease of 100 base points	(0.2)	(18)	(222)	(67)

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 2012 and 2011, 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 2012 equal to 0.21) and has unused short-term lines of credit of approximately €40 million. To minimise the risk of liquidity, the Administration and Finance Department:

- regularly assesses expected financial needs in order to make the best, most timely 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 2012 and 31 December 2011:

At 31.12.12

	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 and overdrafts	20,603	20,606	20,606	-	-	-
Unsecured loans	2,739	2,766	711	1,737	318	-
Property mortgages	3,671	3,775	-	944	2,831	-
Finance leases	2,887	3,351	347	431	754	1,819
Total financial payables	**29,900**	**30,498**	**21,664**	**3,112**	**3,903**	**1,819**
Trade payables	18,544	18,544	17,074	1,470	-	-
Total	**48,444**	**49,042**	**38,738**	**4,582**	**3,903**	**1,819**

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
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**

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 31.12.12, 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 2012	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	37,968	-	82	-	82	0.22%
Tax receivables	3,627	1,694	-	-	1,694	46.71%
Trade payables	18,544	-	151	-	151	0.81%

	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%

Impact of related-party transactions on income statement accounts

	Total 2012	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Other income	3,661	33	-	-	33	0.90%
Services	(30,989)	-	(151)	-	(151)	0.49%
Profits and losses from equity investments	(465)	-	(465)	-	(465)	100%

	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%

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 relate to the valuation of Sabaf Appliance Components (Kunshan) at equity, as described in more detail in Note 4.

Remuneration to directors, statutory auditors and executives with strategic responsibilities

Please see the 2012 Report on Remuneration for this information.

37. SHARE-BASED PAYMENTS

At 31.12.12, 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	Net financial debt	Cash flow
Financial statement items (A)	**115,626**	**4,196**	**23,796**	**(8,071)**
Reporting of receivables IRES pursuant to D.L. 16/2012 (B)	(1,103)	(1,103)	-	-
Figurative financial statement value (A+B)	**114,523**	**3,093**	**23,796**	**(8,071)**

In addition to the effect of the non-recurring events mentioned above, the 2012 result incorporates €1,028,000 for the write-down of goodwill 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 (€1,129,000 in 2011).

The net result of the financial year of 2011 included the effects of the following non-recurring events:

- electricity equalisation costs for previous years of €1,607,000 (€1,102,000 net of the tax effect);
- foreign exchange gains arising from the reduction of the share capital of Sabaf do Brasil totalling €396,000 (€287,000 net of the tax effect).

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 2012.

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 €7,075,000 (€7,098,000 at 31 December 2011).

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, Brasile)	BRL 27,000,000	Sabaf S.p.A.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turchia)	TRK 16,000,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Trading Ltd.	Kunshan (Cina)	EUR 70,000	Sabaf S.p.A.	100%

Non-consolidated companies valued at equity

Company name	Registered office	Share capital	Shareholders	% ownership
Sabaf Appliance Components Ltd.	Kunshan (Cina)	EUR 1,800,000	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 Potosi (Messico)	MXN 8,247,580	Sabaf S.p.A.	100%
Sabaf US Corp.	Plainfield (USA)	USD 100,000	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: *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 2012 for the independent auditor and for services other than auditing provided by the same auditing firm and its network.

(IN THOUSANDS OF EURO)	Party that provides the service	Recipient	Considerations for the year 2012
Audit	Deloitte & Touche S.p.A.	Parent company	52
	Deloitte & Touche S.p.A.	Italian subsidiaries	19
	Rete Deloitte	Sabaf do Brasil	26
	Rete Deloitte	Sabaf Turkey	20
Certification services	Deloitte & Touche S.p.A.	Parent company	2[1]
	Deloitte & Touche S.p.A.	Italian subsidiaries	1[1]
Other services	Deloitte & Touche S.p.A.	Parent company	16[2]
	Rete Deloitte	Sabaf do Brasil	2[3]
Total			**138**

1 signing of Unico, IRAP and 770 forms and stamp of approval of VAT declaration
2 audit procedures relating to interim management reports, revising statements of training activities
3 tax assistance regarding transfer pricing

SABAF® TECHNOLOGY AND SAFETY

CERTIFICATION OF THE CONSOLIDATED ANNUAL REPORT

and Accounts, in accordance with Article 154 bis of Legislative Decree 58/98

Alberto Bartoli, the Chief Executive Officer, and Gianluca Beschi, 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 2012.

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 as well as the measures implementing 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 Report on Operations 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, 20 March 2013

The Chief Executive Officer	The Financial Reporting Officer
Alberto Bartoli	Gianluca Beschi

Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

Tel: +39 02 83327030
Fax: +39 02 83327029
www.deloitte.it

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, 2012, 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 10, 2012.

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, 2012, 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.

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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, 2012.

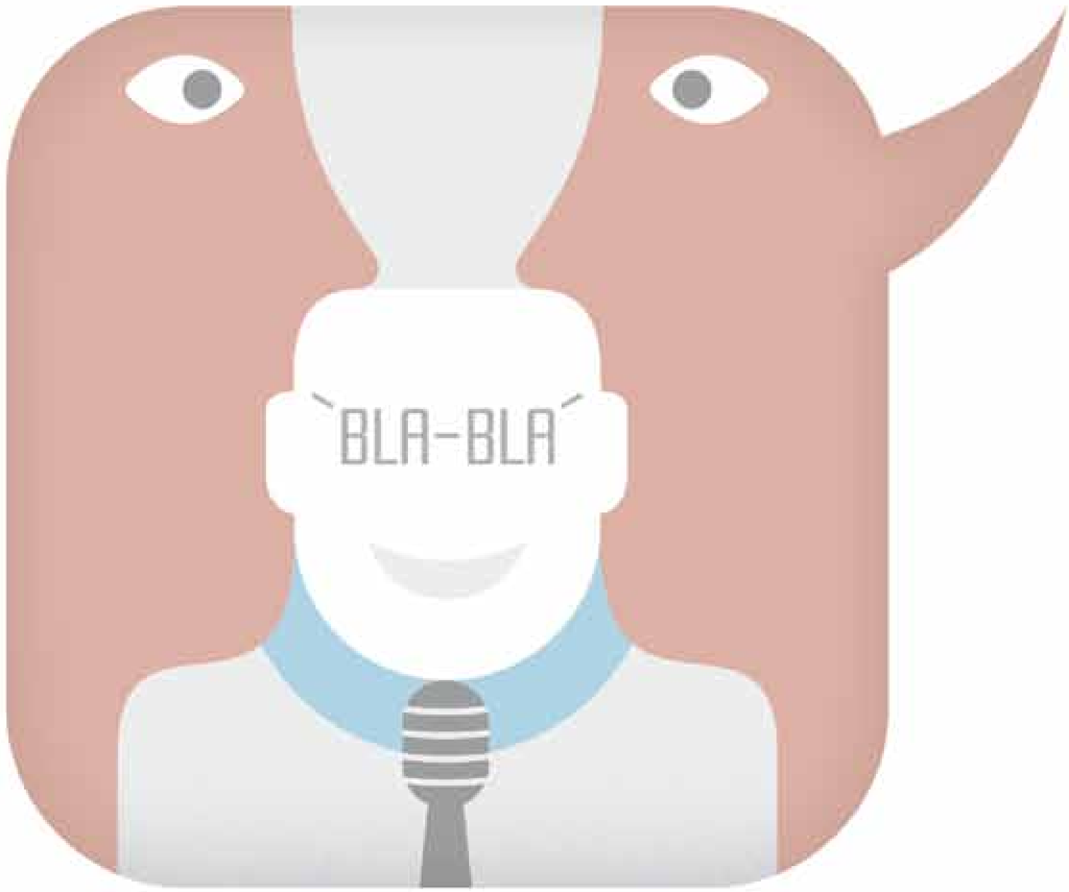
DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
April 4, 2013

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

Dialogue & Communication



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Statutory Annual Report & accounts at 31 December 2012

Statement of financial position

IN EURO	Notes	31.12.2012	31.12.2011
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	34,574,889	38,060,804
Investment property	2	2,416,055	2,612,083
Intangible assets	3	3,921,690	3,897,787
Equity investments	4	42,129,019	35,027,421
Non-current assets	5	1,515,841	0
of which from related parties	*36*	*1,515,841*	*0*
Non-current receivables		6,800	6,800
Deferred tax assets (prepaid taxes)	20	3,318,814	3,151,331
Total non-current assets		**87,883,108**	**82,756,226**
CURRENT ASSETS			
Inventories	6	20,779,835	24,433,461
Trade receivables	7	35,363,276	39,561,007
of which from related parties	*36*	*876,361*	*242,760*
Tax receivables	8	1,895,451	1,492,609
of which from related parties	*36*	*1,568,002*	*730,693*
Other current receivables	9	1,954,904	389,795
of which from related parties	*36*	*1,490,988*	*0*
Current financial assets	5	0	1,545,714
of which from related parties	*36*	*0*	*1,545,714*
Cash and cash equivalents	10	1,601,050	9,180,481
Total current assets		**61,594,516**	**76,603,067**
TOTAL ASSETS		**149,477,624**	**159,359,293**

IN EURO	Notes	31.12.2012	31.12.2011
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11	11,533,450	11,533,450
Retained earnings, other reserves		88,024,906	85,807,315
Net profit for period		2,236,106	11,122,020
Total shareholders' equity		**101,794,462**	**108,462,785**
NON-CURRENT LIABILITIES			
Loans	13	317,003	3,873,406
Post-employment benefit reserve (TFR) and retirement reserves	15	2,092,013	2,199,065
Provisions for risks and contingencies	16	398,930	466,987
Deferred tax	20	27,016	46,242
Total non-current liabilities		**2,834,962**	**6,585,700**
CURRENT LIABILITIES			
Loans	13	21,524,555	12,383,057
Other financial liabilities	14	32,522	32,727
Trade payables	17	17,079,138	24,928,499
Tax payables	18	668,603	687,612
Other liabilities	19	5,543,382	6,278,913
Total current liabilities		**44,848,200**	**44,310,808**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**149,477,624**	**159,359,293**

Income statement

IN EURO	Notes	2012	2011
CONTINUING OPERATIONS			
OPERATING REVENUE AND INCOME			
Revenue	22	116,202,488	132,513,660
Other income	23	3,239,249	4,417,258
Total operating revenue and income		**119,441,737**	**136,930,918**
OPERATING COSTS			
Materials	24	(42,329,552)	(52,278,310)
Change in inventories		(3,653,626)	1,007,735
Services	25	(30,753,060)	(33,778,172)
from related parties	*36*	*(4,043,254)*	*(3,489,242)*
Payroll costs	26	(25,934,244)	(27,359,436)
Other operating costs	27	(1,997,587)	(934,290)
Costs for capitalised in-house work		1,056,473	975,919
Total operating cost		**(103,611,596)**	**(112,366,554)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**15,830,141**	**24,564,364**
Depreciation and amortisation	1,2,3	(10,389,323)	(10,220,658)
Capital gains/(losses) on disposal of non-current assets		374,882	37,798
Write-downs/write-backs of non-current assets	28	(2,050,638)	(1,483,735)
from related parties	*36*	*(2,050,638)*	*(1,483,735)*
OPERATING PROFIT		**3,765,062**	**12,897,769**
Financial income		40,918	57,101
Financial expenses	29	(828,160)	(920,446)
Foreign exchange gains/losses	30	(61,348)	616,364
Profits and losses from equity investments	31	792,079	2,717,531
from related parties	*36*	*792,079*	*2,717,531*
PRE-TAX PROFIT		**3,708,551**	**15,368,319**
Income tax	32	(1,472,445)	(4,246,299)
NET PROFIT FOR THE YEAR		**2,236,106**	**11,122,020**

Comprehensive income statement

IN EURO	2012	2011
NET PROFIT FOR THE YEAR	2,236,106	11,122,020
OTHER PROFIT/LOSSES		
Cash hedge flows	6,958	22,105
TOTAL PROFITS	2,243,054	11,144,125

Statement of changes in shareholders' equity

IN THOUSANDS OF EURO	Share capital	Premium reserve	Legal reserve	Own shares	Cash flow hedge reserves	Other reserves	Profit of the year	Total shareholders' equity
BALANCE AT 31 DECEMBER 2010	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 December 2011					23	0	11,122	11,145
BALANCE AT 31 DECEMBER 2011	11,533	10,002	2,307	(328)	(7)	73,834	11,122	108,463
Allocation of 2011 earnings								
- dividends paid							(6,901)	(6,901)
- to reserves						4,221	(4,221)	0
Acquisition own shares				(2,011)				(2,011)
Total profit at 31 December 2012					7		2,236	2,243
BALANCE AT 31 DECEMBER 2012	11,533	10,002	2,307	(2,339)	0	78,055	2,236	101,794

Cash flow statement

IN THOUSANDS OF EURO	FY 2012	FY 2011
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,180	5,026
Net profit for period	2,236	11,122
Adjustments for:		
• Depreciation and amortisation	10,389	10,221
• Realised gains/losses	(375)	(38)
• Write-downs (write-backs) of non-current assets	2,051	1,484
• Net financial income and expenses	787	863
• Income tax	1,472	4,246
Change in staff severance fund	(202)	(206)
Change in general provisions	(68)	(53)
Change in trade receivables	*4,198*	*613*
Change in inventories	*3,653*	*(1,008)*
Change in trade payables	*(7,849)*	*3,899*
Change in net working capital	2	3,504
Change in other receivables and payables, deferred tax liabilities	(2,052)	361
Payment of taxes	(2,322)	(9,501)
Payment of financial expenses	(733)	(825)
Collection of financial income	41	57
Cash flow from operations	11,226	21,235
Investments in non-current assets		
• intangible	(1,030)	(797)
• tangible	(5,808)	(7,263)
• financial	(9,152)	(2,219)
Disposal of non-current assets	481	1,839
Net investments	(15,509)	(8,440)
Repayment of loans	(6,516)	(6,440)
New loans	12,102	8,545
New financial assets	30	(1,545)
Acquisition own shares	(2,011)	0
Payment of dividends	(6,901)	(9,201)
Cash flow from operations	(3,296)	(8,641)
TOTAL FINANCIAL FLOWS	(7,579)	4,154
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,601	9,180
Current net financial debt	21,557	12,416
Non-current financial debt	317	3,873
Net financial debt (Note 21)	20,273	7,109

Explanatory notes

ACCOUNTING STANDARDS

Statement of compliance and basis of presentation

Sabaf S.p.A. individual year-end accounts for the financial year 2012 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 statements of the Sabaf Group at 31 December 2012.

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 comprehensive income statement that expresses revenue and expense items not recognised in profit (loss) for the year as required or permitted by IFRS;
- 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 2012 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.

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 three-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 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.

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.

Current and non-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 recognised using the "corridor method".

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 hedging 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 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 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.
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 this annual report and accounts.

Accounting standards, amendments and interpretations effective from 1 January 2012 and not relevant for the Company
On 7 October 2010, the IASB published some amendments to **IFRS 7 – *Financial instruments: Disclosures***. The amendments were issued to improve reporting of the derecognition of financial assets. The adoption of this amendment did not have any effect on disclosure in the financial statements.

On 20 December 2010, the IASB issued a minor amendment to **IAS 12 – *Income Taxes***, which requires a company to measure the deferred tax relating to investment property valued at fair value depending on whether the company expects to recover the carrying amount of the asset (either through continuous use or sale). Adoption of this amendment did not have any effect on the value of deferred tax at 31 December 2012.

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

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.

On 12 May 2011, 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.*

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 in the consolidated financial statements 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 2014.

On 12 May 2011, the IASB issued the standard **IFRS 13 – *Fair value measurement***, which describes how fair value must be measured for the purpose of financial statements. It applies to all matters for which the standards require or allow for valuation at fair value or the presentation of information based on fair value, with some limited exceptions. The standard also requires disclosures on fair value measurement (fair value hierarchy) to be more extensive than is currently required by IFRS 7. The standard is to be applied on a prospective basis from 1 January 2013.

On 16 December 2011, the IASB issued some amendments to **IAS 32 – *Financial instruments: Presentation***, to clarify the application of certain criteria regarding the offsetting of financial assets and liabilities present in IAS 32, making it de facto more difficult. The amendments are applicable retrospectively from the years beginning on or after 1 January 2014.

On 16 December 2011, the IASB issued some amendments to **IFRS 7** – ***Financial instruments: Disclosures***. The amendment requires disclosure on the effects or potential effects of offsetting financial assets and liabilities on a company's statement of financial position. The amendments are applicable from the years beginning on or after 1 January 2013. The information must be provided retrospectively.

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 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 that all actuarial gains or losses be immediately recognised under "Other comprehensive income" so that the whole net amount of defined-benefit funds (net of assets servicing the plan) be recognised in the consolidated financial statements. The amendments also require the change from one year to the next in the defined-benefit fund and the assets servicing the plan to be broken down into three components: cost components arising from employees providing service must be recognised in the income statement as "service costs"; net financial charges calculated applying the appropriate discount rate to the net balance of the defined-benefit fund, net of assets arising at the start of the year, must be recognised in the income statement as such, actuarial gains and losses resulting from the remeasurement of assets and liabilities must be recognised under "Other comprehensive income". Furthermore, the interest on assets included under net financial charges as indicated above 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. As a result, from 1 January 2013, in compliance with the new version of IAS 19, the Company will recognise cumulative actuarial losses at 31 December 2012, which totalled €474,000.

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 DECEMBER 2010	**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 DECEMBER 2011	**5,931**	**139,763**	**24,543**	**2,180**	**172,417**
Increases	65	2,471	1,738	1,533	5,807
Disposals	-	(671)	(295)	-	(966)
Reclassification	-	1,154	19	(1,183)	(10)
AT 31 DECEMBER 2012	**5,996**	**142,717**	**26,005**	**2,530**	**177,248**
ACCUMULATED DEPRECIATION AND AMORTISATION					
AT 31 DECEMBER 2010	**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 DECEMBER 2011	**2,029**	**111,920**	**20,407**	**-**	**134,356**
Depreciation of the year	168	7,136	1,872	-	9,176
Eliminations for disposals	-	(605)	(254)	-	(859)
AT 31 DECEMBER 2012	**2,197**	**118,451**	**22,025**	**-**	**142,673**
CARRYING VALUE					
At 31 December 2012	**3,799**	**24,266**	**3,980**	**2,530**	**34,575**
At 31 December 2011	**3,902**	**27,843**	**4,136**	**2,180**	**38,061**

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

	31.12.2012	31.12.2011	Change
Land	1,291	1,291	-
Industrial buildings	2,508	2,611	(103)
TOTAL	**3,799**	**3,902**	**(103)**

The main investments in the year concerned the automation of production processes for new products, including light alloy valves. Investments were also made in maintenance and replacement, mainly in the die-casting division, to ensure plant, machinery and moulds remain efficient.

At 31 December 2012, 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 DECEMBER 2010	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2011	**6,675**
Increases	-
Disposals	-
AT 31 DECEMBER 2012	**6,675**
ACCUMULATED DEPRECIATION	
AT 31 DECEMBER 2010	**3,867**
Depreciation of the year	196
AT 31 DECEMBER 2011	**4,063**
Depreciation of the year	196
AT 31 DECEMBER 2012	**4,259**
CARRYING VALUE	
At 31 December 2012	**2,416**
At 31 December 2011	**2,612**

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 2012, 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 DECEMBER 2010	**5,080**	**2,805**	**1,240**	**9,125**
Increases	83	648	68	799
Decreases	(3)	(5)	-	(8)
AT 31 DECEMBER 2011	**5,160**	**3,448**	**1,308**	**9,916**
Increases	223	531	276	1,030
Reclassifications	225	(214)	-	11
Decreases	(1)	-	-	(1)
AT 31 DECEMBER 2012	**5,607**	**3,765**	**1,584**	**10,956**
AMORTISATION				
AT 31 DECEMBER 2010	**3,384**	**837**	**763**	**4,984**
2011 portion	664	266	107	1,037
Decreases	(3)	-	-	(3)
AT 31 DECEMBER 2011	**4,045**	**1,103**	**870**	**6,018**
2012 portion	615	274	128	1,017
Decreases	(1)	-	-	(1)
AT 31 DECEMBER 2012	**4,659**	**1,377**	**998**	**7,034**
CARRYING VALUE				
At 31 December 2012	**948**	**2,388**	**586**	**3,922**
At 31 December 2011	**1,115**	**2,345**	**438**	**3,898**

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 specialist burners (research and development activities conducted over the year are set out in the Report on Operations).

Software investments relate to the extension of the application area and the companies covered by the Group's management system (SAP).
At 31 December 2012, 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 INVESTMENTS

	31.12.2012	31.12.2011	Change
In subsidiary companies	42,096	34,994	7,102
Other shareholdings	33	33	-
TOTAL	**42,129**	**35,027**	**7,102**

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 Components (China)	Sabaf A.C. Trading (China)	Sabaf Turkey	Total
HISTORICAL COST									
AT 31 DECEMBER 2010	13,475	10,329	11,234	548	139	1,000	0	0	36,725
Capital increases/ reductions	-	-	(1,706)	-	-	200	-	2,018	512
AT 31 DECEMBER 2011	13,475	10,329	9,528	548	139	1,200	0	2,018	37,237
Capital increases/ reductions	-	-	-	-	-	600	70	8,483	9,153
AT 31 DECEMBER 2012	13,475	10,329	9,528	548	139	1,800	70	10,501	46,390
WRITE-DOWN RESERVE									
AT 31 DECEMBER 2010	0	0	0	0	0	759	0	0	759
Write-downs / Write-backs	-	1,128	-	-	-	356	-	-	1,484
AT 31 DECEMBER 2011	-	1,128	-	-	-	1,115	-	-	2,243
Write-downs / Write-backs	-	1,586	-	-	-	465	-	-	2,051
AT 31 DECEMBER 2012	0	2,714	0	0	0	1,580	0	0	4,294
CARRYING VALUE									
AT 31 DECEMBER 2012	13,475	7,615	9,528	548	139	220	70	10,501	42,096
AT 31 DECEMBER 2011	13,475	9,201	9,528	548	139	85	0	2,018	34,994
SHAREHOLDERS' EQUITY (DETERMINED IN ACCORDANCE WITH IAS/IFRS)									
AT 31 DECEMBER 2012	24,710	5,140	10,995	287	57	220	68	9,755	51,232
AT 31 DECEMBER 2011	22,890	5,191	12,010	291	73	85	0	1,899	42,439
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND BOOK VALUE									
AT 31 DECEMBER 2012	11,235	(2,475)	1,467	(261)	(82)	0	(2)	746	10,628
AT 31 DECEMBER 2011	9,415	(4,010)	2,482	(257)	(66)	0	0	(119)	7,445

Faringosi Hinges s.r.l

The Company recorded a significant drop in results in 2012 (sales of €6.1 million, down 30%, operating loss of €85,000, net loss of €51,000), following a further decline in the core market. The Group therefore stepped up its efforts to relaunch the subsidiary. There is expected to be sustained demand for specialist products (including dampened springs for soft opening and closing of oven doors) on the European market over the coming years. Faringosi Hinges has developed new products which guarantee performance and are not currently available on the market and has begun talks with customers for the launch of these products. The 2013-2016 plan, drawn up at the end of 2012, projects a gradual recovery in sales and profitability, to which the new products will make an essential contribution.

At 31 December 2012, 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. 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, which coincides with the subsidiary's plan and considers 100% of flows arising from new products;
- a "steady state" scenario (or "worst case"), which completely excludes flows of new products and hypothesizes the continuation of the present state;
- an intermediate scenario, which incorporates the realisation risk and considers only 75% of flows related to new products. The 75% weighting was set by management based on the probability of success of the new products the Group intends to introduce, taking into account the extent of completion of the development projects (the majority of which are already concluded) and the level of progress of commercial negotiations (in the finalisation period for significant volumes of incremental sales). The impairment test was conducted considering this last scenario, inasmuch as it is considered achievable based on the abovementioned considerations.

Cash flows for the period 2013-2016 were augmented by the so-called terminal value, which expresses the operating flows that the company is expected to generate from the fifth year to infinity. Value in use was calculated based on a discount rate (WACC) of 8.52% (8.84% in the impairment test conducted for preparation of the financial statements at 31 December 2011) and a growth rate (g) of 1.50%, which is in line with historical data.

The recoverable value determined based on the assumptions and assessment techniques mentioned above is €7.6 million. The equity investment was therefore written down by approximately €1.6 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		
	growth rate			growth rate			growth rate		
discount rate	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**	**1.25%**	**1.50%**	**1.75%**
7.52%	11.2	11.7	12.1	2.5	2.5	2.6	8.6	9.0	9.3
8.02%	10.3	10.7	11.1	2.3	2.4	2.4	8.0	8.2	8.5
8.52%	9.5	9.9	10.2	2.2	2.3	2.3	7.4	**7.6**	7.9
9.02%	8.9	9.1	9.4	2.1	2.1	2.2	6.9	7.1	7.3
9.52%	8.3	8.5	8.8	2.0	2.0	2.1	6.4	6.6	6.8

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 further losses in value.

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 2012, the subsidiary's capital was increased by €600,000. The value of the investment was reduced by €465,000, 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 Appliance Components Trading

Sabaf Appliance Components Trading (Kunshan) Co., Ltd., was established in 2012 and acts as the distributor on the Chinese market of Sabaf products made in Italy. It is a wholly owned subsidiary of Sabaf S.p.A.

Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki (Sabaf Turkey)

Sabaf Turkey was formed by Sabaf S.p.A. in 2011, with the objective of directly supplying the Turkish market, the second largest for the Company after Italy. In 2012 construction was completed of a facility covering approximately 10,000 m² and machinery was installed for the production of burners, which began in 2012. Investment was financed by Sabaf S.p.A. through capital increases.

5. NON-CURRENT FINANCIAL ASSETS

	31.12.2012	31.12.2011	Change
Financial receivables from subsidiaries	1,516	-	1,516
TOTAL	1,516	0	1,516

At 31 December 2012 this item included a loan of USD 2 million maturing in March 2017 and granted to the subsidiary Sabaf do Brasil, in order to optimise the Group's exposure to exchange rate risk. This loan replaced one of an equal amount, which matured in 2012 and was recognised under current financial assets in the 2011 financial statements.

6. INVENTORIES

	31.12.2012	31.12.2011	Change
Raw materials	8,165	8,678	(513)
Semi-processed goods	8,736	10,479	(1,743)
Finished products	5,879	7,076	(1,197)
Obsolescence provision	(2,000)	(1,800)	(200)
TOTAL	20,780	24,433	(3,653)

The value of inventory at 31 December 2012 fell due to the lower levels of business compared to the previous year.
The obsolescence provision amounted to €0.6 million for raw materials, €0.7 million for semi-processed goods and €0.7 million for finished products and was adjusted at year-end to reflect the updated value of the obsolescence risk, based on analyses conducted at the end of the year.

7. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2012	31.12.2011	Change
Italy	17,036	20,522	(3,486)
Western Europe	1,934	2,032	(98)
Eastern Europe and Turkey	9,158	8,807	351
Asia and Oceania	5,281	5,563	(282)
South America	1,808	2,700	(892)
Africa	832	633	199
US, Canada & Mexico	514	625	(111)
GROSS TOTAL	36,563	40,882	(4,279)
Provision for doubtful accounts	(1,200)	(1,321)	121
NET TOTAL	35,363	39,561	(4,158)

At 31 December 2012 the value of trade receivables was down against the previous year, substantially in line with the decrease in sales. At 31 December 2012, trade receivables included balances of USD 2,484,000, posted at the EUR/USD exchange rate as at 31 December 2012, i.e. 1.3194. The amount of trade receivables recognised in accounts includes €11.4 million of receivables assigned on a no-recourse basis (€13.2 million at 31 December 2011).

The decline in 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 recognised at the start of the year was completely used for the losses on receivables which the Company incurred during 2012; at 31 December 2012 the fund was written back to reflect the best estimate of credit risk.

	31.12.2012	31.12.2011	Change
Current receivables (not past due)	27,910	35,622	(7,712)
Outstanding up to 30 days	3,143	1,843	1,300
Outstanding from 31 to 60 days	573	903	(330)
Outstanding from 61 to 90 days	814	1,667	(853)
Outstanding over 90 days	4,123	847	3,276
TOTAL	36,563	40,882	(4,319)

8. TAX RECEIVABLES

	31.12.2012	31.12.2011	Change
From Giuseppe Saleri SapA for IRES	1,568	731	837
From inland revenue for VAT	296	559	(263)
From inland revenue for IRAP	27	203	(176)
Other tax receivables	4	-	4
TOTAL	1,895	1,493	402

Sabaf S.p.A. was part of domestic tax consolidation 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.
Article 2 of Decree Law 201 of 6 December 2011, converted with amendments into law 214 on 22 December 2011, establishes that, from FY 2012 on, the tax base for Italian corporate income tax (IRES) is fully deductible from Italian regional business tax (IRAP) personnel costs and similar. Article 4 of Decree Law 16 of 2 March 2012, converted with amendments into law 44 on 26 April 2012, extended this deductibility to years prior to 2012, providing for the possibility of requesting repayment of the higher IRES paid, in the 48 preceding months, following the pre-existing regime of non-deductibility.
With a decision issued on 17 December 2012, the Director of the Italian revenue agency approved the repayment request form, setting the methods and timeframe for presenting requests; for groups which are part of the domestic tax consolidation scheme, the procedure stipulates that the consolidating company (Giuseppe Saleri S.a.p.A.) request repayment of the IRES paid in relation to the IRAP deductible from the individual consolidated companies. In light of the provisions of the agreement for participation in domestic tax consolidation, the consolidating company Giuseppe Saleri S.a.p.A. will reimburse to Sabaf S.p.A. the relevant share of IRES repaid in relation to the deductible IRAP (€1,033,000); this amount has therefore been recognised as a receivable in these consolidated financial statements. The receivable from Giuseppe Saleri S.a.p.A. also includes, for €535,000, the higher estimated tax payments made versus the actual tax burden for the year.

9. OTHER CURRENT RECEIVABLES

	31.12.2012	31.12.2011	Change
Advances to suppliers	1,532	23	1,509
Receivables from factoring companies	158	158	-
Receivables from INAIL	85	31	54
Receivables from suppliers	31	65	(34)
Others	149	111	38
TOTAL	**1,955**	**390**	**1,565**

At 31 December 2012 advances to suppliers included €1,491,000 from Sabaf Immobiliare s.r.l., paid as an advance on 2013 rent for the properties owned by the subsidiary.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to €1,601,000 as at 31 December 2012 (€9,180,000 at 31 December 2011) consisted almost exclusively of bank current account balances.

11. SHARE CAPITAL

At 31 December 2012, 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

As part of the share buyback programme approved by the shareholders' meeting on 8 May 2012 and launched on 8 June 2012, in 2012 Sabaf S.p.A. purchased 228,147 own shares at an average price of €8.814 per share (€2,011,000). At 31 December 2012, Sabaf S.p.A. held 260,650 own shares (2.26% of share capital), reported in the financial statements as an adjustment to shareholders' equity at a unit value of €8.973, which does not differ significantly from the market price at the year-end.
There were 11,272,800 outstanding shares at 31 December 2012 (11,500,947 at 31 December 2011).

13. LOANS

	31.12.2012		31.12.2011	
	Current	*Non Current*	*Current*	*Non Current*
Unsecured loans	2,422	317	3,838	3,873
Short-term bank loans	13,517	-	8,545	-
Bank overdrafts (subject to collection advances on bank receipts)	5,586	-	-	-
TOTALE	**21,525**	**317**	**12,383**	**3,873**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor, with the exception of two short-term loans of USD 2 million in total. To meet the Company's financial requirements, at 31 December 2012 outstanding short-term loans totalled €13,517,000 and advances on bank receipts totalling €5,586,000 had been used.
During the year an unsecured loan with residual debt at 31 December 2011 of €2,190,000 was paid off early.
The loans are not bound by contractual provisions (covenants).
Note 35 provides information on financial risks, pursuant to IFRS 7.

14. OTHER FINANCIAL LIABILITIES

	31.12.2012	31.12.2011	Change
Derivative instruments on interest rates	33	33	-
Total	**33**	**33**	**0**

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

	31.12.2012	31.12.2011
LIABILITIES AT 1 JANUARY	**2,199**	**2,310**
Financial expenses	95	95
Amounts paid out	(203)	(206)
LIABILITIES AT 31 DECEMBER	**2,092**	**2,199**

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

Financial assumptions

	31.12. 2012	31.12.2011
Discount rate	2.50%	4.30%
Inflation	2.00%	2.00%

Demographic assumptions

	31.12. 2012	31.12.2011
Mortality rate	ISTAT 2002 M/F	ISTAT 2002 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
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 at 31 December 2012	in agreement with the legislation in force from 1 January 2012

16. PROVISIONS FOR RISKS AND CONTINGENCIES

	31.12.2011	Provisions	Use	Release of excess	31.12.2012
Reserve for agents' indemnities	309	13	-	(23)	299
Product warranty reserve	85	8	(33)	-	60
Reserve for tax risks	3	-	-	(3)	-
Reserve for legal risks	70	13	(43)	-	40
TOTAL	**467**	**34**	**(76)**	**(26)**	**399**

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:

	31.12.2012	31.12.2011	Change
Italy	14,933	21,564	(6,631)
Western Europe	1,401	2,876	(1,475)
Eastern Europe and Turkey	32	108	(76)
Asia	587	241	346
US, Canada & Mexico	126	135	(9)
South America	-	4	(4)
TOTAL	**17,079**	**24,928**	**(7,849)**

The reduction in trade payables compared to the previous year-end is attributable to the lower levels of business and to the lower investments made in the latter part of the year. At 31 December 2011, payables to suppliers also included €2.3 million relating to the balancing payment for electricity used in previous years, for which a deferred payment was agreed with the supplier. Average payment terms did not change. The amount of trade payables in currencies other than the euro was insignificant. At 31 December 2012, there were no overdue payables of a significant amount, and the Company had not received any injunctions for overdue payables.

18. TAX PAYABLES

	31.12.2012	31.12.2011	Change
For IRPEF withholdings	669	688	(19)
Total	**669**	**688**	**(19)**

19. OTHER CURRENT PAYABLES

	31.12.2012	31.12.2011	Change
Due to employees	3,195	3,336	(141)
Due to social security institutions	1,913	2,026	(113)
Payments to clients	147	559	(412)
Due to agents	231	245	(14)
Other current payables	57	113	(56)
Total	**5,543**	**6,279**	**(736)**

20. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2012	31.12.2011
Deferred tax assets (prepaid taxes)	3,319	3,151
Deferred tax liabilities	(27)	(46)
Net position	**3,292**	**3,105**

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	Goodwill	Other temporary differences	Total
AT 31 DECEMBER 2010	**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 DECEMBER 2011	**148**	**955**	**3**	**1,993**	**6**	**3,105**
To the income statement	94	70	-	-	26	190
To shareholders' equity	-	-	(3)	-	-	(3)
AT 31 DECEMBER 2012	**242**	**1,025**	**0**	**1,993**	**32**	**3,292**

Deferred tax assets relating to goodwill for €1,993,000 correspond to the release of the value of the stake in Faringosi Hinges s.r.l. in 2011.
The future tax benefit may be obtained in ten annual instalments from 2018.

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:

		31.12.2012	31.12.2011	Change
A.	Cash	6	4	2
B.	Positive balances of unrestricted bank accounts	1,595	9,176	(7,581)
C.	Other liquidities	0	0	0
D.	**Cash and cash equivalents (A+B+C)**	**1,601**	**9,180**	**(7,579)**
E.	Current bank payables (Note 13)	19,102	8,545	10,557
F.	Current portion of non-current debt (Note 13)	2,422	3,838	(1,416)
G.	Other current financial payables (Notes 13, 14)	33	33	0
H.	**Current financial debt (E+F+G)**	**21,557**	**12,416**	**9,141**
I.	**Current net financial debt (H-D)**	**19,956**	**3,236**	**16,720**
J.	Current bank payables (Note 13)	317	3,873	(3,556)
K.	Other non-current financial payables	0	0	0
L.	**Non-current financial debt (J+K)**	**317**	**3,873**	**(3,556)**
M.	**Net financial debt (I+L)**	**20,273**	**7,109**	**13,164**

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 €116,202,000 in 2012, down by €16,312,000 (-12.3%) vs. 2011.

Geographical breakdown of revenue

	2012	%	2011	%	Change %
Italy	43,310	37.3%	53,407	40.3%	-18.9%
Western Europe	6,038	5.2%	8,097	6.1%	-25.4%
Eastern Europe and Turkey	32,592	28.0%	36,992	27.9%	-11.9%
Asia and Oceania	12,418	10.7%	13,253	10.0%	-6.3%
Central and South America	12,695	10.9%	12,097	9.1%	+4.9%
Africa	6,814	5.9%	6,379	4.8%	+6.8%
US, Canada & Mexico	2,335	2.0%	2,289	1.7%	+2.0%
Total	**116,202**	**100%**	**132,514**	**100%**	**-12.3%**

Revenue by product family

	2012	2011	Change	Change %
Brass valves	18,602	26,537	(7,935)	-29.9%
Light alloy valves	23,610	23,265	345	1.5%
Thermostats	13,085	14,560	(1,475)	-10.1%
Total valves and thermostats	*55,297*	*64,362*	*(9,065)*	*-14.1%*
Standard burners	30,793	34,900	(4,107)	-11.8%
Special burners	18,875	22,230	(3,355)	-15.1%
Burners	49,668	57,130	(7,462)	-13.1%
Accessories and other revenues	*11,237*	*11,022*	*215*	*2.0%*
Total	**116,202**	**132,514**	**(16,312)**	**-12.3%**

As described in the Report on Operations, to which the reader is referred, sales in 2012 suffered a marked decrease following the crisis in demand in Europe, which represents more than 70% of the Company's core market. The crisis was particularly marked in Italy, also because some major customers either suspended or drastically scaled back their activities.

Sales on international markets posted total values in line with the previous year, with good rates of growth in South America and Africa.
All product families were affected by the downturn in demand. The trend to replace brass valves with light alloy valves continued. Average sales prices in 2012 were slightly down on 2011.

23. OTHER INCOME

	31.12.2012	31.12.2011	Change
Sale of scraps	2,245	3,324	(1,079)
Contingent income	248	279	(31)
Rental income	114	111	3
Services to subsidiary companies	113	92	21
Use of provisions for risks and contingencies	59	179	(120)
Services to the subsidiary companies	33	80	(47)
Others	427	352	75
TOTAL	**3,239**	**4,417**	**(1,178)**

Lower sales of scraps resulting from the production process are attributable to the lower levels of business and to technical modifications to the die-casting moulds resulting in fewer scraps being produced.
Services to subsidiary companies and the parent company refer to administrative, commercial, and technical services provided in the Group.

24. PURCHASES

	31.12.2012	31.12.2011	Change
Raw materials and purchases	39,168	48,069	(8,901)
Consumables	3,162	4,210	(1,048)
TOTAL	**42,330**	**52,279**	**(9,949)**

Neither the average actual cost of raw materials (brass, aluminium alloys and steel) nor the cost of other components changed significantly compared to 2011. Consumption (purchases plus change in inventory) as a percentage of sales was 36.4% in 2012, compared with 38.7% in 2011; this decrease was due to a different mix of products sold.

25. COSTS FOR SERVICES

	31.12.2012	31.12.2011	Change
Outsourced processing	10,996	12,422	(1,426)
Electricity and natural gas	4,848	5,954	(1,106)
Lease payments	3,898	3,496	402
Maintenance	3,231	3,793	(562)
Transport and export costs	1,313	1,417	(104)
Advisory services	1,056	905	151
Directors' remuneration	993	811	182
Commissions	706	742	(36)
Waste disposal	497	575	(78)
Travel expenses and allowances	480	388	92
Canteen	305	355	(50)
Insurance	305	319	(14)
Factoring commissions	192	330	(138)
Temporary agency workers	83	232	(149)
Other payroll costs	1,850	2,039	(189)
TOTAL	**30,753**	**33,778**	**(3,025)**

In 2012 outsourced processing costs fell as a result of the decrease in production.
In 2012 the cost per kWh of electricity increased by 26% and the cost per m^3 of natural gas increased by 24%. The impact was partially offset by the lower volumes consumed. Note that in 2011, the item "Electricity and natural gas" included €1,607,000 in additional charges relating to previous years.
Lease payments, paid almost exclusively to the subsidiary Sabaf Immobiliare, increased as a result of the leasing of a new industrial warehouse in the Ospitaletto complex to be used for stamping steel.
Other variable costs for services decreased due to the lower business levels compared with 2011.

26. PAYROLL COSTS

	31.12.2012	31.12.2011	Change
Salaries and wages	18,020	18,366	(346)
Social security costs	5,918	6,029	(111)
Temporary agency workers	632	1,716	(1,084)
Post-employment benefit reserve and Other payroll costs	1,364	1,248	116
TOTAL	**25,934**	**27,359**	**(1,425)**

Average group headcount in 2012 totalled 587 employees (468 blue-collars, 111 white-collars and supervisors, and 8 managers) as opposed to 596 in 2011 (473 blue-collars, 116 white-collars and supervisors, and 7 managers). The average number of temporary staff was 23 in 2012 (56 in 2011).
During the year the Company occasionally made use of government subsidised temporary lay-off benefits during periods when production requirements were low: this made possible savings of €330,000 in payroll costs.

27. OTHER OPERATING COSTS

	31.12.2012	31.12.2011	Change
Losses and write-downs of trade receivables	1,608	200	1,408
Duties and taxes other than income taxes	205	317	(112)
Other administration expenses	79	201	(122)
Contingent liabilities	72	90	(18)
Provisions for risks	21	113	(92)
Others provisions	13	13	0
Total	**1,998**	**934**	**1,064**

In 2012 losses and write-downs of receivables were recognised for a total of €1,608,000, as a consequence of the financial difficulties suffered by some of the Company's major Italian customers. 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. Non-income taxes chiefly include the single municipal tax (IMU) and the tax on the disposal of municipal solid waste. Provisions for liabilities refer to the allocations to the risk reserve described in Note 16.

28. WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS

	31.12.2012	31.12.2011	Change
Write-down of Faringosi Hinges	1,586	1,128	458
Write-down of Sabaf Appliance Components	465	356	109
Total	**2,051**	**1,484**	**567**

For more details on the write-downs, see Note 4.

29. FINANCIAL EXPENSES

	31.12.2012	31.12.2011	Change
Interest paid to banks	452	465	(13)
Banking expenses	276	358	(82)
Other finance expense	100	98	2
Total	**828**	**921**	**(93)**

30. FOREIGN EXCHANGE GAINS/ LOSSES

During 2012, the Company recorded net foreign exchange losses of €61,000 (net gains of €616,000 in 2011, including €396,000 of non-recurring gains associated with a repayment of capital by the subsidiary Sabaf do Brasil Ltda.). The exchange rate differences are attributable to changes in the euro/dollar rate during the year.

31. GAINS FROM EQUITY INVESTMENTS

	31.12.2012	31.12.2011	Change
Dividends Sabaf do Brasil	792	-	792
Dividends Faringosi Hinges	-	2,718	(2,718)
Total	**792**	**2,718**	**(1,926)**

In 2012, Sabaf S.p.A received dividends from the subsidiary Sabaf do Brasil on the earnings of 2011 and previous years of €792,000.

32. INCOME TAX

	31.12.2012	31.12.2011	Change
Current tax	2,707	5,019	(2,312)
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
Accounting of IRES credit, under Decree Law 16/2012	(1,033)	-	(1,033)
Deferred tax assets and liabilities	(190)	266	(456)
Balance of previous FY	(12)	(61)	49
Total	**1,472**	**4,246**	**(2,774)**

Current taxes include IRES for €1,651,000 and IRAP for €1,056,000 (respectively €3,736,000 and €1,283,000 in 2011).

As stated in Note 8, in accordance with Legislative Decree 16 of 2 March 2012, at 31 December 2012 the Group booked the tax credit resulting from the non-deduction of IRAP for personnel costs and similar for the period 2007-2011. As a result, taxes booked in the 2012 income statement were lower by €1,033,000.

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.

	31.12.2012	31.12.2011
Theoretical income tax	1,020	4,226
Tax effect on permanent differences	458	473
Effect of dividends from subsidiaries not subject to taxation	-	(710)
Taxes relating to previous years	(12)	(34)
Other differences	(7)	(7)
IRES (current and deferred)	**1,459**	**3,948**
IRAP (current and deferred)	1,046	1,276
Accounting of IRES credit, under Decree Law 16/2012	(1,033)	-
Substitute tax, under Decree Law 98/2011	-	1,015
Accounting of deferred tax assets, under Decree Law 98/2011	-	(1,993)
Total	**1,472**	**4,246**

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 2012.

33. DIVIDENDS

On 24 May 2012, shareholders were paid a dividend of €0.60 per share (total dividends of €6,901,000).
Directors have recommended payment of a dividend of €0.35 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 2013 is payable to all holders of shares at 20 May 2013 and is scheduled for payment from 23 May 2013.

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.

	31.12.2012	31.12.2011
Financial assets		
Amortised cost		
• Cash and cash equivalents	1,601	9,180
• Commercial receivables and other receivables	37,318	39,951
• Current loans	-	1,546
• Non-current loans	1,516	-
Financial liabilities		
Comprehensive income statement fair value		
• Derivative cash flow hedges	33	33
Amortised cost		
• Loans	21,841	16,256
• Payables to suppliers	17,079	24,928

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 7% of total revenue in 2012, 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 2012, a hypothetical and immediate revaluation of 10% of the euro against the dollar would have led to a loss of €241,000.

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 2012 and 31 December 2011:

At 31 December 2012

	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.15%	1,680	(31)
From 1 to 2 years	2.20%	321	(2)
From 2 to 3 years	-	-	-
From 3 to 5 years	-	-	-
More than 5 years	-	-	-
Total	**-**	**-**	**(33)**

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)**

Sensitivity analysis
With reference to financial assets and liabilities at floating rate at 31 December 2012 and 31 December 2011, 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:

	31.12.2012		31.12.2011	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	0.2	18	27	101
Decrease of 100 base points	(0.2)	(18)	(25)	(67)

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 2012 and 2011, 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 €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 2012 and 31 December 2011:

At 31 December 2012

	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	2,739	2,766	711	1,737	318	-
Short-term bank loans and overdrafts	19,102	19,102	19,102	-	-	-
Total financial payables	**21,841**	**21,868**	**19,813**	**1,737**	**318**	**0**
Trade payables	17,079	17,079	15,609	1,470	-	-
Total	**38,920**	**38,947**	**35,422**	**3,207**	**318**	**0**

At 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
Unsecured loans	7,711	7,957	1,004	3,010	3,943	-
Short-term bank loans and overdrafts	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**

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 the reporting date 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 2012, 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 2012	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Non-current assets	1,516	1,516	-	-	1,516	100.00%
Trade receivables	35,363	876	-	-	876	2.48%
Tax receivables	1,895	-	1,568	-	1,568	82.74%
Other current receivables	1,955	1,491	-	-	1,491	76.27%
Trade payables	17,079	313	-	-	313	1.83%

	Total 2011	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	39,561	243	-	-	243	0.61%
Tax 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%

Impact of related-party transactions on income statement accounts

	Total 2012	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Revenue	116,202	1,740	-	-	1,740	1.50%
Other income	3,239	282	33	-	315	9.73%
Materials	(42,330)	(376)	-	-	(376)	0.89%
Services	(30,753)	(4,043)	-	-	(4,043)	13.15%
Capital gains on non-current assets	375	287	-	-	287	76.53%
Write-downs/write-backs of non-current assets	(2,051)	(2,051)	-	-	(2,051)	100.00%
Financial income	40	34	-	-	34	85.00%
Profits and losses from equity investments	792	792	-	-	792	100.00%

	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%

Transactions with the subsidiaries consist mainly of:
- business relationships with Sabaf do Brazil, Faringosi-Hinges, Sabaf Turkey and Sabaf Kunshan Trading pertaining to purchases and sales of finished products or intermediate products;
- sales of machinery to Sabaf Turkey, which generated the capital gains reported;
- 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 co-ordination 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 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)	**101,794**	**2,236**	**20,273**	**(3,296)**
Accounting of IRES credit, under Decree Law 16/2012 (Note 32) (B)	(1,033)	(1,033)	-	-
Figurative financial statement value (A+B)	**100,761**	**1,203**	**20,273**	**(3,296)**

As well as the effect of the non-recurring events mentioned above, the 2012 result incorporates €1,586,000 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 (€1,128,000 in 2011).

The net result of FY 2011 included the effects of the following non-recurring events:
- electricity equalisation costs for previous years of €1,607,000 (€1,102,000 net of the tax effect);
- foreign exchange gains arising from the reduction of the share capital of Sabaf do Brasil totalling €396,000 (€287,000 net of the tax effect).

38. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2012 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 2012 was €3,671,000 (€4,538,000 as at 31 December 2011).
Sabaf S.p.A. has also issued sureties to guarantee consumer and mortgage loans granted by banks to its employees for a total of €7,075,000 (€7,098,000 as at 31 December 2011).

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 2012, 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 31.12.12	Shareholders	% of ownership	Equity at 31.12.12	Results of the year 2012
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 5,139,917	EUR -51,320
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 17,822,384	EUR 898,687
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 27,000,000	Sabaf S.p.A.	100%	BRL 29,724,937	BRL 2,710,313
Sabaf Mexico S.A. de C.V.	San Luis Potosì (Mexico)	MXN 8,247,580	Sabaf S.p.A.	100%	MXN 4,524,666	MXN 13,433
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%	USD 75,470	USD -19,564
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (China)	EUR 1,800,000	Sabaf S.p.A.	100%	CNY 15,717,805	CNY 0
Sabaf Beyez Esya Parcalari Sanayi Ve Ticaret Limited Sirteki	Manisa (Turkey)	TRL 16,000,000	Sabaf S.p.A. Faringosi Hinges s.r.l.	99.99% 0.01%	TRL 22,260,240	TRL -1,720,231
Sabaf Appliance Components Trading (Kunshan) Co., Ltd.	Kunshan (China)	EUR 70,000	Sabaf S.p.A.	100%	CNY 571,410	CNY 0

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	74,082	A, B, C	74,082	0
Total	**88,025**	-	**88,025**	**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

Statement of revaluations of assets still held at 31 december 2012

		Gross value	Accumulated amortisation and depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	Merger 1989	516	(371)	145
	Law 413/1991	47	(31)	16
	Merger 1994	1,483	(821)	662
	Law 342/2000	2,870	(1,938)	932
		5,053	**(3,298)**	**1,755**
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**	**(19,342)**	**1,755**

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: *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 2012 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.

IN THOUSANDS OF EURO	Party that provides the service	Considerations for the year 2012
Audit	Deloitte & Touche S.p.A.	52
Certification services	Deloitte & Touche S.p.A.	2[2]
Other services	Deloitte & Touche S.p.A.	16[3]
Total		**70**

2 signing of Unico, IRAP and 770 forms and stamp of approval of VAT declaration
3 audit procedures relating to interim management reports; audit of training statements

SABAF TECHNOLOGY AND SAFETY

CERTIFICATION OF THE ANNUAL REPORT AND ACCOUNTS

under article 154 bis of Leg. Decree 58/98

Alberto Bartoli, the Chief Executive Officer, and Gianluca Beschi, 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 annual report and accounts in 2012.

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 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;
  - provide 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, 20 March 2013

The Chief Executive Officer	The Financial Reporting Officer
Alberto Bartoli	Gianluca Beschi

Deloitte.

Deloitte & Touche S.p.A.
Via Cefalonia, 70
25124 Brescia
Italia

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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, 2012, 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 10, 2012.

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, 2012, 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.

2

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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
April 4, 2013

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

SABAF S.P.A.

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 2012;
2. significant 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 and financial statements for the year ended 31 December 2012.

1. Supervision in fiscal year 2012

During the year ended 31 December 12, 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, of which three in its current composition, each attended by all members in office except for one justified absence of a member at the 14 June 2012 meeting;
- it attended the eight meetings of the Board of Directors;
- it attended the five meetings of the Internal Control and Risks Committee;
- it attended two meetings between supervisory bodies (independent auditor, internal control and risks committee, supervisory body), in the presence of the financial reporting officer and chief internal auditor;
- it took part in the Shareholders' Meeting held on 8 May 2012;
- it remained in constant communication with the corresponding bodies of the subsidiary companies; no anomalies were reported;
- 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 Sabaf S.p.A. 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 2012.

In terms of supervision, the board of statutory auditors observes that in the areas within its purview, the principles of sound management and compliance with the law and Articles of Incorporation 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, or in the adoption process, in connection with the work plan it presented. 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 an external expert, 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 separate financial statements This check methodologically analysed the documents Sabaf and Faringosi supplied. The test showed a loss in value of the investment and the consequent goodwill in the consolidated financial statements compared to their book value, as occurred for 2011, thereby creating the need to enter a write-down in both the separate financial statements of Sabaf and the consolidated financial statements of the Group.

In terms of supervision, the board reports that no reports or complaints were received or submitted within the meaning of article 2408 of the Italian civil code.

The Board also reports that, during 2012, 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 20 March 2013.

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:

- production started up at Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirteki ("Sabaf Turkey") in Turkey; it was financed in 2012 with a share capital increase totalling €8,473,000.00 (eight million four hundred seventy-three thousand/00);
- pursuant to the resolution of 8 May 2012, treasury shares were purchased. As at 28 December 2012, 260,650 shares are held for a total value of €2,338,863;
- there is an IRES and IRAP repayment request for years 2007-2011 allowed by Italian Legislative Decree 201/2011 amounting to €1,102,761 regarding non-deduction of IRAP on the cost of labour.

The aforementioned transactions have had no significant impact on the business/financial situation or capital of the company.

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 the 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 20 March 2013, the directors indicated that group companies did not engage in any atypical and/or unusual transactions in 2012.

In their report on operations at 31 December 2012, the directors have also given 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.

"Significant non-recurring transactions" were carried out pursuant to the provisions of Consob Communication no. 6064293 of 28 July 2006. More specifically, they were the presentation of the repayment request to the Italian revenue agency for the higher IRES tax paid for tax periods 2007-2011 connected to the non-deductibility of the IRAP tax referring to personnel costs and similar for a total Group amount of €1,102,761.
Please refer to the notes, in which the transaction is described in detail.

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; ***e)*** analysing the results of the work 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 Risk 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 Board of Directors and submitting frequent and regular reports to the Internal Control and Risk Committee and Board of Statutory Auditors, to which he also submits the annual work programme.
By taking part in the work of the Internal Control and Risk Committee, the board of statutory auditors has been able to coordinate the adoption of new requirements following the entry into force of article 19 of legislative decree 39/2010, which states that, for listed companies, the internal control and audit committee must be the same as the board of statutory auditors.
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 annual 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 has complied with the provisions introduced by 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, with the exception of the unconsolidated companies and Sabaf Appliance Components Trading, are audited by Deloitte & Touche S.p.A., appointed on the recommendation of the Board of Statutory Auditors.
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 2012 to perform the following duties:

- certification services relating to the signing of tax returns and stamp of approval, for a fee of €3,000.00 (three thousand/00);
- audit procedures relating to interim management reports, for a fee of €16,000.00 (sixteen thousand/00);
- tax advice on transfer pricing, in return for a fee of €2,000.00 (two thousand/00).

The Board of Statutory Auditors also expressed its opinion in favour of the distribution of remuneration to the directors at a board of directors meeting.
The annual and consolidated financial statements for the year ended 31 December 2012 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 04.04.13, 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.
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 and financial statements for the year ended 31 December 2012

Sabaf's consolidated financial statements at 31 December 2012 show a consolidated net profit of €4.2 million; the annual financial statements of the Parent Company for the year ended 31 December 2012 show a net profit of €2.2 million.
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 2012 shows a negative net financial position of €23.8 million, while the parent company closed its financial statements at 31 December 2012 with a negative net financial position of €20.3 million.
Consolidated shareholders' equity at 31 December 2012 was €115.6 million, compared with €121.8 million in the consolidated financial statements at 31 December 2011; the annual financial statements of the Parent Company report shareholders' equity of €101.8 million, compared with €108.5 million for the year ended 31 December 2011.
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 04.04.13, expressed an unqualified opinion without requesting additional information on the annual and consolidated financial statements for the year ended 31 December 2012.
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 2012.
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 2012 or to the recommendations made by the Board of Directors, also with regard to distribution of the dividend.

Ospitaletto, 4 April 2013

The Statutory Auditors

Mr. Busi
Mr. Broli
Mrs. Domenighini

Equity & Commitment

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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 "General Remuneration Policy" (henceforward also the "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 and subsequently modified in December 2011;
- 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 (T.U.F.).

This policy was applied as from approval by the Board of Directors and was fully implemented in 2012, further to appointment of the new company officers. With introduction of the Policy, the remuneration policy was expanded by including a long-term incentive component, not previously offered.

Corporate bodies and persons involved in preparing, approving and implementing the remuneration policy

The Remuneration Policy was approved by the Board of Directors on 22 December 2011, further to a proposal by the Remuneration Committee in office during 2011, 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.
In particular, the responsibilities:
- of the Remuneration and Appointments Committee:
    - to make proposals to the Board of Directors, in the absence of the persons directly concerned, for remuneration of the CEO and the 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;
- of the Board of Directors, for correctly implementing the remuneration policy;
- of the Human Resources Department, for implementing the decisions made by the Board.

Purposes of the remuneration policy

The Company believes that the Remuneration Policy is a tool designed especially to:
- attract, incentivise and increase the loyalty of persons with appropriate professional skills;
- bring the interests of management into line with those of the shareholders;
- promote the creation of sustainable value for shareholders in the medium to long term, and maintain an appropriate level of competitiveness for the company in its operating segment.

Fixed annual component

Directors
On the proposal of the Board of Directors, having heard the opinion of the Remuneration and Appointment Committee, the shareholders determine a maximum value for the remuneration of all members of the Board, which includes a fixed amount and attendance fees.

In accordance with this maximum amount, on the proposal of the Remuneration and Appointment 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 and Appointments Committee) are granted a fixed salary and attendance fees intended to reward the commitment asked of them.

Other executives with strategic responsibilities
Employment relationships with other executives with strategic responsibilities are governed by the National Collective Bargaining Agreement for Industrial Executives. 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 decided 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 and Appointments Committee, in accordance with the budget.

For the 2012 financial year, the variable component may not exceed 25% of the fixed annual gross salary. The percentage was increased by 50% beginning from 2013; this change was introduced by the Board of Directors on 20 March 2013, further to a proposal by the Remuneration and Appointments Committee. It aims to underscore the objectives considered strategic by the Board, as well as build on the results achieved.
The variable portion may be only partially granted in the event that the objectives are not completely met; 75% of the variable component is paid out in April of the following year, and 25% in January of the next 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 (2012-2014) and is exclusively reserved for the CEO and executives with strategic responsibilities

Performance targets, set in accordance with the three-year business plan, are proposed by the Remuneration and Appointments Committee to the Board of Directors, as the body responsible for approving the long-term financial incentive.

The objectives used to base the long-term incentive (Group consolidated EBITDA and share value) were defined by the Board of Directors on 25 September 2012, further to a proposal of the Remuneration and Appointments Committee.

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 (2014).

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. This remuneration is subject to the favourable opinion of the Remuneration and the Appointments Committee as well as the approval of the subsidiaries' office holders.

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.

The company does not provide directors with benefits upon the end of their mandate.

At present, there are no agreements providing for payment in return for non-compete commitments after the end of the employment relationship. However, starting in FY 2013, the Board of Directors will assess the opportunity of defining these agreements on a case-by-case basis.

SEZIONE II - REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS AND OTHER EXECUTIVES WITH STRATEGIC RESPONSIBILITIES IN 2012

This section describes the compensation recognised to executives and statutory auditors:

- it provides a satisfactory representation of each of the items that comprise remuneration, highlighting its consistency with the company policy concerning remuneration approved in the last financial year;
- it provides a detailed analysis of the remuneration paid in the year in question (2012) for any reason and in any form by the Company and by its subsidiaries and affiliates, reporting any components of this remuneration that refer to business in prior years.

Components of directors' remuneration for 2012

The remuneration granted to directors for 2012, in accordance with the Policy described in Section I, is represented by the following components:

- fixed remuneration, approved by the Shareholders' Meeting of 8 May 2012, totalling €265,000, of which €15,000 is to be allocated to every executive director, €10,000 to every member of the Internal Control and Audit Committee and/or the Remuneration and Appointments Commitment;
- fixed remuneration, approved by the Shareholders' Meeting of 8 May 2012, totalling €466,500 divided among directors vested with special powers (Chairman, Deputy-chairmen and Chief Executive Officer) as detailed in the table below;
- an attendance fee of €1,000, payable to non-executive directors only, for every occasion on which they attend Board of Directors' meetings and Committees constituted within them.

Note that the Chief Executive Officer, Alberto Bartoli, voluntarily relinquished a 10% share of his fixed compensation, in the amount of € 13,500.

Fixed compensation payable to the directors from the previous mandate were entirely disbursed in December 2011; directors were paid attendance fees of an amount of €25,000 in 2012.

The Shareholders' Meeting approved a severance payment of €180,000 to the outgoing Chief Executive Officer, Angelo Bettinzoli, on 8 May 2012.

Note that in relation to the 2011 and 2012 variable incentive plan (MBO) for director Alberto Bartoli (the only director receiving the incentive), no remuneration was accrued over the year as the objectives set were not met.

There are no incentive plans based on financial instruments outstanding.

No end of service allowances were planned for nor disbursed.

Remuneration of the Statutory Auditors for 2012

The remuneration granted to the Statutory Auditors for 2012 consists of a fixed payment determined by the Shareholders' Meeting of 8 May 2012.

Remuneration of executives with strategic responsibilities for 2012

The remuneration of two executives with strategic responsibilities consists of fixed employee compensation totalling €240,473 and variable compensation of €3,843 paid in 2012 in relation to the 2011 variable incentive plan (MBO). Group subsidiaries also paid a total of €53,000.
In 2012, variable remuneration of €3,095 was accrued for the partial achievement of some of the objectives of the 2012 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.

For more details about the consideration paid in 2012, refer to the tables below (Table 1 and 2), which provide information about remuneration to directors, auditors and, other directors with directors with strategic responsibilities currently in office, after also considering any roles played for part of the year. Separate reporting is also provided of the remuneration earned by subsidiaries and/or affiliates, except for any amounts waived or returned to the Company.

Specifically, the column entitled:

- "Fixed remuneration" includes, for the portion pertaining to 2012, emoluments agreed to by the Board of Directors on 8 May 2012; attendance fees established as per resolution of the Board of Directors' meeting on 28 April 2009 for offices ending in May 2012 and 8 May 2012 for those currently in office; employee compensation payable in the year, minus social security and tax charges payable by the employee. Not included are fixed remuneration amounts payable (pro quota) from the last mandate, since these were all paid in full at December 2011, and any one-off expense amounts.
- "Remuneration for sitting on committees" includes, for the portion pertaining to 2012, compensation payable to directors for their participation in Committees set up by the Board.
- "Non-monetary benefits" includes the value of insurance policies in force, in accordance with the accruals principle and tax relevance.
- "Other remuneration" includes any other compensation paid for other services rendered, pertaining to 2012.
- "Total" includes total amounts of all the previous entries.

For detailed information about the other entries, refer to Appendix 3A, models 7-bis and 7-ter, of CONSOB Regulation 11971 of 14 May 1999.

Pursuant to article *84-quarter,* fourth paragraph, of the Consob Issuers' Regulation, Table 3 below provides information on the shares of Sabaf S.p.A. that are owned by directors and executives with strategic responsibilities, as well as by their spouses, provided not legally separated, and minor children, either directly or through subsidiaries, proxies or intermediaries in the shareholder register, from notices received and from other information acquired by the same. This includes all parties who have played the role during the year or part thereof. The number of shares is provided individually for directors and as an aggregate, to executives with strategic responsibilities.

TAB. 1 - Remuneration paid to members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities (values shown in Euro)

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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					
Board of Directors												
Giuseppe Saleri	**Chairman**	**1 Jan - 31 Dec 2012**	**Approval of 2014 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
Gianbattista Saleri	**Deputy Chairman**	**1 Jan - 31 Dec 2012**	**Approval of 2014 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	0	0
(III) Total				100,000	0	0	0	0	0	100,000	0	0
Ettore Saleri	**Deputy Chairman**	**1 Jan - 31 Dec 2012**	**Approval of 2014 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

Giuseppe Saleri: *(a)* of which €15,000 as director and €105,000 as chairman

Gianbattista Saleri: *(a)* of which €15,000 as director and €85,000 as Deputy-chairman

Ettore Saleri: *(a)* of which €15,000 as director and €85,000 as Deputy-chairman

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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					
Cinzia Saleri	**Deputy Chairman**	**8 May - 31 Dec 2012**	**Approval of 2014 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	0	0
(III) Total				100,000	0	0	0	0	0	100,000	0	0

(a) of which €15,000 as director and €85,000 as Deputy-chairman

Alberto Bartoli	**Chief Executive Officer**	**1 Jan - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				174,666 [a]	0	0	0	3,709	0	178,375	0	0
(II) Remuneration from subsidiaries and affiliates				11,000	0	0	0	0	0	11,000	0	0
(III) Total				185,666	0	0	0	3,709	0	189,375	0	0

(a) of which €15,000 as director and €106,500 as Chief Executive Officer, net of a discount of €13,500 and €53,166 as pro-quota payment as Administration and Finance director until April 2012

Riccardo Rizza	**Director**	**8 May - 31 Dec 2012**	**Approval of 2014 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 director and €6,000 in attendance fees

Leonardo Cossu	**Director**	**1 Jan - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				34,000 [a]	9,000 [b]	0	0	0	0	43,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				34,000	9,000	0	0	0	0	43,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Internal Control and Audit Committee and Remuneration and Appointments Committee and €9,000 in attendance fees
(b) as attendance fees for sitting on the Internal Control and Audit Committee and Remuneration and Appointments Committee

Giuseppe Cavalli	**Director**	**1 Jan - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				34,000 [a]	2,000 [b]	0	0	0	0	36,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				34,000	2,000	0	0	0	0	36,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Remuneration and Appointments Committee, and €9,000 in attendance fees
(b) as attendance fees for sitting on the Remuneration and Appointments Committee

Gregorio Gitti	**Director**	**1 Jan - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				19,000 [a]	0	0	0	0	0	19,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				19,000	0	0	0	0	0	19,000	0	0

(a) of which €15,000 as director and €4,000 in attendance fees

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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					
Salvatore Bragantini	**Director**	**1 Jan - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				37,000 [a]	2,000 [b]	0	0	0	0	39,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				37,000	2,000	0	0	0	0	39,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Internal Control and Audit Committee, and €12,000 in attendance fees
(b) as attendance fees for sitting on the Internal Control and Audit Committee

Fausto Gardoni	**Director**	**8 May - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				35,000 [a]	2,000 [b]	0	0	0	0	37,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				35,000	2,000	0	0	0	0	37,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Remuneration and Appointments Committee, and €10,000 in attendance fees
(b) as attendance fees for sitting on the Remuneration and Appointments Committee

Nicla Picchi	**Director**	**8 May - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				31,000 [a]	3,000 [b]	0	0	0	15,000	49,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	5,000	5,000	0	0
(III) Total				31,000	3,000	0	0	0	20,000 [c]	54,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Internal Control and Audit Committee, and €6,000 in attendance fees
(b) as attendance fees for sitting on the Internal Control and Audit Committee
(c) as member of the Supervisory Committee of Sabaf S.p.A. and the subsidiary, Faringosi Hinges s.r.l. .

Renato Camodeca	**Director**	**8 May - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				30,000 [a]	2,000 [b]	0	0	0	0	32,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				30,000	2,000	0	0	0	0	32,000	0	0

(a) of which €15,000 as director, €10,000 as member of the Internal Control and Audit Committee, and €5,000 in attendance fees
(b) as attendance fees for sitting on the Internal Control and Audit Committee

Angelo Bettinzoli	**Chief Executive Officer**	**1 Jan - 8 May 2012**	**Approval of 2012 financial statements**									
(I) Remuneration at Sabaf S.p.A.				0	0	0	0	0	0	0	0	180,000
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				0	0	0	0	0	0	0	0	180,000

Flavio Pasotti	**Director**	**1 Jan - 8 May 2012**	**Approval of 2012 financial statements**									
(I) Remuneration at Sabaf S.p.A.				4,000 [a]	0	0	0	0	0	4,000	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				4,000	0	0	0	0	0	4,000	0	0

(a) as attendance fees

Board of Statutory Auditors

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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					
Alessandro Busi	**Chairman**	**1 Jan - 31 Dec 2012**	**Approval of 2014 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 Jan - 31 Dec 2012**	**Approval of 2014 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
Anna Domenighini	**Statutory Auditor**	**8 May - 31 Dec 2012**	**Approval of 2014 financial statements**									
(I) Remuneration at Sabaf S.p.A.				10,667 [(a)]	0	0	0	0	0	10,667	0	0
(II) Remuneration from subsidiaries and affiliates				0	0	0	0	0	0	0	0	0
(III) Total				10,667	0	0	0	0	0	10,667	0	0

(a) pro-quota amount as statutory auditor at Sabaf S.p.A., as from the date of appointment

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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
Renato Camodeca	**Statutory Auditor**	**1 Jan - 8 May 2012**	**Approval of 2012 financial statements**									
(I) Remuneration at Sabaf S.p.A.				5,333 [(a)]	0	0	0	0	0	5,333	0	0
(II) Remuneration from subsidiaries and affiliates				1,333 [(b)]	0	0	0	0	0	1,333	0	0
(III) Total				6,666	0	0	0	0	0	6,666	0	0

(a) pro-quota amount as statutory auditor at Sabaf S.p.A., until expiry of office
(b) pro-quota amount as statutory auditor at Faringosi Hinges s.r.l., until expiry of office

Other executives with strategic responsibilities

Full name	Position	Period of office	Expiry of office	Fixed remuneration	Remuneration 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					
Other executives with strategic responsibilities (2)		**1 Jan - 31 Dec 2012**	**n/a**									
(I) Remuneration at Sabaf S.p.A.				238,173	0	3,843	0	10,040	0	252,056	0	0
(II) Remuneration from subsidiaries and affiliates				53,000	0	0	0	0	0	53,000	0	0
(III) Total				291,173	0	3,843	0	10,040	0	305,056	0	0

TAB. 2 - Monetary incentive plans for members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities (values shown in Euro)

Full name	Position	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			Payable/Paid	Deferred	Deferment period	No longer payable	Payable/Paid	Deferred	
Other executives with strategic responsibilities (2)									
Remuneration at Sabaf S.p.A.		2011 MBO Plan (March 2011)	0	0	-	0	3,843	0	0
Remuneration at Sabaf S.p.A.		2012 MBO Plan (March 2012)	0	3,095	75% mar 13 25% dec 13	0	0	0	0
Total			**0**	**3,095**		**0**	**3,843**	**0**	**0**

TAB. 3 - Equity interests held by members of the Board of Directors and Board of Statutory Auditors and other executives with strategic responsibilities

Full name	Position	Type of ownership	Subsidiary	Number of shares held at 31 December 2011	Number of shares purchased	Number of shares sold	Number of shares held at 31 December 2012
Giuseppe Saleri	Chairman	Indirect, through the subsidiary Giuseppe Saleri S.a.p.A.	Sabaf S.p.A.	6,425,003	-	-	6,425,003
Angelo Bettinzoli	Chief Executive Officer (to May 2012)	Direct	Sabaf S.p.A.	22,000	-	22,000	0
Gianbattista Saleri	Deputy Chairman	Direct	Sabaf S.p.A.	12,000	-	9,020	2,980
Gianbattista Saleri	Deputy Chairman	Indirect through spouse	Sabaf S.p.A.	4,051	-	-	4,051
Ettore Saleri	Deputy Chairman	Direct	Sabaf S.p.A.	9,207	793	10,000	0
Cinzia Saleri	Deputy Chairman	Direct	Sabaf S.p.A.	17,500	4,000	4,426	17,074
Alberto Bartoli	Chief Executive Officer (from May 2012)	Direct	Sabaf S.p.A.	7,500	-	-	7,500
Alberto Bartoli	Chief Executive Officer (from May 2012)	Indirect through spouse	Sabaf S.p.A.	1,000	-	-	1,000
Salvatore Bragantini	Independent Director	Direct	Sabaf S.p.A.	5,000	-	-	5,000
Giuseppe Cavalli	Independent Director	Indirect through spouse	Sabaf S.p.A.	2,680	-	-	2,680
Executives with strategic responsibilities (2)	-	Direct	Sabaf S.p.A.	2,000	1,300	-	3,300