SABAF®

Annual Report 2010

FINANCIAL, SOCIAL, AND ENVIRONMENTAL PERFORMANCE

IGNIS.
AERIS.
AQVÆ.
TERRÆ.
TINCTVR.
COAGVLATION.
DISTILLATION.
PVTREFACTION.
SOLVTION.
SVBLIMATION.
CALTINATION.

INDEX

He should choose his days and hours for labour with discretion.
He should have patience, diligence and perseverance.

Albertus Magnus "De Alchimia"

INTRODUCTION

CHIEF EXECUTIVE OFFICER'S LETTER TO STAKEHOLDERS

Dear Shareholders and Stakeholders,

For the Sabaf Group, 2010 was a time of significant recovery in terms of revenue compared with 2009. Nevertheless, sales are still significantly lower than the highs seen in 2008, and the widespread instability, accentuated in recent weeks by events in the Mediterranean, has made forecasting difficult both in terms of the markets and commodity prices. Once again we are having plot our way carefully, whereas at one time it was possible to make long-term projections. In other words, we need to be permanently ready for change, despite not knowing when it will happen and what form it will take.

Overall, the group's sales revenue in 2010 totalled €150.9 million, 18.7% higher than the €127.1 million of 2009, but below the €162 million of 2008. Conversely, average selling prices in 2010 were not vastly different from those of 2009, despite the increase in commodity prices during the year.

Given this context, in order to improve margins we have concentrated on the efficiency of our plants, increasing automation and productivity levels and focusing more on the construction of machinery and machine tools. This will remain a priority in future. In short, we have taken action at every level of the chain, and this, together with an improved product mix, has yielded a significant improvement in net profit, which has risen from 9.1% to 11.2%. EBITDA represented 25.5% of sales (22.4% in 2009), while EBIT represented 17.1% of sales (12.8% in 2009).

All product families contributed to the growth in sales, although we should highlight the steadier growth rates in our most innovative products, such as light alloy valves and special burners, where we will continue to target most of our research efforts: after a couple of years dedicated to research and development, some product families are now in production, while others were launched on the market in 2010. We expect more positive results from these both in 2011 and beyond. Alongside productivity, innovation remains the most credible driver of business development and competitiveness.

Productivity, as I have said in the past in answer to questions from Group employees, is our insurance policy for the next decade. It is the safety net for everyone who works here. The future of Sabaf employees and the company are closely bound up with its ability to be competitive in the global marketplace, to offer innovative, energy-efficient and high-tech products. For this reason we have invested considerable resources in research, and this will continue to be our guide in the coming years.

In addition, we have decided to focus increasingly on emerging markets, and some of our products are designed with them in mind. The 2010 figures are already reassuring: while a recovery was confirmed in Italy and other European markets, the best results were recorded on markets outside Europe, which now represent 30% of the Group's direct sales; in these countries, moreover, demographic growth has for some time been more robust than in the western hemisphere. Sales were particularly strong in South America, especially in the first half of the year; the Group posted excellent growth rates in the US, Canada and Mexico, a market in which sales are still fairly low, however. The growth in the Asian market has been satisfactory, despite the increasing difficulties in the Middle East and the still-modest contribution of sales in China. In Europe, the country with the most interesting potential is Turkey. Here Sabaf has decided to build *a plant to serve the region, where growth is expected to gather pace over the next few years.*

In response to tensions on regional markets, Sabaf has chosen to go down the route of opening local plants in the past few years. Turkey will join Brazil and later China, areas that in our opinion require a direct presence to fully interpret local requirements and avoid administrative constraints in some cases. In Brazil, our plant has recently been awarded quality certification, confirmation of Sabaf's commitment to global sustainability: opening foreign plants does not mean sacrificing the principles of good governance, but simply paying more attention to the specific features of local markets. Our membership of the United Nations Global Compact and its principles on human rights, labour, environment and anti-corruption remains one of our strengths, irrespective of the location of our production sites and the markets that they serve.

In 2010, we successfully concluded negotiations for the second-level contract, which will be valid for the next three years. We believe that this recognises some of the legitimate expectations of workers, without ignoring the global context in which the company operates. Only with collective intelligence can we address the major challenges that face us in future. For this to succeed, however, it must be born of cohesion and common goals.

To conclude, I would once again like to mention sustainability, which represents the common denominator of our entire philosophy, the belief which has accompanied us over the years and which Sabaf implements at an economic, environmental and social level.
I have mentioned economic sustainability before: this is the ability to remain competitive in the face of an immense global challenge, keeping or even improving our market share and continuing to generate revenue, without which no business worthy of that name can exist. We are therefore investing in the latest technology to improve the energy efficiency of our products and processes. In a world where raw materials are becoming increasingly scarce and expensive and we face ever more stringent environmental restrictions, Sabaf has endeavoured to launch a virtuous circle with reduced environmental impact and lower consumption, both in the production and use of our products. This is the guarantee for one of our fundamental objectives; in other words, the ability to create jobs, ensuring that people remain central to our vision. In 2010, as soon as the first signs of recovery appeared, Sabaf began investing in its workforce again: in the space of 12 months, we have increased our headcount by 30, roughly equivalent to 5% of the total.

We remain true to one principle: in order to grow, we must all grow together.

Angelo Bettinzoli

METHODOOLOGY

The Sabaf Annual Report is the document in which the Group makes an integrated presentation of its economic, social and environmental performance. The Annual Report also describes the Group's business model, strategies and governance.

Continuing the established tradition of providing transparent and complete information, this document aims to provide all stakeholders with a useful tool for discovering more about the different layers of the Sabaf Group.

Sections 1 - About Sabaf, 3 - Social Sustainability and 4 – Environmental Sustainability, together with the key performance indicators (KPIs) described in the Introduction, comprise the Sustainability Report at 31 December 2010, 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).

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 2010.

Section 2 - Governance contains the report on corporate governance and ownership structure prepared in accordance with article 123-bis 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 Company's future growth and thus the business strategy's ability to create value in the medium to long term.

Unless otherwise indicated, the reporting scope of the Sustainability Report corresponds to that of the Annual Financial Report, from which the economic and financial data contained in the Sustainability Report are derived. Any limitations compared with this scope are specifically mentioned. To ensure that the information contained in the Sustainability 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 21 March 2011 and presented to shareholders at the Annual General Meeting held on 28 April 2011.

INTEGRATED REPORTING: AN ESTABLISHED TRADITION FOR SABAF

For the sixth consecutive year, Sabaf has opted to present integrated performance data for 2010 to its stakeholders. The Annual Report is in fact designed to illustrate, as uniformly as possible, the results and operating decisions in an environmental, social and economic context.

This decision has paid off, particularly in the light of recent international developments in International Integrated Reporting Committes, which in August 2010 saw the creation of the Integrated Reporting International Committee (whose members include the IOSCO, World Bank, Financial Accounting Standards Board, International Federation of Accountants, International Accounting Standards Board, International Monetary Fund and Global Reporting Initiative), with a view to defining an integrated reporting framework.

Sabaf, one of the first companies in the world to adopt an integrated reporting model, intends to monitor future developments in this field so that it remains constantly in line with best international practice. To that end, Sabaf is taking part in the Gruppo Oscar di Bilancio – Rendicontazione Integrata, the first multi-stakeholder round table in Italy set up to make an active contribution to the definition of new integrated reporting criteria in Italy and worldwide, in consultation with the International Integrated Reporting Committee.

SABAF ADOPTS CECED CODE OF CONDUCT

Sabaf subscribes to the CECED Italia Code of Conduct. CECED Italia is an association that represents more than 100 companies in the household electric appliance industry.

By signing up for this initiative, Sabaf recognises and undertakes to act as a "good corporate citizen".

The CECED Italia Code of Conduct is a voluntary agreement for CECED Italia members wanting to promote fair and sustainable working conditions, corporate social responsibility and environmental quality. It also requires the signatory companies to encourage the application of the principles enshrined in the code within their own supply chain.

In this context, the Sabaf Annual Report is the tool through which the Group reports each year on the practical implementation of the code's principles and the progress achieved, as specifically required of participating companies.

SABAF IS A MEMBER OF THE GLOBAL COMPACT

In April 2004 Sabaf formally subscribed to the Global Compact, the United Nations programme for companies that commit to supporting and promoting 10 universally accepted principles covering human rights, labour rights, environmental protection and the fight against corruption. By publishing the 2010 Annual Report, we are renewing our commitment to making the Global Compact and its principles an integral part of our strategy, our culture and our daily operations, and we also undertake explicitly to declare this commitment to all our employees, partners, customers and public opinion in general.

The Annual Report contains details of the measures taken by the Sabaf Group in support of the 10 principles. The references are set out in the index of GRI indicators, according to the guidelines "Making the connection. The GRI Guidelines and the UNGC Communication on Progress".
Angelo Bettinzoli

Angelo Bettinzoli

THE 10 PRINCIPLES

HUMAN RIGHTS
Principle 1 Businesses are required to promote and respect universally acknowledged human rights in the ambit of their respective spheres of influence and
Principle 2 make sure that they are not directly nor indirectly complicit in human rights abuses.

LABOUR
Principle 3 Businesses are required to support the freedom of association of workers and to recognise their right to collective bargaining.
Principle 4 Elimination of all forms of forced and compulsory labour
Principle 5 Effective abolition of child labour
Principle 6 Elimination of all forms of discrimination in respect of employment and occupation

ENVIRONMENT
Principle 7 Businesses should support a precautionary approach to environmental challenges and
Principle 8 undertake initiatives to promote greater environmental responsibility
Principle 9 encourage the development and diffusion of environmentally friendly technologies

ANTI-CORRUPTION
Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

KEY PERFORMANCE INDICATORS [KPI]

FINANCIAL INDICATORS

INCOME STATEMENT

(Amounts in euro' 000)

	2010	2009	2008
Sales revenues	150,897	127,088	161,984
EBITDA	38,516	28,518	33,236
Operating profit (EBIT)	25,793	16,218	21,191
Pre-tax profit	23,776	14,548	19,497
Net profit	16,867	11,583	15,410
Net profit attributable to parent company shareholders	16,867	11,583	15,410

BALANCE SHEET AND FINANCIAL POSITION

(Amounts in euro' 000)

	31/12/2010	31/12/2009	31/12/2008
Non-current assets	100,632	99,038	97,261
Non-current assets held for sale	0	0	758
Working capital	37,476	33,191	41,843
Provisions for risks, employee benefits and deferred taxes	(3,717)	(3,935)	(6,945)
CAPITAL EMPLOYED	**134,391**	**128,294**	**132,917**
Shareholders' equity	121,846	109,133	103,261
Net financial debt	12,545	19,161	29,656
TOTAL SOURCES	**134,391**	**128,294**	**132,917**

OTHER FINANCIAL INDICATORS

	2010	2009	2008
ROCE (return on capital employed)	19.2%	12.6%	15.9%
Dividend per share (euro)	0.80[1]	0.50	0.70
Net debt/equity ratio	10%	18%	29%
Market capitalisation (31.12)/equity ratio	2.41	1.74	1.62
Change in sales	+18.7%	-21.5%	+5.0%

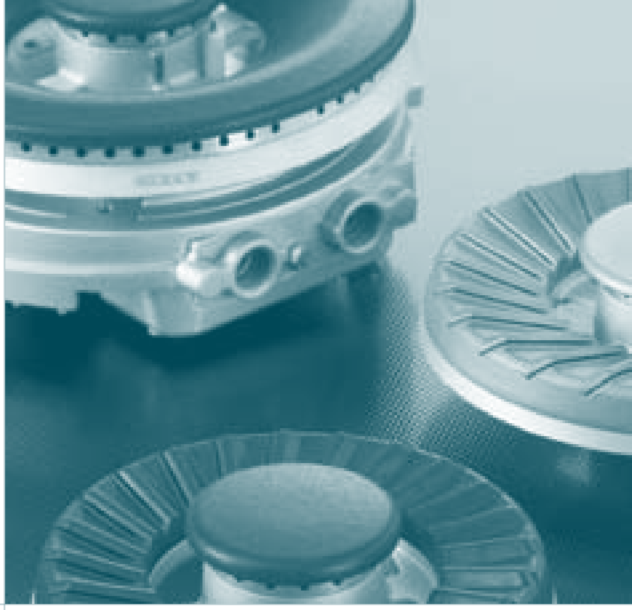
(Amounts in euro‘ 000)

	2010	2009	2008
Investments in research & development	524	386	342
Other investments	12,845	11,979	15,145

(Amounts in euro‘ 000)

	2010	2009	2008
Value of outsourced goods & services			
• brass pressing and aluminium die-casting	5,824	4,613	6,358
• other processing	8,036	6,651	8,782

1) Proposed dividend



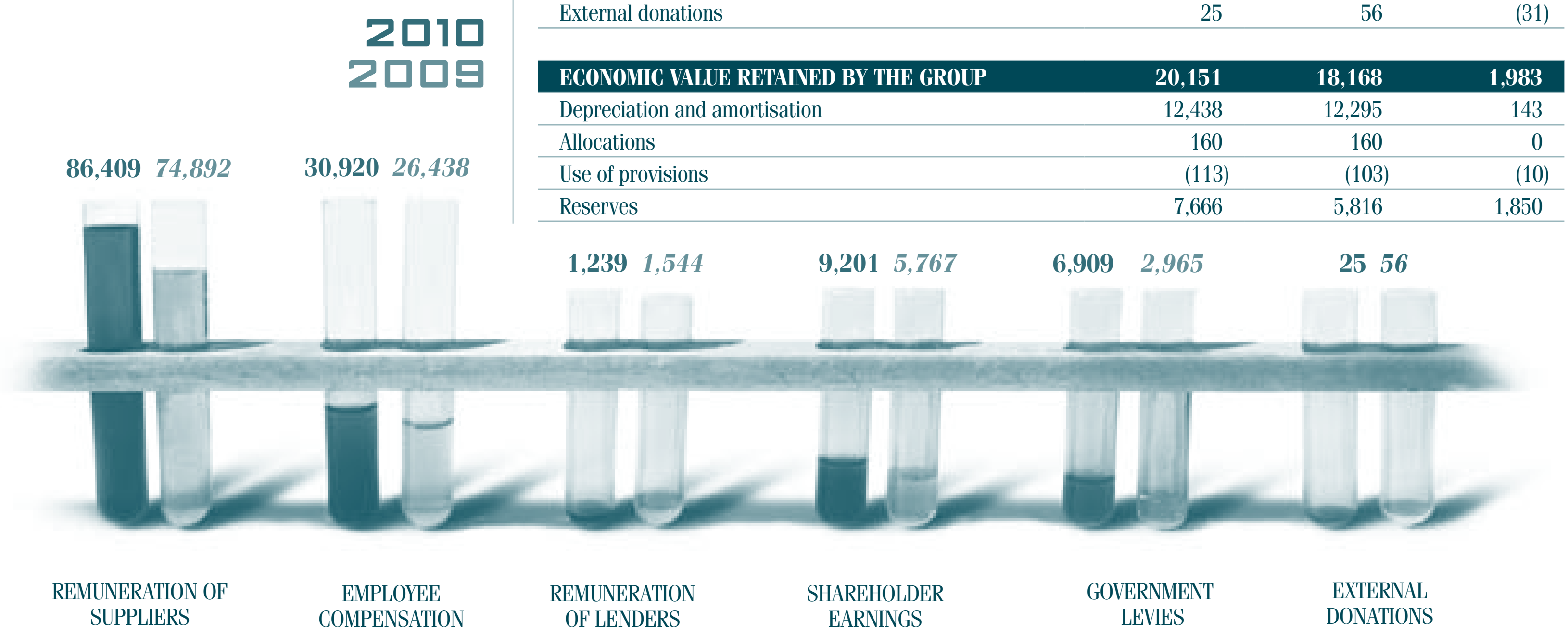
GENERATED AND DISTRIBUTED ECONOMIC VALUE

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, staff and independent contractors, lenders, shareholders, government and society (grants and gifts outside the company).

(Amounts in euro‘ 000)

	2010	2009	Change
ECONOMIC VALUE GENERATED BY THE GROUP	**154,854**	**129,830**	**25,024**
Revenue	150,897	127,088	23,809
Other income	4,660	2,816	1,844
Financial income	132	207	(75)
Adjustments	937	935	2
Write down of receivables	(577)	(878)	301
Foreign exchange loss (gain)	(151)	(333)	182
Income/expenses from sale of tangible and intangible fixed assets	(34)	(5)	(29)
Adjustments to tangible and intangible fixed assets	(251)	0	(251)
Gains/ losses from equity investments	(759)	0	(759)
ECONOMIC VALUE DISTRIBUTED BY THE GROUP	**134,703**	**111,662**	**23,041**
Remuneration of suppliers	86,409	74,892	11,517
of which environmental costs	*710*	*543*	*167*
Employee compensation	30,920	26,438	4,482
Remuneration of lenders	1,239	1,544	(305)
Shareholder earnings	9,201	5,767	3,434
Government levies[2]	6,909	2,965	3,944
External donations	25	56	(31)
ECONOMIC VALUE RETAINED BY THE GROUP	**20,151**	**18,168**	**1,983**
Depreciation and amortisation	12,438	12,295	143
Allocations	160	160	0
Use of provisions	(113)	(103)	(10)
Reserves	7,666	5,816	1,850

2) Includes deferred taxes

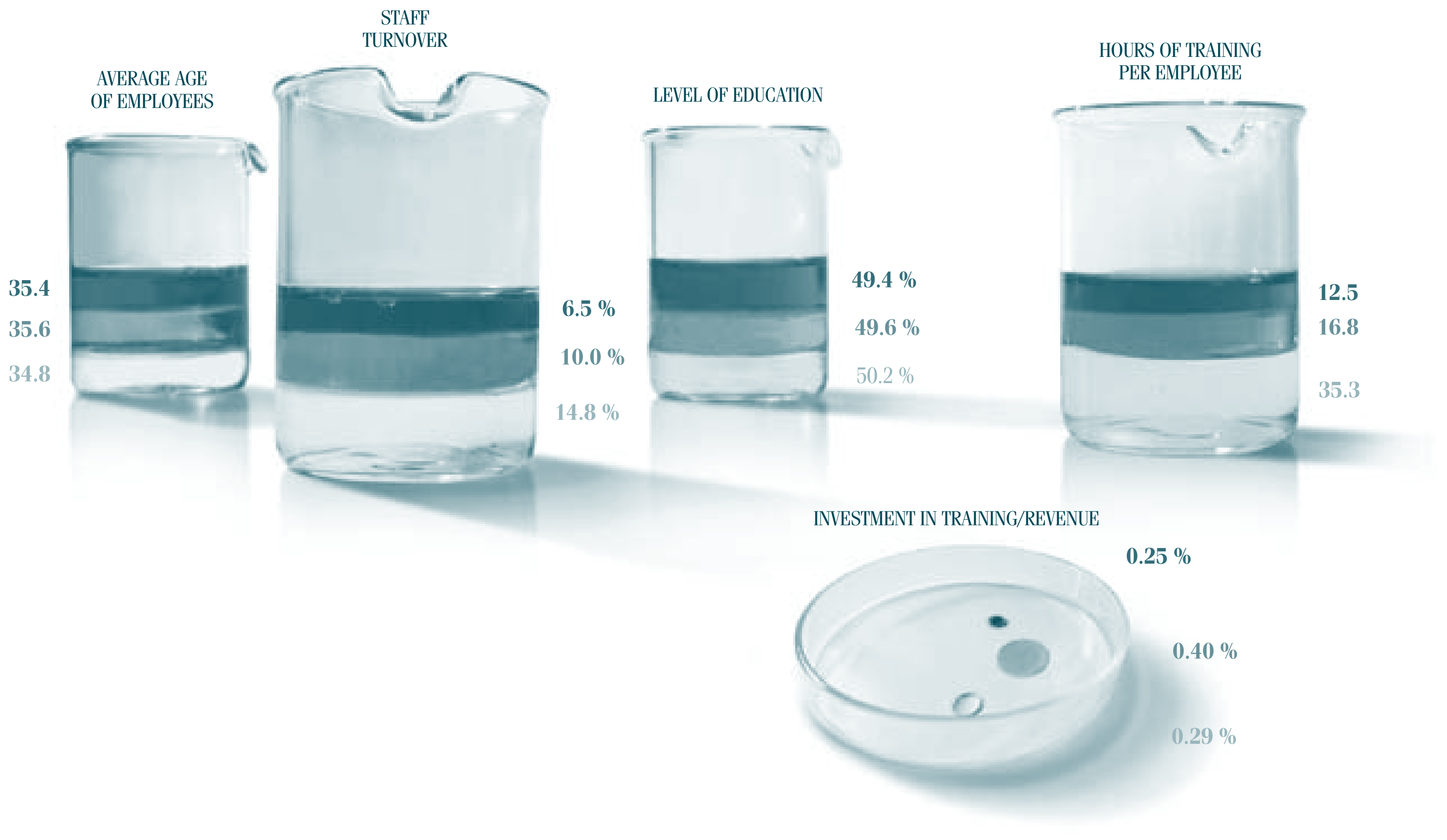


NON-FINANCIAL INDICATORS

HUMAN CAPITAL

		2010	2009	2008
Average age of employees (sum of age of employees/total employees at 31/12)	years	35.4	35.6	34.8
Level of education (number of university and high school graduates/total employees at 31/12)	%	49.4	49.6	50.2
Staff turnover (employees who resign or are dismissed/total employees at 31/12)	%	6.5	10.0	14.8
Hours of training per employee (average hours of training per employee)	hours	12.5	16.8	35.3
Investment in training/revenue	%	0.25	0.40	0.29

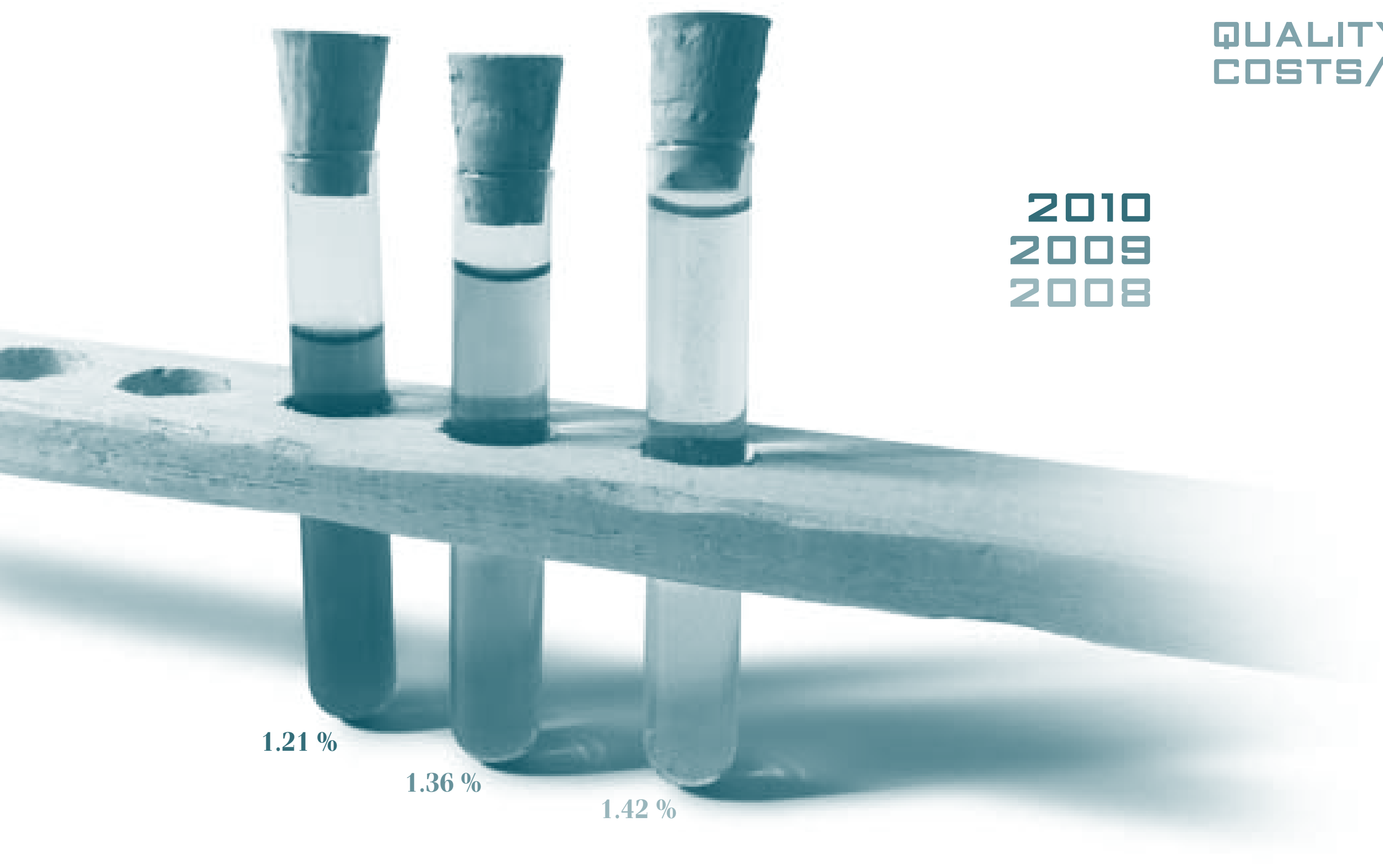
2010
2009
2008

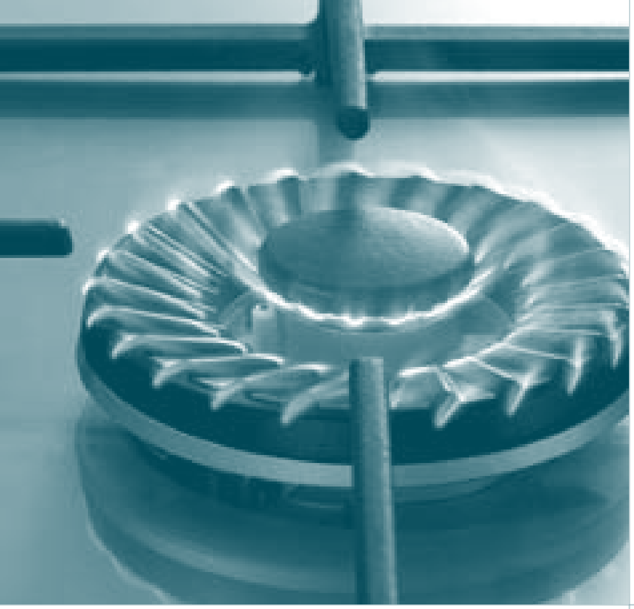


STRUCTURAL CAPITAL

		2010	2009	2008
IT budget (capital expenditure + current expenses)/sales	%	1.1	1.1	1.3
% employees with PCs at 31/12	%	42.7	43.4	41.2
Hours spent on new product development/total hours worked	%	1.7	1.6	1.1
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)	%	2.3	2.5	2.5
Capital expenditure on tangible assets/sales	%	8.4	8.8	7.8
Capital expenditure on intangible assets/sales	%	0.4	0.9	1.1
Current expenses for quality/sales	%	0.09	0.10	0.10
Capital expenditure for quality/sales	%	0.09	0.02	0.10
Customer rejects (customer charge-backs and credit notes for returned goods/sales)	%	0.06	0.08	0.09
In-house production rejects/sales (production rejects/sales)	%	1.15	1.28	1.37
Quality costs/sales (production rejects + customer returns/sales)	%	1.21	1.36	1.42

QUALITY COSTS/TURNOVER





RELATIONAL CAPITAL

		2010	2009	2008
Hours of industrial action for internal causes	number	21.5	16	1
Average sales per customer (total sales/number of customers)	€/000	519	441	465
% sales from new customers (sales to new customers/sales)	%	0.87	0.69	1.26
% weighting of top 10 customers	%	49	47	52
% weighting of top 20 customers	%	73	72	73
Number of samples produced for customers	number	1,168	886	979
Number of different product SKUs (stock-keeping units) supplied to top 10 customers	number	2,301	2,176	1,915
Customer complaints	number	459	466	515
Certified supplier sales (certified supplier sales/sales)	%	53.9	59.6	57.1
Media presence	number	246	179	380
Number of financial analysts following Sabaf stock on an ongoing basis	number	4	3	6
Lawsuits actioned against Group companies	number	2	0	2

AVERAGE REVENUE PER CUSTOMER

SOCIAL INDICATORS

		2010	2009	2008
Total employee headcount	number	703	673	697
• Men	%	64.6	64.2	63.7
• Women	%	35.4	35.8	36.3
Sickness rate (Sick leave hours/total workable hours)	%	2.8	2.8	3.0
Accident frequency index (No. of accidents (excluding accidents in transit) per 1 million hours worked)		19.43	29.41	22.86
Accident severity index (days of absence (excluding accidents in transit) per 1.000 hours worked)		0.25	0.54	0.58
Jobs created (lost)	number	30	(24)	31
% of supplier sales in province of Brescia	%	51.2	44.7	50.2
Donations/net profit	%	0.15	0.48	0.27

EMPLOYEES BY GENDER

2008

WOMEN 36.3 % MEN 63.7 %

2009

WOMEN 35.8 % MEN 64.2 %

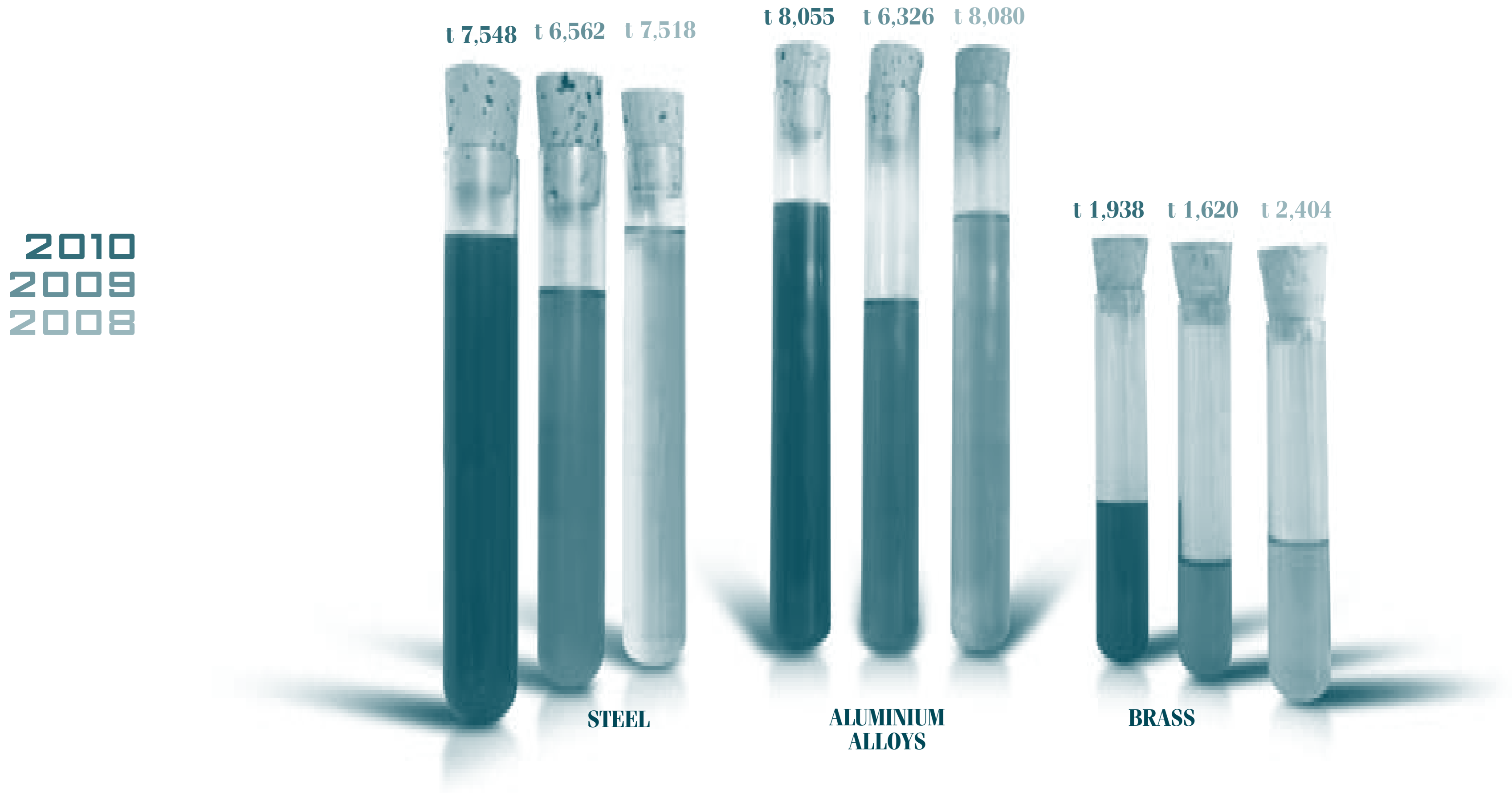
2010

WOMEN 35.4 % MEN 64.6 %

ENVIRONMENTAL INDICATORS

		2010	2009	2008
Materials used				
• Brass	t	1,938	1,620	2,404
• Aluminium alloys	t	8,055	6,326	8,080
• Steel	t	7,548	6,562	7,518
Waste				
• Municipal-type waste	t	244	183	240
• Hazardous waste	t	2,602	2,552	2,187
• Non-hazardous waste	t	6,331	5,224	6,844
Natural gas consumption	m^3 x 000	3,542	3,088	3,260
Electricity consumption	MWh	25,279	16,820	28,244
CO2 emissions	t	18,664	13,328	19,135
Current environmental spending/sales at 31/12	%	0.47	0.44	0.35
Environmental investment/sales at 31/12	%	0.12	0.00	0.25

MATERIALS USED



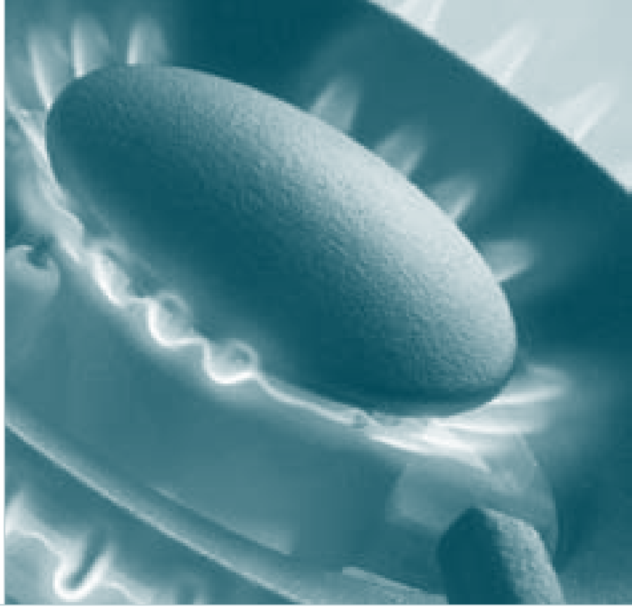
1

Let him who seeks not cease seeking until he finds, and when he finds, he will become troubled. And when he becomes troubled, he will be astonished.

The Gospel of Thomas

IDENTITY

IDENTITY



Direct parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the Group

Faringosi Hinges s.r.l.	100%
Sabaf Immobiliare s.r.l.	100%
Sabaf do Brasil Ltda.	100%
Sabaf Mexico S.A. de c.v.	100%
Sabaf US Corp.	100%
Sabaf Appliance Components (Kunshan) Co. Ltd.	100%

CORPORATE BODIES

Board of Directors

Chairman	Giuseppe Saleri
Deputy Chairman	Gianbattista Saleri
Deputy Chairman	Ettore Saleri
Chief Executive Officer	Angelo Bettinzoli
Director	Alberto Bartoli
Director	Leonardo Cossu
Director (*)	Salvatore Bragantini
Director (*)	Giuseppe Cavalli
Director (*)	Fausto Gardoni
Director (*)	Gregorio Gitti
Director (*)	Flavio Pasotti

(*) independent directors

Board of Statutory Auditors

Chairman	Alessandro Busi
Statutory Auditor	Enrico Broli
Statutory Auditor	Renato Camodeca

Independent Auditor

Deloitte & Touche S.p.A.

GROUP HISTORY

1950s: In the immediate post-war period, in Lumezzane (in the province of Brescia) in an area with a strong tradition in mechanical engineering, Giuseppe Saleri and his brothers founded Sabaf and started to process various brass products.

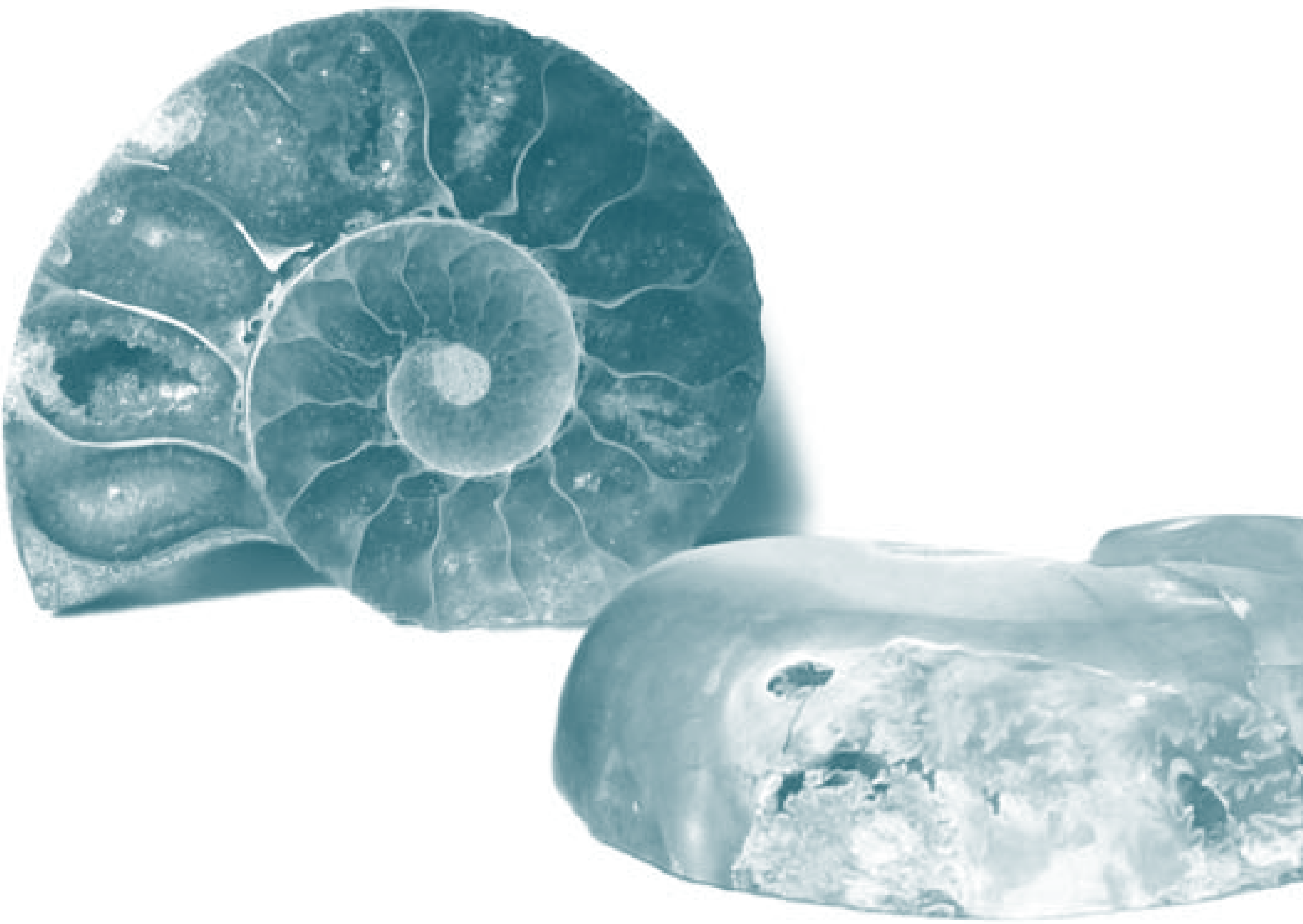
1960s: The household appliance sector was centre-stage during Italy's "economic miracle" period. Sabaf focused on producing valves for gas cooking appliances, components for which precision engineering is essential.

1970s: Sabaf increased its specialisation in the production of gas valves and strengthened its business model through vertical integration and adoption of state-of-the-art process technologies.

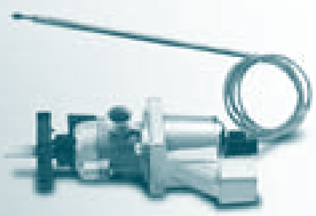
1980s: In addition to valves, the design and production of burners supplemented Sabaf's offering and the company became a supplier of the complete range of components for gas appliances.

1990s: Giuseppe Saleri took over control of the company. This and the subsequent listing on the Milan Bourse set the seal on the formal separation between ownership and management, delegated to managers led by the Chief Executive Officer, Angelo Bettinzoli. This organisational change was accompanied by constant quantitative and qualitative growth.

2000s: The goal of long-term sustainable growth continues to inform strategic decisions, such as the relocation of the business to the Ospitaletto site, internationalisation of production, further expansion of the components range, and corporate governance and process management models aligned with international best practice.



BUSINESS AND PRODUCTS



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 therefore 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.

The product range features three main categories:

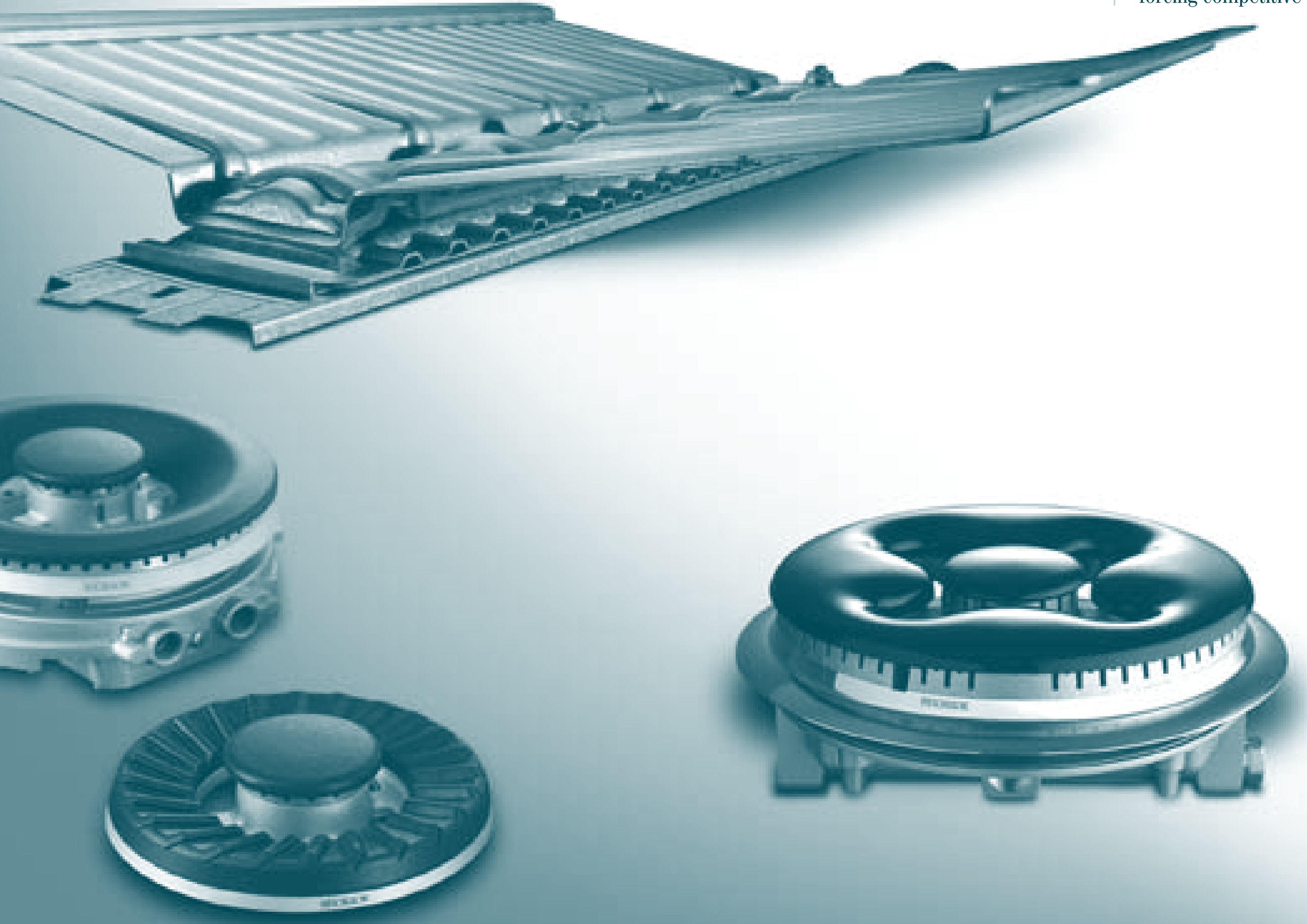
> Valves and thermostats, whether simple or with thermoelectric safety shut-off: these components regulate the flow of gas to covered burners (in the oven or grill) or exposed burners; thermostats are characterised by the presence of a thermal regulator device to maintain a constant pre-set temperature;

> Burners: these are the components that, via the mixing of gas with air and combustion of the gas used, produce one or more rings of flame;

> Hinges: these are the components that allow a smooth and balanced movement of oven, washing-machine or dishwasher doors when they are opened or closed.

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

The technological know-how developed by Sabaf over the years has led to the creation of a unique business model, the distinctive features of which are:
- integration of R&D for products and manufacturing processes;
- intense vertical integration of production, in which high-value phases are performed using exclusive technologies;
- the ability to combine major automation with flexibility and large production runs with customisation;
- a constant flow of capital expenditure aimed at reinforcing competitive advantages.



OPERATING ENVIRONMENT

THE COOKING APPLIANCE MARKET

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.

Otherwise, 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.

BASIC FEATURES AND TRENDS OF COOKING APPLIANCE MANUFACTURERS

Manufacturers of gas cooking appliances – Sabaf's core market – are extremely varied, consisting of:

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

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.

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

UNDERLYING TRENDS IN THE COOKING-APPLIANCE COMPONENT MANUFACTURER SEGMENT

The increasing levels of specialisation required and the growing importance of manufacturing automation have caused a drastic reduction in the number of cooking-appliance component manufacturers and the exit from the market of players unable to maintain high standards and remain competitive. Concentration in the core market exerts further pressure on component makers' profit margins.

Manufacturers of cooking appliance components are required to maintain extremely high standards of quality and to reduce average selling prices. The component manufacturer's ability to exercise independent and precise control over all business operating levers thus becomes crucial.

In addition, another supplier skill that is often fundamental is the ability to support household appliance manufacturers in the development of new appliances. In this respect, being able to offer the entire range of components is becoming increasingly important. Today the most dynamic component manufacturers are able to offer innovative technical and manufacturing solutions, designed to improve the appliance's performance.

REGULATORY DEVELOPMENTS CONCERNING SAFETY

Worldwide, the trend for safer use of gas in cooking is continuing, with the aim of minimising the risks of explosion caused by valves inadvertently left open with burners unlighted.

The revision of the standard EN 30 1:1 (Domestic cooking appliances burning gas: Safety – General) has been fundamental in this respect for the European market, making a flame safety device a prerequisite for the certification of gas cooking appliances sold after 1 April 2010.

GROUP STRUCTURE

Today Sabaf is an industrial group that, besides the direct parent company Sabaf S.p.A., also comprises:

FARINGOSI HINGES S.R.L.

Acquired by Sabaf S.p.A. in 2000, Faringosi Hinges is one of the leading manufacturers of hinges for ovens, washing machines and dishwashers.

In recent years, the company has stepped up its research and development activities, which are coordinated by the parent company. The strategic objective is to focus increasingly on specialist products, which are hard for competitors to replicate due to the higher technical barriers and the possibility of patent protection.

In 2010 Faringosi Hinges reported sales of some euro10.8 million (euro 8.4 million in 2009) with EBIT of around euro1.4 million (euro 0.8 million in 2009) and net profit of approximately euro 1 million (euro 0.6 million in 2009). At 31 December 2010, shareholders' equity totalled euro 7.7 million, with a net financial position of euro 4 million.

SABAF DO BRASIL LTDA

Sabaf has chosen to manufacture certain components in Brazil in order to meet the needs of multinationals present in the country, to limit exposure to foreign exchange risk, and to reduce the impact on final prices of customs duties and shipping costs, which make products manufactured in Europe uncompetitive. All products manufactured by Sabaf do Brasil are currently destined to be sold exclusively on the South American market.

Sabaf do Brasil began production at Guarulhos (São Paulo) in 2001. Subsequent growth in activity made it necessary to move to the new Jundiaì site, about 80 km from Guarulhos, where production was transferred in 2007. Today all stages of production of burner components (drip pans, burner heads and caps) for the South American market are carried out at Jundiaì.

The Brazilian manufacturing activity observes the same technological standards as those applied in Italy. Specifically, the Brazilian plant is equipped with new machinery, very much like that used for production in Italy. Besides applying the United Nations Code of Conduct for Transnational Corporations, Sabaf takes care to verify that the operating policies and procedures in place in Brazil are consistent with those of the parent company, with special reference to aspects relating to social responsibility.

Due in part to government measures to support the household appliance industry, the Brazilian market was only marginally impacted by the global recession. Growth in demand on the South American market and an improvement in operating efficiency allowed Sabaf do Brasil to achieve much more positive results in 2010. The company reported sales of around euro 9.4 million (euro 6.6 million in 2009), with EBIT totalling euro1.7 million and net profit of the same amount (compared with euro1.2 million in 2009). At 31 December 2010, the company had shareholders' equity of euro 15 million and a net financial position of euro 3.2 million.

SABAF IMMOBILIARE S.R.L.

This company manages the Sabaf Group's real estate assets. The business is concentrated in two principal areas:
- property management at the Ospitaletto (Brescia) industrial site, which covers an area of approximately 100,000 sq. m.;
- management of residential properties, also at Ospitaletto, which are reserved for sale or lease to Group employees.

In 2010 Sabaf Immobiliare posted revenues of approximately euro 3.4 million (euro 3.3 million in 2009) and net profit of euro 1.7 million (unchanged from 2009). At 31 December 2010, shareholders' equity totalled about euro 21 million, and net indebtedness totalled about euro 10.8 million (figures in accordance with IFRS).

SABAF MEXICO S.A. DE C.V.

Sabaf Mexico S.A. de c.v., a 100% owned subsidiary of Sabaf S.p.A., could represent the basis for future production serving the Mexican and North American markets. Company operations have been insignificant thus far.

SABAF US CORP.

Sabaf US Corp., based in Plainfield, Illinois, is a 100% owned subsidiary of Sabaf S.p.A. and is the commercial and logistics base for sales on the US market.

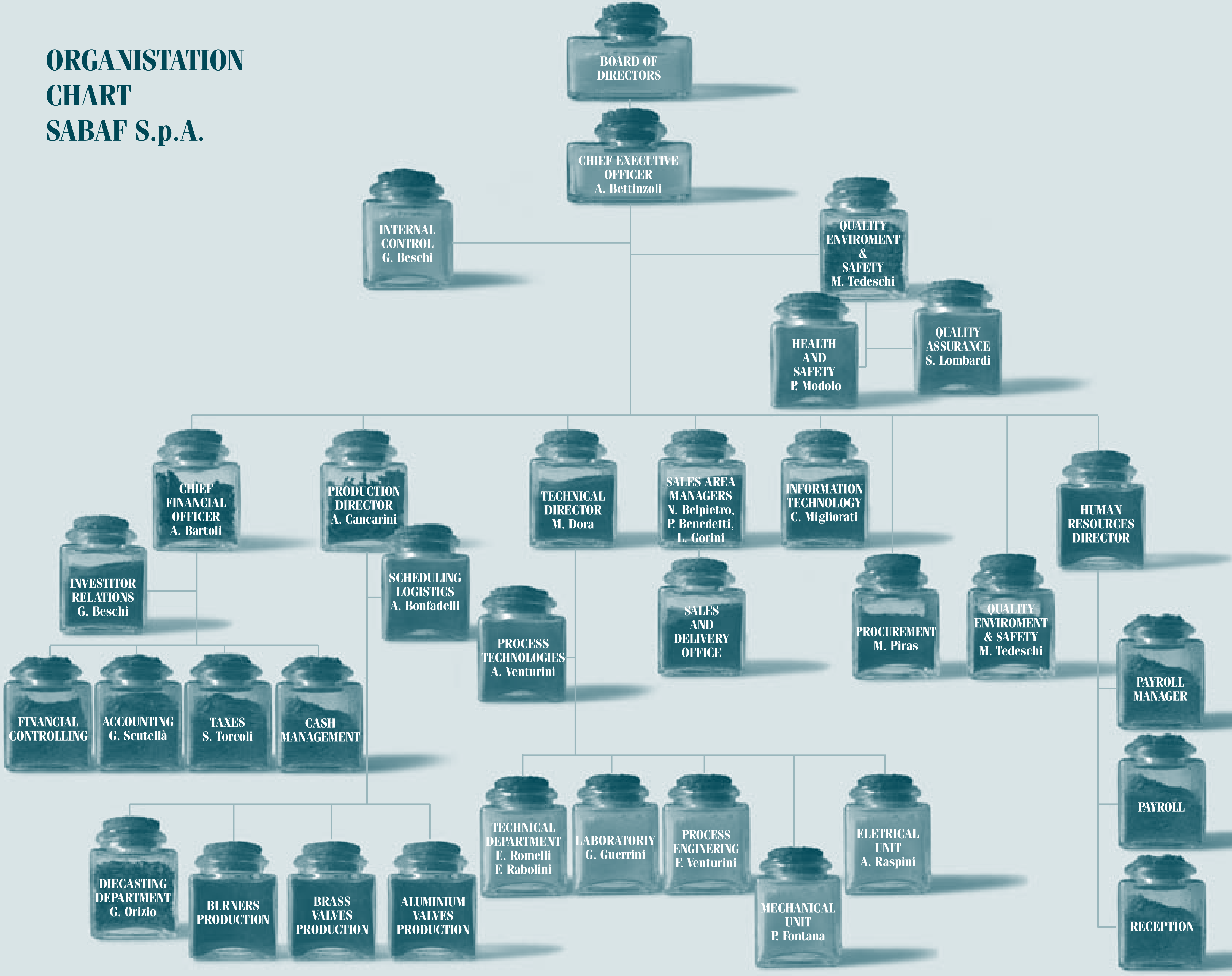
SABAF APPLIANCE COMPONENTS [KUNSHAN] CO. LTD.

Sabaf Appliance Components (Kunshan) Co. Ltd. was incorporated in 2009. This Chinese company, 100% owned by Sabaf S.p.A., was not yet operational at the end of 2010. It will serve as the logistics and production base for the Chinese market.

ORGANISATION

In order to achieve its objectives the company has adopted a functional, lean and flexible organisation model to enable it to address the complexity of its sector and to foster innovation through informal communication between the various functions. The organisational set-up is designed to speed up the decision-making process.

ORGANISTATION CHART SABAF S.p.A.



VALUES, VISION AND MISSION

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.

Sabaf uses the individual as its core value – and therefore the fundamental criterion for all its decisions. This creates an entrepreneurial vision centring round the development of a new humanism, guaranteeing 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.

PROMOTING THE VALUE OF THINKING AND BELIEVING:

INNOVATION AND COMMITMENT TO CHANGE

Sabaf invests in state-of-the-art technological solutions and in the development of its staff's skills and professionalism to encourage constant innovation of the company's processes and products – which, besides strengthening its competitive edge – represent progress for civil society in terms of improved safety and a reduced environmental impact.

PROMOTING THE VALUE OF ACTION:

SAFETY

Safety is one of the lynchpins of Sabaf's business project.
Safety within the company, defined as protection of workers' physical integrity, is guaranteed through modernisation and ongoing improvement of the workplace and adoption of stringent quality standards.
Safety for end users is guaranteed by offering products with the highest standards of safety and quality. Products undergo extensive testing in compliance with the most stringent standards on the market to ensure that they are fault-free.

PROMOTING THE VALUE OF COMMUNICATION:

TRANSPARENCY AND DIALOGUE

Sabaf cares about the needs and legitimate expectations of its internal and external stakeholders (employees, customers, suppliers, shareholders, lenders, competitors, government and society). Therefore, the company is committed to continuous dialogue with all its stakeholders, who are informed of the company's activities with the utmost transparency. Internal procedures and behaviours are geared towards total compliance with laws and regulations.

The Charter of Values was updated in 2008 and applies to all Sabaf Group companies, which 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 has been amended to include a series of general rules of conduct that Group employees and contractors must follow.

VISION

To conjugate the choices and economic results with the ethical values, by surpassing family capitalism, in favor of a managerial logic oriented not only towards the creation of added value, but also towards the respect of values.

To consolidate technological and market position superiority, in planning, production and distribution of the entire range of components for home appliances for gas cooking, through constant attention to innovation, safety and the valorization of internal competence.

MISSION

To associate the growth of company performance with social and environmental sustainability, promoting a dialogue that is open to the legitimate expectations of our counterparts.

STRATEGIC FOCUS

In keeping with its shared values and mission, the company believes that there is a successful business and cultural model to be replicated and adapted in foreign markets and in adjacent sectors via organic growth or strategic alliances and acquisitions. Innovation, safety, personal development and socio-environmental sustainability are the distinctive characteristics of the Sabaf model.

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 company 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. Our new 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 ergonomics and safety. 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. In particular, it should be noted that a key factor in the company's success has been the know-how acquired over the years in internal development and construction of machinery, tools and moulds.

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 (a) innovative production processes with lower energy consumption in product manufacturing, and (b) products that are designed to be eco-efficient during everyday use. More specifically, innovation efforts are predominantly focused on the development of products that reduce fuel consumption (natural or other gases) and emissions (carbon dioxide and carbon monoxide) during use.

SAFETY

Safety has always been one of the indispensable features of the company'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 company 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 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 in this business segment, 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.

ESTABLISHMENT IN INTERNATIONAL MARKETS

Sabaf is continuing to expand by becoming established in international markets, replicating its business model in emerging countries and adapting it to the local culture.

In keeping with its corporate values and mission, the company is seeking to transfer 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 component 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 pursued via in-house research and strategic alliances with other leading players in the sector or possible acquisitions in related sectors.

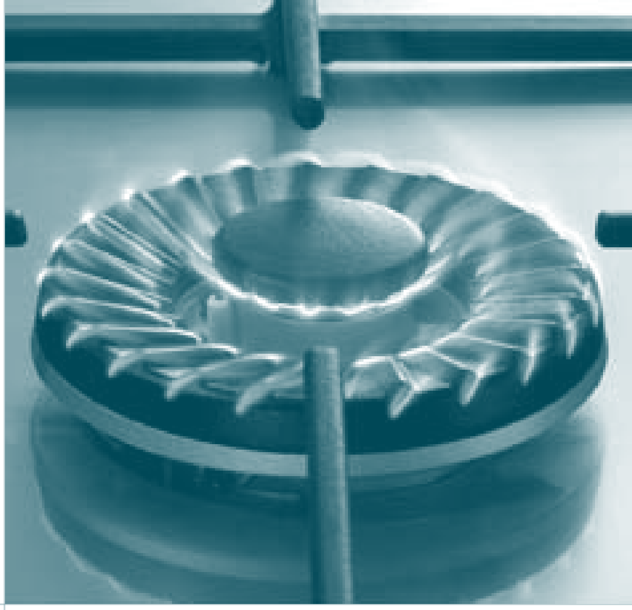
The company intends to further consolidate its collaborative relationships with customers and to strengthen its positioning as sole supplier of a complete product range in the cooking components market, thanks to its ability to tailor its production processes to customers' specific requirements.

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 now 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 interaction 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" provided by the value-sharing process, 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).

INTEGRATION OF SOCIAL ACCOUNTABILITY IN OPERATING PROCESSES



THE SOCIAL ACCOUNTABILITY MANAGEMENT PROCESS

In order to translate the values and principles of sustainable development into action and operating activities, Sabaf applies **ProGReSS**© - the responsible management process for sustainable development - a system that, via a standard methodology, harmonises existing operating approaches within a single responsible management process geared towards an excellence-based approach.

The key factors in this process are:

> **sharing** of values, mission and an integrated policy for sustainable development;

> adoption of a **training/action process**, able to implement improvements via inter-functional projects involving employees and featuring specific paths in terms of training and organisational communication;

> development of an **internal control & audit system** capable of monitoring both the achievement of predefined objectives and any ethical risks, as well as verifying the implementation of the company's stakeholder commitments;

> definition of **key indicators** capable of monitoring our economic, social and environmental performance;

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

> definition of a stakeholder **feedback system** in order to share and define together with stakeholders the improvements to be implemented.

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 social, environmental and economic variables that it encounters on a daily basis. Accordingly, the Group has implemented systems for management of quality, safety, environmental and social variables so that these can be monitored on a constant basis, and has developed specific analyses of the principal risks faced by its business entities.
Detailed information about the internal control system can be found in the corporate governance report.

STAKEHOLDER ENGAGEMENT

Sabaf uses the term "stakeholders" to refer to all those groups – consisting of individuals, organisations and communities – that directly influence the company's business or that are directly or indirectly affected by it.

In its socially responsible management approach, Sabaf interacts with and involves all of its stakeholders, both internal (staff and shareholders) and external (customers, suppliers, lenders, government, competitors, the local community and the environment), assuming specific commitments towards each of them.

This Annual Report contains key information about Sabaf's interaction with stakeholders, identified as follows:

> **Staff:** all employees or independent contractors of the company, organised based on a hierarchical structure. This category also includes agents and people who "represent" Sabaf in the outside world and who manage the company's relations with stakeholders.

> **Shareholders:** these include majority shareholders, Italian and non-Italian institutional investors, and private shareholders.

> **Customers:** our customers are household appliance manufacturers, ranging from large multinationals to niche SMEs.

> **Suppliers:** the suppliers of raw materials, machinery, equipment, goods and services.

> **Lenders:** banks and other financial institutions that contribute to the financial support of the Group.

> **Competitors**: all companies producing components for domestic gas cooking appliances.

> **Government:** this category consists of central government bodies and agencies, regional government and local authorities, and public agencies such as local health departments (ASL), the state occupational insurance and accident prevention agency (INAIL), and the state pension and welfare agency (INPS).

> **Society:** for each Group company, this consists of the local community, schools and the academic world, end users of household appliances (consumers) and, in general, the entire civil society with which the Group engages.

> **Environment:** this is interpreted as being both the local territorial context in which the Group performs its manufacturing activities and the wider environmental context potentially affected by the Group's activities or products.

As regards its ongoing dialogue with stakeholders, the Group bases its approach on the draft AA 1000 SES (Stakeholder Engagement Standard), which is the first internationally recognised guideline in this area.

The dialogue takes the form of a series of meetings and exchanges with the various categories of stakeholder periodically and systematically involved:

Staff: biennial employee satisfaction surveys, meetings with employees and panel discussions with trade union organisations;
Customers: customer satisfaction surveys carried out every two years;
Suppliers: a questionnaire and meeting held every two years with suppliers;
Shareholders: questionnaire sent to financial analysts and investment fund managers. One-to-one meetings with managers of ethical funds and presentation of an annual financial, social and environmental report to the Annual General Meeting.
Community & institutions: multi-stakeholder panel discussions attended by representatives of civil society and institutions.

Section 3 - Social Sustainability summarises, for each stakeholder group, the latest stakeholder engagement results from February 2011, relating to:
- the customer satisfaction survey for Sabaf S.p.A.
- the employee satisfaction analysis for Sabaf do Brasil.

KEY SOCIAL ACCOUNTABILITY ISSUES FOR STAKEHOLDERS AND THE BUSINESS

Within the sphere of its business, the Group considers the issues outlined below to be the most important, in terms of actual or potential effects on stakeholders.

CORPORATE GOVERNANCE AND PROTECTION OF MINORITY SHAREHOLDERS

Given the concentration of the controlling interest in the hands of just one shareholder (the Saleri family), Sabaf undertakes to ensure total separation, both now and in future, between ownership and management. Sabaf also undertakes to guarantee the presence of an adequate number of highly qualified independent directors, so that their judgement carries significant weight in decision-making.
Sabaf also undertakes to:

- maintain satisfaction of the governance, disclosure and liquidity requirements that allow it to be listed on the STAR segment of Borsa Italiana;
- implement the recommendations set out in the Corporate Governance Code.

RELATIONS WITH STAFF

Sabaf uses the types of flexible employment currently permitted under Italian legislation, and specifically employment agency staff. The Group undertakes to comply strictly with employment law and to keep trade union representatives regularly informed about the use of atypical types of employment. In this respect, particular attention is paid to staff management policies through measures taken to guarantee current employment levels, despite the complex macroeconomic environment.
There is a growing number of non-EU personnel with different cultural identities, lifestyles and religious beliefs, posing new problems in terms of staff interaction. Sabaf is committed to fostering integration and guarantees equal opportunities for every worker. At the same time, it asks all staff to respect different attitudes and cultures and to share the fundamental values enshrined in our Charter of Values.
The internationalisation of production is becoming increasingly important. Sabaf undertakes to ensure, through appropriate management systems, that the commitments made to staff are fully and tangibly implemented at all production sites.

CUSTOMER RELATIONS

Sabaf encourages the establishment of long-term relationships with its customers, which aid innovation in components and finished products.

CONSUMER PROTECTION

Sabaf guarantees the utmost safety of its products and encourages complete transparency in its communication with consumers and the application of increasingly stringent standards in all core markets.

SUPPLIER RELATIONS

Sabaf's expansion in recent years has been accompanied by the Group's increasing role in the supply chain. Sabaf is committed to monitoring its own supply chain – specifically via the application of the SA8000 standard – and avoids any exploitation of a dominant position versus smaller suppliers.

ENVIRONMENT

Environmental impact plays a fundamental role in our process and product innovation. Our most recent product innovations ensure a significant energy saving and a reduction of fuel consumption and gas emissions by users.

The sections on Social Sustainability and Environmental Sustainability describe the initiatives taken to ensure careful management of these issues and effectively implement the commitments made to stakeholders.

TARGETED IMPROVEMENTS

Area	2010 target	What we have done	2011 target
Staff	Reduce staff turnover and absenteeism rates in Sabaf do Brasil through HR policies targeting corporate culture, training, occupational safety and the compensation and incentive system.	We have reviewed the compensation and incentive system and introduced new motivational mechanisms. In early 2011 we conducted a survey to learn more about the reasons for the high absenteeism rates.	In 2010 the absenteeism rate was still high. The parent company management will be closely involved in drawing up staff management guidelines which can deliver the expected results.
Quality	Obtain ISO 9001 certification of the Sabaf do Brasil quality management system.	We did all the preparatory work for certification, which was awarded in February 2011.	Maintain current certification of quality management systems at all Group sites, minimising any non-compliance.
Environment	Begin sales of new-generation, energy-efficient burners (AE and AEO).	The first sales have been made on different markets and to different customers.	Increase sales of energy-efficient burners, including special models (dual).

In 2011, Sabaf S.p.A. has decided to embark on a major project to reduce waste water and water consumption. The project involves harvesting rainwater from temporary waste storage areas and foundry buildings; the water will then be treated to remove any traces of residue collected from drainage surfaces.
Once it has been treated, the rainwater will be used in the production cycle, irrigation of green spaces and sanitation (toilet flushing), reducing the amount of water currently drawn from groundwater sources.
The project has been examined by the provincial authority and by the Italian Environmental Protection Agency. The proposed investment will come to around euro 1 million.

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You will not find the philosopher's stone until you are perfect.

Grillot de Givry

GOVERNANCE

REPORT ON CORPORATE GOVERNANCE AND OWERSHIP STRUCTURE

PURSUANT TO ART. 123 BIS TUF

GLOSSARY

Shareholders' Meeting: the Shareholders' Meeting of Sabaf S.p.A.
Code: the Corporate Governance Code of listed companies approved in March 2006 by the Corporate Governance Committee and recommended by Borsa Italiana S.p.A.
Civil Code: the Italian Civil Code.
Board of Directors: the Board of Directors of Sabaf S.p.A.
Amending Decree: Legislative Decree 303 of 29 December 2006.
Transparency Directive: European Union Directive 2004/109/EC regarding the harmonisation of certain disclosure obligations imposed on issuers whose securities are listed for trading on a regulated European market, received in the Italian legal system through Legislative Decree 195/2007.
Issuer: Sabaf S.p.A, i.e. the issuer of listed shares to which the Report refers.
Financial year: the company financial year to which the Report refers.
Group: the Sabaf Group (Sabaf S.p.A. and its subsidiaries).
Stock Market Regulation Instructions: the Instructions of the Regulation of Markets organised and managed by Borsa Italiana S.p.A.
Savings Law: Law 262 of 28 December 2005.
Manual: the Corporate Governance Manual approved by the Board of Directors and adopted by Sabaf S.p.A.
Stock Market Regulation: the Regulation of Markets organised and managed by Borsa Italiana S.p.A.
CONSOB Issuers' Regulation: the Issuers Regulation published by CONSOB pursuant to Resolution 11971 of 1999.
CONSOB Markets' Regulation: the Regulation published by CONSOB pursuant to Resolution 16191 of 2007 (as amended) on markets.
Report: the Report on Corporate Governance and Ownership Structure that companies must prepare pursuant to Article 123-bis TUF.
Company: Sabaf S.p.A., also referred to hereinafter as Sabaf.
Bylaws: the bylaws of Sabaf S.p.A.
TUF: Legislative Decree 58 of 24 February 1998 (Consolidated Law on Finance).

1. DESCRIPTION OF ISSUER

Sabaf's entrepreneurial model is rendered explicit in our corporate vision, i.e. to combine business decisions and results with ethical values by going beyond family capitalism and opting for a managerial rationale oriented not only towards the creation of value but also towards the respect of values.

The adopted corporate governance model is based, in the first place, on the decision to achieve strict separation of the interests and choices of the key shareholder (the Saleri family) from the interests and choices of the Company and Group, consequently entrusting corporate management to managers not forming part of the key shareholder.

Expansion of the shareholder base following listing on the stock exchange, admission to the STAR segment (and consequently the Company's voluntary acceptance of stricter transparency and disclosure rules), and the Company's desire to comply consistently with applicable corporate governance recommendations and best practices represent the subsequent steps taken by Sabaf towards compliance of its corporate governance system with a model whose benchmark is that directors act in the Company's interest and in view of creating value for all shareholders.

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect of common values, set at the head of the creation of value, are able to orient decisions in a manner consistent with corporate culture and contribute significantly to assuring the Company's sustainable long-term growth. To this end Sabaf has created and published a Charter of Values (available in the Sustainability section of the website, www.sabaf.it) which is considered to be the governance tool through which the Board of Directors renders explicit the Company's values, standards of conduct, and commitments vis-à-vis all stakeholders - shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.

THE SABAF MANAGEMENT AND CONTROL MODEL

Sabaf has chosen a traditional management and control model, consisting of:

- the Board of Directors responsible for management of Company operations;
- the Board of Statutory Auditors responsible for supervising:
  - compliance with the law and Articles of Incorporation and adherence to principles of proper management in the performance of corporate activities;
  - the adequacy of the Company's organisational structure, internal control system, and administrative/accounting system;
  - the procedures for effective implementation of the corporate governance rules envisaged in the Code;
  - the internal audit, risk management and legal review of the accounts and the independence of the auditing firm[1] ;
- the Shareholders' Meeting, which is responsible for resolving:
  - on an ordinary basis, approval of the annual report and accounts, appointment and dismissal of directors and statutory auditors, their compensation and their responsibilities;
  - on an extraordinary basis, amendments to the By-laws, and the appointment, substitution and powers of liquidators.

2. INFORMATION ABOUT OWNERSHIP STRUCTURE

(pursuant to Article 123-bis (1) TUF) at 23 March 2011

a) Structure of share capital (ex Article 123-bis (1)(a) TUF)

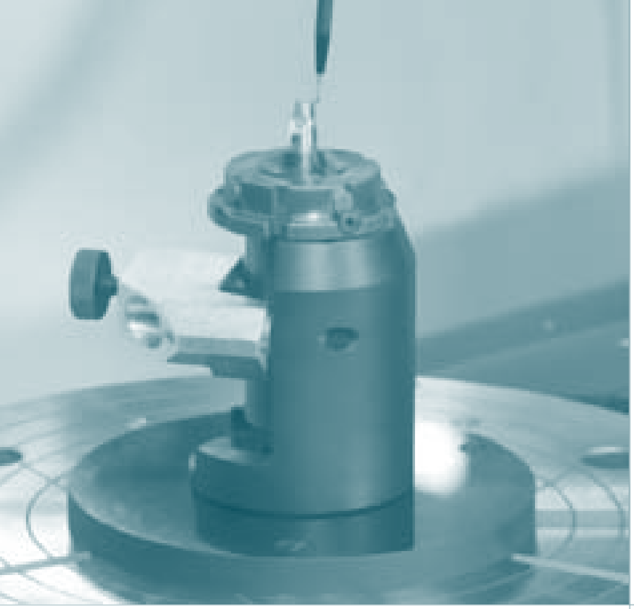
The share capital totals Euro 11,533,450 and is represented by 11,533,450 ordinary shares with a par value of Euro 1.00 each. They are traded on the STAR segment operated by Borsa Italiana.

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

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

There are no restrictions on the transfer of shares.

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



c) Significant shareholdings (pursuant to Article 123-bis (1)(c) TUF)

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

SIGNIFICANT SHAREHOLDINGS

Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA (Ownership)	55.299 %	55.299 %
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV (Asset Management)	10.564 %	10.564 %
Pendoli Anna	Pendoli Anna (usufruct, through Sirefid Spa – Società Italiana di Revisione E Fiduciaria)	3.902 %	3.902 %
Baillie Gifford & CO	Baillie Gifford Overseas Limited (Asset Management)	2.501 %	2.501 %

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

No shares granting special rights of control have been issued.

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

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

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

There are no restrictions on voting shares

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

A shareholders' agreement (renewed until 8 January 2013) is in effect at Giuseppe Saleri S.a.p.A., the controlling company of Sabaf S.p.A. This agreement was made by Cinzia Saleri, born in Brescia on 18 December 1961, Gianbattista Saleri, born in Brescia on 13 November 1963, Ettore Saleri, born in Brescia on 24 April 1973, Giuseppe Saleri, born in Lumezzane on 21 August 1931, Flavio Gnecchi, born in Brescia on 15 March 1956 and Mario Mazzoleni, born in Milan on 24 January 1957. It was notified, filed and published in accordance with the law and governs the entire shareholdings held by each one in Giuseppe Saleri S.a.p.A., representing 100% of the share capital.
The main purpose of this shareholders' agreement is to co-ordinate management of the equity investment in Sabaf S.p.A.

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

Sabaf S.p.A. and its subsidiaries are not party to agreements that become enforceable, are amended or are extinguished if control of the contracting company changes

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

On 29 April 2008, the Sabaf Shareholders' Meeting authorised, for a period of 18 months, the Board of Directors to buy back own shares pursuant to article 2357 et seq. of the Civil Code, up to a limit of 10% of the share capital. The aim was to allow the Board of Directors to seize the opportunities offered by the market to invest in company shares, depending on the performance of the stock and/or the amount of available liquidity.
No shares were purchased or sold in 2010.
At 31 December 2010, the Company held 32,503 own shares, equivalent to 0.282% of the share capital.

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

Although Sabaf S.p.A. is controlled by the company Giuseppe Saleri S.a.p.A., the Board of Directors holds that the Company is not subject to management and co-ordination by the parent company, since the Board of Directors of Sabaf S.p.A. enjoys complete operating autonomy and does not have to justify its actions to the parent company, except at the annual Shareholders' Meeting held to approve the statutory financial statements and, obviously, in the event of violation of the law and/or the Bylaws. Furthermore, the parent company's Bylaws explicitly state that it does not manage and co-ordinate the operations of Sabaf S.p.A.

Note that:

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

3. COMPLIANCE

(pursuant to Article 123-bis (2)(a) TUF)

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

The Board of Directors of Sabaf S.p.A. confirmed the Company's adoption of the Code also by adopting a Corporate Governance Manual. This manual sets forth the principles, rules, and operating procedures that will enable the Company to comply with the Code's recommendations.
This Manual, adopted by board resolution of 19 December 2006, has been updated several times over the years, in order to reflect changes in laws and regulations regarding corporate governance, as well as best practice adopted by the Company. The updated text (approved by the Board of Directors' meeting of 21 September 2010) is available in the Corporate Governance section of the website www.sabaf.it.

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

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

Sabaf. S.p.A. and its subsidiaries are not subject to the laws of countries outside Italy that might have an impact on the Company's corporate governance structure.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT

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

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

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

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

Candidates nominated in more than one list shall be disqualified. Without prejudice to any other cause of disqualification or debarment, candidates who do not meet the requirements laid down by the legislation, the Company Bylaws or the other provisions applicable to the various offices shall not be included in the lists. No party holding voting rights shall individually or jointly submit more than one list, even through an intermediary or trust company.
The candidates in each list shall be indicated with a sequential number. Each list shall contain at least a number of candidates who meet the independence requirements laid down in the legislation and other provisions applicable to the Company.
The lists, duly signed by each of the shareholders who submitted them and accompanied by a certificate showing the percentage shareholding held by the persons having voting rights and the ownership of that holding, shall be filed at the Company's registered office and made available to the public at the registered office and on the company website, pursuant to the terms and in compliance with the provisions of applicable primary and secondary laws and regulations.
At the time of submission of the list, the following documentation shall also be filed at the company's registered office:

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

Each party holding voting rights may only vote for one list.
The election of directors shall be conducted as follows:

- a number of directors equal to the number of the directors to be elected less one shall be taken from the list that obtained the majority of the votes cast by anyone who has voting rights, in the sequential order indicated in the list;
- also according to the sequence specified on the list itself, the remaining director is taken from the list that received the second highest number of votes and that is not connected in any way, directly or indirectly, with the list that received the highest number of votes.

If two or more lists which are not connected in any way, even indirectly, with the list that obtained the highest number of votes obtain the same number of votes, a director shall be taken from each of the said lists, in the sequential order indicated therein, and the older candidate shall be elected.
For the purpose of allocating the directors to be elected, no account will be taken of lists which do not obtain a percentage of the votes amounting to at least half the percentage required by the Company Bylaws for submission of lists.
If the candidates elected in accordance with the foregoing procedures do not satisfy the minimum number of directors meeting the requirements of independence, the non-independent candidate(s) that came in last place according to the progressive order of the list receiving the highest number of votes shall be replaced by the unelected independent candidate(s) included on the same list and in accordance with that list's progressive order.
If a single list is submitted, or if no list is submitted, or if the full Board of Directors is not being elected, the Shareholders' Meeting shall resolve in accordance with the legally envisaged majorities.

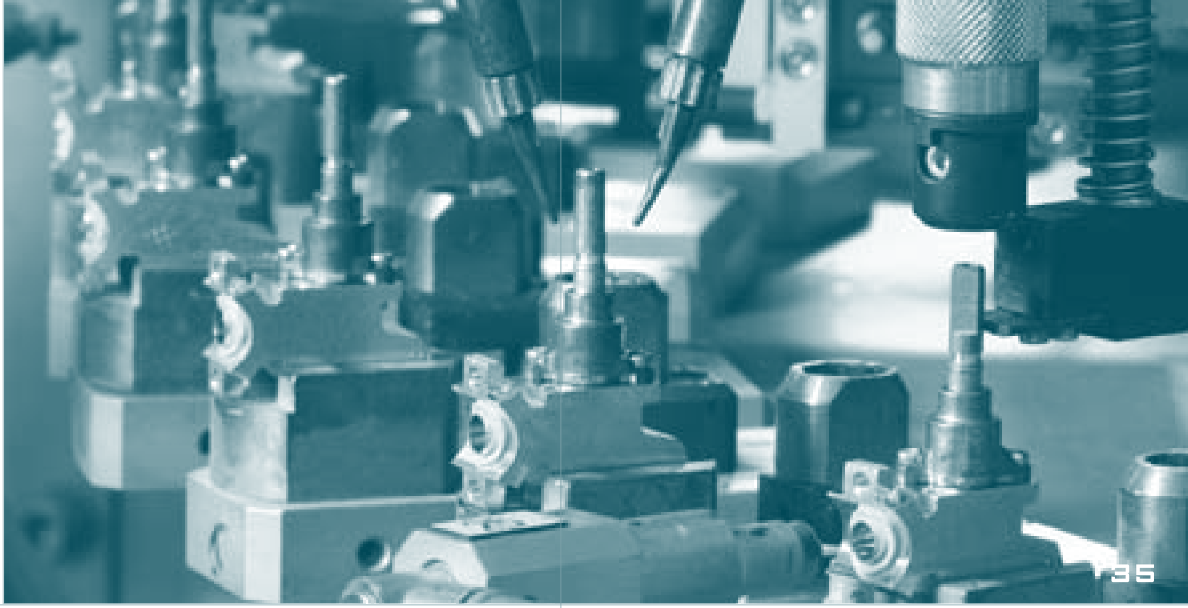
If one or more director seats should become vacant during the financial year, the other directors shall fill them with new members, in a resolution approved by the Board of Statutory Auditors.
If the Board of Directors was elected according to voting lists, the Board of Directors shall replace it, when possible, by appointing persons according to the progressive order of the list on which the former director(s) was/were elected and that are still eligible and willing to accept the position.
If an independent director should vacate his seat, he shall be replaced, if possible, by appointing the first of the independent candidates not elected with the list on which the former director was elected. If this is not possible, the Board of Directors shall co-opt him without list restrictions. The co-opted directors hold office until the next Shareholders' Meeting.
If a majority of director seats should be vacated, those remaining in office must call the Shareholders' Meeting for replacement of the former directors.

The term of those directors appointed by the Shareholders' Meeting shall expire at the same time as that of those already in office when they were appointed.

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

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

However, the Board of Directors may resolve at any time to remit the resolutions envisaged hereinabove to the purview of the Shareholders' Meeting.



BOARD OF DIRECTORS[2]

Position	Members	From	To	List	Exec	Non Exec	Indep. Code	Indep. TUF	% BoD	Other positions
Chairman	Saleri Giuseppe	28/04/09	2011	n/a	X				100%	1
Deputy Chairman	Saleri Gianbattista	28/04/09	2011	n/a	X				100%	0
Deputy Chairman	Saleri Ettore	28/04/09	2011	n/a	X				100%	0
CEO	Bettinzoli Angelo	28/04/09	2011	n/a	X				100%	1
Director	Bartoli Alberto	28/04/09	2011	n/a	X				100%	0
Director	Cossu Leonardo	28/04/09	2011	n/a		X		X	100%	7
Director	Bragantini Salvatore	28/04/09	2011	n/a		X	X	X	71%	3
Director	Cavalli Giuseppe	28/04/09	2011	n/a		X	X	X	86%	1
Director	Gardoni Fausto	28/04/09	2011	n/a		X	X	X	100%	0
Director	Gitti Gregorio	28/04/09	2011	n/a		X	X	X	29%	5
Director	Pasotti Flavio	28/04/09	2011	n/a		X	X	X	71%	0

Position	Members	EC	% EC	NC	% NC	CC	% CC	ICA C	% CCI	RPC	% RPC
Chairman	Saleri Giuseppe	n/a	n/a	n/a	n/a						
Deputy Chairman	Saleri Gianbattista	n/a	n/a	n/a	n/a						
Deputy Chairman	Saleri Ettore	n/a	n/a	n/a	n/a						
CEO	Bettinzoli Angelo	n/a	n/a	n/a	n/a						
Director	Bartoli Alberto	n/a	n/a	n/a	n/a						
Director	Cossu Leonardo	n/a	n/a	n/a	n/a	M	80%	C	100%		
Director	Bragantini Salvatore	n/a	n/a	n/a	n/a			M	50%	M	100%
Director	Cavalli Giuseppe	n/a	n/a	n/a	n/a	M	100%				
Director	Gardoni Fausto	n/a	n/a	n/a	n/a	C	100%			C	100%
Director	Gitti Gregorio	n/a	n/a	n/a	n/a			M	50%	M	100%
Director	Pasotti Flavio	n/a	n/a	n/a	n/a	M	40%				

EC Executive Committee, NC: Nominations Committee, CC: Compensation Committee, ICAC: Internal Control And Audit Committee, RPC: Related Parties Committee, C: Chairman, M: Member

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

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

Specifically:

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

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

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

Below we disclose the offices held by Sabaf directors as directors or statutory auditors of other listed companies, in financial, banking and/or insurance companies, and/or in large companies.

- Giuseppe Saleri is Chairman of Giuseppe Saleri SapA, the financial company that controls Sabaf S.p.A.;
- Angelo Bettinzoli is an independent director of Gefran S.p.A.;
- Leonardo Cossuis Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and Credito Lombardo Veneto S.p.A., and statutory auditor of Italmobiliare S.p.A., Ambrosi S.p.A., Brawo S.p.A., Fingefran S.r.l. and Futurimpresa S.G.R. S.p.A.;
- Gregorio Gitti is chairman of Metalcam S.p.A., independent director of Edison S.p.A. and Ansaldo STS S.p.A., member of the Board of Tethys S.r.l. and Bassilichi S.p.A.;
- Giuseppe Cavalli is Chief Executive Officer of Acciaierie di Sicilia S.p.A. (Alfa Acciai Group);
- Salvatore Bragantini is Chairman of I2 Capital SGR S.p.A., non-executive director of Interpump Group S.p.A. and director of Permicro S.p.A.

On 4 August 2010, the Board of Directors appointed from its members the Related Parties Committee, the members of which are shown in the table above. This committee of independent directors is responsible for expressing a preliminary opinion on the procedure prepared in implementation of CONSOB Regulation 17221.
This Committee met on 21 September 2010 to express this opinion, which was unanimously positive.

No further changes were made to the composition of the Board of Directors or the composition of the Committees during the year or up to the date of this report.

Maximum number of positions held at other companies

To ensure that directors would be able to dedicate the time necessary to perform their assigned duties diligently, the Board of Directors passed a resolution on 28 April 2006, and renewed it at its meeting on 28 April 2009, that defines the maximum number of positions that each director may hold on the board of directors or board of statutory auditors of companies listed on regulated markets inside and outside Italy, as well as at financial, banking, insurance or other large companies, deciding as follows:

- executive directors: a maximum of three offices, not counting the positions held within the Group;
- non-executive directors: a maximum of seven offices, not counting the positions held in the financial companies envisaged in Article 113 of the Italian Consolidated Banking Act ("Testo Unico Bancario").

At its meeting on 23 March 2010, the Board of Directors confirmed compliance with the aforementioned criteria for 2010.

4.3. DUTIES OF THE BOARD OF DIRECTORS

(pursuant to Article 123-bis (2)(d) TUF)
The Board of Directors met seven times during the 2010 financial year. The meetings lasted an average of about one hour and fifty minutes. Seven meetings have been planned for 2011, of which one was held on 9 February.

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

The Board of Directors is responsible for examining and approving the Company's and Group's strategic, business, and financial plans and budgets, the Sabaf corporate governance system and the organisation of the Group headed by the Company.
In 2010, the Board of Directors assessed the overall adequacy of the general organisational, administrative, and accounting structure of the Company and its key subsidiaries, as established by the Chief Executive Officer, with special reference to the internal control system.

When it elected the Board of Directors, the Shareholders' Meeting held on 28 April 2009 determined the amount of owed to the members of the Board of Directors for the three-year period 2009 - 2011. Then, at its first meeting (28 April 2009), the Board allocated the compensation decided by the Shareholders' Meeting amongst its members.
The Corporate Governance Manual envisages that the compensation of executive directors be decided by the Board of Directors upon examination of proposals by the Compensation Committee (as illustrated hereunder) and consultation with the Board of Statutory Auditors. This rule came into effect on the date that the Manual was first approved (19 December 2006).

The Board of Directors assessed general operating performance, focusing in particular on the information provided by the Chief Executive Officer, and comparing actual with budgeted results on a quarterly basis.

The Corporate Governance Manual envisages that the Board of Directors is responsible for examining and approving in advance the ordinary or extraordinary transactions of Sabaf and its subsidiaries that might have a material impact on its assets, liabilities, operating result and financial position.
Guidelines implementing the Manual define the general rules for determining what are considered material transactions, with these being construed as:

- the transactions reserved to the purview of the Sabaf Board of Directors pursuant to the Bylaws, such as:
  - the establishment or closing of branch offices;
  - transfer of the registered office within the territory of Italy;
  - merger in the cases envisaged in Articles 2505 and 2505 bis of the Civil Code, including the provisions governing demerger in Article 2506 ter of the Civil Code;
  - reduction in share capital if a shareholder withdraws;
- the purchase and sale of equity investments, real estate and treasury stock;
- issuance of financial instruments;
- the assumption of loans, requests for granting of bank credit lines and issuance of guarantees;
- the hiring and designation of third parties as executives, their dismissal and definition of economic and other relations with them;
- any other transaction that when considered alone exceeds the limits set for the managing directors of Sabaf.

The Corporate Governance Manual also envisages that the Board of Directors have the prerogative of prior approval of the ordinary and extraordinary transactions of Sabaf and its subsidiaries, where one or more directors have an actual interest on their own behalf or o behalf of someone else. Accordingly, Guidelines implementing the Manual govern the operating procedures that can facilitate identification and adequate management of these situations.

IIn compliance with the CONSOB Regulation issued with resolution 17221 on Transactions with Related Parties, on 9 November 2010, the Sabaf Board of Directors adopted the "procedure for regulating related-party transactions", subject to consultation that resulted in a positive opinion from the Related Parties Committee nominated for this purpose. This procedure, published – as requested by the Regulation – on the Issuer's website, came into force on 1 January 2011.
At the same time, the introduction of this procedure made it necessary to amend (and again submit to the Board of Directors for approval) the previous guidelines to the Corporate Governance Manual on related-party transactions (previously guidelines on "Significant Transactions, Transactions with Related Parties and Directors' Interests", now guidelines on "Significant Transactions and Directors' Interests").

During the year, the Board of Directors carried out its annual review of the size, membership and activities of the Board of Directors as a whole and its committees. After having considered various approaches for evaluation, the Sabaf Board of Directors decided that the individual directors would evaluate themselves, by filling out and returning specific questionnaires. It then discussed the results at the 14 December 2010 Board meeting.

The Lead Independent Director (Flavio Pasotti) co-ordinates the annual evaluation. He is responsible for defining the topics to be discussed during the self-evaluation. The results of the valuation were generally positive, and highlighted some points for consideration that were explored by the independent directors in their meeting on 21 March 2011.

The Shareholders' Meeting has not authorised general exceptions in advance to the not-to-compete clause envisaged in Article 2390 of the Civil Code.

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

4.4. OFFICERS WITH DELEGATIONS OF EXECUTIVE AUTHORITY

Chief Executive Officer

The Chief Executive Officer (CEO), Angelo Bettinzoli, is responsible for running the Company according to the strategic guidelines defined by the Board of Directors. The CEO co-ordinates all corporate functions, assuring a swift decision-making process, together with efficient and transparent management. The CEO is vested with ample delegated powers concerning all operational areas of the Company, with separate powers of signature, within the limit of Euro 1 million per individual transaction.

Chairman and Deputy Chairmen of the Board of Directors

The Chairman of the Board of Directors, Giuseppe Saleri, is the controlling shareholder of Sabaf S.p.A.; the Chairman's sons Gianbattista Saleri and Ettore Saleri are Deputy Chairmen.

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

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

None.

Reports to the Board of Directors

Every quarter the CEO reports to the Board of Directors on the activities he performs in fulfilment of his assigned duties. These reports are governed by guidelines set out in the Manual. They envisage that the CEO prepare a written report summarising the following activities and transactions carried out by Sabaf and its subsidiaries:

- their activities during the period;
- transactions having a material impact on the business strategy, operating results, assets, liabilities and financial position of the Group;
- transactions involving a potential conflict of interest;
- transactions that were atypical, unusual or concluded at non-standard conditions;
- all other activities or transactions that are deemed worthy of reporting.

4.5. OTHER DIRECTORS WITH EXECUTIVE AUTHORITY

The Director Alberto Bartoli is Chief Financial Officer of the Company. The Board of Directors has granted him delegations of authority for the transactions germane to his position, with a limit of Euro 500,000 on each individual transaction.

4.6. INDEPENDENT DIRECTORS

With the abstention of those concerned, the Board of Directors assesses the fulfilment by independent directors of the requirements for independence after they have been appointed and then once annually thereafter.

This valuation was conducted at the Board meeting of 9 February 2010. On this occasion, the statements of the independent directors were received, and the Board, with the abstention of those concerned, assessed the fulfilment of the independence requirements for directors Bragantini Salvatore, Giuseppe Cavalli, Fausto Gardoni, Gregorio Gitti and Pasotti Flavio. On the contrary, Leonardo Cossu, although he is independent pursuant to TUF, is not independent pursuant to the Corporate Governance Code, insofar as he has been a director of Sabaf S.p.A. for over nine years.

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

The Board of Statutory Auditors audited proper implementation of the principles and procedures used to determine the independence of its members, including examination of their statements, and concluded that they were indeed independent.

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

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

4.7. LEAD INDEPENDENT DIRECTOR

Since the Chairman of the Board of Directors is the person in charge of Sabaf, the Board of Directors meeting held on 28 April 2009 designated Flavio Pasotti as Lead Independent Director. The Lead Independent Director holds this office for the entire term of the Board of Directors and is the principal point of contact and co-ordination for the requests and contributions made by non-executive directors, and in particular independent directors.

The Lead Independent Director collaborated with the Chairman over the course of the year in order to ensure that the Directors receive complete and prompt information regarding adoption of resolutions by the Board of Directors and exercise of its powers of direction, co-ordination, and supervision of Company and Group activities.

The Lead Independent Director also co-ordinates the Board of Directors self-evaluation process.

5. HANDLING OF CONFIDENTIAL INFORMATION

The CEO manages the processing of confidential information in accordance with a specific procedure for internal management and external disclosure of documents and information concerning the Company. This procedure must be proposed by the CEO and approved by the Board of Directors. Special attention is devoted to the management of inside information, as defined in Article 181 of the Consolidated Law on Finance (i.e. information that has not been made public and, if it were made public, would be likely to have a significant effect on the price of relevant listed financial instruments).

This procedure pursues the aims of careful, secure and confidential management of this type of information, as well as disclosure of symmetrical, non-selective, prompt, complete and adequate inside information. Corporate officers are obliged to maintain the confidentiality of information and documents acquired in the performance of their tasks and to comply with the procedure referred to in this section.

6. INTERNAL BOARD COMMITTEES

(pursuant to Article 123-bis (2)(d) TUF)

No committee has been established to perform the functions of two or more of the committees envisaged in the Code.

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

No further committees charged to make proposals and provide advice have been established other than the ones envisaged in the Code.

7. NOMINATIONS COMMITTEE

Since the Company is legally controlled by a single shareholder, a Nominations Committee has not been set up within the Board of Directors.

8. COMPENSATION COMMITTEE

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

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

In 2010, the Committee held five meetings – with an average duration of an hour and fifty minutes – to prepare a management incentive plan (i.e.: MBO 2010). For details, please see section 9 on Director Compensation.
In 2011, it has already held three meetings, whose purpose was the achievement of 2010 objectives and the definition, still in progress, of MBO 2011.
In the period covered by this report, the Committee had full access to the information necessary to carry out its duties.
Minutes were regularly kept of the Compensation Committee meetings.

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

Functions of the Compensation Committee

The Company Corporate Governance Manual envisages that the Compensation Committee is responsible for:

- making proposals to the Board of Directors, in the absence of the persons directly concerned, for compensation of the CEO and directors holding specific positions, monitoring application of the decisions taken by the Board. Specifically in regard to the portion of compensation tied to the Company's operating results, the relevant recommendations are accompanied by suggestions for the associated targets and evaluation criteria, in order to align the compensation of the CEO and directors holding specific positions with the shareholders' medium-long term interests and the growth targets set by the Board of Directors;
- evaluating the criteria for compensation of executives with strategic responsibilities, overseeing their proper application (on the basis of information provided by the CEO) and making general recommendations on the subject to the Board.

The Board of Directors has established a Euro 25,000 expense account so that the Compensation Committee could fulfil its duties. These provisions were not used in 2010.

9. DIRECTORS' COMPENSATION

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

For 2010, the Board of Directors, on the proposal of the Compensation Committee, approved a variable incentive plan (MBO – Management by Objectives) for 23 people (executive directors, managers and other important Group employees).
For 2010, this plan envisages the allocation of bonuses for the achievement of EBIT targets and individual objectives (quantifiable and measurable) defined by the CEO, up to a maximum of 25% of the fixed component of each party.

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

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

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

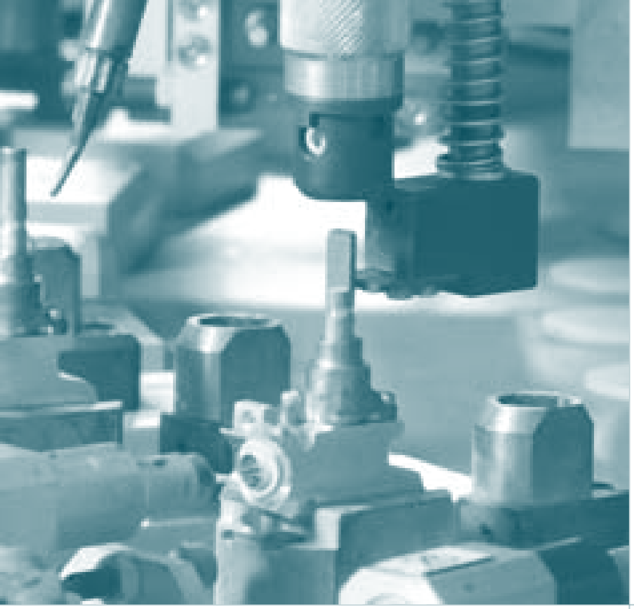
The incentive plan for 2011 is still being defined.
The Compensation Committee is also assessing the impact of the new article 7 of the Borsa Italiana Corporate Governance Code on Sabaf, a company listed on the STAR segment.

COMPENSATION RECEIVED BY DIRECTORS DURING THE 2010 FINANCIAL YEAR, FOR ANY REASON AND IN ANY FORM, INCLUDING FROM SUBSIDIARIES.

(in thousands of Euro)

Name	Compensation		Non-monetary benefits	Bonuses and other incentives [3]	Other compensation	Total
	Fixed compensation	Presence				
Saleri Giuseppe	120		-	-	8[4]	128
Saleri Gianbattista	100		-	-	-	100
Saleri Ettore	100		-	-	8[4]	108
Bettinzoli Angelo	340		-	85	10[4]	435
Bartoli Alberto	18		-	37	157[5]	212
Cossu Leonardo	15	14	-	-	-	29
Bragantini Salvatore	15	10	-	-	-	25
Cavalli Giuseppe	6	12	-	-	-	18
Gardoni Fausto	6	14	-	-	-	20
Gitti Gregorio	15	4	-	-	-	19
Pasotti Flavio	6	10	-	-	-	16

3) Bonuses will be paid out in 2011 and 2012.
4) Relative to positions held in subsidiaries.
5) Of which Euro 5,000 relates to positions held in subsidiaries.



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

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

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

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

No agreements have been made between the Company and directors that envisage termination benefits in the event of resignation or termination/dismissal without cause or if the employment relationship is terminated following a public offer to buy shares.

10. INTERNAL CONTROL AND AUDIT COMMITTEE

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

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

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

The Internal Control & Audit Committee has three non-executive members, a majority of whom are independent. All members of the Committee have adequate experience in accounting, financial and legal matters, as confirmed by the Board of Directors upon their appointment.

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

DUTIES ASSIGNED TO THE INTERNAL CONTROL AND AUDIT COMMITTEE

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

- assist the Board of Directors in carrying out the duties delegated to it by the Code in regard to internal control;
- together with the Financial Reporting Officer and the independent auditors, verify whether uniform accounting standards and policies are properly applied in preparation of the consolidated financial statements;
- on request by the CEO, issue opinions on specific aspects concerning identification of the principal business risks as well as the design, implementation and management of the internal control system;al Controllo Interno, nonché le relazioni periodiche da esso predisposte;
- examine the work plan and periodic reports prepared by the Chief Internal Auditor;
- assess the work plan prepared by external auditor, and the results illustrated in the report and any letter of suggestions;
- on request by the Board of Directors, issue opinions prior to and regarding transactions with related parties or in which a director might have an interest, either on his own account or that of others;
- perform any other tasks that are assigned to it by the Board of Directors;
- report on its activity and the adequacy of the internal control system to the Board of Directors at least once every six months, upon approval of the annual accounts and half-year reports.

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

In 2010 the Committee:

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

Minutes were regularly kept of the Internal Control and Audit Committee meetings.

The Internal Control and Audit Committee may access corporate records and functions as necessary to discharge its duties, as well as avail itself of outside consultants in accordance with the terms and conditions established by the Board of Directors.

The Internal Control and Audit Committee has an expense account of Euro 30,000 allocated by the Board of Directors to cover the costs of fulfilling its duties. These provisions were not used in 2010.

11. INTERNAL CONTROL SYSTEM

The Board of Directors has defined the guidelines for the internal control system in the Corporate Governance Manual. Their purpose is proper identification and adequate measurement, management and monitoring of the principal risks faced by the Issuer.

The internal control system of the Company and its strategic subsidiaries (with these being construed as the subsidiaries representing at least 25% of the total assets or shareholders' equity or the pre-tax profit of the Group, as well as those subsidiaries identified by the Directors, that, even if they fall below these levels, contribute to development and fulfilment of Group policies and strategic plans) is comprised by the set of rules, procedures and organisational structures designed to ensure achievement of the following objectives with reasonable certainty:

- adequate controls of business risks;
- effective and efficient company operating processes;
- protection of corporate assets;
- complete, reliable and prompt accounting and management information;
- compliance of corporate conduct with laws, regulations, directives and corporate procedures.

The fundamental components of the Sabaf internal control system are based on:

- the organisation of the internal control system, consisting in the set of participants assigned different roles and responsibilities (as specified hereunder);
- the procedures and mechanisms for materially implementing the principles of control, as reflected in the documentation that is constantly produced and updated by the Company in defining the rules of conduct and the delegation of duties and responsibilities.

These include:
- the Charter of Values;
- the measures regarding the corporate and organisa-

tional structure and associated delegations of authority;
- the mechanisms for segregation of functions in the organisation (which are also reflected in the company information systems), designed to avoid excessive concentration of decision-making/authorisation, implementation/execution, accounting and audit/control powers and functions in the organisation;
- the policies for development and professional growth of human resources;
- the systems for defining business objectives and auditing and monitoring business performance;
- the operating and financial reporting systems, as well as internal and external communication systems;
- the body of company procedures, including those envisaged in the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 and those established pursuant to Law 262/2005 in regard to the administrative and accounting procedures for preparation of financial statements;
- the processes of continuous auditing and monitoring carried out at the various levels of the organisation, both within the scope of business processes and through independent structures.

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

A Guideline for implementation of the Corporate Governance Manual analytically governs the reporting and assessment processes by means of which the Sabaf Board of Directors expresses its judgment on the overall adequacy of the Group's internal control system. The process, which is co-ordinated by the Chief Internal Auditor, involves all members of the company with responsibility for designing, implementing and/or monitoring the Group's internal control system.

In 2010 Sabaf conducted the annual process of identifying and measuring the main corporate risks, in order to update the previous risk assessment and prepare a risk-based Audit Plan for 2011.
In light of the limited structural, organisational and business changes at the Group in 2010, the risk assessment process involved a small number of internal personnel.
As is normal practice, for every risk identified, the potential effects (in terms of impact and probability of occurrence according to a semi-quantitative scale) were assessed, including the related causes, and the mitigation strategies and systems in place were analysed and measured.
Guidelines defining the roles and responsibilities of the risk identification and measurement process, as well as the identification, measurement and analysis methods, were prepared and submitted for approval to the Board of Directors' meeting on 9 February 2011.
For more details on the principal risks revealed by the analysis, see the section of the Report on Operations describing the "principal risks and uncertainties" pursuant to Article 154-bis (5)(e) of the Consolidated Law on Finance and Article 2428 of the Civil Code.

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

Significant events impacting the Organisation, Operation and Control Model

- statutory and regulatory changes;
- Changes to the Bylaws and the Shareholders' Meeting Regulation;
- changes in the composition of the Board of Directors and Board of Statutory Auditors and organisational structure;
- changes in delegations of authority and powers of attorney;
- compliance with Law 262/05 in regard to accounting and corporate documentation;
- Implementation of the new ERP system;
- transactions in derivative financial instruments;
- transactions on own shares;
- transactions with related parties, intercompany transactions and transactions involving potential conflict of interest;
- monitoring of the subsidiaries' internal control systems;
- principal pending litigation;
- situation of delinquent accounts.

Results of audits carried out by internal and external auditors

- Information from the independent auditor;
- results of audits by the Board of Statutory Auditors;
- results of monitoring by the Supervisory Committee;
- results of monitoring by Internal Audit;
- results of independent audits of the quality, environment and social responsibility management systems;
- meetings between the control bodies;
- reports by the head of the prevention and protection service;
- reports by the Financial Reporting Officer.

On the basis of the information and evidence that it has collected, the Board of Directors believes that the internal control system implemented in 2010 was substantially adequate in terms of the size and characteristics of the Group and fit overall for it to realize its business objectives.
This conclusion, which refers to the entire Internal Control System, reflects the limits inherent in all Internal Control Systems. Although it is well-conceived and functions efficiently, the Internal Control System can guarantee the realisation of corporate objectives only with "reasonable certainty".

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

Sabaf considers the internal control system on financial reporting to be an integral part of its own risk management system.
Consequently, since 2008 Sabaf has integrated the activities connected with management of its internal control system on financial reporting with its Internal Audit and Compliance process by (i) preparing an individual Audit Plan, whose test plan is shared and broken down according to specific control objectives (e.g. operating control, compliance with Law 262/2005 and Legislative Decree 231/2001, and the security and profiling of corporate information systems) and (ii) assigning execution of measures to a single structure responsible for reporting on results to the delegated supervisory bodies.
Furthermore, the Company annually carries out a risk assessment, the only one at Group level, by integrating it for the specific aspects connected with individual compliance measures, including those connected with Law 262.

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

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

The Model is complemented by instruments and internal rules (including, for example, the system of delegations of authority and powers of attorney, reporting instructions, supporting information systems, visits to the facilities of Group companies), whereby the parent company guarantees the efficient exchange of data with the subsidiaries.
The Accounting Control Model is based on the following key elements:

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

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

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

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

Sabaf updates its Model to reflect changes in its operations and/or organisation, in relation to the risk assessment results, outcomes of periodic audit activities and other changes in the systems and processes that might be made to the structure.

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

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

The 2010 assessment defined the significant processes, which were subjected during the year to punctual audits in regard to specific control objectives (existence; completeness and accuracy; assessment; rights and obligations; presentation and disclosure).

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

The Chief Internal Auditor submits a detailed annual report to the Internal Control and Audit Committee on the adequacy and effective functioning of the internal control system.
In 2010, this report was submitted to the Internal Control and Audit Committee at the meeting held on 9 February 2011 and, subsequently to the Board of Directors.

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

11.1. DIRECTOR WITH EXECUTIVE AUTHORITY OVER INTERNAL CONTROL SYSTEM

The Board of Directors designated the CEO Angelo Bettinzoli as the director with executive responsibility for monitoring the functioning of the internal control system.

Within the scope of the responsibilities delegated to him by the Board of Directors, the **Chief Executive Officer** executed the policy and implementation guidelines of the internal control system. This involved:

- planning, implementing and managing the system, constantly monitoring its overall adequacy, effectiveness and efficiency with the support of the Chief Internal Auditor and the Internal Audit function;
- updating the internal control system according to changes in operating conditions and the statutory and regulatory context;
- identifying principal business risks, which are periodically submitted for review by the Board of Directors;
- proposing the appointment, dismissal and compensation of one or more Chief Internal Auditors.

11.2. CHIEF INTERNAL AUDITOR

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

In carrying out his duties, the Chief Internal Auditor reports directly to the Chief Executive Officer and reports at least once every six months on his activities to the Internal Control and Audit Committee and the Board of Statutory Auditors. Dr Beschi is also the Investor Relations Manager in the Administration and Finance Department.

The Chief Internal Auditor:

- had direct access to all information useful for performance of his assigned duties;
- reported on his activities to the Internal Control and Audit Committee (four times in 2010 alone) and the Board of Statutory Auditors;
- also reported on his activities to the director with executive authority for monitoring the functioning of the internal control system.

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

In 2010 the Chief Internal Auditor:

- assisted the CEO and department heads in planning, managing and monitoring the internal control system;
- planned audits of the adequacy and functioning of the internal control system carried out by the Internal Audit Department;
- actively participated in the annual risk assessment;
- verified compliance with the procedures implemented for management of material risks;
- co-ordinated and encouraged the exchange of information between the supervisory bodies;
- reported on his activities and their results to Internal Control and Audit Committee and the Board of Statutory Auditors;
- co-ordinated the process of collecting and analysing information of relevance to assessment of the internal control system.

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

11.3. ORGANISATION, OPERATION AND CONTROL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

Sabaf S.p.A. adopted the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 (also referred to hereinafter as the "Model") in 2006. The Model is designed to prevent the possibility that criminal offences falling under the scope of Legislative Decree 231/2001 are committed. This decree envisages the administrative liability of the Company in the case of certain types of criminal offences committed by employees or outside staff in the Company's interest.

By adopting the Model, Sabaf S.p.A. set itself the objective of acquiring a series of general rules of conduct and protocols that, in accordance with the system of assigning functions and delegating authority, as well as internal procedures, would address the purposes and obligations imposed by Legislative Decree 231/2001, as amended, both for preventing criminal offences and administrative infractions and for controlling implementation of the Model and the levying of any penalties.

The Organisation, Operation and Control Model consists of a **General Part**, which describes its basic principles and the aims of Sabaf S.p.A. wishes to achieve by adopting it, and **a series of Special Parts** that identify and regulate the specific conduct to be maintained in the areas of Sabaf S.p.A. that are prone to the risk of commission of the different types of administrative offences.
In defining the Model, Sabaf S.p.A. analysed the business activities, the decision-making and implementation processes in individual business units and the internal control systems.

The following risk-prone areas were identified at the end of this analysis:

- relations with the Public Administrative regarding the normal performance of business activities (e.g. management of inspections by public officials) and activities instrumental to the realisation of administrative infractions (e.g. management of financial flows);
- preparation of financial and operating data for subsequent publication;
- relations with the Board of Statutory Auditors and the independent auditor;
- management, distribution and notification of confidential and privileged information outside the Company;
- management of the occupational health and safety system;
- management of product and process innovations and the use of commercial trademarks and names.

In regard to this potential risk profile, Sabaf S.p.A. decided to regulate the processes in regard to the following specific types of criminal offences and infractions envisaged in Legislative Decree 231/2001: Articles 24 and 25 thereof (criminal offences against the Public Administration), Article 25 ter (white-collar crime), Article 26 sexies (market abuse), Article 25 septies (negligent homicide and serious or extremely serious personal injuries committed with violation of occupational health and safety laws) and Article 25 bis (counterfeiting currency, securities and revenue stamps).

The Model also envisages the mandatory creation of a Supervisory Committee (SC), which is responsible for assessing the adequacy of the Model (i.e. its real ability to prevent offences); supervising application and compliance with the Model by means of ongoing audits; auditing individual acts, compliance with adopted protocols, the level of familiarity with the Model in the organization, and specific reports of infractions; updating the Model. The Model envisages that the SC have at least two members, with general legal and labour law, accounting, inspection and internal audit expertise. At least one of the members of the Supervisory Committee must be selected from within the Company (namely, the Chief Internal Auditor), while at least one must be independent of the Company, be particularly qualified and have experience in the sector in which Sabaf S.p.A. operates.

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

Through the Internal Audit function and in accordance with its own Audit Plan, the Supervisory Committee audited the actual application and knowledge of control and conduct rules.

During the period, the Committee, which met eight times:

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

The General Part of the Model, in the last version approved by the Board of Directors on 21 September 2010, is available on the Company website at the following address:
http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/corporateGovernance/documentiSocietari/modcon.pdf.

11.4. INDEPENDENT AUDITOR

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

During 2010, this independent auditor met with the other supervisory bodies of Sabaf on two occasions (on 9 March and 20 July). Minutes of both these meetings were prepared by the Chief Internal Auditor, who acted as secretary.

11.5. FINANCIAL REPORTING OFFICER

Sabaf S.p.A. specifically amended its Bylaws by introducing the position of Financial Reporting Officer in its Corporate Governance model, pursuant to the provisions of Article 154-bis TUF, introduced in turn by Law 262/2005 (as amended). This amendment to the Bylaws was made upon resolution by the Shareholders' Meeting, on 2 August 2007. On the same date, the Board of Directors appointed the Financial Reporting Officer, who is Dr Alberto Bartoli, Chief Financial Officer.

The Bylaws envisage that the Financial Reporting Officer must satisfy legal requirements and – in any event – have specific expertise in a) accounting and financial reporting and b) management and control of the associated procedures, as well as c) at least three years of qualified experience in administration and control, or carrying out executive or consulting functions at listed and/or associated groups of companies, or of companies, entities and enterprises with significant dimensions and importance, including in regard to preparation and auditing of accounts and corporate documents. The Board of Directors appoints and dismisses the Financial Reporting Officer after receiving the mandatory but non-binding opinion of the Board of Statutory Auditors.

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

- have direct contact with the independent auditor, the Internal Control and Audit Committee and the Board of Statutory Auditors;
- acquire, control and verify information and news at all equivalent or higher hierarchical levels, including at lower hierarchical levels that do not depend on the executive himself; the same powers may also be exercised vis-à-vis the subsidiaries and corporate hierarchies of the consolidated companies;
- use internal communication channels that ensure adequate intercompany information flows;
- have authority to propose/assess all procedures adopted inside the Company;
- set up administrative and accounting procedures;
- acquire control and management tools, including information systems (both hardware and software) within the annual spending limit of Euro 25,000;
- avvalersi di consulenza specialistica esterna per affrontare temi particolari, conferendo incarichi professionali nel limite di spesa di euro 50.000 annui;
- impiegare la funzione di Internal Audit ai fini della legge 262;
- participate at conferences, training courses and continuing education seminars;
- convene Company personnel at his discretion in order to update, train and make them aware of their obligations.

The Company has defined the roles and responsibilities of the persons who are variously involved in the process of preparing and auditing Group financial disclosures and the characteristics and operating procedures for management of the administrative and accounting control system. In this regard, during 2010, the Company: (i) updated certain administrative procedures to take effective operation of the Company into account and; (ii) performed, through the Internal Audit function, audits on the effective application of existing procedures.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

In compliance with the CONSOB Regulation issued with resolution 17221 on Transactions with Related Parties, on 9 November 2010, the Sabaf Board of Directors adopted the "procedure for regulating related-party transactions".
This procedure, published – as required by the Regulation – on the Issuer's website and subject to the favourable opinion of the Related Parties Committee appointed for this purpose, and of the Board of Statutory Auditors, is intended to ensure the substantive and procedural transparency and completeness of transactions with related parties.
Specifically, the procedure adopted by Sabaf:

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

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

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

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

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

- if the transaction is subject to approval by the Board of Directors, the director with an interest must promptly and fully inform the Board of Directors before the discussion begins at the Board of Directors meeting, specifying the nature, terms, origin and scope of the underlying interest (even if it is potential or on behalf of third parties), and he must leave the Board of Directors meeting for the duration of discussion and resolution thereon;
- if the transaction falls within the scope of the powers of the CEO and if he has an interest therein, he must refrain from executing the transaction by submitting it for approval to the Sabaf Board of Directors.

In both of the foregoing cases, the Board of Directors resolution must contain adequate justification of the reasons why the Company should carry out the transaction and what benefits it would realise therefrom.

13. APPOINTMENT OF STATUTORY AUDITORS

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

The Board of Statutory Auditors is appointed on the basis of lists presented by those holding voting rights in which candidates are listed by means of a sequential number.
The list consists of two sections: one for candidates for office as standing statutory auditors and the other for candidates for office as alternate statutory auditors.

Only those holding voting rights who, alone or together with others, are owners of shares with voting rights accounting for at least 2.5 percent of capital with voting rights for resolutions relating to the appointment of members of the governing and control bodies, or such other holding as may be established for the submission of lists for the appointment of members of the Board of Directors, may submit lists.
Each holder of voting rights, as well as shareholders forming part of a group as defined by Article 2359 of the Italian Civil Code, or shareholders who enter into a shareholders' agreement relating to the company's shares, cannot present – not even via interposed persons or trustee companies – more than one list and cannot vote for several lists.
A candidate may be presented in only one list, failing which s/he shall be disqualified. Outgoing statutory auditors can be re-elected.
The lists presented must be lodged at the company's registered HQ and made available to the public at the company's registered HQ and on the Company's website, pursuant to the terms and in compliance with the provisions of applicable primary and secondary laws and regulations, and this will be mentioned in the announcement. The lists shall by accompanied by:

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

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

- two statutory auditors and an alternate auditor are elected from the list that received the greatest absolute number of votes at the Shareholders' Meeting, and they are chosen according to the progressive order in which they are indicated on the relevant section of the list;
- from the list obtaining the highest number of votes at the Shareholders' meeting, among those submitted and

voted on by holders of voting rights not connected with the majority shareholders as defined in the applicable legislation, the remaining standing auditors and the other alternate auditor are taken according to the sequential order in which they appear on the list.

If it is not possible to proceed, either totally or partly, with appointments according to the above procedure, the Shareholders' Meeting decides on the basis of a relative majority.
If the requisites required by regulations and Company Bylaws cease to exist, the statutory auditor concerned lapses from office.
In the case of substitution of a standing statutory auditor, the alternate statutory auditor belonging to the same list as the ex-statutory auditor takes his/her place.

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 28 April 2009, for the period 2009 - 2011.

Two lists were filed by the stipulated deadlines, one by the controlling shareholder "Giuseppe Saleri Società in Accomandita per Azioni" and one by the minority shareholder "Nazionale Fiduciaria SpA," together with all the documentation required pursuant to applicable laws and regulations.
The controlling shareholder submitted a list with the following candidates: (i) Enrico Broli and Renato Camodeca, Statutory Auditors; (ii) Paolo Guidetti and Salvatore Capatori, Alternate Auditors.
The list submitted by the minority shareholder included the following candidates: Alessandro Busi, Chairman, and Riccardo Rizza, Alternate Auditor.

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

The standing members of the Board of Statutory Auditors are chartered accountants. The details of their professional qualifications and backgrounds are found in the curricula vitae available on the Company web site, in the section Investor Relations/Corporate Governance/Management Bodies.
The Board of Statutory Auditors met five times in 2010. These meetings had an average duration of two hours. Five meetings are scheduled for 2011, including one already held on 21 January.

In 2010, the Board of Statutory Auditors assessed the fulfilment of independence requirements of all its members. When it carried out these reviews, it applied all the principles envisaged in the Code regarding the independence of directors.
The Company Corporate Governance Manual envisages that each statutory auditor undertake to disclose promptly and completely to the other statutory auditors and the Chairman of the Board of Directors if he has a direct interest or an interest on behalf of others in a specific transaction involving Sabaf or its subsidiaries. In 2010 there were no situations where the statutory auditors had to make such disclosure.

In 2010 the Board of Statutory Auditors:

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

As stated above, Legislative Decree 39/2010 (Article 19) officially charged the Board of Statutory Auditors with monitoring:
a) the process of financial disclosure;
b) the effectiveness of the systems of internal control, internal audit, if applicable, and risk management;
c) the statutory auditing of the annual and consolidated accounts;
d) the independence of the statutory auditor or the statutory auditing firm, particularly as regards the provision of non-auditing services to the entity subject to statutory account auditing.

6) *Management and control positions at the companies envisaged in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code.*

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

BOARD OF STATUTORY AUDITORS

Position	Members	Term	List	Indep. pursuant to code	% part. B.A. meetings	Number of other positions[6]
Chairman	Alessandro Busi	28/04/2009 April 2012	m	X	100%	4
Statutory Auditor	Enrico Broli	29/04/2009 April 2012	M	X	100%	27
Statutory Auditor	Renato Camodeca	29/04/2009 April 2012	M	X	100%	6
Alternate Auditor	Riccardo Rizza	28/04/2009 April 2012	m	n/a	n/a	n/a
Alternate Auditor	Guidetti Paolo	28/04/2009 April 2012	M	n/a	n/a	n/a

M: Majority List; m: Minotrity Lis

15. SHAREHOLDER RELATIONS

The Company has set up a specific section on its website that is easy to find and access. This section provides information of interest to its shareholders so that they can make informed decisions when exercising their rights.

Gianluca Beschi is Investor Relations Manager. No specific corporate office was set up given the dimensions of the Company and the fact that his functions are performed directly by the Investor Relations Manager.

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

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

The main changes regarding the Bylaws concern:

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

The text of the Shareholders' Meeting Regulation, which governs the orderly proceedings of the Ordinary and Extraordinary Shareholders' Meetings, while simultaneously encouraging participation by shareholders and exercise of their voting rights, was amended to take these regulations into account.
The complete text of the Regulation, the updated version of which was approved on 14 December 2010 by the Shareholders' Meeting, is available on the Company's website, at:
http://www.sabaf.it/opencms/opencms/investor/corporate/documenti_societari.html

The Board of Directors reported to the Shareholders' Meeting on its past and scheduled activities, and it undertook to provide shareholders with adequate information so that they could take informed decisions on the matters to be resolved by the Shareholders' Meeting.

In 2010, no significant changes occurred in the market capitalisation or ownership structure of the Company such as would compel the Board of Directors to consider the possibility of proposing to the Shareholders' Meeting that it amend the Bylaws in regard to the percentages established for taking the actions and exercising the prerogatives envisaged for protection of minority shareholders.

17. OTHER CORPORATE GOVERNANCE PRACTICES

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

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the corporate governance structure between 31 December 2010 and the date of this report.

3

Just as we are responsible for committing good acts, we are also responsible for not committing bad acts.

Aristotle

SOCIAL SUSTAINABILITY

SABAF AND ITS STAFF

COMMITMENTS TO STAFF

To enhance the value of human capital's contribution to decision-making processes, fostering continuous learning, professional growth, and the sharing of knowledge.
To ensure that the employment relationship is based on the parties' equal dignity and on respect for employees' legitimate expectations.
To promote, in all countries where the company operates, respect for the fundamental human rights of workers by application of the principles established in the SA 8000 standard and as regards child labour, forced labour, occupational health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary practices, working hours, and compensation policies.
To value and respect diversity, and to reject all forms of discrimination based on gender, sexual orientation, age, nationality, health, political views, race and religious beliefs in all phases of the employment relationship.
To protect individuals' physical, cultural and moral integrity by ensuring a safe and healthy workplace.
To base employment relationships on merit and skill, exercising authority with fairness.
To avoid all forms of staff bullying.
To foster dialogue in support of decision-making processes, in keeping with employees' skills and responsibilities. To encourage teamwork and the spread of creativity, in order to permit the full expression of individual potential, in line with company objectives.
To adopt a two-way communication system that fosters dialogue and encourages employees to express their opinions and/or any concerns in an untroubled manner.
To provide clear and transparent information on the duties to be performed and on the position held, and also about the company's performance and market trends.
To aid creation of a working atmosphere based on mutual respect and on clear and transparent communication, via a calm and clear exchange of opinions without the use of offensive language.
To avoid all forms of discrimination and favouritism in recruitment and hiring; candidates are selected who best match the company's needs.

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 2010, when auditors collected evidence of the company's commitment to supporting the Social Accountability System. During the first audit, a minor non-conformity was identified relating to the inefficiency of staff training programmes compared with SA8000. The non-conformity was resolved during the year, and no non-conformity was identified in the second audit.

HIRING POLICY, COMPOSITION AND CHANGES IN EMPLOYEES

As at 31 December 2010 the Sabaf Group had 703 employees, compared with 673 at 2009 year-end (+4.5%).

BREAKDOWN OF GROUP STAFF BY COMPANY

2010

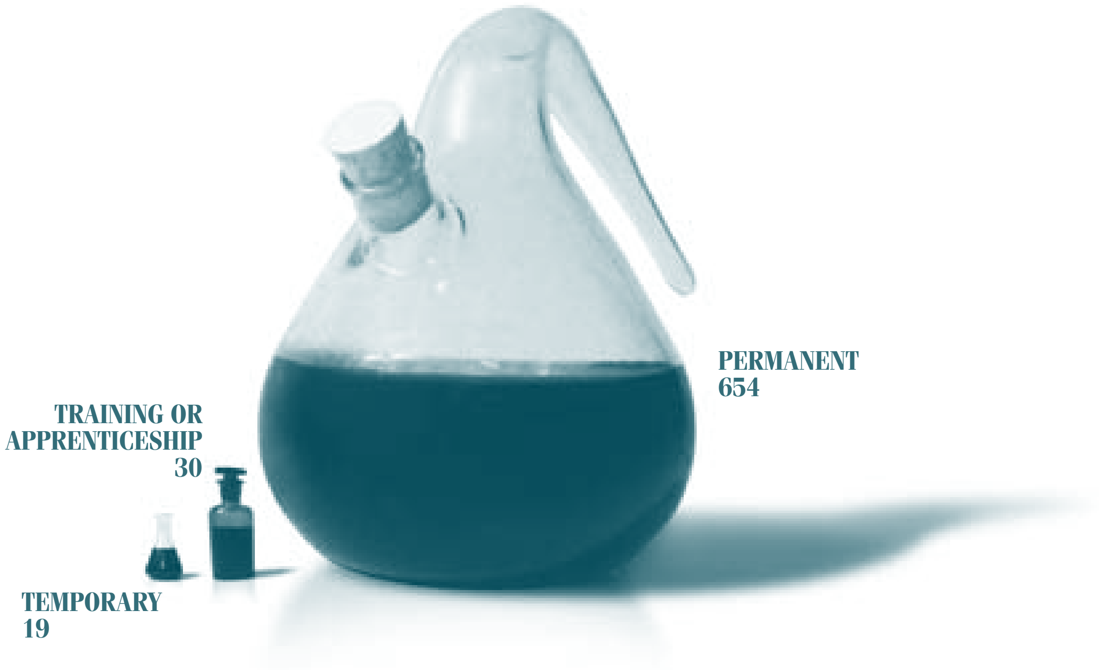
2008

2009

As regards basic types of employment contracts, 654 employees (93.0%) had permanent contracts, 30 (4.3%) had training or apprenticeship contracts, and 19 (2.7%) had temporary contracts. The recovery in manufacturing has led to an expansion in the Group's workforce, reversing a trend that saw this temporarily contract in 2009. The increase in the number of staff almost exclusively concerned the parent company.

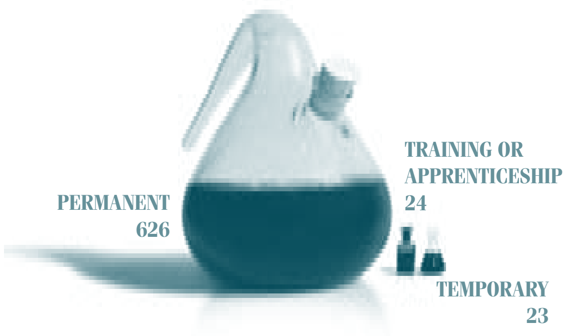
BREAKDOWN OF SABAF GROUP STAFF BY CONTRACT TYPE

2010



2008

2009



The Sabaf Group uses employment agency staff for the purposes allowed under the applicable laws and regulations. The number of temporary staff remained relatively stable in 2010.

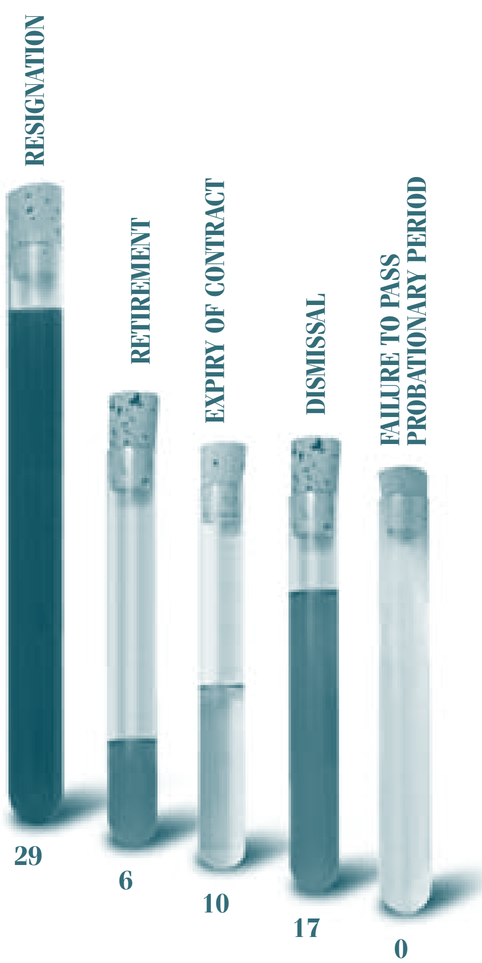
During 2010 Sabaf Group companies hired 44 ex-temporary workers on a permanent basis (22 in 2009).

In 2010 Sabaf offered work placements to 13 students (6 in 2009) from high schools in the Brescia region. The students spent a week doing work experience with the company, developing their knowledge of the mechanical engineering sector.

TEMPORARY STAFF [ON AN EMPLOYMENT AGENCY CONTRACT]

TEMPORARY STAFF	2010	2009	2008
January	86	3	140
February	100	2	147
March	94	2	134
April	85	1	139
May	76	40	134
June	76	95	168
July	87	119	168
August	91	113	161
September	93	151	162
October	98	150	160
November	77	121	129
December	70	105	43
ANNUAL AVERAGE	**86**	**75**	**140**

REASONS FOR TERMINATION OF EMPLOYMENT IN 2010



Staff turnover remained extremely high at Sabaf do Brasil in 2010, largely due to the high demand for labour in the Jundiaì area, which is undergoing major industrial development. The initiatives taken in 2010, including the review of compensation policies, have only partly attenuated the phenomenon, the solution of which is now a priority for Sabaf do Brasil. New measures to retain talent are therefore planned for 2011.

STAFF TURNOVER IN 2010

SABAF S.P.A.

	31/12/09	New hires	Departures	Change in category	31/12/10
Senior management	7	0	0	1	8
Clerical staff and middle management	111	3	5	5	114
Manual workers	446	44	13	-6	471
TOTAL	**564**	**47**	**18**	**0**	**593**

FARINGOSI HINGES S.R.L.

	31/12/09	New hires	Departures	31/12/10
Senior management	1	0	0	1
Clerical staff and middle management	17	0	0	17
Manual workers	35	2	2	35
TOTAL	**53**	**2**	**2**	**53**

SABAF DO BRASIL LTDA

	31/12/09	New hires	Departures	Change in category	31/12/10
Senior management	1	0	0	1	2
Clerical staff and middle management	12	5	2	-1	14
Manual workers	43	38	40	0	41
TOTAL	**56**	**43**	**42**	**0**	**57**

GROUP TOTAL

	31/12/09	New hires	Departures	Change in category	31/12/10
Senior management	9	0	0	2	11
Clerical staff and middle management	140	8	7	4	145
Manual workers	524	84	55	-6	547
TOTAL	**673**	**92**	**62**	**0**	**703**

NEW HIRES BY CATEGORY AND GENDER

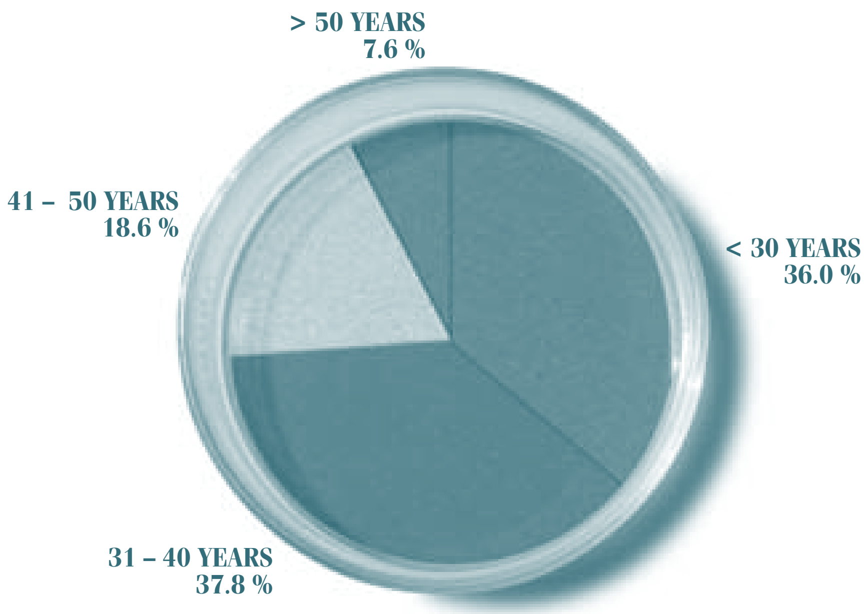
Description	**2010**			**2009**		
	M	F	**Total**	M	F	**Total**
Senior management	0	0	**0**	0	0	**0**
Clerical staff and middle management	3	4	**7**	2	3	**5**
Manual workers	68	17	**85**	52	7	**59**

REDUNDANCIES BY AGE BRACKET AND GENDER

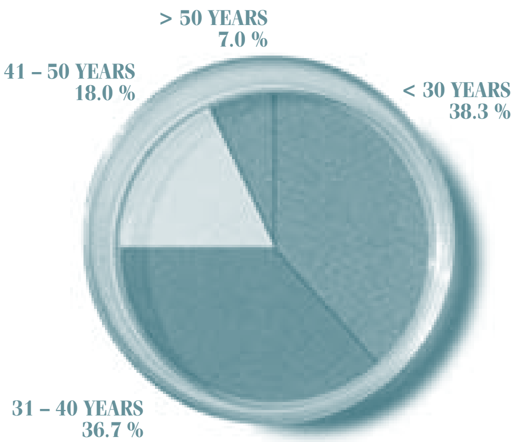
Description	**2010**			**2009**		
	M	F	**Total**	M	F	**Total**
< 20 years	7	0	**7**	17	0	**17**
20-30 years	19	6	**25**	22	15	**37**
30-40 years	14	4	**18**	19	6	**25**
40-50 years	5	1	**6**	5	1	**6**
> 50 years	4	2	**6**	3	0	**3**

BREAKDOWN OF EMPLOYEES BY AGE

2010



2009

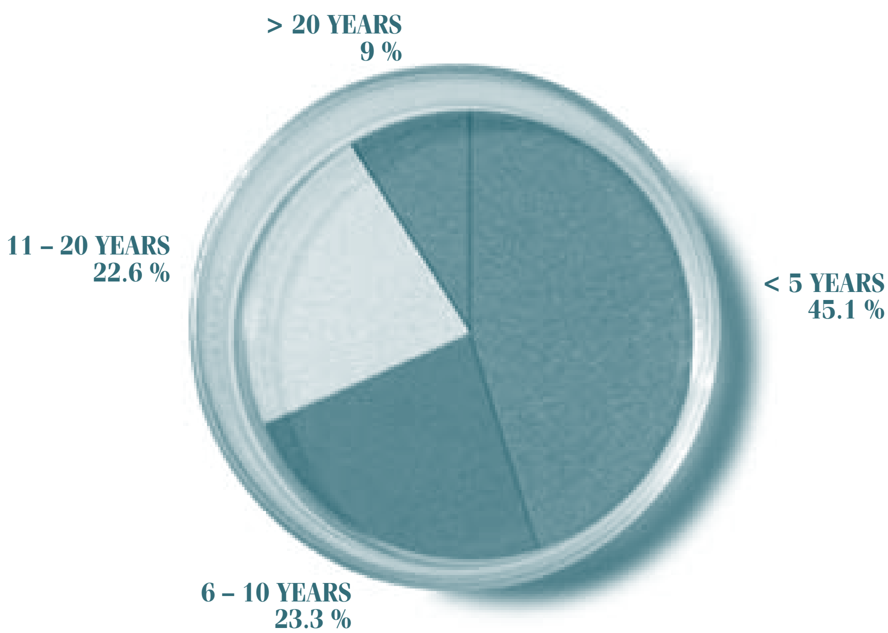


The average age of Group employees (35 years) reflects the continuous expansion of the business and the desire to hire young workers, giving preference to in-house training and development rather than bringing in outside skills, particularly in view of the specific nature of Sabaf's business model.

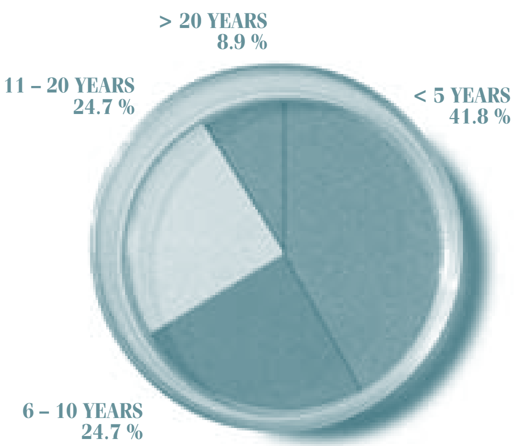
The minimum age of Group employees is 18 in Italy and 16 in Brazil.

BREAKDOWN OF EMPLOYEES BY SENIORITY

2010



2009



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

	2010			2009		
AREA	M	F	TOT	M	F	TOT
Production	272	170	442	313	165	478
Quality	42	32	74	36	28	64
Research & development	78	3	81	34	2	36
Logistics	21	1	22	21	2	23
Administration	13	16	29	9	19	28
Sales	9	11	20	12	11	23
Services	16	12	28	5	10	15
Procurement	3	4	7	2	4	6
TOTAL	**454**	**249**	**703**	**432**	**241**	**673**

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	2010				2009			
	MEN	WOMEN	TOTAL		MEN	WOMEN	TOTAL	
University degree	30	10	40	5.7%	33	9	42	6.2%
High school diploma	219	88	307	43.7%	212	80	292	43.4%
Middle school diploma	196	142	338	48.1%	178	143	321	47.7%
Primary school certificate	9	9	18	2.6%	9	9	18	2.7%
TOTAL	**454**	**249**	**703**	**100%**	**432**	**241**	**673**	**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.

	2010			2009		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Training for new recruits, apprentices, initial employment contracts	3,262	1,005	4,267	3,684	2,077	5,761
Information systems	195	86	281	677	433	1,110
Technical training	954	125	1,079	1,208	102	1,310
Safety, environment and social responsibility	1,029	535	1,564	1,410	274	1,684
Administration & organisation	377	395	772	690	480	1,170
Foreign languages	561	156	717	156	49	205
Total hours of training received	**6,378**	**2,302**	**8,680**	**7,825**	**3,415**	**11,240**
Of which: training hours provided by in-house trainers	9,638	3,409	13,047	10,503	1,580	12,083
TOTAL	**16,016**	**5,711**	**21,727**	**18,328**	**4,995**	**23,323**

In 2010, a decision was taken to encourage language training in view of the Group's growing international presence. Conversely, the fall in the number of hours of IT training compared with 2009 was due to the fact that the SAP management system, introduced at Sabaf S.p.A. in early 2009, is now fully operational. The training hours provided by in-house trainers also include the training given to employment agency staff (10,177 hours in 2010).

In 2010 the total cost of training Group employees – excluding the hours provided by in-house trainers – was about euro 384,000 (about euro 505,000 in 2009).

PER CAPITA HOURS OF TRAINING RECEIVED BY JOB CATEGORY

2010

2009

INTERNAL COMMUNICATION

Predominantly 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.

Bulletin boards have been set up in different areas of the plant to display information on cultural and social events and staff discounts and special-rate schemes, in addition to organisational and trade-union news and press releases.

DIVERSITY AND EQUAL OPPORTUNITIES

Sabaf is permanently committed to ensuring equal opportunities for female staff, who today account for 35.4% of the workforce (35.8% in 2009).

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 2010 – as in 2009 – the Sabaf Group granted a total of 38 part-time contracts (four to female clerical staff, 32 to female manual workers and two to male manual workers) for 5.4% of the workforce.

PERCENTAGE DISTRIBUTION OF EMPLOYMENT BY GENDER

	2010		2009		BENCHMARK[3]
	Number	%	Number	%	%
Men	454	64.6	432	64.2	82.7
Women	249	35.4	241	35.8	17.3
TOTAL	**703**	**100**	**673**	**100**	**-**

A comparison of Sabaf's percentage breakdown of employment by gender with the average for Italian metalworking and engineering companies shows that, in this sector, Sabaf has the highest percentage of female staff.

BREAKDOWN BY CATEGORY

Category		2010	2009
MANUAL WORKERS AND SIMILAR	MEN	347	332
	WOMEN	200	200
CLERICAL STAFF AND MIDDLE MANAGEMENT	MEN	96	91
	WOMEN	49	41
SENIOR MANAGEMENT	MEN	11	9
	WOMEN	0	0
TOTAL		**703**	**673**

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

NON-EU WORKERS[4]

	2010	2009	BENCHMARK[5]
Non-EU workers	64[6]	63	
% of total employees	10.22%	10.21%	2.77%

The Sabaf Group has 21 disabled employees, seven of them part-time. For Sabaf, hiring people with disabilities each year is not merely a question of legal compliance, but of wanting to facilitate their integration within the manufacturing process. Sabaf S.p.A. and Collocamento Mirato have signed an agreement for an employment scheme involving the gradual integration of workers with disabilities.

3) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Worker breakdown by gender (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Distribuzione dell'occupazione per sesso (2008)], http://www.federmeccanica.it
4) Figures refer to Italian companies only. Sabaf do Brasil is not included.
5) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Non-EU workers (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Lavoratori extracomunitari (2008)], http://www.federmeccanica.it
6) At 31 December 2010, 15 different nationalities were represented on Sabaf's workforce.

COMPENSATION, INCENTIVE AND PROMOTION SYSTEMS

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

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

In addition, a specific bonus is envisaged for employees hired under training and apprenticeship contracts.
Please see the notes to the consolidated financial statements for an analysis of payroll costs.

Besides financial incentives – e.g. individual pay rises, loan and personal finance guarantees issued by the company for employees, sale or rental of apartments at cost price, and company discounts on goods and services – Sabaf's incentive system also includes the option of taking part in free training courses held on or off-site.

The types of welfare benefits available to Group employees are those envisaged by the statutory legislation in force in the various countries in which the Group operates.

RATIO BETWEEN THE MINIMUM MONTHLY SALARY ENVISAGED BY NATIONAL COLLECTIVE AGREEMENTS AND THE MINIMUM SALARY PAID BY GROUP COMPANIES

	Minimum salary as per national collective agreement	Minimum salary paid	% increase over minimum
Italy[7]	1,410	1,438	+2.0%
Brazil (BRL)	804	885	+10.0%

RATIO BETWEEN AVERAGE SALARY OF FEMALE EMPLOYEES AND AVERAGE SALARY OF MALE EMPLOYEES

	2010	2009
Clerical staff, middle management and senior management	64%	60%
Manual workers	95%	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

	2010		2009		BENCHMARK[8]	
	Clerical staff	Manual workers	Clerical staff	Manual workers	Clerical staff	Manual workers
Average number of workers per month who worked overtime	79	216	71	140		
Number of hours of overtime	11,888	25,024	8,895	17,328		
Annual hours of overtime per capita[9]	82	47	67	33	69	74

The demand for overtime increased in 2010 following an upturn in activity. This figure does not differ significantly from the benchmark.

HOURS OF ABSENCE

	2010	2009	BENCHMARK[10]
Total annual hours of absence	70,780	74,696	
Hours of absence as % of workable hours	5.2%	5.6%	
Average hours of absence per capita	102.8	111.3	125

HOURS OF SICK LEAVE

	2010	2009	BENCHMARK[11]
Total annual hours of sick leave	38,236	37,485	
Hours of sick leave as % of workable hours	2.8%	2.8%	
Per capita hours of sick leave	55.4	55.8	65.3

7) Gross salary of a manual worker/grade 3 clerical employee
8) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita overtime hours (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di lavoro straordinario (2008)], http://www.federmeccanica.it
9) Calculated on the average number of employees
10)FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita hours of absence from work (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di assenza dal lavoro (2008)], http://www.federmeccanica.it
11) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita hours of absence from work (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di assenza dal lavoro (2008)], http://www.federmeccanica.it

HOURS OF MATERNITY LEAVE

	2010	2009	BENCHMARK[12]
Total annual hours of maternity leave	30,246	27,884	
Hours of maternity leave as % of workable hours	2.2%	2.1%	
Per capita hours of maternity leave	43.8	41.5	18.2

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

RECOURSE TO THE GOVERNMENT'S STATUTORY REDUNDANCY PAY SCHEME [CASSA INTEGRAZIONE GUADAGNI ORDINARIA]

	2010	2009
Number of hours of statutory redundancy pay	0	43,218
Annual average number of hours per capita	0	76.02

The rise in production, which has returned to satisfactory levels, obviated the need for any recourse to the statutory redundancy pay scheme, used by the Group in 2008 and 2009 at the height of the crisis.

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).

NUMBER AND DURATION OF ACCIDENTS

	2010	2009	BENCHMARK[13]
On-site accidents	22	30	
Off-site accidents	3	0	
Average absence due to on-site accidents (days)	12.9	18.2	
Average absence due to off-site accidents (days)	38	0	
Total days of absence due to accidents	2,332	3,637	
Per capita hours of absence due to accidents	3.38	5.43	8.1

ACCIDENT FREQUENCY INDEX

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

	2010	2009
Index	19.43	29.41

ACCIDENT SEVERITY INDEX

Days of absence due to accidents (excluding off-site accidents) per 1,000,000 hours worked

	2010	2009
Index	0.25	0.54

No serious accidents occurred in 2010. 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 2010, 2,366 medical check-ups were performed (2,283 in 2009).

12) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita hours of absence from work (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di assenza dal lavoro (2008)], http://www.federmeccanica.it

13) FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita hours of absence from work (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di assenza dal lavoro (2008)], http://www.federmeccanica.it

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 2010, 156 Group employees were card-carrying members, i.e. 22.2% of the total workforce (in 2009 124 employees were card-carrying members, equivalent to 22.0% of the total).

Relations between senior management and trade union representatives are based on mutual transparency and fairness. During the year, there were 21 meetings at Sabaf S.p.A. between management and trade union representatives. The main issues addressed were:
- negotiations for the supplemental company agreement;
- 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;
- the change in payment terms for monthly pay and the corresponding interim payments.

The hours spent taking part in trade union activities in 2010 were equivalent to 0.95% of workable hours.

SUPPLEMENTAL COMPANY AGREEMENT

In November 2010, following complex negotiations, an agreement was reached between Sabaf S.p.A. and trade union representatives for an additional company agreement to be signed for the period 2009-2012.
The key features of the supplemental agreement are:

- a commitment by the company towards the environment and safety;
- a commitment by the company to inform employees about proposed future investments;
- information on staff training policies;
- a salary increase of euro1,482, which includes the increase in the fixed performance-related bonus, consolidation of part of the variable performance-related bonus for previous years and an increase in the personal bonus, to be the same for all employees;
- a freeze on staff canteen costs until 2012;
- an increase in night work from 35% to 36% (37.5% for the foundry);
- a commitment to defining a personal holiday schedule.

14)FEDERMECCANICA, The metalworking industry in figures (June 2010) – Per capita hours of absence from work (2008) [L'industria metalmeccanica in cifre (giugno 2010) – Ore pro-capite di assenza dal lavoro (2008)], http://www.federmeccanica.it

CURRENT EXPENDITURE ON WORKER SAFETY

(amounts in euro‘ 000)

	2010	2009
Plant, equipment and materials	87	44
Personal protective equipment (PPE)	78	78
External training	6	2
Advisory services	21	35
Analyses of workplace environment	0	7
Medical check-ups (including pre-hire check-ups)	36	23
Software and databases	1	1
TOTAL	**229**	**169**

INVESTMENTS IN WORKER SAFETY

(amounts in euro‘ 000)

	2010	2009
Plant, equipment and materials	131	65
TOTAL	**131**	**65**

PARTICIPATION IN TRADE UNION ACTIVITIES

	2010	2009	BENCHMARK[14]
UNION MEETINGS			
Number of hours	2,605	3,228	
As % of workable hours	0.19%	0.24%	
Number of hours per capita	3.8	4.8	
UNION LEAVE OF ABSENCE			
Number of hours	1,831	2,033	
As % of workable hours	0.13%	0.15%	
Number of hours per capita	2.6	3.0	
INDUSTRIAL ACTION			
Number of hours	8,567	6,191	
As % of workable hours	0.62%	0.47%	
Number of hours per capita	12.4	9.2	6.2
TOTAL			
Number of hours	13,003	11,453	
As % of workable hours	0.95%	0.86%	
Number of hours per capita	18.9	17.1	

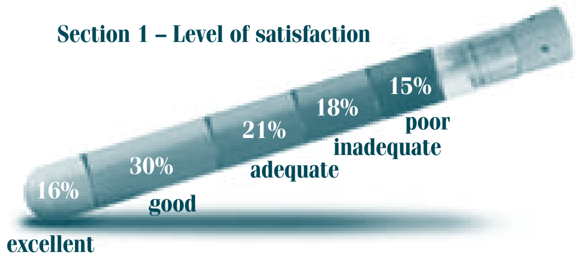
DIALOGUE WITH EMPLOYEES

In February 2011, an analysis of the organisational climate was carried out for the first time at Sabaf do Brasil. This analysis, which forms part of the wider dialogue with Group stakeholders, was particularly aimed at investigating the reasons for the high staff turnover at the Brazilian site in the last two years, despite efforts made to retain staff.
The analysis, coordinated by external consultants to ensure anonymity and therefore complete freedom of expression for employees, involved 44 employees, excluding management. A questionnaire was used which was divided into three sections:
- the first section concerned employee satisfaction;
- the second section concerned the reasons why employees might change jobs;
- the third section consisted of staff suggestions of how to improve the work environment.

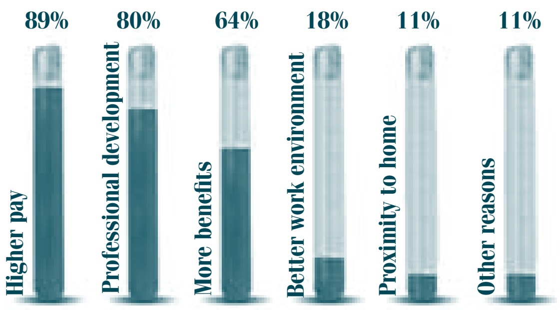
Interviews were then held with five employees chosen from different departments to examine the key points that emerged from the answers to the questionnaire.

The results of the survey are summarised below.

Section 1 – Level of satisfaction



Section 2 – Main reasons why an employee might change jobs



The results of section 3 and individual interviews reinforced what emerged in sections 1 and 2, with negative views expressed over the level of pay and benefits.

SOCIAL ACTIVITIES AND BENEFITS

Sabaf S.p.A. has signed an agreement with a bank for mortgages and consumer loans with particularly advantageous terms, acting as a guarantor for employees: at 31/12/2010, 67 employees had benefited from the agreement, 63 with mortgage loans and four with consumer loans.

The company leased eight apartments to employees near the Ospitaletto site. A new residential complex was built in 2007 with 54 units, which are allocated on a priority basis at preferential rates to employees. Twenty-nine apartments had been sold to employees at the end of December 2010.

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

HOURS OF INDUSTRIAL ACTION AT SABAF SPA

DATE	DECLARED HOURS OF INDUSTRIAL ACTION	REASON	% TURNOUT
12/03/2010	4.0	Article 18 – government national agreement on related work	24.48%
28/05/2010	4.0	CCNL CONFAPI – organised by Fiom	32.70%
25/06/2010	8.0	CCNL UNIONMECCANICA – Miscellaneous	36.68%
09/07/2010	1.0	Supplemental company agreement	40.21%
15/07/2010	1.0	Supplemental company agreement	44.81%
21/07/2010	1.0	Supplemental company agreement	41.87%
30/07/2010	2.0	Supplemental company agreement	41.28%
09/09/2010	1.0	Supplemental company agreement	42.41%
15/09/2010	1.5	Supplemental company agreement	42.21%
17/09/2010	1.0	Supplemental company agreement	40.00%
21/09/2010	1.0	Supplemental company agreement	42.14%
22/09/2010	1.0	Supplemental company agreement	40.50%
23/09/2010	1.0	Supplemental company agreement	41.28%
28/09/2010	1.0	Supplemental company agreement	41.54%
29/09/2010	1.0	Supplemental company agreement	41.54%
30/09/2010	1.0	Supplemental company agreement	39.72%
07/10/2010	1.5	Supplemental company agreement	39.01%
08/10/2010	1.5	Supplemental company agreement	36.54%
14/10/2010	1.5	Supplemental company agreement	36.76%
15/10/2010	1.5	Supplemental company agreement	35.39%
20/10/2010	1.0	Supplemental company agreement	31.73%
19/11/2010	4.0	General provincial strike over the recession	29.49%
TOTAL	**41.5**	**AVERAGE TURNOUT**	**38.35%**

No strikes were called at Faringosi Hinges and Sabaf do Brasil in 2010.

LITIGATION AND DISCIPLINARY MEASURES

During 2010, 95 disciplinary measures were taken against Group employees. These break down as follows:
- 10 verbal warnings
- 10 reminders concerning the use of personal protective equipment
- 37 written warnings
- 33 fines
- 3 suspensions
- 1 dismissal with just cause or legitimate reason
- 1 provisional suspension without pay

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

At 31 December 2010, two lawsuits were pending with former employees.

SABAF AND ITS SHAREHOLDERS

OUR COMMITMENT TO SHAREHOLDERS

- To enhance the value of shareholders' investments by ensuring the company's sustainable growth.
- To announce strategies and policies in a timely, thorough, clear and transparent manner, ensuring equality of information, particularly as regards minority shareholders.
- To guarantee integrity in running the business.
- To comply with Italy's Corporate Governance Code *(Codice di Autodisciplina)* for listed companies.
- To adopt best practice in corporate governance in order to maximise the company's value and reduce business risks.
- To give fair consideration to different shareholder interests in the company.
- To encourage dialogue between shareholders and the Board of Directors.
- To ensure fairness, transparency and the company's best interests in executing transactions with related parties.
- To ensure the utmost transparency in relations with the independent auditors and supervisory authorities.
- To adopt appropriate procedures for the handling of confidential information, particularly price-sensitive information.

SHAREHOLDER BASE

As at 21 March 2011, 1,664 shareholders were listed in the shareholders' register. Of these:

- 1,402 owned fewer than 1,000 shares
- 179 owned from 1,001 to 5,000 shares
- 25 owned from 5,001 to 10,000 shares
- 58 owned over 10,000 shares

23.9% of the share capital is owned by foreign shareholders.

Institutional investors account for a significant percentage of the share capital (over 90% of outstanding stock).

RELATIONS WITH INVESTORS AND FINANCIAL ANALYSTS

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

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

In 2010 the company met with institutional investors at roadshows organised in Milan, London, Edinburgh, Paris, Frankfurt, Copenhagen and Zurich.

DIALOGUE ON GENERAL EQUILIBRIUM

In 2010 Sabaf joined an initiative for dialogue on the general equilibrium within boards of directors and senior management, which Etica SGR is conducting together with other international investors who have signed up to the Principles for Responsible Investment (PRI) and involving a small number of listed companies in Italy.

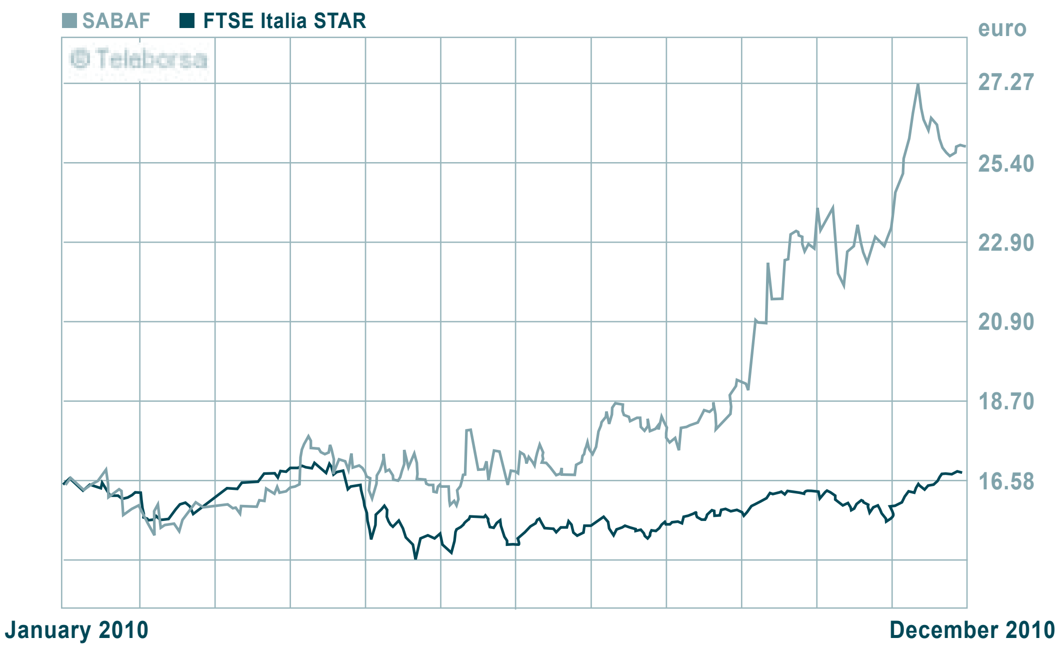
Further information on investor relations can be found in Section 2 on Corporate Governance.

SHAREHOLDER RETURN AND SHARE PERFORMANCE

The dividend policy adopted by Sabaf is designed to guarantee a fair return for shareholders. This is realised in part through the annual dividend, by maintaining a ratio of approximately 50% between dividends and profits.

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

During 2010, Sabaf shares reached their highest official price on 14 December (euro 26.756) and their lowest on 18 February (euro15.264). On 30 December, the official price was euro 25.229. The average daily trading volume was 9,706 shares, equivalent to an average daily value of euro 194,000 (euro 125,000 in 2009).



SOCIALLY RESPONSIBLE INVESTMENTS

Sabaf shareholders also include ethical funds such as Kempen.

LITIGATION

No lawsuits are pending with shareholders.

OUR COMMITMENT TO CUSTOMERS

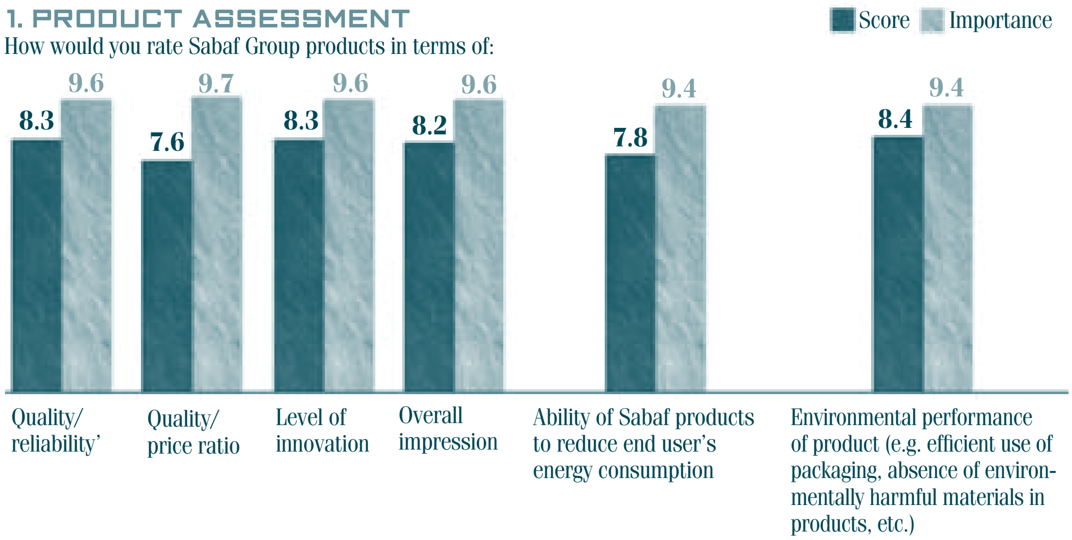
- To act with transparency, integrity and fairness.
- To communicate information on products and services in a clear and transparent manner.
- To act with moral integrity, professionalism and courtesy when dealing with customers.
- To guarantee high standards of quality for the products offered.
- To guarantee high standards of quality for the products offered.
- To work with corporate customers to guarantee the utmost safety for end users of our products.
- To encourage socially responsible actions throughout the entire manufacturing chain.
- To listen to customers' needs via constant monitoring of customer satisfaction and of any complaints.
- To inform customers of all risks associated with use of the products and their environmental impact.

DIALOGUE WITH CUSTOMERS

Sabaf carries out a biennial customer satisfaction survey using a structured questionnaire sent to its major customers. The results of the survey conducted in early 2011 can be found below. The score ranges from 1 (poor/not important) to 10 (excellent/very important).

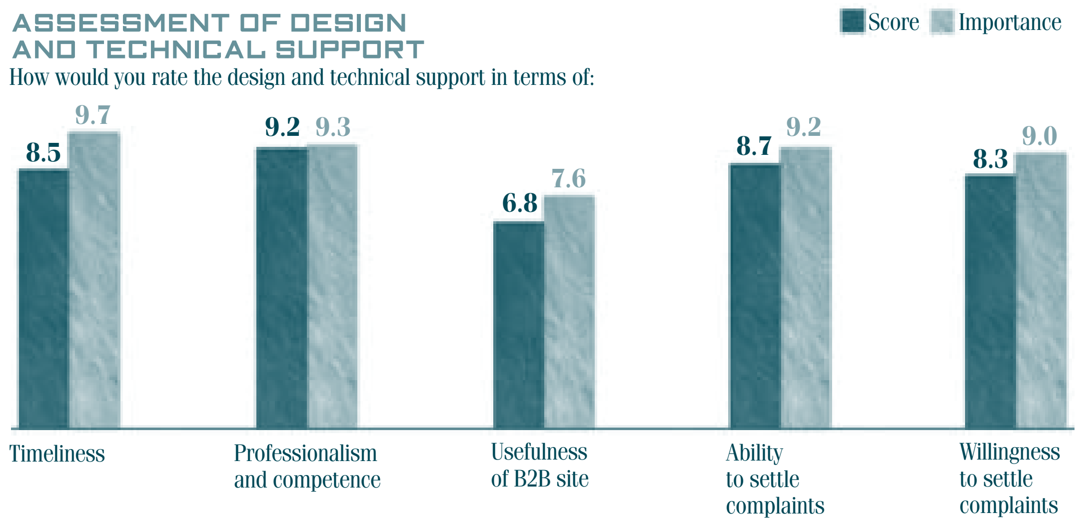
1. PRODUCT ASSESSMENT

How would you rate Sabaf Group products in terms of:



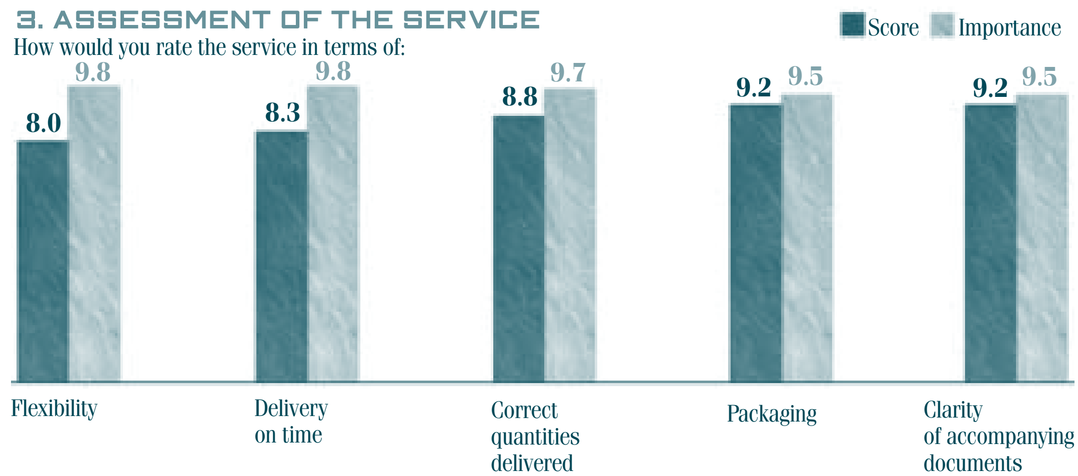
ASSESSMENT OF DESIGN AND TECHNICAL SUPPORT

How would you rate the design and technical support in terms of:



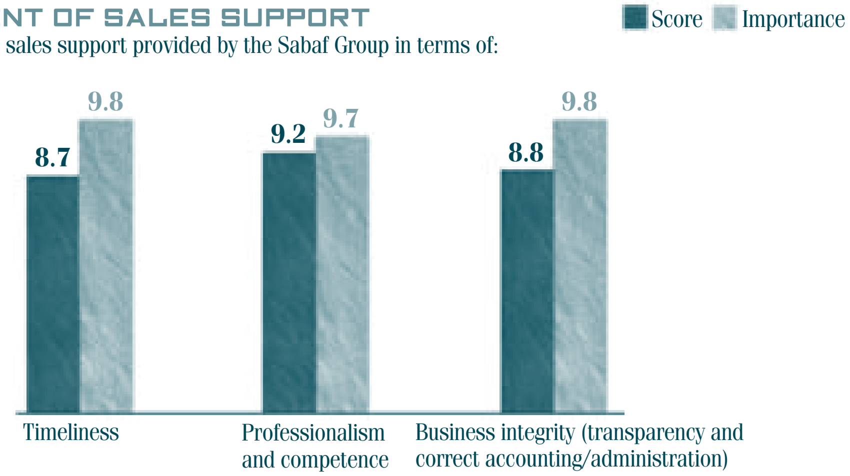
3. ASSESSMENT OF THE SERVICE

How would you rate the service in terms of:

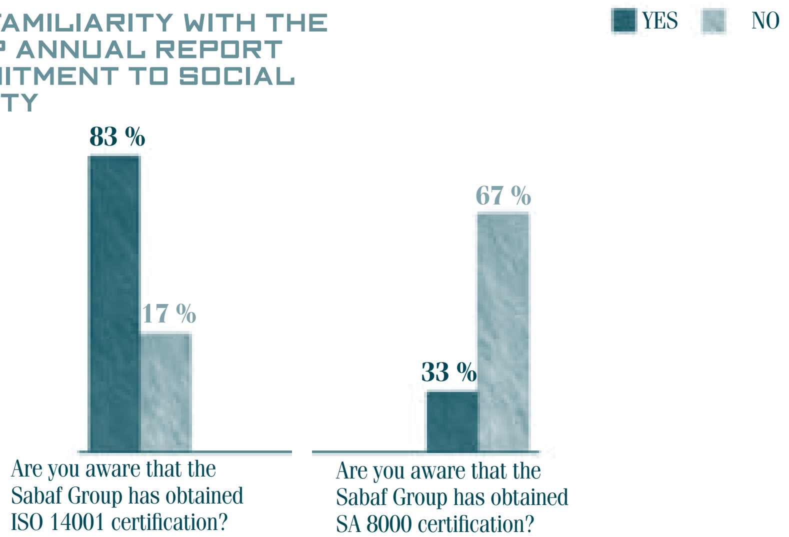


4. ASSESSMENT OF SALES SUPPORT

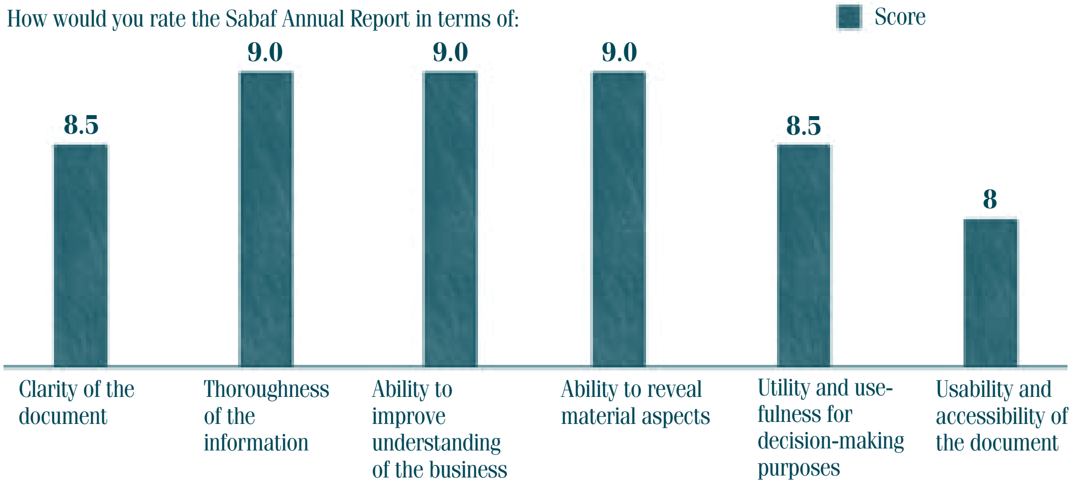
How would you rate the sales support provided by the Sabaf Group in terms of:



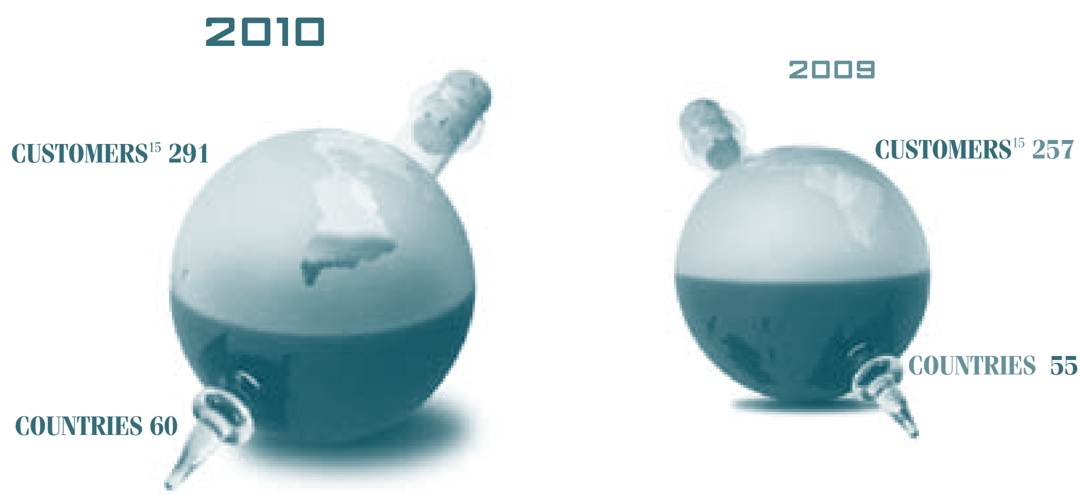
5. LEVEL OF FAMILIARITY WITH THE SABAF GROUP ANNUAL REPORT AND ITS COMMITMENT TO SOCIAL RESPONSIBILITY



How would you rate the Sabaf Annual Report in terms of:



COUNTRIES AND CUSTOMERS



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

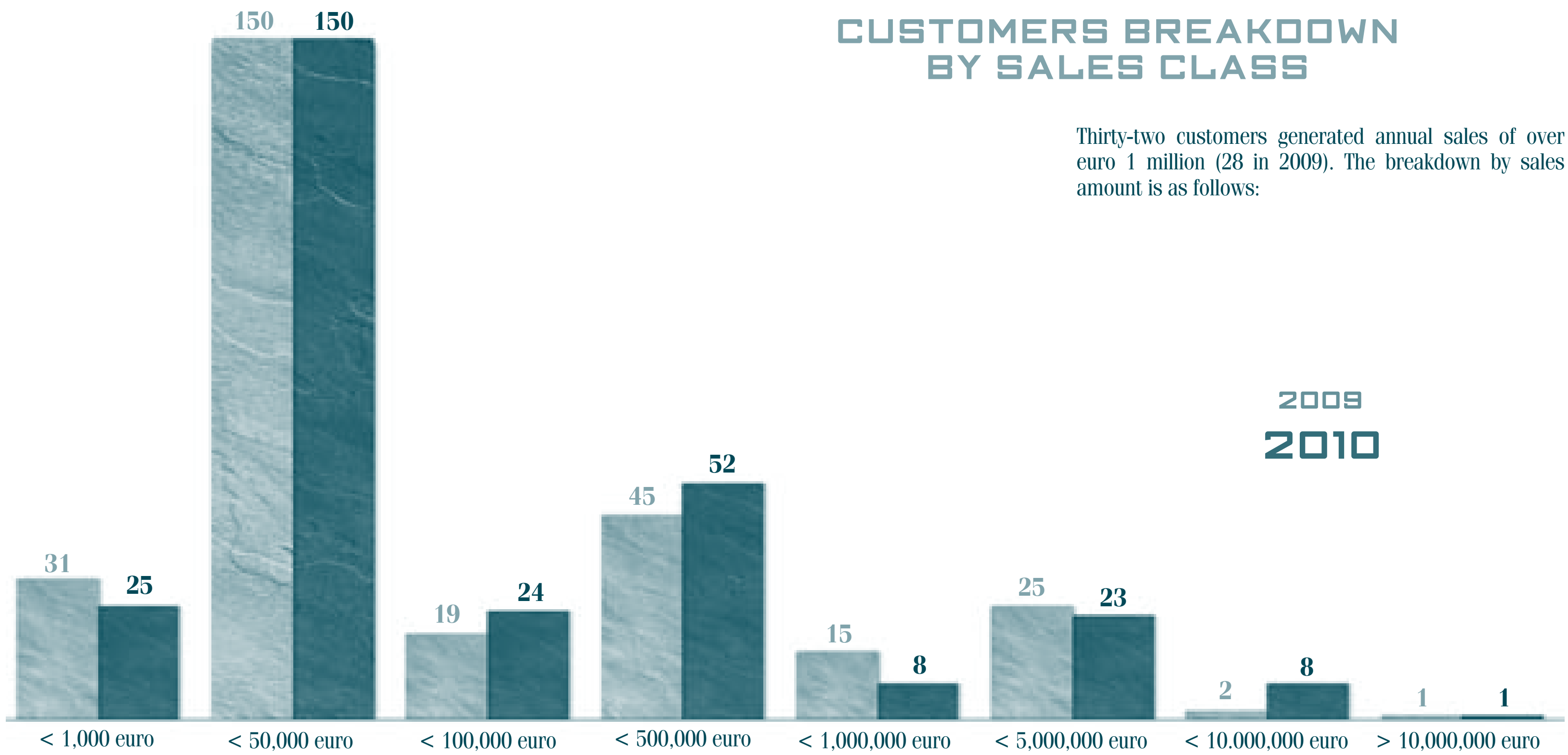
In line with the Group's commercial policies, most of the active commercial relationships are well established and long-term.

During 2010 the Sabaf Group issued invoices (for sales totalling more than euro1,000) to 48 new customers (38 in 2009), amounting to a total of euro 1.3 million (euro 905,000 in 2009), whilst 60 customers active in 2009 did not buy in 2010, representing a total of around euro 364,000 (compared with 56 in the previous year, or euro1.5 million).

15) With sales over euro 1,000

CUSTOMERS BREAKDOWN BY SALES CLASS

Thirty-two customers generated annual sales of over euro 1 million (28 in 2009). The breakdown by sales amount is as follows:



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

DEVELOPMENT OF PARTNERSHIPS

Sabaf shares with its customers the benefits generated by higher volume and productivity increases stemming from investments in automation, based on a partnership approach intended to guarantee the best possible market conditions. To those customers buying 100% of their requirements for all product lines from Sabaf, the company seeks to provide (a) a first-class service with the best purchasing terms, (b) immediate technical and laboratory support, and (c) priority in the presentation of plans for innovative products, in order to optimise coordination of Sabaf/customer product development.
As a rule, for those product lines where it is possible to hedge against the risk of changes in the price of commodities used as raw materials, Sabaf guarantees the customer fixed prices for at least six months.

INFORMATION AND COMMUNICATION

For Sabaf, the main form of communication with customers continues to be the one-to-one meeting, i.e. periodic meetings covering all aspects of product supply and related services.

However, we are increasingly aware of the need to dialogue with the end users of our products – the users of household electric appliances. In order for customers to make informed decisions, Sabaf believes that users must be guaranteed the utmost transparency. Particularly with regard to gas cooking appliances, Sabaf promotes maximum transparency in providing information about:

- safety;
- energy efficiency, both in the use of products and in production processes;
- the cost of use for consumers;
- environmental impact, considering all phases of the life cycle: production/use/end-of-life recycling;
- the manufacturing processes used.

Sabaf has therefore launched Sabaflife.com, a website that aims to address current environment and technology issues, particularly with regard to the safest and most efficient technologies in domestic cooking.

THE QUALITY SYSTEM

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

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

CURRENT SPENDING ON QUALITY

(Amounts in euro' 000)

	2010	2009
Product certification	73	49
Certification and management of quality system	2	5
Purchase of measuring instruments and equipment	24	18
Calibration of measuring instruments and equipment	33	39
Technical regulations, software and publications	1	4
Training	0	1
Trials and tests by independent laboratories	3	6
TOTAL	**136**	**122**

INVESTMENTS IN QUALITY

(Amounts in euro' 000)

	2010	2009
Purchase of measuring instruments and equipment	132	26
TOTAL	**132**	**26**

The quality system of Sabaf S.p.A. has been ISO 9001 certified since 1993; Faringosi-Hinges since 2001.

In May 2010, CSQ conducted its periodic audit of the Sabaf S.p.A. quality management system. This audit confirmed that the system is effectively applied. Only one non-conformity was identified. The Faringosi-Hinges quality management system was audited in order to renew the certification in July 2010 by ICIM. No non-conformities were identified.

In 2010, work was carried out to adapt the Sabaf do Brasil quality system to ISO 9001. Certification was obtained in February 2011.

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.

OUR COMMITMENT TO SUPPLIERS

- To act with transparency, honesty, integrity and contractual fairness.
- To treat quality certification, capacity for innovation and benefits for the community as key criteria in supplier selection.
- To prefer suppliers who respect the environment, take a socially responsible approach to business, and have a good reputation.
- To encourage the sharing of common values and report on the development of Sabaf's strategies.
- To promote the sharing of knowledge and foster long-term partnerships.
- To encourage suppliers to adopt good social responsibility practices.
- To ensure the impartial selection of suppliers, offering all potential suppliers who meet the criteria the chance to compete for Sabaf's business.
- To pay suppliers when and as agreed.
- To refuse gifts from suppliers that exceed the normal standards of courtesy and that might influence the objective appraisal of the product or service.
- To refuse to do business with suppliers that employ child labour and do not respect basic human rights.
- To require suppliers operating in countries where workers' rights are not respected to provide appropriate guarantees that they comply with the principles of the SA8000 standard in terms of child labour, forced labour, occupational health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary procedures, working hours and compensation policies.

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 2010, as in 2009, 23 audits were carried out on suppliers' quality management, environment and social accountability, none of which revealed any critical non-conformity. Suppliers were asked to take the appropriate measures to resolve any non-conformity of a non-critical nature.

PURCHASING ANALYSIS

The Sabaf Group aims to promote development in the areas where it operates. Therefore, when choosing suppliers it gives preference to local firms. Purchases made in Lombardy by the Group's Italian companies represent 66.3% of the total.

Sales generated outside the European Union mainly comes from suppliers in China and Hong Kong, with components supplied totalling around euro 1,618,000 in 2010 (euro 945,000 in 2009). Chinese suppliers have signed a clause to comply with the principles set out in the SA 8000 standard.

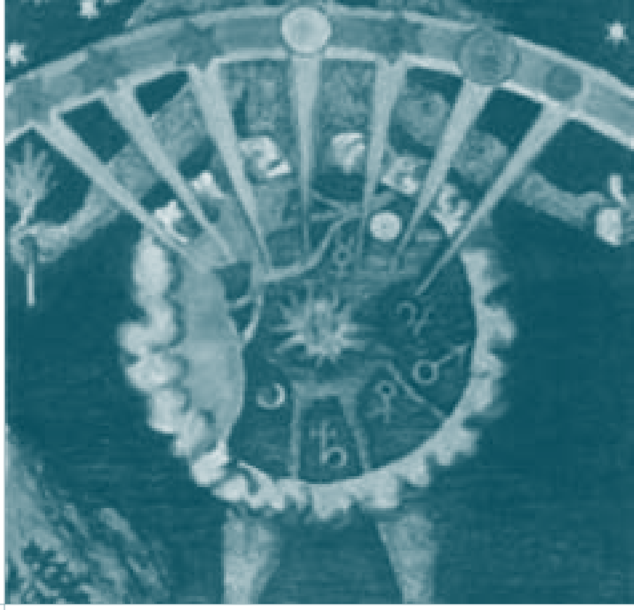
GEOGRAPHICAL DISTRIBUTION OF SUPPLIERS[16]

(Amounts in euro' 000))

	2010		2009	
	Sales	%	Sales	%
Province of Brescia	51,397	51.2	29,649	44.7
Province of Milan	3,031	3.0	2,074	3.1
Rest of Lombardy region	12,051	12.0	8,231	12.4
Italy	18,434	18.4	15,486	23.3
Rest of EU	11,484	11.4	8,576	12.9
Non-EU countries	3,948	3.9	2,361	3.6
TOTAL	**100,345**	**100**	**66,376**	**100**

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

16) 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.

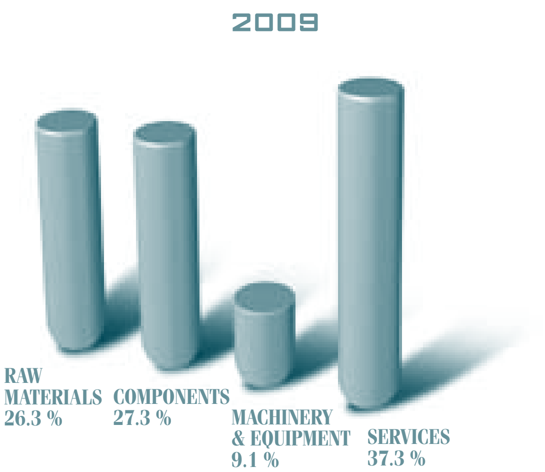
In order to share with suppliers the values underpinning its business model, and to foster complete transparency and reciprocal knowledge, Sabaf has distributed its Charter of Values extensively and periodically sends suppliers its “Sabaf Magazine” newsletter.

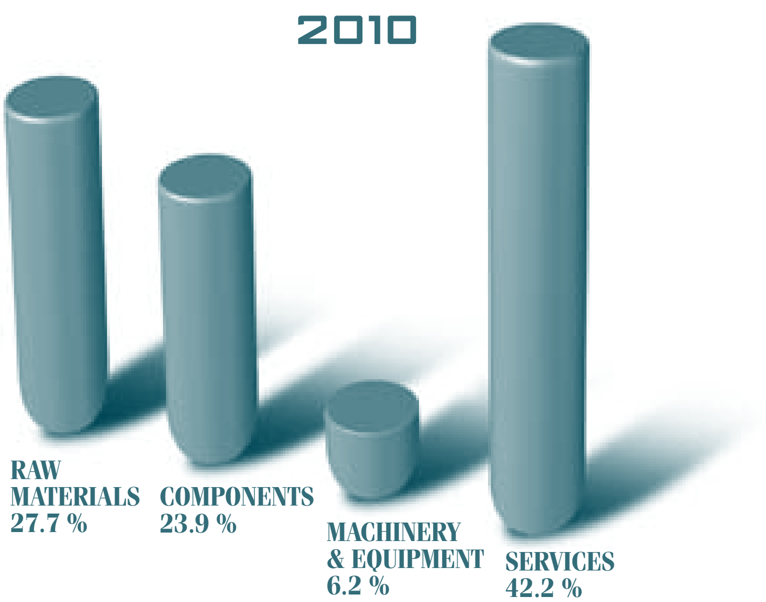
Sabaf guarantees total impartiality in supplier selection and undertakes to adhere strictly to the agreed payment terms (to date, except in rare and justified cases, all contracts have been paid as per agreements).

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 2010, sales to Sabaf Group by suppliers with certified quality systems accounted for 53.9% of the total (vs. 59.6% in 2009).

BREAKDOWN OF PURCHASES BY CATEGORY





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

LITIGATION

There are no lawsuits pending with suppliers.

SABAF AND ITS LENDERS

OUR COMMITMENT TO LENDERS

> To communicate the company's strategies and policies in a timely, thorough, clear and transparent manner, ensuring complete equality of disclosure.
> To guarantee the Group's future as a business concern.

BANKING RELATIONS

In keeping with its standard values of transparency and fairness, Sabaf has always cooperated with the banking industry, providing the timely and thorough information required for a comprehensive financial analysis of the business (year-end financial statements, quarterly and half-yearly reports, and notification of the more significant transactions). Although limited, liquidity risk is constantly monitored.

The Group operates with a low debt ratio (net indebtedness/shareholders' equity of 0.10 at 31 December 2010) and has ample unused short-term lines of credit.

At 31 December 2010, net indebtedness was euro 12.5 million, as compared with euro 19.2 million at 31 December 2009. No new finance was arranged in 2010.

The Group deals principally with five Italian banks (Banco di Brescia, Intesa San Paolo, Unicredit, BNL and B.C.C. di Pompiano) and two foreign banks (Santander and Itau).

LITIGATION

No lawsuits are pending with lenders.

SABAF AND ITS COMPETITORS

OUR COMMITMENT TO COMPETITORS

> To act transparently and fairly.
> To guarantee integrity in running the business.
> To promote fair competition with competitors, respecting patent and trademark rights.
> To champion social responsibility actions in our sector.
> To communicate in a timely, thorough, clear and transparent manner.

THE SABAF GROUP'S MAIN ITALIAN AND INTERNATIONAL COMPETITORS

Sabaf is an international market leader. Its ongoing product innovation and diversified customer base enable Sabaf to maintain its performance even in the face of downward pressure on selling prices. Thanks to its exclusive manufacturing processes, economies of scale and strong vertical integration, Sabaf also enjoys cost leadership in the sector. In this scenario Sabaf is highly competitive both in the high-end segment of the market – where it is able to offer high-performance products on an ongoing basis – and in the mass market.

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

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

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

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

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

THE SABAF GROUP'S MAIN ITALIAN AND INTERNATIONAL COMPETITORS

	Valves	Thermostats	Burners	Hinges
SABAF	●	●	●	●
Burner Systems International (U.S.A)	•	•	•	
CMI (Italy)				•
Copreci (Spain)	•	•		
Defendi Italy (Italy)	•		•	
Nuova Star (Italy)				•
Somipress (Italy)			•	

2008 AND 2009 PROFIT & LOSS HIGHLIGHTS OF SABAF'S MAIN COMPETITORS (EURO' 000)[17]

	2009			2008		
	Sales	Operating Profit	Net Income	Sales	Operating Profit	Net Income
CMI	21,875	776	111	26,364	911	131
DEFENDI GROUP[18]	35,969	1,173	512	39,426	2,167	(227)
NUOVA STAR	21,502	373	117	24,860	212	127
SOMIPRESS	18,972	1,266	761	24,256	2,102	1,276

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

LITIGATION

In 2010 a competitor commenced legal proceedings against a Sabaf Group company following alleged patent infringements.

17) Data compiled by Sabaf from the financial reports of the various companies. Latest available figures.
18) Consolidated financial statements.

SABAF AND THE GOVERNMENT

OUR COMMITMENT TO THE GOVERNMENT

- To guarantee total compliance with current laws and regulations.
- To communicate in a timely, thorough, clear and transparent manner.
- To work with institutions to ensure the development of safer products in our sector.
- To share our technical expertise with institutions involved in studies and research regarding our sector and corporate social responsibility.
- To comply with antitrust legislation and with the regulations of the relevant authorities.
- Not to finance political parties in countries where Sabaf does business.

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.

INCOME TAXES AND OTHER TAXES PAID

TAXES

(amounts in euro' 000))

	31.12.2010	31.12.2009
Current tax	7,840	4,635
Deferred tax	(823)	(154)
Substitute tax, under Decree Law 185/08	-	1,072
Reversal of deferred taxes under Decree Law 185/08	-	(2,526)
Balance of previous FY	(108)	(62)
TOTAL income tax	**6,909**	**2,965**
Other taxes	263	292
TOTAL	**7,172**	**3,257**

TAX STATUS

In 2010 the Group recognised an income tax expense of euro 6,909,000, which represents 4.5% of the generated economic value[19] (euro 3 million in 2009, or 2.5% of the economic value). The tax rate (the ratio of income tax to pre-tax profit) was 29% (20.4% in 2009).

Sabaf welcomes legislative measures designed to reduce the tax burden of companies that invest on a continuous basis and/or which create jobs.

In 2010 the Sabaf Group benefited from euro 618,000 in tax savings on investments made during the first half of the year, pursuant to Decree Law 78/09.

LITIGATION

In 2010, the parent company Sabaf S.p.A. ended its dispute with the Italian revenue agency following a tax audit for fiscal years 2002 and 2003 regarding income tax, VAT and regional tax on production (IRAP).
No significant tax disputes were pending at 31 December 2010.

19) Determined in accordance with GRI Guidelines

SABAF AND SOCIETY

OUR COMMITMENT TO SOCIETY

- To operate within local communities in a socially responsible manner, i.e. as a “good citizen”.
- To help improve quality of life in communities where the company operates, through social, cultural, educational and sports initiatives.
- To encourage the utmost respect for human rights in the local communities where the company operates.
- To donate to and sponsor non-profit associations in line with the policies established by the Board of Directors.
- To contribute to young people’s education by working with schools and universities.
- To promote the wider distribution of products with safety systems in order to safeguard public health.

DIALOGUE WITH SOCIETY

Sabaf’s commitment to society does not simply take the form of cash donations to local humanitarian, sports and cultural associations, but more importantly consists of constantly striving to disseminate good business practice.

CHARITY INITIATIVES AND DONATIONS

In 2010 donations totalled around euro 25,000 (euro 56,000 in 2009), and mainly supported local social and humanitarian initiatives.

LONG-DISTANCE ADOPTION

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

RELATIONS WITH UNIVERSITIES AND STUDENTS

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

RELATIONS WITH INDUSTRY ASSOCIATIONS

Sabaf is a member of the Italian confederation of small and medium-sized enterprises (CONFAPI), which today represents over 50,000 companies and whose goal is to promote and serve the interests of Italian SMEs.

Sabaf is also 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.

4

You contain everything at the same time: time, space, matter: quality and quantity.

Corpus hermeticum, 1460

ENVIROMENTAL SUSTAINABILITY

OUR COMMITMENT TO THE ENVIRONMENT

- To manage manufacturing activities in a way that minimises direct and indirect environmental impact.
- To take a precautionary approach towards environmental impact.
- To promote the development and use of eco-efficient technologies and products.
- To define specific environmental objectives and improvement programmes aimed at minimising significant environmental impact.
- To train staff so that they are aware of the environmental aspects and impact of their work and are committed to working in a way that respects the environment, thus helping to achieve corporate objectives.
- To provide the local authority with all information needed to understand any environmental risks associated with Sabaf's operations.

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. If this increased electricity demand were to be met by building new power stations, the cost for users would be significantly higher.

ENVIRONMENTAL POLICY, PROGRAMME AND OBJECTIVES

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

The environmental management system in place at the Ospitaletto plant has been ISO 14001 certified since 2003. By implementing ISO 14001, Sabaf has also identified the principal environmental risks connected with its own production, which are systematically monitored and managed.

Sabaf Spa has received Integrated Environmental Authorisation (IPPC) pursuant to Legislative Decree 59 of 18 February 2005.

PRODUCT INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

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

LIGHT ALLOY VALVES

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

SABAF SERIES III BURNERS

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

AE AND AEO BURNERS

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

ENVIRONMENTAL IMPACT

MATERIALS USED AND PRODUCT RECYCLABILITY

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

Sabaf has introduced in-house recycling of paper/cardboard, glass, cans and plastic. In 2010 recycling made it possible to recover 118,630 kg of paper, cardboard and plastic packaging.

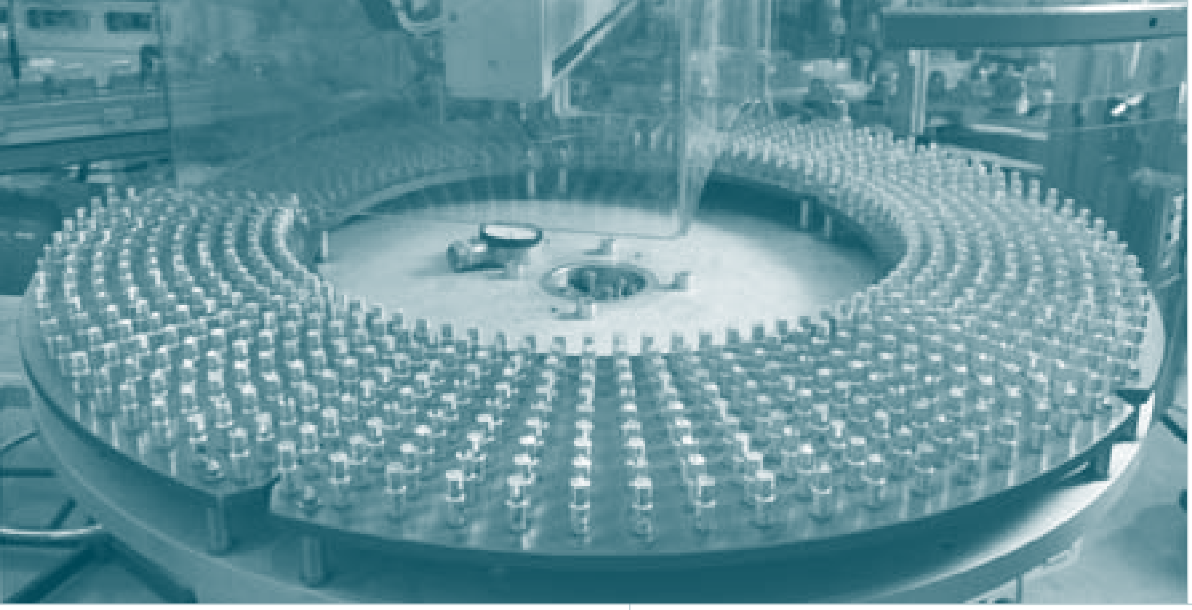
MATERIALS USED	2010 consumption (t)	2009 consumption (t)
Brass	1,938	1,620
Aluminium alloys	8,055	6,326
Zamak	63	57
Steel	7,548	6,562

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.

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	2010 consumption (MWh)	2009 consumption (MWh)
TOTAL	**25,279**[20]	**16,820**

NATURAL GAS	2010 consumption (m^3x1000)	2009 consumption (m^3x 000)
TOTAL	**3,542**	**3,088**

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	2010 consumption (m^3)	2009 consumption (m^3)
Mains water	24,409	18,809
Groundwater	21,091	31,703
TOTAL	**45,500**	**50,512**

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)	2010	2009
Municipal-type waste	244	183
Non-hazardous (for disposal)	2,156	1,449
Non-hazardous (for recycling)	4,175	3,775
TOTAL NON-HAZARDOUS WASTE	**6,331**	**5,224**
Hazardous (for disposal)	1,996	1,925
Hazardous (for recycling)	606	627
TOTAL HAZARDOUS WASTE	**2,602**	**2,552**

No major spills occurred in 2010.

20) Estimate pending the definitive amount charged by the supplier

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.

	2010		2009	
Origin of impact	Target	Actual	Target	Actual
Unit A: extractor for pressure die-casting islands	Remain 40% below legal limit and therefore maintain iE_En < 40	iE_E =7.2	Remain 40% below legal limit and therefore maintain iE_En < 40	iE_E =14.3
Unit A: extractor for smelting furnace	iE_En < 50	iE_E = 7.6	iE_En < 50	iE_E = 34
Unit A: sand blaster	iE_En < 40	iE_E = 40.5	iE_En < 40	iE_E = 37
Unit A: extractor for bar-processing lathes	iE_En < 30	iE_E = 4.0	iE_En < 30	iE_E = 0.4
Unit A: extractor for furnace scorification	iE_En < 30	iE_E = 3.1	iE_En < 30	iE_E = 22.1
Unit B: extractor for transfer machines/lathes	iE_En < 30	iE_E = 3.6	iE_En < 30	iE_E = 7.3
Unit B: metal parts washing machine	iE_En < 65	iE_E = 16.3	iE_En < 65	iE_E = 23.4
Unit B: electrical discharge machining eqpt.	iE_En < 40	iE_E = 3.2	iE_En < 40	iE_E = 2.7
Unit B: extractor for grinders	iE_En < 30	iE_E = 0.9	iE_En < 30	iE_E = 0.9
Unit C: sand blaster	iE_En < 40	iE_E = 74.4	iE_En < 40	iE_E = 15.4
Unit C: enamel application line and firing furnace	iE_En < 100	iE_E = 41.8	iE_En < 100	iE_E = 55.8

Monitoring carried out in 2009 and 2010 showed that all emissions were within the legal limits.

CO_2 EMISSIONS[21] (tonnes)	2010	2009
Use of natural gas	7,010	6,119
Use of electricity	11,654	7,209
TOTAL CO_2 EMISSIONS	**18,664**	**13,328**

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 some air conditioning units in compliance with applicable regulations.

CURRENT ENVIRONMENTAL SPENDING

(amounts in euro'000)

	2010	2009
Plant, equipment and materials	11	47
External training	1	0
Advisory services	27	35
Emissions analysis	16	15
Waste disposal	654	467
Software and databases	1	1
TOTAL	**710**	**543**

ENVIRONMENTAL INVESTMENTS

(amounts in euro'000)

	2010	2009
Plant, equipment and materials	182	0
TOTAL	**182**	**0**

LITIGATION

No lawsuits are currently pending with regard to environmental matters.

21) Calculated according to the "INSTRUCTIONS FOR IMPLEMENTATION OF THE EUROPEAN COMMISSION'S DECISION C(2004)130 OF 29 JANUARY 2004 ESTABLISHING GUIDELINES FOR THE MONITORING AND REPORTING OF GREENHOUSE GAS EMISSIONS PURSUANT TO DIRECTIVE 2003/87/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL" issued by the Italian Environment Ministry in conjunction with the Ministry for Trade and Industry.

LIMITED ASSURANCE REPORT ON THE SOCIAL REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
Piazzale della Repubblica, 4
24122 BERGAMO BG

Telefono +39 035 240218
Telefax +39 035 240220
e-mail it-fmauditaly@kpmg.it

(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 2010 social report of the SABAF Group (the "Group"), consisting of the following sections of the Annual Report of the Group at the same date:

- "Introduction"
- Section 1 "About Sabaf"
- Section 3 "Social sustainability"
- Section 4 "Environmental sustainability"

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

Our work was solely performed on the social report as defined above and did not cover the data and information included in section 2 "Governance", section 5 "Report on operations", or the consolidated and separate financial statements of SABAF S.p.A., which were audited by other auditors.

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

These procedures included:

- comparing the information and data presented in the "Generated and distributed economic value" section of the "Introduction" to the 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 2010, on which other auditors issued their report dated 6 April 2011 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;

- analysing how the processes underlying the generation, recording and management of quantitative data included in the social report operate. In particular, we have performed the following procedures:

  - interviews and discussions with management of SABAF S.p.A. and personnel of Faringosi-Hinges S.r.l., to gather information on the IT, accounting and reporting systems used in preparing the social report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the social report;

  - sample-based analysis of documentation supporting the preparation of the social report to confirm the effectiveness of processes, their adequacy in relation to the objectives described, and that the internal control system correctly manages data and information included in the social report;

- analysing the compliance of the qualitative information included in the social report with the guidelines referred to in paragraph 1 and their consistency, in particular with reference to the sustainability strategy and policies and the determination of material issues for each stakeholder category;

- analysing the stakeholder involvement process, in terms of methods used and completeness of persons involved, by reading the minutes of the meetings or any other information available about the salient features identified;

- obtaining the representation letter signed by the legal representative of SABAF S.p.A. on the compliance of the social report with the guidelines indicated in paragraph 1 and on the reliability and completeness of the information and data contained therein.

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

The social report includes the corresponding information and data of the prior year social report for comparative purposes, with respect to which reference should be made our report dated 9 April 2010.

3 Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2010 social report of the SABAF Group 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, 6 April 2011

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

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LEGEND **C:** Core **A:** Additional

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LEGEND **C:** Core **A:** Additional

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LEGEND **C:** Core **A:** Additional

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LEGEND **C:** Core **A:** Additional

5

She attracts imperfect metals and gives rise to desire, and pushes them to perfection and ripeness.
Basilius Valentinus, 1679

REPORT ON OPERATIONS

GROUP BUSINESS AND FINANCIAL STATUS

The Sabaf Group recorded sales revenue of euro150.9 million in 2010, up 18.7% on the figure of euro 127.1 million in 2009. The Group therefore experienced a significant recovery in 2010, although sales levels are still substantially lower than the highs of 2008.

(in thousands of euro)

	2010		2009		Change 2010-2009	Change %
Sales revenue	150,897	100%	127,088	100%	23,809	+18.7%
EBITDA	38,516	25.5%	28,518	22.4%	9,998	+35.1%
Operating profit (EBIT)	25,793	17.1%	16,218	12.8%	9,575	+59.0%
Pre-tax profit	23,776	15.8%	14,548	11.4%	9,228	+63.4%
Net profit	16,867	11.2%	11,583	9.1%	5,284	+45.6%
Earnings per share (euro)	1.467		1.007		0.460	+45.7%
Diluted earnings per share (euro)	1.467		1.007		0.460	+45.7%

Average sales prices in 2010 did not vary significantly from those of 2009, despite the increase in commodity prices over the year. The greater use of production capacity and a more favourable product mix led, however, to a significant improvement in profitability: EBITDA came to 25.5% of sales (22.4% in 2009), EBIT represented 17.1% of sales (12.8% in 2009) and net profit rose from 9.1% to 11.2% of sales.

The breakdown of revenue by product line was as follows:

SALES BY PRODUCT LINE

(in thousands of euro)

	2010	2009	Change	Change %
Brass valves	31,788	26,928	4,860	+18.0%
Light alloy valves	20,027	15,276	4,751	+31.1%
Thermostats	14,829	13,746	1,083	+7.9%
Standard burners	41,405	36,358	5,047	+13.9%
Special burners	21,097	17,173	3,924	+22.8%
Accessories and other venues	10,959	9,089	1,870	+20.6%
Total gas components	*140,105*	*118,570*	*21,535*	*+18.2%*
Hinges	*10,792*	*8,518*	*2,274*	*+26.7%*
TOTAL	**150,897**	**127,088**	**23,809**	**+18.7%**

All product families contributed to the increase in sales. The most innovative products, such as light alloy valves and special burners, registered the strongest growth rates. Sales of hinges also registered a very positive trend, owing to the contribution of special products.

The geographical breakdown of revenue was as follows:

SALES BY GEOGRAPHICAL AREA

(in thousands of euro)

	2010	%	2009	%	Change %
Italy	61,648	40.8%	52,654	41.4%	+17.1%
Western Europe	11,561	7.6%	10,233	8.1%	+13.0%
Eastern Europe and Turkey	32,553	21.6%	27,978	22.0%	+16.4%
Asia	15,347	10.2%	13,186	10.4%	+16.4%
South America	17,467	11.6%	13,473	10.6%	+29.6%
Africa	7,056	4.7%	6,107	4.8%	+15.5%
US, Canada & Mexico	5,136	3.4%	3,348	2.6%	+53.4%
Oceania	129	0.1%	109	0.1%	+18.3%
TOTAL	**150,897**	**100%**	**127,088**	**100%**	**+18.7%**

A sound recovery was confirmed on both the Italian and other European markets; the best results were however registered on markets outside Europe, which now represent 30% of the Group's direct sales. Sales were particularly strong in South America, especially in the first half of the year; the Group posted excellent growth rates in the US, Canada and Mexico, a market in which sales are still fairly low, however. Growth on the Asian market was satisfactory, although the expected contribution of sales from the Chinese market was still modest, and despite the growing difficulties of operating in the Middle East. The Group posted record sales levels in all these geographical areas.

The actual cost of the main raw materials (brass, aluminium alloys and steel) was approximately 30% higher compared to 2009, while the cost of other components registered much lower increases.

The impact of the cost of labour on sales fell from 20.8% in 2009 to 20.5% in 2010.

The impact of net financial charges on sales remains very low (0.7% in 2010, versus 1.1% in 2009), owing to the low level of debt.

Operating cash flow (net profit plus depreciation & amortisation) went from euro 23.9 million to euro 29.3 million, equivalent to 19.4% of sales (vs. 18.9% in 2009).

The tax rate in 2010 was 29.1%, lower than the ordinary rate because of some non-recurring benefits described in the Explanatory Notes.

STATEMENT OF FINANCIAL POSITION

Reclassification based on financial criteria is as shown below:

(in thousands of euro)	31/12/2010	31/12/2009
Non-current assets	100,632	99,038
Short-term assets [1]	*71,917*	*65,099*
Short-term liabilities [2]	*(34,441)*	*(31,908)*
Working capital [3]	37,476	33,191
Provisions for risks, employee benefits, and deferred taxes	(3,717)	(3,935)
Net capital employed	**134,391**	**128,294**
Net short-term financial position	3,871	3,109
Net medium/long-term financial position	(16,416)	(22,270)
Net financial debt	**(12,545)**	**(19,161)**
Shareholders' equity	**121,846**	**109,133**

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

(in thousands of euro)	2010	2009
Cash and cash equivalents – opening balance	***9,154***	***11,229***
Operating cash flow	24,998	29,502
Cash flow from investments	(13,344)	(11,864)
Cash flow from financing activities	(11,802)	(20,760)
Foreign exchange differences	763	1,047
Cash flow for the period	**615**	**(2,075)**
Cash and cash equivalents – closing balance	***9,769***	***9,154***

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 2010, the Sabaf Group invested more than euro 13 million. Its main investments included those for the industrialisation of new products (such as high-efficiency burners, dual burners, light allow valves for hobs) and those intended to increase the level of automation at the Brazilian plant. Furthermore, investments were made in maintenance and replacement to keep the assets up to date.

Working capital amounted to euro 37.5 million vs. euro 33.2 million in 2009: as a percentage of sales, it fell from 26.1% at the end of 2009 to 24.8%.

Self-financing generated by operating cash flow totalled euro 25 million, versus euro 29.5 million in 2009, owing to the different trend in net working capital, which fell in 2009 before rising again in 2010, reflecting the decline and recovery of activity and sales levels.
Net financial debt was euro 12.5 million vs. euro 19.2 million at 31 December 2009. The net medium/long-term financial position was negative to the tune of euro 16.4 million (euro 22.3 million at 31 December 2009), and consisted of euro 4.5 million in mortgages, euro 4.2 million in payables to leasing companies and euro 7.7 million in unsecured loans maturing by end-2014. The risk in exchange rate changes was partially hedged by entering into two interest rate swap contracts.
The short-term financial position was positive to the tune of euro 3.9 million and consisted of cash and cash equivalents of euro 9.8 million and short-term payables of euro 5.9 million, made up of the current portion of medium to long-term borrowings.
Shareholders' equity amounted to euro 121.8 million, against euro 109.1 million at year-end 2009. The ratio of net financial debt to shareholders' equity is 0.10 against 0.18 in 2009.

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 short-term assets and short-term liabilities.

ECONOMIC AND FINANCIAL INDICATORS

	2010	2009
ROCE (return on capital employed)	19.2%	12.3%
Dividend per share (euro)	0.80[4]	0.50
Net debt/equity ratio	10%	18%
Market capitalisation (31.12)/equity ratio	2.41	1.74
Change in sales	+18.7%	-21.5%

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 GENERAL ECONOMIC CONDITIONS

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 crisis that occurred from the last quarter of 2008 had a significant impact on Group results in 2008 and 2009, from which it only partially recovered in 2010. Alongside expectations of further gradual improvement in 2011, there are currently new elements of uncertainty, one of the most important of which is the political instability in North Africa, which could affect the general economy, and consequently the Group's activities, strategies and prospects over the next few months.

RISKS RELATED TO DEMAND

The market of components for durable goods, which is cyclical and generally related to the performance of the real estate market, was heavily hit by the crisis.
In 2010, demand for domestic appliances showed signs of a recovery, which were weak in Europe but more evident in the other main international markets. Prospects for a recovery therefore remain uncertain, and we cannot rule out a new phase of weakness in demand.
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 demand growth rates;
- the maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors.

RISK CONNECTED WITH TRENDS IN COMMODITY PRICES

The Group uses steel and alloys such as brass, aluminium alloys and steel in its production processes. The sale prices of products are generally renegotiated semi-annually or annually; as a result, the Group is unable to 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.
The Sabaf Group has already fixed purchase prices for its expected requirements of aluminium until December 2011, brass until August 2011 and steel until June 2011. Any further increase in the price of commodities not hedged could have negative effects on expected profits.
For more information on commodity risk management, see Note 34 of the consolidated financial statements, on disclosure for the purposes of IFRS 7.

RISKS RELATED TO EXCHANGE RATES

The Sabaf Group operates primarily in Euro. It executes transactions in other currencies, such as the US dollar and the Brazilian real.
Since sales in US dollars accounted for 10% of consolidated revenue, any gradual depreciation against the Euro and the Real in the coming months could lead to a loss in competitiveness on the markets where sales are made in that currency (e.g.: South and North America, South Korea).
At the date of this report, the Group has no derivative contracts to hedge exchange rate risks.
For more information on how this risk is managed, see Note 34 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

RISKS RELATED TO INTEREST RATES

The Sabaf Group is exposed to risks related to interest rate fluctuations. Since debt carries a floating interest rate, changes in these rates can lead to increases or decreases in the cost of loans. 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. At 31 December 2010, two IRS agreements were in place, for the residual notional amount of euro 8.3 million, with a view to converting two floating rate loans to fixed interest rates. Both loans are repayable in instalments by the end of 2014.
For more information on how this risk is managed, see Note 34 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 euro10 million per individual claim.

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 in the financial statements by a doubtful account provision considered appropriate. Given the structural difficulties

4) Proposed dividend

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 on how this risk is managed, see Note 34 of the consolidated financial statements, as regards disclosure for the purposes of IFRS 7.

RISKS CONNECTED TO THE PRESENCE IN EMERGING ECONOMIES

30% of Sabaf Group sales are registered on markets outside Europe. Furthermore, products sold in Italy can be exported by customers in international markets, making the percentage of sales earned directly and indirectly from emerging economies more significant.
The Group's main markets outside Europe include the Middle East and North Africa (which accounted for 7% and 5% respectively of direct Group sales in 2010, 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 next few months of the year could affect a portion of Group sales and the related profitability.

RISKS RELATED TO THE LOSS OF KEY STAFF

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

RESEARCH & DEVELOPMENT

In 2010, the Group completed the design for a new light allow valve with safety devices for hobs, enabling customers' costs for the introduction of aluminium valves in the existing product platform to be zeroed. The Group then proceeded with the industrialisation of the product, through the production of specific machinery and equipment. It also began research into two new two-way valves, one for hobs (vertical control) and one for cookers (horizontal control).
As regards burners, the main projects of the year related to:

- high-efficiency economical dual burners, also aimed at the Chinese market, for which the range was extended to the Torche version;
- mini triple-crown burners that can be mounted on the ABC drop pan;
- new-generation high efficiency burners;
- special burners for the Indian market, which can also be developed in a version that complies with European regulations;
- burners for ovens of smaller size and power, for special applications.

In 2010, the Group completed the industrialisation for production of spark plugs using highly automated systems. Production began at the beginning of 2011.
As regards hinges, the Group industrialised the production process for a new type of hinge for dryers/washing machines, and developed a damper system for internal cam hinges.
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 euro 524,000 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 other production units. On 1 January 2010, SAP was successfully launched at Sabaf do Brasi, for the management of all the company's main operating processes. At the end of 2010, the Group started an analysis to extend SAP to Faringosi Hinges; implementation will take place in 2011, with the launch of the system planned for 1 January 2012.

SABAF STOCK PERFORMANCE AND FINANCIAL COMMUNICATION

Since the year it went public (1998), Sabaf has considered financial communication to be strategically important. Sabaf's financial communications 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 has always promoted dialogue with financial analysts and institutional investors.
During 2010, Sabaf shares reached their highest official price on 14 December (euro 26.756) and their lowest on 18 February (euro15.264). On 30 December, the official price was euro 25.229. Average daily trading volume was 9,706 shares, equivalent to an average daily total value of euro 194,000 (euro 125,000 in 2009).

OWN SHARES

In 2010 Sabaf S.p.A. did not purchase or sell own shares. At 31 December 2010, the Company held 32,503 own shares, equivalent to 0.282% of the share capital.

SUSTAINABILITY

Since 2005, Sabaf has drawn up a single report on its economic performance and its social and environmental sustainability. The Annual Report integrates and harmonises the contents published in the consolidated and statutory social report, also in order to respond to our stakeholders' preference to have the social report published at the same time as the consolidated financial statements. This is not only a communications decision, it is also the result of a strategic consideration, which aims to highlight that social responsibility is incorporated into company policies: it is only through the virtuous cycle that unites economic development with social and environmental sustainability that it is possible to ensure the lasting growth of the Sabaf Group. The process of preparing the document strictly complies with the international accepted principles for sustainability reports (GRI).

PERSONNEL / STAFF

At 31 December 2010, the Sabaf Group had 703 employees, up by 30 compared to year-end 2009. The Sabaf Group suffered no on-the-job deaths of personnel for which the Group has been held responsible nor was blame regarding on-the-job illnesses of employees or former employees and causes of mobbing, for which the Group has been found responsible.
For more information, refer to the "Sabaf and employees" section of the Annual Report.

ENVIRONMENT

In 2010, 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, refer to the "Environmental Sustainability" section of the Annual Report.

CORPORATE GOVERNANCE

For a complete discussion of the corporate governance system of the Sabaf Group, see the report on corporate governance and on the ownership structure, which will be submitted to the review of shareholders at the next meeting to approve the Sabaf S.p.A. financial statements, and will be included in the financial statement report.

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 articles of association and granting of powers to company officers. The conditions exist as required by article 36, letters a), b) and c) Market Regulations issued by CONSOB. In the year, no acquisitions were made of companies in countries not belonging to the European Union which, considered independently, would have a significant relevance for the purposes of the regulation in question.

MODEL 231

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

MBO VARIABLE COMPENSATION PLAN

For 2010, the Board of Directors of Sabaf S.p.A., on the proposal of the Compensation Committee, approved a company incentive plan for 23 people (executive directors, managers and other important group employees). The plan includes the assignment of a variable compensation component, dependent on the achievement of company (EBIT) and individual objectives. The total variable compensation due is approximately euro 450,000, and the overall cost of the plan for the Group is around euro 550,000. Payment of variable compensation has been deferred to 2011 and 2012.

PERSONAL DATA PROTECTION

With regard to Legislative Decree 196 of 30 June 2003, in 2010 the Group continued its work to ensure compliance with current regulations.
The Official Security Plan (OSP) relating to the year 2011 was drawn up in compliance with the law.

DERIVATIVE FINANCIAL INSTRUMENTS

Comments on this item are provided in Note 34 to the consolidated financial statements.

ABNORMAL OR UNUSUAL TRANSACTIONS

Sabaf Group companies did not execute any unusual or abnormal transactions in 2010.

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 related-party transactions are provided in Note 34 to the consolidated financial statements and in Note 33 of the annual financial statements of Sabaf S.p.A.
In implementation of CONSOB Regulation 17221 as amended, in 2010 Sabaf S.p.A. adopted the procedure for the management of related-party transactions, applicable from 1 January 2011.

FISCAL CONSOLIDATION

On 10 June 2010 Sabaf S.p.A. approved the renewal for three years 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

In March 2011, an inspection conducted by ENEL technicians on the electricity metering system showed an error in the recording of consumption of Sabaf S.p.A. from October 2008, and as a result, the billing by the electricity supplier for lower amounts than actually consumed. As of the date of this report, Sabaf S.p.A. has not been informed of the result of the inspection, nor the size of any balancing payment. It is therefore possible that in the next few months, the Group may be in contention with ENEL and the supplier, and involved in a possible dispute over the greater consumption ascertained by the inspection, the results of which are currently difficult to forecast.

In addition to the now chronic lack of visibility, making forecasts for 2011 is currently even more difficult given the political instability on certain important markets. The Group believes, however, that it will be able to register an increase in sales of approximately 10%.
In February, the Group fixed its purchase prices for its aluminium alloy requirements for the second half of the year, at slightly higher prices than those agreed for the first half. In the same period, negotiations with customers were also concluded regarding the definition of suitable sales prices for the current year; the average increases obtained will not allow the Group to fully offset the increase in commodity prices.
Based on the information currently available, the EBITDA margin is expected to come in at between 23% and 24% in 2011.
These hypotheses factor in the current difficulties in the Middle East and North Africa area, but are based on 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)

	2010	2009	Change 2010/2009	Change %
Sales revenue	132,176	112,699	19,477	+17.3%
EBITDA	30,739	22,539	8,200	+36.4%
Operating profit (EBIT)	20,664	11,960	8,704	+72.8%
Pre-tax profit	19,793	10,903	8,890	+81.5%
Net profit	13,246	8,373	4,873	+58.2%

STATEMENT OF FINANCIAL POSITION

Reclassification based on financial criteria is as shown below:

(in thousands of euro)

	31/12/2010	31/12/2009
Non-current assets	84,221	83,011
Short-term assets[5]	*64,814*	*59,378*
Short-term liabilities[6]	*(30,506)*	*(28,907)*
Working capital[7]	34,308	30,471
Reserves for risks and contingencies and Post-employment benefit reserve	(2,830)	(3,159)
Deferred income tax	-	(7)
Net capital employed	**115,699**	**110,316**
Net short-term financial position	(1,473)	200
Net medium/long-term financial position	(7,707)	(11,463)
Net financial position	**(9,180)**	**(11,263)**
Shareholders' equity	**106,519**	**99,053**

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

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 20 of the statutory accounts, as required by the CONSOB memorandum of 28 July 2006.

Sales increased by 17.3% in 2010, from euro 112.7 million to euro 132.2 million, marking a significant recovery after the crisis of 2009. The products that contributed most to growth were light alloy valves and special burners. Average sales prices did not change significantly compared with the previous year. Profitability benefitted from higher business volumes, and consequently better absorption of fixed costs. As a result, all profitability indicators show more than proportional growth versus the increase in sales: EBITDA came in at euro 30.7 million, equivalent to 23.3% of sales (euro 22.5 million in 2009, 19.8% of sales), EBIT was euro 20.7 million, or 15.6% of sales (vs. euro 12 million in 2009, 10.6%), and net profit was euro 13.2 million, equivalent to 10% of sales (euro 8.4 million in 2009, 7.4%).

The actual cost of the main raw materials (brass, aluminium alloys and steel) was approximately 30% higher compared to 2009, while the cost of other components did not register significant increases.
The impact of the cost of labour on sales remained broadly unchanged, from 21.1% in 2009 to 20.9% in 2010.
Net finance expense as a percentage of sales was not relevant, at 0.73% (0.98% in 2009), given the low level of financial debt.

Operating cash flow (net profit plus depreciation & amortisation) went from euro 18.8 million to euro 23.4 million, equivalent to 17.7% of sales (vs. 16.7% in 2009).

In 2010 SABAF S.p.A. invested about euro 10 million. The main investments in the year concerned the industrialisation of new products (high efficiency burners, dual burners and light alloy valves for hobs). Furthermore, investments were made in maintenance and replacement to keep the assets up to date.

Working capital amounted to euro 34.3 million vs. euro 30.5 million in 2009: as a percentage of sales, it fell from 27% at the end of 2009 to 26%.

Self-financing generated by operating cash flow totalled euro 18.9 million vs. euro 24.8 million in 2009, because of the different trend in working capital.

Net financial debt was euro 9.2 million, against the euro 11.3 million at 31 December 2009. The net medium- to long-term financial position was negative to the tune of euro 7.7 million and consisted entirely of unsecured loans due by the end of 2014, incurred at a EURIBOR 3-month rate plus a spread of 1.10% and 1.40%. The exchange rate risk was partially hedged by entering into two interest rate swap contracts.

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

(in thousands of euro)

	2010	2009
Cash and cash equivalents – opening balance	***5,550***	***8,144***
Operating cash flow	18,869	24,755
Cash flow from investments	(10,985)	(9,701)
Cash flow from financing activities	(8,408)	(17,648)
Cash flow for the period	**(524)**	**(2,594)**
Cash and cash equivalents – closing balance	***5,026***	***5,550***

The net short-term financial position was negative at euro 1.5 million, and comprised cash and cash equivalents of euro 5 million, short-term payables of euro 6.5 million, which includes the current portions of medium-/long-term borrowings of euro 3.7 million and short-term loans granted by subsidiary Faringosi Hinges Srl of euro 2.7 million, as part of the optimisation of the Group treasury.

Shareholders' equity amounted to euro 106.5 million, against euro 99.1 million at year-end 2009. The ratio of net financial debt to shareholders' equity is 0.09 against 0.11 in 2009.

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 2010 financial year and Group shareholders' equity at 31 December 2010 with similar values of the parent company, Sabaf S.p.A.:

	31.12.2010		31.12.2009	
Description	**Net profit**	**Shareholders' equity**	**Net profit**	**Shareholders' equity**
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**13,246**	**106,519**	**8,373**	**99,053**
Shareholders' equity and net result of consolidated companies	4,402	43,617	3,152	37,593
Elimination of consolidated equity investments' carrying value	(853)	(35,034)	0	(34,185)
Goodwill	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	0	0	0	0
Other intercompany eliminations	72	142	58	70
Group net profit and shareholders' equity	**16,867**	**121,846**	**11,583**	**109,133**

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

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

Full name	Type of ownership	Number of shares held at 1 January 2010	Number of shares acquired	Number of shares sold	Number of shares at 31 December 2010
Saleri Giuseppe	Indirect, through the subsidiary Giuseppe Saleri S.a.p.A.	6,525,003	-	100,000	6,425,003
Bettinzoli Angelo	Direct	22,000	-	-	22,000
Saleri Gianbattista	Direct	11,000	1,000	-	12,000
Saleri Gianbattista	Indirect through spouse	4,051	-	-	4,051
Saleri Ettore	Direct	12,000	-	12,000	-
Bartoli Alberto	Direct	7,500	1,000	1,000	7,500
Bartoli Alberto	Indirect through spouse	-	660	-	660
Bragantini Salvatore	Direct	-	3,000	-	3,000
Cavalli Giuseppe	Indirect through spouse	2,860	-	-	2,860
Executives with strategic responsibilities (*)	Direct	10,660	-	8,660	2,000

(*) includes two executives

ROLES PLAYED BY THE DIRECTORS IN OTHER LARGE COMPANIES.

Below we disclose the offices held by Sabaf directors as directors or statutory auditors of other listed companies, in financial, banking and/or insurance companies, and/or in large companies.

- Giuseppe Saleri is Chairman of Giuseppe Saleri SapA, the financial company that controls Sabaf S.p.A.;
- Angelo Bettinzoli is an independent director of Gefran S.p.A.;
- Leonardo Cossu is Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and Credito Lombardo Veneto S.p.A., and statutory auditor of Italmobiliare S.p.A., Ambrosi S.p.A., Brawo S.p.A., Fingefran S.r.l. and Futurimpresa S.G.R. S.p.A.;
- Gregorio Gitti is chairman of Metalcam S.p.A., independent director of Edison S.p.A. and Ansaldo STS S.p.A., member of the Board of Tethys S.r.l. and Bassilichi S.p.A.;
- Giuseppe Cavalli is Chief Executive Officer of Acciaierie di Sicilia S.p.A. (Alfa Acciai Group);
- Salvatore Bragantini is Chairman of I2 Capital SGR S.p.A., non-executive director of Interpump Group S.p.A. and director of Permicro S.p.A..

ALLOCATION OF 2010 EARNINGS

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 2010, with the recommendation to allocate the year's profits of euro 13,245,691 as follows:
- the payment of a dividend of euro 0.80 per share to shareholders, with payment date on 26 May 2011 (ex-date: 23 May 2011). With regard to own shares, we recommend allocating an amount corresponding to the dividend of company shares in the portfolio on the ex-date to the extraordinary reserve;
- the remainder to the extraordinary reserve.

Ospitaletto, 21 Marzo 2011
The Board of Directors


IGNIS.
AERIS.
AQVÆ.
TERRÆ.
TINCTVR.
COAGVLATION.
DISTILLATION.
PVTREFACTION.
SOLVTION.
SVBLIMATION.
CALTINATION.

6

The entire conquest of his potentials and his future,
the complete liberation of his will.
Eliphas Levi, 19th century

CONSOLIDATED FINANCIAL STATEMENT AT 31 DECEMBER 2010

GROUP STRUCTURE AND CORPORATE BODIES

Direct parent company	SABAF S.p.A.	
Subsidiaries and equity interest owned by the Group	Faringosi Hinges s.r.l.	100%
	Sabaf Immobiliare s.r.l.	100%
	Sabaf do Brasil Ltda.	100%
	Sabaf Mexico S.A. de c.v.	100%
	Sabaf US Corp.	100%
	Sabaf Appliance Components (Kunshan) Co. Ltd.	100%

CORPORATE BODIES

Board of Directors	**Chairman**	Giuseppe Saleri
	Deputy Chairman	Gianbattista Saleri
	Deputy Chairman	Ettore Saleri
	Chief Executive Officer	Angelo Bettinzoli
	Director	Alberto Bartoli
	Director	Leonardo Cossu
	Director (*)	Salvatore Bragantini
	Director (*)	Giuseppe Cavalli
	Director (*)	Fausto Gardoni
	Director (*)	Gregorio Gitti
	Director (*)	Flavio Pasotti

(*) independent directors

Board of Auditors	**Chairman**	Alessandro Busi
	Statutory Auditor	Enrico Broli
	Statutory Auditor	Renato Camodeca
Independent Auditor	Deloitte & Touche S.p.A.	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)

ASSETS	Notes	31.12.2010	31.12.2009
NON-CURRENT ASSETS			
Property, plant and equipment	1	79,070	76,932
Investment property	2	7,859	8,734
Intangible assets	3	10,409	10,692
Equity investments	4	964	1,220
Non-current receivables	5	140	226
Deferred tax assets (prepaid taxes)	20	2,190	1,234
Total non current assets		**100,632**	**99,038**
CURRENT ASSETS			
Inventories	6	26,082	21,447
Trade receivables	7	43,755	40,568
Tax receivables	8	1,304	2,485
Other current receivables	9	776	599
Cash and cash equivalents	10	9,769	9,154
Total current assets		**81,686**	**74,253**
TOTAL ASSETS		**182,318**	**173,291**

SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	11	11,533	11,533
Retained earnings, other reserves		93,446	86,017
Net profit for period		16,867	11,583
Total equity attributable to the Group parent company		*121,846*	*109,133*
Minority interest		*0*	*0*
Total shareholders' equity		**121,846**	**109,133**
NON-CURRENT LIABILITIES			
Loans	13	16,416	22,270
Staff severance fund (TFR) and retirement reserves	15	2,627	2,916
General provisions	16	767	779
Deferred income tax	20	323	240
Total non-current liabilities		**20,133**	**26,205**
CURRENT LIABILITIES			
Loans	13	5,843	6,041
Other financial liabilities	14	55	4
Trade payables	17	24,185	24,844
Tax payables	18	3,485	1,445
Other liabilities	19	6,771	5,619
Total current liabilities		**40,339**	**37,953**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**182,318**	**173,291**

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

CONTINUING OPERATIONS	Notes	31.12.2010	31.12.2009
OPERATING REVENUE AND INCOME			
Revenue	22	150,897	127,088
Other income	23	4,773	2,919
Total operating revenue and income		**155,670**	**130,007**
OPERATING COSTS			
Materials	24	(57,919)	(40,833)
Change in inventories		4,656	(6,852)
Services	25	(32,280)	(26,654)
Payroll costs	26	(30,920)	(26,438)
Other operating costs	27	(1,628)	(1,647)
Costs for capitalised in-house work		937	935
Total operating cost		**(117,154)**	**(101,489)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS		**38,516**	**28,518**
Depreciation and amortisation		(12,438)	(12,295)
Capital gains/(losses) on disposal of non-current assets		(34)	(5)
Write-downs/write-backs of non-current assets	2	(251)	0
OPERATING PROFIT		**25,793**	**16,218**
Financial income		132	207
Financial expenses	28	(1,239)	(1,544)
Foreign exchange gains/losses	29	(151)	(333)
Profits and losses from equity investments	4	(759)	0
PRE-TAX PROFIT		**23,776**	**14,548**
Income tax	30	(6,909)	(2,965)
Minority interests		0	0
NET PROFIT FOR THE YEAR		**16,867**	**11,583**

EARNINGS PER SHARE (EPS)	**31**		
Base		**1.467 euro**	**1.007 euro**
Diluted		**1.467 euro**	**1.007 euro**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(in thousands of Euro)

	31.12.2010	31.12.2009
NET PROFIT FOR THE YEAR	**16,867**	**11,583**
Others profit/losses		
Forex differences from translation of items in currency	1,625	2,479
Earnings/losses from cash flow hedges	(29)	121
Total profits/(losses) net of taxes	1,596	2,600
TOTAL PROFITS	**18,463**	**14,183**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

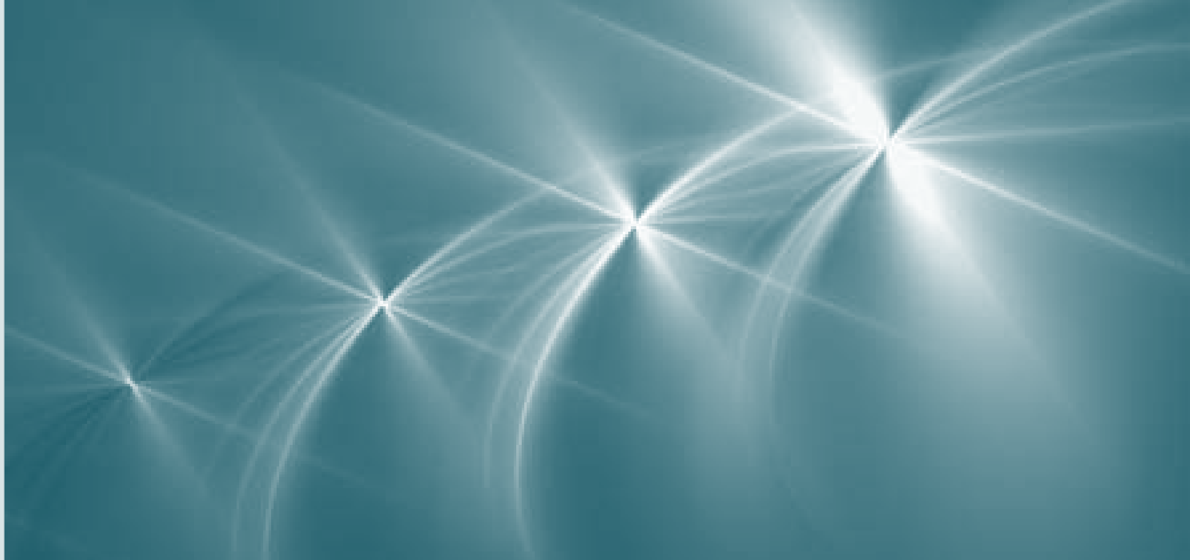
(in thousands of Euro)

	Share capital	Share premium reserve	Legal reserve	Own shares	Conversion reserve	Cash flow hedge reserves	Other reserves	Net profit for period	Total Group shareholders' equity	Minority interest	Total shareholders' equity
Balance at 31.12.08	**11,533**	**10,002**	**2,307**	**(67)**	**(904)**	**(121)**	**65,101**	**15,410**	**103,261**	**0**	**103,261**
Allocation of 2008 earnings											
- Dividends paid								(8,050)	(8,050)		(8,050)
- to reserves							7,360	(7,360)	0		0
Acquisition own shares				(261)					(261)		(261)
Total profit at 31.12.09					2,479	121	0	11,583	14,183		14,183
Balance at 31.12.09	**11,533**	**10,002**	**2,307**	**(328)**	**1,575**	**0**	**72,461**	**11,583**	**109,133**	**0**	**109,133**
Allocation of 2009 earnings											
- Dividends paid								(5,750)	(5,750)		(5,750)
- to reserves							5,833	(5,833)	0		0
Total profit at 31.12.10					1,625	(29)	0	16,867	18,463		18,463
Balance at 31.12.10	**11,533**	**10,002**	**2,307**	**(328)**	**3,200**	**(29)**	**78,294**	**16,867**	**121,846**	**0**	**121,846**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of Euro)

	12M 2010	12M 2009
Cash and cash equivalents at beginning of period	***9,154***	***11,229***
Net profit/(loss) for period	16,867	11,583
Adjustments for:		
- Depreciation and amortisation for the period	12,438	12,295
- Realised losses	34	5
- Write-downs of non-current assets	251	0
- Losses from equity investments	759	0
- Net financial income and expenses	1,107	1,337
- Income tax	6,909	2,965
Change in staff severance fund	(289)	(91)
Change in general provisions	(12)	(267)
Change in trade receivables	*(3,187)*	*1,510*
Change in inventories	*(4,635)*	*6,446*
Change in trade payables	*(659)*	*(373)*
Change in net working capital	**(8,481)**	**7,583**
Change in other receivables and payables, deferred tax liabilities	864	2,147
Payment of taxes	(4,342)	(6,718)
Payment of financial expenses	(1,239)	(1,544)
Collection of financial income	132	207
Cash flow from operations	**24,998**	**29,502**
Investments in non-current assets		
- intangible	(636)	(1,118)
- tangible	(12,733)	(11,247)
- financial	(500)	(575)
Disposal of non-current assets	525	1,076
Net investments	**(13,344)**	**(11,864)**
Repayment of loans	(6,052)	(18,982)
New loans	0	6,533
Acquisition own shares	0	(261)
Payment of dividends	(5,750)	(8,050)
Cash flow from operations	**(11,802)**	**(20,760)**
Foreign exchange differences	763	1,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	***9,769***	***9,154***
Current net financial debt	5,898	6,045
Non-current financial debt	16,416	22,270
Net financial debt	**12,545**	**19,161**



EXPLANATORY NOTES

ACCOUNTING STANDARDS

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Consolidated year-end accounts of the Sabaf Group for the financial year 2010 have been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS). The financial statements have been prepared in euro, the current currency in the economies in which the Group mainly operates, rounding amounts to the nearest thousand, and are compared with full-year financial statements for the previous year, prepared according to the same standards. The report consists of the statement of financial position, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and is considered a going concern. The Group found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 25 and 26 of IAS 1) on the continuity of the Company, including due to the strong competitive position, high profitability and solidity of the financial structure.

FINANCIAL STATEMENTS

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

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

SCOPE OF CONSOLIDATION

The scope of consolidation at 31 December 2010 did not undergo any changes compared with 31 December 2009 and included the direct parent company Sabaf SpA and the following companies of which Sabaf possesses control:
- Faringosi Hinges S.r.l.
- Sabaf Immobiliare S.r.l.
- Sabaf do Brasil L.tda.

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

CONSOLIDATION POLICIES

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

The policies applied for consolidation are as follows:

a) Assets and liabilities, income and costs in financial statements consolidated on a 100% line-by-line basis are incorporated into the Group financial statements, regardless of the entity of the equity interest concerned. In addition, the carrying value of equity interests is eliminated against the shareholders' equity relating to subsidiary companies.

b) Positive differences arising from elimination of equity investments against the carrying value of shareholders' equity at the date of first-time consolidation are attributed to the higher values of assets and liabilities when possible and, for the remainder, to goodwill. In accordance with the provisions of IFRS 3, the Group has changed the accounting treatment of goodwill on a prospective basis as from the transition date. Therefore, starting on 1 January 2004, the Group has ceased to amortise 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-period exchange rates. Income-statement items are converted at average exchange rates for the period.

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 31.12.10	Average exchange rate 2010	Exchange rate at 31.12.09	Average exchange rate 2009
Brazilian real	2.218	2.331	2.511	2.767

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

	31.12.2010		31.12.2009	
Description	Net profit	Shareholders' equity	Net profit	Shareholders' equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**13,246**	**106,519**	**8,373**	**99,053**
Shareholders' equity and net result of consolidated companies	4,402	43,617	3,152	37,593
Elimination of consolidated equity investments' carrying value	**(853)**	**(35,034)**	**0**	**(34,185)**
Goodwill	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	0	0	0	0
Other intercompany eliminations	72	142	58	70
Group net profit and shareholders' equity	**16,867**	**121,846**	**11,583**	**109,133**

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 preparation of consolidated financial statements as at 31 December 2010 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 in 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 capitalized assets refer to) is verified by determining the value of use. The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The assumptions used for calculating the value of use concerns the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for calculation, during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sale prices are based on past experience and on the expected future changes in the market. The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the consolidated companies, draws up four-year forecasts and determines the terminal value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value stemming from the estimate of its recoverable amount – but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

Investment property

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

Equity investments and non-current receivables

The investment in subsidiary Sabaf Appliance Components (Kunshan) Co., Ltd., a company formed in 2009 and which at 31 December 2010 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 period-end. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the impact is major, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect fair market valuations of the present cost of money and specific risks associated with the liability.

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

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

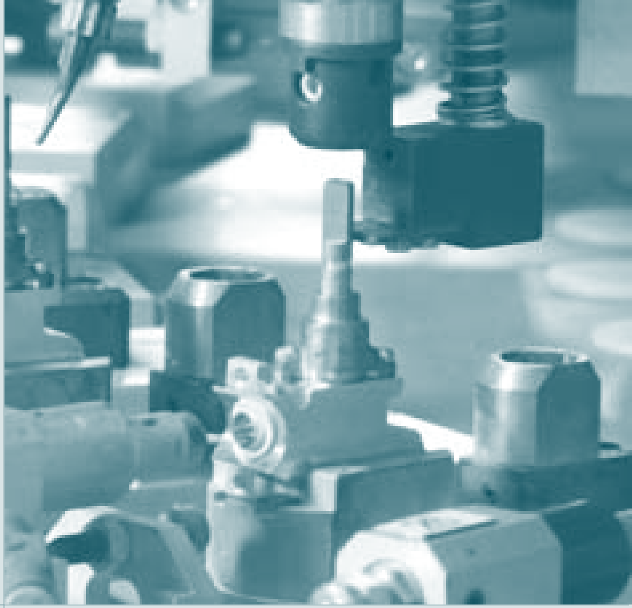
Loans
Loans are initially recognised at cost, net of related costs of acquisition. This value is subsequently adjusted to allow for any difference between initial cost and repayment value over the loan's duration using the effective interest-rate method.
Loans are classified among current liabilities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

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

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

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

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

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

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

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

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

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

Balancing payment for electricity charges
Determining the balancing payment for the cost of electricity used in production at the Ospitaletto plant is subject to estimates – based on the Group's metering equipment – pending the final billing from the supplier based on ENEL's calculation of the balancing payment. In this regard, we cannot rule out that – following the contention with ENEL and the supplier regarding the possible greater consumption ascertained during the inspection of the electricity metering system, which is reported in the Report on Operations in the section "Major events occurring after year-end and outlook" – the Group may be faced with greater liabilities than those estimated in the consolidated financial statements to 31 December 2010 based on the greater knowledge and information available. Given the uncertainty regarding the outcome of the dispute and the inability to determine the balancing payment that the counterparties may propose, the Group has not made any provisions to the risk reserve in the annual accounts with regard to this matter.

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 2010 and not relevant for the Group
The following amendments, improvements and interpretations, effective from 1 January 2010, govern matters and cases that are not present within the Group as of the date of these financial statements, but which could have accounting effects on future transactions or agreements:
- IFRS 3 (2008) – Acquisition of a subsidiary in stages, additional transaction charges, recognition of contingent considerations.
- IAS 27 (2008) – Consolidated and separate financial statements.
- Improvement to IFRS 5 – Non-current assets held for sale and discontinued operations.
- Amendments to IAS 28 – Investments in associates, and to IAS 31 – Interests in joint ventures, consequent to

the changes made to IAS 27.

- Improvement to IAS/IFRS (2009).
- Amendment to IFRS 2 – Share-based payment: Group cash-settled share-based payments.
- IFRIC 17 – Distribution of non-cash assets to owners.
- IFRIC 18 – Transfer of assets from customers.
- Amendment to IAS 39 – Financial instruments: recognition and measurement – Items qualifying for hedge accounting.

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

On 4 November 2009, the IASB issued a revised version of IAS 24 – Related party disclosures, which simplifies the type of information required in the case of transactions with related parties controlled by the state and clarifies the definition of related parties. The standard must be applied from 1 January 2011. The adoption of this amendment will not have any effect on the valuation of accounting items.

On 12 November 2009, the IASB published IFRS 9 – Financial instruments: this standard was then amended on 28 October 2010. The standard, effective from 1 January 2013, represents the first part in a step process intended to completely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. Specifically, for financial assets, the new standard uses a single approach based on the procedures for management of financial instruments and the characteristics of contractual cash flows of the financial assets to determine the measurement method, replacing the different rules established by IAS 39. For financial liabilities, the main change concerns the accounting treatment of fair value changes of a financial liability designated as at fair value through the income statement, in the case that these are due to the change in the creditworthiness of the liability itself. According to the new standard, these changes must be booked under Other Comprehensive Income, and will no longer be transferred to the income statement. As of the date of these financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of this new standard.

On 6 May 2010, the IASB issued a range of improvements to the IFRS that will be applicable from 1 January 2011; set out below are those that will require a change in the presentation, recognition and measurement of accounting items, omitting those that will only determine changes in terminology or phraseology with minimal effects in accounting terms, or that have an effect in standards or interpretations not applicable to the Group.

- IFRS 3 (2008) – Business combinations: the amendment clarifies that the non-controlling interests that do not give holders the right to receive a proportional percentage of the net assets of the subsidiary must be valued at fair value or as required by the applicable accounting standards. So, for example, a stock option plan granted to employees must be valued, in the case of a business combination, in accordance with the rules of IFRS 2 and the portion of equity of a convertible bond instrument must be valued in accordance with IAS 32. Furthermore, the Board analysed the issue of share-based payment plans that are replaced within the context of a business combination, adding a specific guide to clarify their accounting treatment.
- IFRS 7 – Financial instruments: disclosures: the changes emphasises the interaction between the qualitative and quantitative supplementary information required by the standard regarding the nature and extent of risks inherent in financial instruments. This should help users of the accounts to link the information presented and build a general description of the nature and extent of risks resulting from financial instruments. Furthermore, the request for disclosure regarding financial assets that have expired but that have been renegotiated or written down and that relating to the fair value of collateral have been eliminated.
- IAS 1 – Presentation of financial statements: this change requires that the reconciliation of changes in any component of shareholders' equity is presented in the notes or in the accounting schedules.
- IAS 34 – Interim financial reporting: using examples, clarifications were inserted regarding the additional information that must be presented in interim financial statements.

The adoption of these changes will not have a significant effect on the Group's financial statements.

On 07 October 2010, the IASB published some amendments to IFRS 7 – Financial instruments: Disclosures, applicable for accounting periods beginning on or after 1 July 2011. The amendments were issued in order to improve understanding of transfers of financial assets, including the understanding of possible effects resulting from some remaining risk to the company that transferred these assets. The amendments also require more information in the event that a disproportionate amount of these transactions are engaged in at the end of an accounting period. As of the date of these financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of these amendments.

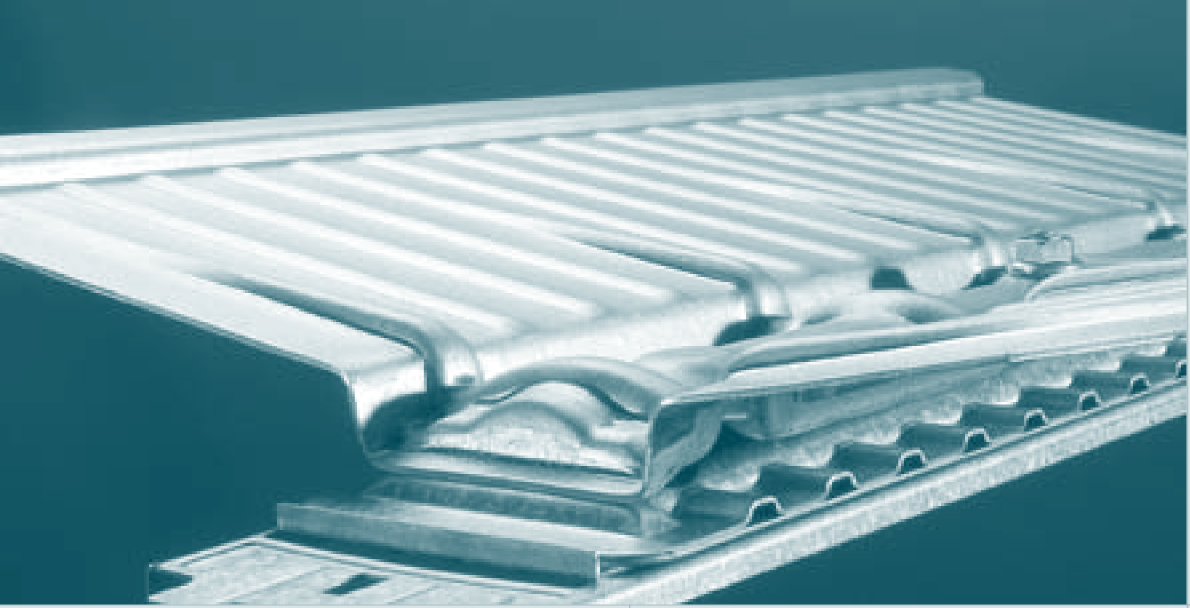
COMMENTS ON SIGNIFICANT BALANCE SHEET ITEMS

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
COST					
At 31.12.08	**37,668**	**131,363**	**22,900**	**7,299**	**199,230**
Increases	5,491	7,670	1,759	2,110	17,030
Disposals	(15)	(62)	(169)	-	(246)
Reclassification to another item	-	-	-	(6,404)	(6,404)
Forex differences	675	995	283	-	1,953
At 31.12.09	**43,819**	**139,966**	**24,773**	**3,005**	**211,563**
Increases	403	8,153	3,315	4,058	15,929
Disposals	-	(106)	(342)	-	(448)
Reclassification to another item	5	(268)	(132)	(2,801)	(3,196)
Forex differences	396	708	160	-	1,264
At 31.12.10	**44,623**	**148,453**	**27,774**	**4,262**	**225,112**
Accumulated amortisation					
At 31.12.08	**6,459**	**97,179**	**19,284**	**-**	**122,922**
Depreciation of the year	1,074	8,652	1,539	-	11,265
Eliminations for disposals	-	(54)	(158)	-	(212)
Reclassification to another item	7	50	9	-	66
Forex differences	36	388	166	-	590
At 31.12.09	**7,576**	**106,215**	**20,840**	**-**	**134,631**
Depreciation of the year	1,176	8,265	1,877	-	11,318
Eliminations for disposals	-	(90)	(336)	-	(426)
Reclassification to another item	(11)	99	(22)	-	66
Forex differences	32	308	113	-	453
At 31.12.10	**8,773**	**114,797**	**22,472**	**-**	**146,042**
Carrying value					
At 31.12.10	**35,850**	**33,656**	**5,302**	**4,262**	**79,070**
At 31.12.09	**36,243**	**33,751**	**3,933**	**3,005**	**76,932**

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

	31.12.2010	31.12.2009	Change
Land	6,547	6,413	134
Industrial buildings	29,303	29,830	(527)
TOTAL	**35,850**	**36,243**	**(393)**



The carrying value of industrial property includes an amount of euro 8,198,000 (euro 9,227,000 in 2009) relating to industrial buildings and related land held under finance leases.
The main investments for the year included those for the industrialisation of new products (high-efficiency burners, dual burners, light allow valves for hobs) and those intended to increase the level of automation at the Brazilian plant. Furthermore, the Group made investments in maintenance and replacement to keep the assets up to date.

At 31 December 2010, 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 31.12.08	**12,204**
Increases	758
Disposals	(289)
At 31.12.09	**12,673**
Increases	-
Disposals	(416)
At 31.12.10	**12,257**

ACCUMULATED AMORTISATION	
At 31.12.08	**3,699**
Depreciation of the year	240
At 31.12.09	**3,939**
Depreciation of the year	236
Write-downs for impairment	251
Eliminations for disposals	(28)
At 31.12.10	**4,398**

CARRYING VALUE	
At 31.12.10	**7,859**
At 31.12.09	**8,734**

This entry includes non-instrumental property belonging to the Group. This is mainly property for residential use reserved for lease or sale.
In 2010 the Group adjusted the carrying value of residential investment property to market values, resulting in a write-down of euro 251,000.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
COST					
At 31.12.08	**9,008**	**4,347**	**1,527**	**934**	**15,816**
Increases	-	541	21	657	1,219
Decreases/reclassification	-	(7)	-	(101)	(108)
At 31.12.09	**9,008**	**4,881**	**1,548**	**1,490**	**16,927**
Increases	-	87	524	26	637
Decreases/reclassification	-	204	733	(1,005)	(68)
At 31.12.10	**9,008**	**5,172**	**2,805**	**511**	**17,496**
AMORTISATION					
At 31.12.08	**2,406**	**2,178**	**488**	**378**	**5,450**
Quota 2009	-	626	153	13	792
Decreases	-	(7)	-	-	(7)
At 31.12.09	**2,406**	**2,797**	**641**	**391**	**6,235**
Quota 2010	-	671	196	14	881
Decreases	-	-	-	(29)	(29)
At 31.12.10	**2,406**	**3,468**	**837**	**376**	**7,087**
CARRYING VALUE					
At 31.12.10	**6,602**	**1,704**	**1,968**	**135**	**10,409**
At 31.12.09	**6,602**	**2,084**	**907**	**1,099**	**10,692**

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 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. Expected operating cash flows arise from estimates in the 2011 budget and in the company business plan for the following four years, approved by the Board of Directors of the subsidiary and carefully reviewed by the Board of the parent company in a meeting prior to the meeting called to approve the draft financial statements. Estimates were determined while considering past experience and by operating on prudent expectations on the future progress of the reference sector; these are augmented by the so-called "terminal" value, which expresses the operating flows that the CGU is expected to generate from the sixth year to infinity. The terminal value represents a significant portion of the value of use, calculated based on a discount rate of 8.40% and a growth rate of 1.75%.

Based on the above assumptions and valuation techniques, the value of use of the "Hinges" CGU was higher than the net carrying value of the assets allocated to the unit, at €9.8 million, which was therefore not written down.

Use of discount rates and higher and lower growth rates would have determined a different value of use, as shown in the following table:

	GROWTH RATE		
DISCOUNT RATE	**1.50%**	**1.75%**	**2.00%**
8.00%	11,192	11,558	11,954
8.25%	10,760	11,096	11,458
8.40%	10,516	10,835	11,180
8.50%	10,359	10,668	11,001
8.75%	9,986	10,271	10,577

In light of the significant sensibility of value of use to changes in the discount rate and the growth rate, in an environment in which the trend in revenue (in volume and value) and production costs, as well as the discount rate itself, depend on the development of macroeconomic variables that the Company cannot control, the Board of Directors cannot rule out that in future, trends in these variables differing from those that can be reasonably forecast based on current knowledge and used to make assumptions underlying forward data, may require goodwill write-downs. Given the uncertainty of any process estimating future events not dependent on variables that can be controlled, the directors will systematically monitor actual balance sheet and income statement data to assess the need to adjust forecasts and at the same time reflect any losses in value.

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

The main investments in the year related to the development of new products, including dual burners and high-efficiency burners.

4. EQUITY INVESTMENTS

	31.12.2009	Capital increases	Gains (losses) from equity investments	Forex differences	31.12.2010
Sabaf Appliance Components (Kunshan))	500	500	(759)	3	244
Sabaf Mexico	548	-	-	-	548
Sabaf US	139	-	-	-	139
Other shareholdings	33	-	-	-	33
TOTAL	**1,220**	**500**	**(759)**	**3**	**964**

The value of the equity investment in Sabaf Appliance Components (Kunshan) increased by euro 500,000 owing to capital increases made in the period, and was reduced by euro 756,000 following the valuation of the stake at equity. The loss relates to operating costs sustained by the company pending the launch of sales and production activity on the local market.

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

5. NON-CURRENT RECEIVABLES

	31.12.2010	31.12.2009	Change
Tax receivables	108	203	(95)
Guarantee deposits	12	12	-
Others	20	11	9
TOTAL	**140**	**226**	**(86)**

6. INVENTORIES

	31.12.2010	31.12.2009	Change
Raw materials	8,821	6,813	2,008
Semi-processed goods	11,323	9,826	1,497
Finished products	7,979	6,531	1,448
Obsolescence provision	(2,041)	(1,723)	(318)
TOTAL	**26,082**	**21,447**	**4,635**

The higher value of final inventories at 31 December 2010 resulted from greater business volumes and the significant rise in the prices of the main raw materials. The obsolescence provision amounted to euro 437,000 for raw materials, euro 658,000 for semi-processed goods, and euro 946,000 for finished products (respectively euro 427,000, euro 533,000, and euro 763,000 at year-end 2009), increasing at year-end as a result of the higher quantities of stagnant material at risk of obsolescence.

7. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2010	31.12.2009	Change
Italy	20,793	22,093	(1,300)
Western Europe	2,520	4,202	(1,682)
Eastern Europe and Turkey	9,828	6,215	3,613
Asia	6,339	3,744	2,595
South America	2,975	2,692	283
Africa	1,999	2,742	(743)
US, Canada & Mexico	622	647	(25)
Oceania	29	56	(27)
Gross total	**45,105**	**42,391**	**2,714**
Provision for doubtful accounts	(1,350)	(1,823)	473
NET TOTAL	**43,755**	**40,568**	**3,187**

At 31 December 2010, the value of trade receivables was slightly higher than at 31 December 2009, and chiefly reflected the sales performance in the last quarter of the year. Average payment terms did not change significantly. At 31 December 2010, trade receivables included balances of USD 2,696,000, posted at the EUR/USD exchange rate as at 31 December 2010, i.e. 1.3362. The amount of trade receivables recognised in accounts includes euro 16.4 million of receivables assigned on a no-recourse basis (euro 12.6 million at 31 December 2009). The doubtful account provision was partially used in the year, mainly to cover the bad debt in respect of Lofra, and was adjusted at the end of the year to reflect the better estimate of the credit risk.

Trade receivables broken down by age are as follows:

	31.12.2010	31.12.2009	Change
Current receivables (not past due)	41,005	38,753	2,252
Outstanding up to 30 days	2,718	1,957	761
Outstanding from 30 to 60 days	175	295	(120)
Outstanding from 60 to 90 days	191	136	55
Outstanding over 90 days	1,016	1,250	(234)
TOTAL	**45,105**	**42,391**	**2,714**

8. TAX RECEIVABLES

	31.12.2010	31.12.2009	Change
From Giuseppe Saleri SapA for IRES	-	1,334	(1,334)
From inland revenue for VAT	386	491	(105)
Other tax receivables	918	660	258
TOTAL	**1,304**	**2,485**	**(1,181)**

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

9. OTHER CURRENT RECEIVABLES

	31.12.2010	31.12.2009	Change
Advances to suppliers	224	8	216
Receivables from factoring companies	167	167	-
Receivables from suppliers	166	174	(8)
Others	219	250	(31)
TOTAL	**776**	**599**	**177**

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to euro 9,769,000 at 31 December 2010 (euro 9,154,000 at 31 December 2009) refer to bank account balances and sight deposits. At 31 December 2010, cash and cash equivalents included positive bank account balances of around USD 4.4 million, arising from collection of trade receivables and posted at the current EUR/USD exchange rate of 1.3362.

11. SHARE CAPITAL

At 31 December 2010, the parent company's share capital consisted of 11,533,450 shares of a par value of euro 1.00 each. Subscribed and paid-in share capital did not change during the year.
On 14 December 2010, the Shareholders' Meeting of Sabaf S.p.A. cancelled the increase in share capital from euro 11,533,450 to a maximum of euro 12,133,450, resolved in 2007 to service a stock option plan, for which the conditions of maturity for the options were not satisfied.

12. OWN SHARES

Group companies did not buy or sell shares in Sabaf S.p.A in 2010. At 31 December 2010 the parent company held 32,503 own shares, equivalent to 0.282% of the share capital.

13. LOANS

	31.12.2010		31.12.2009	
	Current	Non Current	Current	Non Current
Property leasing	1,250	4,176	1,380	5,425
Property mortgages	849	4,533	838	5,382
Unsecured loans	3,744	7,707	3,646	11,463
Overdrafts and other loans	-	-	177	-
TOTAL	**5,843**	**16,416**	**6,041**	**22,270**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor. As described in Note 34, the risk in exchange rate changes was partially hedged by entering into two interest rate swap contracts.
Property mortgage loans are secured by mortgages on Group properties. Finance lease payments are guaranteed to the lessor through rights on leased assets. These loans are not bound by contractual provisions (covenants). The fair value of loans approximates carrying value.

14. OTHER FINANCIAL LIABILITIES

	31.12.2010	31.12.2009	Change
Derivative instruments on interest rates	55	4	51
TOTAL	**55**	**4**	**51**

This item includes the negative fair value of the derivative financial instruments at year-end that hedge interest rate risks (Note 34).

15. STAFF SEVERANCE FUND (TFR) AND RETIREMENT RESERVES

	31.12.2010		31.12.2009	
	Post-employment benefit	Retirement reserves	Post-employment benefit	Retirement reserves
Liabilities at 1st January	**2,906**	**10**	**2,929**	**78**
Social seurity costs	11	10	21	10
Financial expenses	85	-	152	-
Amounts paid out	(395)	-	(196)	(78)
Liabilities at 31st December	**2,607**	**20**	**2,906**	**10**

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

FINANCIAL ASSUMPTIONS

	31.12. 2010	31.12.2009
Discount rate	4.00%	4.10%
Inflation	2.00%	2.00%

DEMOGRAPHIC ASSUMPTIONS

	31.12. 2010	31.12.2009
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
Staff turnover	variable from 5% to 7% per year depending on company	variable from 5% to 7% per year depending on company
Retirement age	65 years for men and 60 for women, 40 years of employment	65 years for men and 60 for women, 40 years of employment

16. GENERAL PROVISIONS

	31.12.2009	Allocations	Forex differences	Uses	Release of excess	31.12.2010
Reserve for agents' indemnities	459	24	-	(10)	(92)	381
Product warranty reserve	60	60	-	(60)	-	60
Reserve for legal risks	135	-	14	(24)	-	125
Other provisions for risks	125	107	5	(16)	(20)	201
TOTAL	**779**	**191**	**19**	**(110)**	**(112)**	**767**

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 utilised in full the year against returns from prior year sales and replenished at year end, leading to a provision on the basis of 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:

	31.12.2010	31.12.2009	Change
Italy	20,169	20,689	(520)
Western Europe	3,277	3,558	(281)
Eastern Europe and Turkey	76	224	(148)
Asia	218	25	193
South America	308	275	33
US, Canada & Mexico	137	73	64
TOTAL	**24,185**	**24,844**	**(659)**

At 31 December 2010, the value of trade payables did not change significantly from the balance a year earlier; the average payment terms were not subject to change.

18. TAX PAYABLES

	31.12.2010	31.12.2009	Change
From Giuseppe Saleri SapA for IRES	2,241	-	2,241
From inland revenue for IRAP	524	-	524
IRPEF withholdings	720	651	69
Substitute pursuant to Law 244/07	-	768	(768)
Other tax payables	-	26	(26)
TOTAL	**3,485**	**1,445**	**2,040**

Since 2004, Italian companies of the Group have been part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. This option was renewed in 2010 for another three years. In this scheme, Giuseppe Saleri S.a.p.A., the parent company of Sabaf S.p.A., acts as the consolidating company and the payable reported in the financial statements at 31 December 2010 refer to the balance for income taxes transferred to the parent company.

19. OTHER CURRENT PAYABLES

	31.12.2010	31.12.2009	Change
Due to employees	3,963	3,148	815
Due to social security institutions	2,076	1,871	205
Due to agents	541	352	189
Payments to clients	49	84	(35)
Other current payables	142	164	(22)
TOTAL	**6,771**	**5,619**	**1,152**

20. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2010	31.12.2009
Deferred tax assets (prepaid taxes)	2,190	1,234
Deferred tax liabilities	(323)	(240)
Net position	**1,867**	**994**

Below are the key items of deferred tax liabilities and assets and their movements during FY2008 and previous years.

	Tax losses of previous years	Amortisation and leasing	Provisions and value adjustments	Deferred development costs	Fair value derivatives	Other	Total
At 31.12.2008	**0**	**(1,179)**	**718**	**(462)**	**55**	**(763)**	**(1,631)**
To the income statement	-	(68)	378			(156)	154
To the income statement for application of the substitute tax pursuant to Law 185/08	-	1,129	-	462	-	935	2,526
To shareholders' equity	-	-	-	-	(55)	-	(55)
At 31.12.09	**0**	**(118)**	**1,096**	**0**	**0**	**16**	**994**
To the income statement	454	2	56	-	-	350	862
To shareholders' equity	-	-	-	-	11	-	11
At 31.12.10	**454**	**(116)**	**1,152**	**0**	**11**	**366**	**1,867**

These consolidated financial statements include euro 454,000 booked as deferred tax assets on the residual losses carried forward of Sabaf do Brasil Ltda., following the positive results achieved in the last few years and forecasts of further positive results for the next few years.

At the balance-sheet date, the Group had further unused tax losses carried forward totalling euro 7.6 million accumulated by the subsidiaries. Due to the difficulty of predicting future taxable amounts, no deferred 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:

		31.12.2010	31.12.2009	Change
A.	Cash	11	14	(3)
B.	Positive balances of unrestricted bank accounts	9,105	7,123	1,982
C.	Other liquidities	653	2,017	(1,364)
D.	**Cash and cash equivalents (A+B+C)**	**9,769**	**9,154**	**615**
E.	Current bank payables (Note 13)	0	177	(177)
F.	Current portion of non-current debt (Note 13)	5,843	5,864	(21)
G.	Other current financial payables (Note 14)	55	4	51
H.	**Current financial debt (E+F+G)**	**5,898**	**6,045**	**(147)**
I.	**Current net financial debt (H-D)**	**(3,871)**	**(3,109)**	**(762)**
J.	Non-current bank payables	12,240	16,845	(4,605)
K.	Other non-current financial payables	4,176	5,425	(1,249)
L.	**Non-current financial debt (J+K)**	**16,416**	**22,270**	**(5,854)**
M.	**Net financial debt (I+L)**	**12,545**	**19,161**	**(6,616)**

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 euro 150,897,000 in 2010, up by euro 23,809,000 (+18.7%) vs. 2009.

REVENUE BY PRODUCT FAMILY

	2010	2009	Change	Change %
Brass valves	31,788	26,928	4,860	+18.0%
Light alloy valves	20,027	15,276	4,751	+31.1%
Thermostats	14,829	13,746	1,083	+7.9%
Standard burners	41,405	36,358	5,047	+13.9%
Special burners	21,097	17,173	3,924	+22.8%
Accessories	10,959	9,089	1,870	+20.6%
Total gas components	**140,105**	**118,570**	**21,535**	**+18.2%**
Hinges	10,792	8,518	2,274	+26.7%
TOTAL	**150,897**	**127,088**	**23,809**	**+18.7%**

As described in detail in the Report on Operations, all product families contributed to the increase in revenue. The most innovative products (light alloy valves and special burners) and hinges, thanks to the contribution of exclusive models, registered the highest growth rates. Average sales prices remained broadly unchanged versus 2009.

GEOGRAPHICAL BREAKDOWN OF REVENUE

	2010	%	2009	%	Change %
Italy	61,648	40.8%	52,654	41.4%	+17.1%
Western Europe	11,561	7.6%	10,233	8.1%	+13.0%
Eastern Europe and Turkey	32,553	21.6%	27,978	22.0%	+16.4%
Asia	15,347	10.2%	13,186	10.4%	+16.4%
Central and South America	17,467	11.6%	13,473	10.6%	+29.6%
Africa	7,056	4.7%	6,107	4.8%	+15.5%
US, Canada & Mexico	5,136	3.4%	3,348	2.6%	+53.4%
Oceania	129	0.1%	109	0.1%	+18.3%
TOTAL	**150,897**	**100%**	**127,088**	**100%**	**+18.7%**

All Group markets registered double-digit growth versus 2009. Results were particularly exceptional in South America – thanks to strong final demand for domestic appliances in this area – and in the US, Canada and Mexico – thanks to the contribution of special products.

23. OTHER INCOME

	31.12.2010	31.12.2009	Change
Sale of scraps	3,524	2,388	1,136
Contingent income	398	75	323
Dedicated equipment	189	-	189
Use of provisions for risks and contingencies	113	103	10
Rental income	106	117	(11)
Other income	443	236	207
TOTAL	**4,773**	**2,919**	**1,854**

The increase in sales of production scraps was due to the higher volumes of production and the increase in the price of commodities (and as a result, scraps). Income from dedicated equipment related to the sale to customers of moulds and other equipment for special tailor-made products.

24. MATERIALS

	31.12.2010	31.12.2009	Change
Raw materials and purchases	53,296	37,777	15,519
Consumables	4,623	3,056	1,567
TOTAL	**57,919**	**40,833**	**17,086**

The average actual cost of raw materials (brass, aluminium alloys and steel) fell by around 30% compared to 2009, while the cost of other components did not change significantly.

25. COSTS FOR SERVICES

	31.12.2010	31.12.2009	Change
Outsourced processing	13,860	11,264	2,596
Natural gas and power	3,953	3,038	915
Maintenance	4,303	3,501	802
Freight, carriage, transport	1,906	1,442	464
Commissions	1,113	1,022	91
Advisory services	1,353	1,027	326
Directors' remuneration	1,071	986	85
Temporary agency workers	345	294	51
Travel expenses and allowances	454	352	102
Canteen	406	353	53
Insurance	295	319	(24)
Other payroll costs	3,221	3,056	165
TOTAL	**32,280**	**26,654**	**5,626**

The higher costs for services are related to greater business volumes.

26. PAYROLL COSTS

	31.12.2010	31.12.2009	Change
Salaries and wages	19,910	17,173	2,737
Social security costs	6,533	5,683	850
Temporary agency workers	2,733	2,148	585
Post-employment benefit reserve and Other payroll costs	1,744	1,434	310
TOTAL	**30,920**	**26,438**	**4,482**

Average Group headcount in 2010 totalled 690 employees (530 blue-collars, 149 white-collars and supervisors, and 11 managers), as opposed to 670 in 2009 (518 blue-collars, 143 white-collars and supervisors, and 9 managers). The average number of temporary staff was 86 in 2010 (75 in 2009).

27. OTHER OPERATING COSTS

	31.12.2010	31.12.2009	Change
Write down of receivables	577	786	(209)
Other taxes	263	292	(29)
Other administration expenses	236	83	153
Out of period losses	211	234	(23)
Provisions for risk	160	160	-
Dedicated equipment	150	-	150
Others provisions	31	-	31
Losses on receivables	-	92	(92)
TOTAL	**1,628**	**1,647**	**(19)**

Receivables were written down to adjust the related reserve to the risk of insolvency by some clients, in view of the difficult environment on some markets and the existence of past due accounts. Provisions for liabilities refer to the allocations to the risk reserve described in Note 16.

Costs for dedicated equipment relate to moulds and other equipment made specifically for certain customers, charged to them during the year. Revenue from these items is booked under “Other income”.

28. FINANCIAL EXPENSES

	31.12.2010	31.12.2009	Change
Interest paid to banks	434	860	(426)
Interest paid on finance lease contracts	125	132	(7)
IRS spreads payable	139	-	139
Banking expenses	436	344	92
Other finance expense	105	208	(103)
TOTAL	**1,239**	**1,544**	**(305)**

The higher interest paid to banks was a consequence of the lower interest rates and the higher level of average financial debt during 2010 compared with 2009.

29. FOREIGN EXCHANGE GAINS/ LOSSES

During 2010, the Group registered net foreign exchange losses of euro 151,000 (net losses of euro 333,000 in 2009). This was mainly due to the revaluation of the US dollar against the Euro and the Brazilian real.

30. INCOME TAX

	31.12.2010	31.12.2009	Change
Current income tax	7,840	4,635	3,205
Deferred income tax	(823)	(154)	(669)
Substitute tax, under Decree Law 185/08	-	1,072	(1,072)
Reversal of deferred taxes under Decree Law 185/08	-	(2,526)	2,526
Balance of previous FY	(108)	(62)	(46)
TOTAL	**6,909**	**2,965**	**3,944**

Current income taxes include corporate income tax (IRES) of euro 5,671,000, Italian regional business tax (IRAP) of euro 1,814,000 and Brazilian income tax of euro 355,000 (respectively euro 3,023,000, euro 1,350,000 and euro 262,000 in 2009).

TAX STATUS

In 2010, the parent company Sabaf S.p.A. concluded the dispute with the Italian Revenue Agency following a tax audit relating to 2002 and 2003 regarding income taxes, VAT and IRAP.
No significant tax lawsuits were pending at 31 December 2010.

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.

	31.12.2010	31.12.2009
Theoretical income tax	6,538	4,001
Tax effect on permanent differences	424	96
Taxes relating to previous years	(29)	(63)
Deferred tax liabilities not allocated	-	(5)
Tax effect from different foreign tax rates	87	75
Accounting of tax effect on tax losses carried forward	(432)	-
Accounting of tax effect on temporary differences carried forward	(143)	-
Use of tax losses	(645)	(624)
Effect of detaxing investments pursuant to Law 78/09	(618)	(397)
Other differences	(5)	(42)
Income taxes booked in the accounts, excluding IRAP and withholding taxes (current and deferred)	**5,176**	**3,041**
IRAP (current and deferred)	1,733	1,378
Withholding taxes	-	1,072
Release of deferred taxes for application of the withholding tax	-	(2,526)
TOTAL	**6,909**	**2,965**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. As shown in the table, also in 2010, the Group benefited from removing from IRES taxable income 50% of the amount of a number of investments, pursuant to Law 78/09 (“Tremonti-ter). 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.

31. EARNINGS PER SHARE

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

PROFIT

(in thousands of Euro)

	2010	2009
Net profit for period	16,867	11,583

NUMBER OF SHARES

	2010	2009
Weighted average number of ordinary shares for calculating basic EPS	11,500,947	11,507,348
Dilution effect arising from potential ordinary shares	-	-
Weighted average number of ordinary shares for calculating diluted EPS	11,500,947	11,507,348

EARNINGS PER SHARE (EURO)

	2010	2009
Basic earnings per share	1.467	1.007
Diluted earnings per share	1.467	1.007

Basic earnings per share is calculated on the average number of outstanding shares minus own shares, equal to 32,503 in 2010 and 26,152 in 2009.
Diluted earnings per share is calculated taking into account shares approved but not yet subscribed.

32. DIVIDENDS

On 27 May 2010, shareholders were paid a dividend of euro 0.50 per share (total dividends of euro 5,750,000), euro 0.20 per share less than paid in 2009.
Directors have recommended payment of a dividend of euro 0.80 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 for 2010 is payable to all holders of shares at 23 May 2011 and is scheduled for payment from 26 May 2011.

33. INFORMATION BY BUSINESS SEGMENT

Below is the information by business segment for 2010 and 2009.

	FY 2010			FY 2009		
	Gas components	Hinges	Total	Gas components	Hinges	Total
Sales	140,129	10,768	**150,897**	118,661	8,427	**127,088**
Operating income (loss)	24,357	1,436	**25,793**	15,441	777	**16,218**

34. INFORMATION BY BUSINESS SEGMENT

Categories of financial instrumentsi

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

	31.12.2010	31.12.2009
FINANCIAL ASSETS		
Amortised cost		
Cash and cash equivalents	9,769	9,154
Commercial receivables and other receivables	44,531	41,167
Other financial assets	-	-
Income statement fair value		
Financial assets held for trading	-	-
Designated financial assets	-	-
Comprehensive income statement fair value		
Securities	-	-
Equity investments	-	-
Derivative cash flow hedges	-	-
FINANCIAL LIABILITIES		
Income statement fair value		
Liabilities held for trading	-	-
Comprehensive income statement fair value		
Derivative cash flow hedges	55	4
Amortised cost		
Loans	22,259	28,311
Trade payables	24,185	24,844

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

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

CREDIT RISK MANAGEMENT

The Group has trade receivables with domestic appliance manufacturers, multinational groups and smaller manufacturers present on a few or individual markets. The Group 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 40% 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 2010, 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, a hypothetical and immediate revaluation of 10% of the Euro against the dollar would have led to a loss of approximately euro 510,000.

INTEREST RATE RISK MANAGEMENT

The Group borrows money at a floating rate; to reach an optimal mix of floating and fixed rates in the structure of the loans, the Group uses derivative financial instruments designating them to cash flow hedges. In 2009, the Group entered into two IRS agreements to convert in 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 2010 and 31 December 2009:

AT 31.12.10

	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.11%	7,250	(46)
From 1 to 2 years	2.12%	4,491	(21)
From 2 to 3 years	2.14%	1,696	8
From 3 to 5 years	2.20%	1,732	1
More than 5 years	-	-	-
TOTAL			**(58)**

AT 31.12.09

	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.11%	9,975	(89)
From 1 to 2 years	2.11%	7,250	24
From 2 to 3 years	2.12%	4,491	41
From 3 to 5 years	2.14%	1,732	24
More than 5 years	-	-	-
TOTAL			**0**

Sensitivity analysis
With reference to financial assets and liabilities at floating rate at 31 December 2010 and 31 December 2009, 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:

	31.12.2010		31.12.2009	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	133	122	170	161
Decrease of 100 base points	(87)	(119)	(143)	(167)

COMMODITY PRICE RISK MANAGEMENT

A significant portion of the company'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 2010 and 2009, 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 2010 equal to 0.10) and has unused short-term lines of credit of more than euro 50 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 2010 and 31 December 2009:

AT 31.12.10

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

AT 31.12.09

	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	15,109	15,901	997	2,992	11,912	-
Property mortgages	6,219	6,684	-	955	3,819	1,910
Finance leases	6,806	7,787	382	1,179	3,842	2,384
Lines of credit upon request and overdrafts	177	177	177	-	-	-
Total financial payables	**28,311**	**30,549**	**1,556**	**5,126**	**19,573**	**4,294**
Trade payables	24,844	24,844	24,844	-	-	-
TOTAL	**53,155**	**55,393**	**26,400**	**5,126**	**19,573**	**4,294**

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.

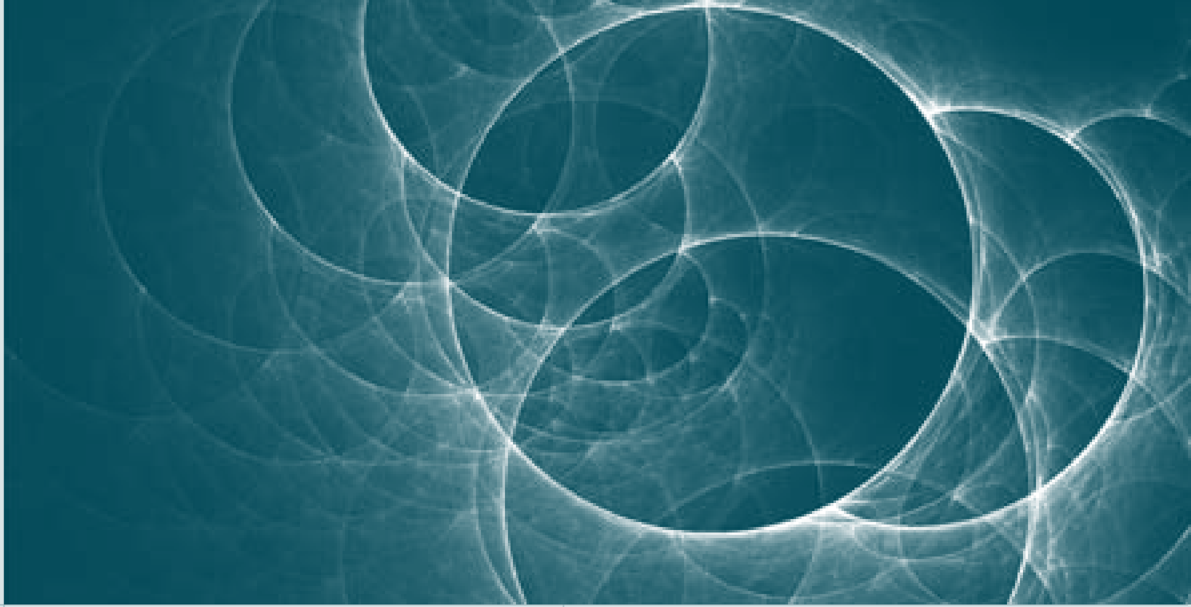
HIERARCHICAL LEVELS OF THE FAIR VALUE ASSESSMENT

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 31.12.10, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (derivatives on currency)	-	55	-	55
TOTAL LIABILITIES	**0**	**55**	**0**	**55**



35. 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 2010	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	43,755		133		133	0.30%
Trade payables	(24,185)		(127)	(4)	(131)	0.54%
Tax payables	(3,485)	(2,241)			(2,241)	64.30%

	Total 2009	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	40,568		46		46	0.11%
Trade payables	2,485	1,334			1,334	53.68%
Tax payables	(24,844)		(139)	(5)	(144)	0.58%

Impact of related-party transactions on income statement accounts

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

	Total 2009	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Revenue	127,088		46		46	0.04%
Other income	2,919	60			60	2.06%
Materials	(40,833)			(7)	(7)	0.02%
Services	(26,654)		(139)		(139)	0.52%

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 no—consolidated subsidiaries were solely of a commercial nature. Losses from equity investments in 2010 related to the valuation of Sabaf Appliance Components (Kunshan) at equity, as described in more detail in Note 4.

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

REMUNERATION TO DIRECTORS, STATUTORY AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Remuneration paid to members of Sabaf S.p.A.'s directors, statutory auditors and managers with strategic responsibilities, including for offices held in subsidiaries, is shown below:

	31.12.2010	31.12.2009
Directors' remuneration	836	836
Salaries to directors	152	151
Bonuses to directors	122	-
Non-monetary benefits to directors	-	-
Statutory auditors' remuneration	60	57
Salaries, bonuses and other compensation to managers with strategic responsibilities (no. 2)	277	214
TOTAL	**1,447**	**1,258**

36. SHARE-BASED PAYMENTS

At 31 December 2010, there were no equity-based incentive plans for the Group's directors and employees.

37. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2010 it did not execute any significant non-recurring transactions.

38. 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 2010.

39. 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 euro 6,852,000 (euro 5,573,000 at 31 December 2009).

40. CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

COMPANIES CONSOLIDATED ON A 100% LINE-BY-LINE BASIS

Company name	Registered office	Share capital	Shareholders	% Ownership
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%
Sabaf do Brasil Ltda	Jundiaì (SP, Brazil)	BRL 31,835,400	Sabaf S.p.A.	100%

NON-CONSOLIDATED COMPANIES VALUED AT EQUITY

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

NON-CONSOLIDATED COMPANIES VALUED AT COST

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

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE

41. 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
Sito web: http://www.sabaf.it

Tax information:
R.E.A. Brescia 347512 - Codice Fiscale 03244470179
P.IVA 01786910982

APPENDIX

INFORMATION AS REQUIRED BY ARTICLE 149/12 OF THE CONSOB ISSUERS' REGULATION

The following table, prepared pursuant to Article 149/12 of the CONSOB Issuers' Regulation, shows fees relating to 2010 for the independent auditor and for services other than independent auditing provided by the same auditing firm and its network.

(in thousands of Euro)

	Party that distributes the service	Recipient	Considerations for the year 2010
Audit	Deloitte & Touche S.p.A.	Direct parent company	48
	Deloitte & Touche S.p.A.	Italian subsidiaries	18
	Deloitte network	Sabaf do Brasil	26
Certification services	Deloitte & Touche S.p.A.	Direct parent company	3 (1)
	Deloitte & Touche S.p.A.	Italian subsidiaries	2 (1)
Other services	Deloitte & Touche S.p.A.	Direct parent company	12 (2)
	Deloitte network	Sabaf do Brasil	13 (3)
TOTAL			**122**

(1) signing of Unico, IRAP and 770 forms, and statements made to obtain tax credits and other contributions for research and development.
(2) audit procedures relating to the Interim Report on Operations
(3) tax assistance regarding transfer pricing


VISITA INTERIORA TERRÆ RECTIFICANDO INVENIES OCCULTUM LAPIDEM

CERTIFICATION OF THE CONSOLIDATED ANNUAL REPORT

TECHNOLOGY AND SAFETY

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

CERTIFICATION OF THE CONSOLIDATED ANNUAL REPORT AND ACCOUNTS, IN ACCORDANCE WITH ARTICLE 154 BIS OF LEGISLATIVE DECREE 58/98

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

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

of the administrative and accounting principles for drafting the consolidated annual report and accounts in 2010.

They also certify that:

- the Consolidated Annual Report and Accounts :
  - were prepared in accordance with the international accounting policies recognized 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;
  - corresponds to the results of the accounting entries and ledgers;
  - are appropriate to provide a truthful and correct picture of the income statement, balance sheet, and cash flow of the issuer and the companies included in the consolidation;

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

Ospitaletto, 21 marzo 2011

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

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, 2010, 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 March 31, 2010.

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, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure 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, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

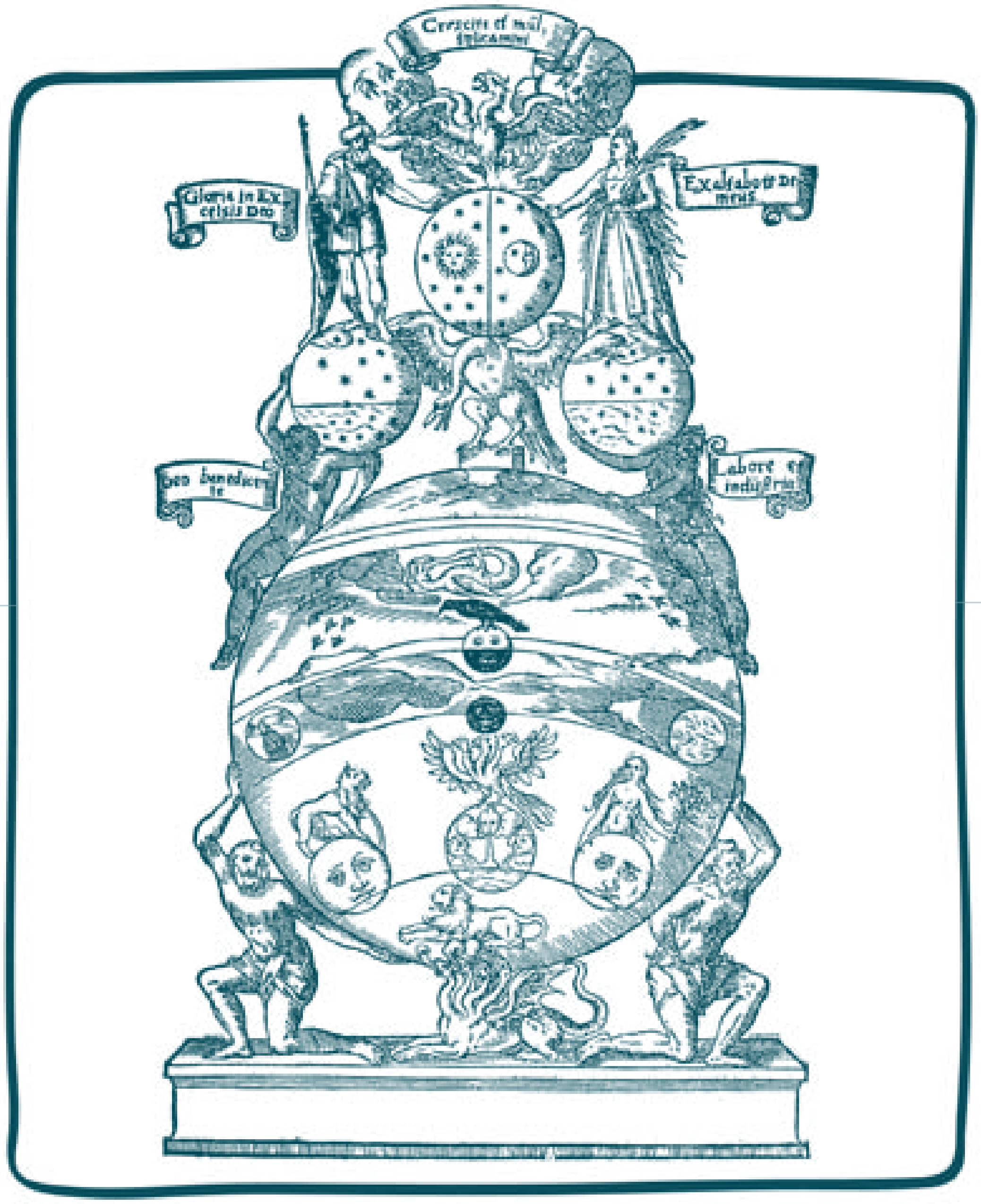
Brescia, Italy
April 6, 2011

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

7

He should be sufficiently rich to bear the expenses of his art.
He should avoid having anything to do with princes or noblemen.

Albertus Magnus "De Alchimia"



STATUTORY ANNUAL REPORT & ACCOUNTS AT 31 DICEMBRE 2010

STATEMENT OF FINANCIAL POSITION

(in euro)

ASSETS	NOTES	31.12.2010	31.12.2009
NON-CURRENT ASSETS			
Property, plant and equipment	1	39,876,790	39,285,152
Investment property	2	2,808,192	3,007,184
Intangible assets	3	4,141,235	4,219,112
Equity investments	4	35,998,577	35,404,032
Non-current receivables		9,708	9,708
Deferred tax assets (prepaid taxes)	19	1,386,306	1,085,591
Total non-current assets		**84,220,808**	**83,010,779**
CURRENT ASSETS			
Inventories	5	23,425,726	19,349,865
Trade receivables	6	40,173,836	37,501,763
Tax receivables	7	338,824	1,681,619
- of which from related parties		*0*	*1,270,195*
Other current receivables	8	876,742	844,297
Cash and cash equivalents	9	5,026,100	5,550,507
Total current assets		**69,841,228**	**64,928,051**
TOTAL ASSETS		**154,062,036**	**147,938,830**

SHAREHOLDERS' EQUITY AND LIABILITIES	NOTES	31.12.2010	31.12.2009
SHAREHOLDERS' EQUITY			
Share capital	10	11,533,450	11,533,450
Retained earnings, other reserves		81,740,276	79,146,219
Net profit for period		13,245,691	8,372,867
Total shareholders' equity		**106,519,417**	**99,052,536**
NON-CURRENT LIABILITIES			
Loans	12	7,706,678	11,463,084
Staff severance fund (TFR) and retirement reserves	14	2,309,707	2,598,514
General provisions	15	520,087	560,380
Deferred income tax	19	267	6,573
Total non-current liabilities		**10,536,739**	**14,628,551**
CURRENT LIABILITIES			
Loans	12	6,444,427	5,345,594
- of which from related parties	*33*	*2,700,000*	*1,700,000*
Other financial liabilities	13	55,410	4,499
Trade payables	16	21,029,676	22,482,838
Tax payables	17	3,149,800	1,312,447
- of which from related parties	*33*	*2,052,024*	*0*
Other liabilities	18	6,326,567	5,112,365
Total current liabilities		**37,005,880**	**34,257,743**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**154,062,036**	**147,938,830**

INCOME STATEMENT

(in euro)

CONTINUING OPERATIONS	NOTES	31.12.2010	31.12.2009
OPERATING REVENUE AND INCOME			
Revenue	21	132,176,431	112,698,619
Other income	22	3,845,485	2,618,642
Total operating revenue and income		136,021,916	115,317,261
OPERATING COSTS			
Materials	23	(49,907,820)	(35,503,543)
Change in inventories		4,075,861	(6,236,529)
Services	24	(31,618,058)	(26,848,616)
- from related parties	*33*	*(3,606,424)*	*(3,266,958)*
Payroll costs	25	(27,566,627)	(23,833,944)
Other operating costs	26	(1,175,478)	(1,431,859)
Costs for capitalised in-house work		909,116	896,173
Total operating cost		(105,283,006)	(92,958,318)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/ NON-CURRENT ASSETS		**30,738,910**	**22,358,943**
Depreciation and amortisation	1,2,3	(10,157,691)	(10,404,666)
Capital gains/(losses) on disposal of non-current assets		(11,326)	5,226
Write-downs/write-backs of non-current assets	4	93,739	0
OPERATING PROFIT		**20,663,632**	**11,959,503**
Financial income		14,589	16,993
Financial expenses	27	(978,660)	(1,105,543)
Foreign exchange gains/losses	28	93,491	31,608
Profits and losses from equity investments		207	0
PRE-TAX PROFIT		**19,793,259**	**10,902,561**
Income tax	29	(6,547,568)	(2,529,694)
NET PROFIT FOR THE YEAR		**13,245,691**	**8,372,867**

COMPREHENSIVE INCOME STATEMENT

(in euro)	31.12.2010	31.12.2009
NET PROFIT FOR THE YEAR	**13,245,691**	**8,372,867**
Others profit/losses		
Cash flow hedges	(28,335)	99,615
TOTAL PROFITS	**13,217,356**	**8,472,482**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Euro)

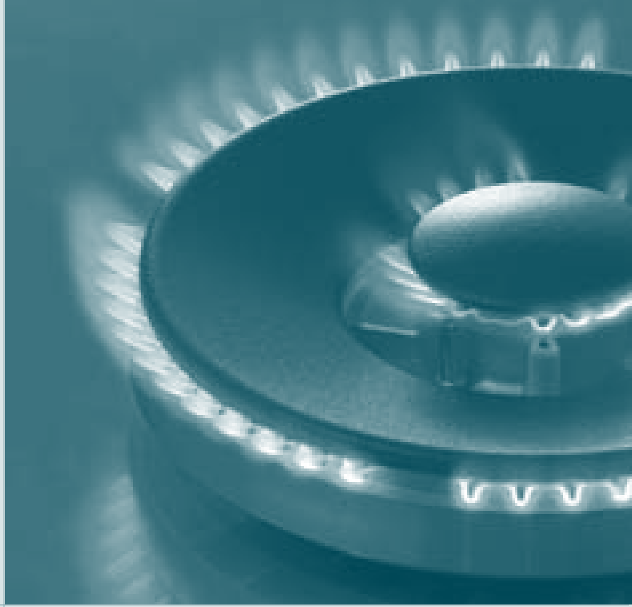
	Share Capital	Share Premium reserve	Legal Reserve	Own shares	Reserve Cash hedge flows	Other reserves	Profit of the year	Total Shareholders' equity
Balance at 31.12.08	**11,533**	**10,002**	**2,307**	**(67)**	**(101)**	**61,193**	**14,025**	**98,892**
Allocation of 2008 earnings								
- dividends paid							(8,051)	(8,051)
- to reserves						5,974	(5,974)	0
Acquisition own shares				(261)				(261)
Total profit at 31.12.09					100	0	8,373	8,473
Balance at 31.12.09	**11,533**	**10,002**	**2,307**	**(328)**	**(1)**	**67,167**	**8,373**	**99,053**
Allocation of 2009 earnings								
- dividends paid							(5,751)	(5,751)
- to reserves						2,622	(2,622)	0
Total profit at 31.12.10					(29)		13,246	13,217
Balance at 31.12.10	**11,533**	**10,002**	**2,307**	**(328)**	**(30)**	**69,789**	**13,246**	**106,519**

CASH FLOW STATEMENT

(in thousands of Euro)

	FY 2010	FY 2009
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	***5,550***	***8,144***
Net profit/(loss) for period	13,246	8,373
Adjustments for:		
- Depreciation and amortisation for the period	10,158	10,405
- Realised losses	11	(5)
- Write-backs of non-current assets	(94)	0
- Net financial income and expenses	964	1,089
- Income tax	6,548	2,530
Change in staff severance fund	(289)	(35)
Change in general provisions	(40)	(223)
Change in trade receivables	*(2,672)*	*932*
Change in inventories	*(4,076)*	*6,237*
Change in trade payables	*(1,453)*	*(2)*
Change in net working capital	**(8,201)**	**7,167**
Change in other receivables and payables, deferred tax liabilities	1,225	2,573
Payment of taxes	(3,695)	(6,030)
Payment of financial expenses	(979)	(1,106)
Collection of financial income	15	17
Cash flow from operations	**18,869**	**24,755**
Investments in non-current assets		
- Intangible	(912)	(1,250)
- tangible	(9,652)	(7,983)
- financial	(501)	(574)
Disposal of non-current assets	80	106
Net investments	**(10,985)**	**(9,701)**
Repayment of loans	(3,658)	(17,036)
New loans	1,000	7,700
Acquisition own shares	0	(261)
Payment of dividends	(5,750)	(8,051)
Cash flow from operations	**(8,408)**	**(17,648)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	***5,026***	***5,550***
Current net financial debt	6,499	5,350
Non-current financial debt	7,707	11,463
Net financial debt	**9,180**	**11,263**

EXPLANATORY NOTES



ACCOUNTING STANDARDS

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Sabaf S.p.A. individual year-end accounts for the financial year 2010 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 2010.

FINANCIAL STATEMENTS

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

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

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

ACCOUNTING POLICIES

The accounting standards and policies applied for preparation of the financial statements as at 31 December 2010 are described below.

Property, plant and equipment

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

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

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

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

Land is not depreciated.

Leased assets

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

Investment property

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

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

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

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

Intangible assets

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

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

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

The SAP management system is amortised over five years.

Equity investments and non-current receivables

Equity investments not classified as held for sale are booked at cost, reduced for impairment.

Non-current receivables are stated at their presumed realisable value.

Impairment of value

At each balance-sheet date, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to see whether there are signs of impairment of the value of these assets. If such signs exist, the recoverable value is estimated in order to determine the write-down amount. If it is not possible to estimate recoverable value individually, the Company estimates the recoverable value of the cash-generating unit (CGU) to which the asset belongs. In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity which the capitalized assets refer to) is verified by determining the value of use. The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, future cash flows net of taxes, estimated based on past experience, are discounted to their present value using a pre-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The assumptions used for calculating the value of use concerns the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for calculation, during the period used for the calculation. The growth rates adopted are based on future market expectations in the relevant sector. Changes in the sale prices are based on past experience and on the expected future changes in the market. The Company prepares operating cash flow forecasts based on the most recent budgets approved by the Boards of Directors of the subsidiaries, draws up four-year forecasts and determines the so-called "terminal" value (current value of perpetual income), which expresses the medium and long term operating flows in the specific sector.

Furthermore, the Company checks the recoverable value of its subsidiaries at least once a year when the annual

accounts are prepared.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying 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. 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 period-end. Provisions are stated in the statement of financial position only when a legal or implicit obligation exists that determines the use of resources with an impact on profit and loss to meet that obligation and the amount can be reliably estimated. If the impact is major, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect fair market valuations of the present cost of money and specific risks associated with the liability.

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

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

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

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

Derivative instruments and hedge accounting
The Company's business is exposed to financial risks relating to changes in exchange rates, commodity prices, and interest rates. The Company may decide to use derivative financial instruments to hedge these risks.
The Company does not use derivatives for trading purposes.
Derivatives are initially recognised at cost and are then adjusted to the fair value on subsequent closing dates.
Changes in the fair value of derivatives designated and recognised as effective for 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 period'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. 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 earned 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 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, and other provisions and reserves, and balancing payments for electricity charges. Specifically:

Recoverable value of tangible and intangible assets
The procedure for determining impairment of value in tangible and intangible assets described under "Impairment of value" implies – in estimating the value of use – the use of the Business Plan of subsidiaries, which are based on a series of assumptions and hypotheses relating to future events and actions of the subsidiaries' management bodies, which may not necessarily come about. In estimating market value, however, assumptions are made on the expected trend in trading between third parties based on historical trends, which may not actually be repeated.
Provisions for credit risks
Credit is adjusted by the related provision for doubtful accounts to take into account its recoverable value. To determine the size of the write-downs, management must make subjective assessments based on the documentation and information available regarding, among other things, the customer's solvency, as well as experience and historical trends.
Provisions for inventory obsolescence
Warehouse inventories subject to obsolescence and slow turnover are periodically valued, and written down if their recoverable value is less than their carrying value. Write-downs are calculated based on management assumptions and estimates, resulting from their experience and historical results.
Employee benefits
The current value of liabilities for employee benefits depends on a series of factors determined using actuarial techniques based on certain assumptions. Assumptions concern the discount rate, the rates of future salary increases, mortality and resignation rates. Any change in the abovementioned assumptions could have significant effects on liabilities for pension benefits.
Income tax
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 Group in litigation. These estimates are determined taking into account the gradual development of the disputes, considering existing exemptions.
Balancing payment for electricity charges
Determining the balancing payment for the cost of electricity used in production at the Ospitaletto plant is subject to estimates – based on the Company's metering equipment – pending the final billing from the supplier based on ENEL's calculation of the balancing payment. In this regard, we cannot rule out that – following the contention with ENEL and the supplier regarding the possible greater consumption ascertained during the inspection of the electricity metering system, which is reported in the Report on Operations in the section "Major events occurring after year-end and outlook" – the Company may be faced with greater liabilities than those estimated in the financial statements to 31 December 2010 based on the greater knowledge and information available. Given the uncertainty regarding the outcome of the dispute and the inability to determine the balancing payment that the counterparties may propose, the Company has not made any provisions to the risk reserve in the annual accounts with regard to this matter.
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 2010 and not relevant for the Company
The following amendments, improvements and interpretations, effective from 1 January 2010, govern matters and cases that are not present within the Company as of the date of these financial statements, but which could have accounting effects on future transactions or agreements:
- IFRS 3 (2008) – Acquisition of a subsidiary in stages, addtional transaction charges, recognition of contingent considerations.
- IAS 27 (2008) – Consolidated and separate financial statements.
- Improvement to IFRS 5 – Non-current assets held for sale and discontinued operations.
- Amendments to IAS 28 – Investments in associates, and to IAS 31 – Interests in joint ventures, consequent to the changes made to IAS 27.
- Improvement to IAS/IFRS (2009).
- Amendment to IFRS 2 – Share-based payment: Group cash-settled share-based payments.
- IFRIC 17 – Distribution of non-cash assets to owners.
- IFRIC 18 – Transfer of assets from customers.
- Amendment to IAS 39 – Financial instruments: rec-

ognition and measurement – Items qulaifying for hedge accounting.

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

On 4 November 2009, the IASB issued a revised version of IAS 24 – Related party disclosures, which simplifies the type of information required in the case of transactions with related parties controlled by the state and clarifies the definition of related parties. The standard must be applied from 1 January 2011. The adoption of this amendment will not have any effect on the valuation of accounting items.

On 12 November 2009, the IASB published IFRS 9 – Financial instruments: this standard was then amended on 28 October 2010. The standard, effective from 1 January 2013, represents the first part in a step process intended to completely replace IAS 39 and introduce new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. Specifically, for financial assets, the new standard uses a single approach based on the procedures for management of financial instruments and the characteristics of contractual cash flows of the financial assets to determine the measurement method, replacing the different rules established by IAS 39. For financial liabilities, the main change concerns the accounting treatment of fair value changes of a financial liability designated as at fair value through the income statement, in the case that these are due to the change in the creditworthiness of the liability itself. According to the new standard, these changes must be booked under Other Comprehensive Income, and will no longer be transferred to the income statement. As of the date of these financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of this new standard.

On 6 May 2010, the IASB issued a range of improvements to the IFRS that will be applicable from 1 January 2011; set out below are those that will require a change in the presentation, recognition and measurement of accounting items, omitting those that will only determine changes in terminology or phraseology with minimal effects in accounting terms, or that have an effect in standards or interpretations not applicable to the Company.

- IFRS 3 (2008) – *Business combinations:* the amendment clarifies that the non-controlling interests that do not give holders the right to receive a proportional percentage of the net assets of the subsidiary must be valued at fair value or as required by the applicable accounting standards. So, for example, a stock option plan granted to employees must be valued, in the case of a business combination, in accordance with the rules of IFRS 2 and the portion of equity of a convertible bond instrument must be valued in accordance with IAS 32. Furthermore, the Board analysed the issue of share-based payment plans that are replaced within the context of a business combination, adding a specific guide to clarify their accounting treatment.
- IFRS 7 – *Financial instruments:* disclosures: the changes emphasises the interaction between the qualitative and quantitative supplementary information required by the standard regarding the nature and extent of risks inherent in financial instruments. This should help users of the accounts to link the information presented and build a general description of the nature and extent of risks resulting from financial instruments. Furthermore, the request for disclosure regarding financial assets that have expired but that have been renegotiated or written down and that relating to the fair value of collateral have been eliminated.
- IAS 1 – *Presentation of financial statements:* this change requires that the reconciliation of changes in any component of shareholders' equity is presented in the notes or in the accounting schedules.
- IAS 34 – *Interim financial reporting:* using examples, clarifications were inserted regarding the additional information that must be presented in interim financial statements.

The adoption of these changes will not have a significant effect on the Company's financial statements.

On 07 October 2010, the IASB published some amendments to IFRS 7 – *Financial instruments:* Disclosures, applicable for accounting periods beginning on or after 1 July 2011. The amendments were issued in order to improve understanding of transfers of financial assets, including the understanding of possible effects resulting from some remaining risk to the company that transferred these assets. The amendments also require more information in the event that a disproportionate amount of these transactions are engaged in at the end of an accounting period. As of the date of these financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the application of these amendments.

COMMENT ON THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	Total
COST					
At 31.12.08	**5,605**	**120,975**	**19,083**	**2,976**	**148,639**
Increases	94	6,654	1,526	1,806	10,080
Disposals	-	(39)	(128)	-	(167)
Reclassification to another item	-	-	-	(2,155)	(2,155)
At 31.12.09	**5,699**	**127,590**	**20,481**	**2,627**	**156,397**
Increases	162	6,685	2,726	2,672	12,245
Disposals	-	(67)	(256)	-	(323)
Reclassification to another item	-	(371)	-	(2,226)	(2,597)
At 31.12.10	**5,861**	**133,837**	**22,951**	**3,073**	**165,722**
DEPRECIATION AND AMORTISATION ACCUMULATED					
At 31.12.08	**1,542**	**90,001**	**16,325**	**-**	**107,868**
Depreciation of the year	155	7,967	1,284	-	9,406
Eliminations for disposals	-	(33)	(129)	-	(162)
At 31.12.09	**1,697**	**97,935**	**17,480**	**-**	**117,112**
Depreciation of the year	163	7,335	1,539	-	9,037
Eliminations for disposals	-	(54)	(250)	-	(304)
At 31.12.10	**1,860**	**105,216**	**18,769**	**-**	**125,845**
CARRYING VALUE					
At 31.12.10	**4,001**	**28,621**	**4,182**	**3,073**	**39,877**
At 31.12.09	**4,002**	**29,655**	**3,001**	**2,627**	**39,285**

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

	31.12.2010	31.12.2009	Change
Land	1,291	1,291	-
Industrial buildings	2,710	2,711	(1)
TOTAL	**4,001**	**4,002**	**(1)**

The main investments in the year concerned the industrialisation of new products (high efficiency burners, dual burners and light alloy valves for hobs). Furthermore, the Company made investments in maintenance and replacement to keep the assets up to date.
At 31 December 2010, 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

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 2010, 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.

COST	
At 31.12.08	**6,675**
Increases	-
Disposals	-
At 31.12.09	**6,675**
Increases	-
Disposals	-
At 31.12.10	**6,675**
ACCUMULATED AMORTISATION	
At 31.12.08	**3,468**
Depreciation of the year	200
At 31.12.09	**3,668**
Depreciation of the year	199
At 31.12.10	**3,867**
CARRYING VALUE	
At 31.12.10	**2,808**
At 31.12.09	**3,007**

3. INTANGIBLE ASSETS

	Patents, know-how and software	Development costs	Other intangible assets	Total
COST				
At 31.12.08	**4,278**	**1,527**	**1,270**	**7,075**
Increases	529	21	765	1,315
Decreases	(7)	-	(102)	(109)
At 31.12.09	**4,800**	**1,548**	**1,933**	**8,281**
Increases	76	524	311	911
Reclassifications	204	796	(1,000)	-
Decreases	-	(63)	(5)	(68)
At 31.12.10	**5,080**	**2,805**	**1,240**	**9,125**
AMORTISATION				
At 31.12.08	**2,134**	**488**	**648**	**3,270**
Quota 2009	600	153	46	799
Decreases	(7)	-	-	(7)
At 31.12.09	**2,727**	**641**	**694**	**4,062**
Quota 2010	657	196	69	922
Decreases	-	-	-	-
At 31.12.10	**3,384**	**837**	**763**	**4,984**
CARRYING VALUE				
At 31.12.10	**1,696**	**1,968**	**477**	**4,141**
At 31.12.09	**2,073**	**907**	**1,239**	**4,219**

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 the burner for ovens and high-efficiency dual burners (research and development activities conducted over the year are set out in the Report on Operations). Other intangible assets mainly comprise improvements to leased property. At 31 December 2010, 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

	31.12.2010	31.12.2009	Change
In subsidiary companies	35,966	35,372	594
Other shareholdings	33	32	1
Total	**35,999**	**35,404**	**595**

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	Total
HISTORICAL COST							
At 31.12.08	13,475	10,329	11,234	548	65	0	35,651
Capital increases	-	-	-	-	74	500	574
At 31.12.09	13,475	10,329	11,234	548	139	500	36,225
Capital increases	-	-	-	-	-	500	500
At 31.12.10	13,475	10,329	11,234	548	139	1,000	36,725
WRITE-DOWN RESERVE							
At 31.12.08	-	-	853	-	-	-	853
Write-downs /Write-backs	-	-	-	-	-	-	-
At 31.12.09	-	-	853	-	-	-	853
Write-downs /Write-backs	-	-	(853)	-	-	759	(94)
At 31.12.10	-	-	0	-	-	759	759
CARRYING VALUE							
At 31.12.10	13,475	10,329	11,234	548	139	241	35,966
At 31.12.09	13,475	10,329	10,381	548	139	500	35,372
SHAREHOLDERS' EQUITY (DETERMINED IN ACCORDANCE WITH IAS/IFRS)							
At 31.12.10	20,960	7,700	14,957	275	77	244	44,213
At 31.12.09	19,297	6,732	11,588	291	78	458	38,444
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND BOOK VALUE							
At 31.12.10	7,485	(2,629)	3,723	(273)	(62)	3	8,247
At 31.12.09	5,822	(3,597)	1,207	(257)	(61)	(42)	3,072

The book value of the equity investment in Faringosi Hinges is higher than shareholders' equity for euro 2,629,000. At 31 December 2010, Sabaf S.p.A. determined the recoverable value of the equity investment, considered to be equal to its value of use, by time discounting the expected cash flow. Expected operating cash flows arise from estimates in the 2011 budget and in the company business plan for the following four years, approved by the Board of Directors of the subsidiary and carefully reviewed by the Board of the parent company in a meeting prior to the meeting called to approve the draft financial statements. Estimates were determined while considering past experience and by operating on prudent expectations on the future progress of the reference sector; these are augmented by the so-called "terminal" value, which expresses the operating flows that the cash generating unit is expected to generate from the sixth year to infinity. The terminal value represents a significant portion of the value of use, calculated based on a discount rate of 8.40% and a growth rate of 1.75%. The value of use determined based on the assumptions and assessment techniques cited above is greater than the accounting value of the equity investment, which was not written down. Use of discount rates and higher and lower growth rates would have determined a different value of use, as shown in the following table:

	GROWTH RATE		
DISCOUNT RATE	**1.50%**	**1.75%**	**2.00%**
8.00%	15,197	15,563	15,960
8.25%	14,766	15,102	15,464
8.40%	14,522	14,841	15,185
8.50%	14,365	14,674	15,007
8.75%	13,992	14,277	14,584

The book value of the Sabaf do Brasil investment was reduced in previous years for impairment. In light of the positive results registered in 2009 and 2010, and the positive outlook for the next few years, the reasons that determined the impairment no longer exist; the value of the investment was consequently fully written back.

Sabaf Appliance Components (Kunshan) Co., Ltd., the Chinese company formed in 2009, has not yet launched purchase, production and sales operations. In 2010, a capital increase of euro 500,000 was launched. The value of the investment was reduced by euro 759,000, in light of losses sustained by the subsidiary from its formation until 31 December 2010 and considered permanent, given the current uncertainty of the initiative launched in China.

5. INVENTORIES

	31.12.2010	31.12.2009	Change
Raw materials	7,931	6,117	1,814
Semi-processed goods	10,456	8,988	1,468
Finished products	6,839	5,745	1,094
Obsolescence provision	(1,800)	(1,500)	(300)
TOTAL	**23,426**	**19,350**	**4,076**

The higher value of final inventories at 31 December 2010 resulted from greater business volumes and the significant rise in the prices of the main raw materials. The obsolescence provision amounted to euro 420,000 for raw materials, euro 625,000 for semiprocessed goods, and euro 755,000 for finished products (respectively euro 410,000, euro 500,000, and euro 590,000 at year-end 2009), increasing at year-end as a result of the higher quantities of stagnant material at risk of obsolescence.

6. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2010	31.12.2009	Change
Italy	19,720	21,073	(1,353)
Western Europe	2,130	3,858	(1,728)
Eastern Europe and Turkey	9,587	6,027	3,560
Asia	6,339	3,744	2,595
South America	1,261	1,325	(64)
Africa	1,999	2,718	(719)
US, Canada & Mexico	260	359	(99)
Oceania	28	48	(20)
GROSS TOTAL	41,324	39,152	2,172
Provision for doubtful accounts	(1,150)	(1,650)	500
NET TOTAL	**40,174**	**37,502**	**2,672**

At 31 December 2010, the value of trade receivables was slightly higher than at 31 December 2009, and chiefly reflected the sales performance in the last quarter of the year. Average payment terms did not change significantly. At 31 December 2010, trade receivables included balances of some USD 918,000, posted at the EUR/USD exchange rate as at 31 December 2010, i.e. 1.3362. The amount of trade receivables recognised in accounts includes euro16.1 million of receivables assigned on a no-recourse basis (euro12.4 million at 31 December 2009). The doubtful account provision was partially used in the year, mainly to cover the bad debt in respect of Lofra, and was adjusted at the end of the year to reflect the better estimate of the credit risk.
At 31 December 2010, trade receivables broken down by age are as follows:

	31.12.2010	31.12.2009	Change
Current receivables (not past due)	38,208	36,158	2,050
Outstanding up to 30 days	2,078	1,607	471
Outstanding from 30 to 60 days	70	206	(136)
Outstanding from 60 to 90 days	176	134	42
Outstanding over 90 days	792	1,047	(255)
TOTAL	**41,324**	**39,152**	**2,172**

7. TAX RECEIVABLES

	31.12.2010	31.12.2009	Change
From inland revenue for VAT	339	341	(2)
From inland revenue for IRAP	-	71	(71)
From Giuseppe Saleri SapA for IRES	-	1,270	(1,270)
TOTAL	**339**	**1,682**	**(1,343)**

8. OTHER CURRENT RECEIVABLES

	31.12.2010	31.12.2009	Change
Receivables to the parent company for Group VAT	226	362	(136)
Advances to suppliers	223	-	223
Receivables from suppliers	158	161	(3)
Receivables from factoring companies	158	158	-
Other	112	163	(51)
TOTAL	**877**	**844**	**33**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to euro 5,026,000 at 31 December 2010 (euro 5,551,000 at 31 December 2009) refer almost exclusively to bank account balances. At 31 December 2010, cash and cash equivalents included positive bank account balances of USD 962,000, arising from collection of trade receivables and posted at the current EUR/USD exchange rate of 1.3362.

10. SHARE CAPITAL

At 31 December 2010, the Company's share capital consisted of 11,533,450 shares with a par value of euro1.00 each. Subscribed and paid-in share capital did not change during the year.
On 14 December 2010, the Shareholders' Meeting cancelled the increase in share capital from euro11,533,450 to a maximum of euro12,133,450, resolved in 2007 to service a stock option plan, for which the conditions of maturity for the options were not satisfied.

11. OWN SHARES

In 2010, the Company did not buy or sell own shares. At 31 December 2010, the Company held 32,503 own shares, equivalent to 0.282% of the share capital.

12. LOANS

	31.12.2010		31.12.2009	
	Current	Non Current	Current	Non Current
Unsecured loans	3,744	7,707	3,646	11,463
Loans from subsidiary companies	2,700	-	1,700	-
TOTAL	**6,444**	**7,707**	**5,346**	**11,463**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor. As described in Note 32, the risk in exchange rate changes was partially hedged by entering into two interest rate swap contracts.
Loans from subsidiary companies are represented by short-term loans obtained from Faringosi Hinges s.r.l., at a floating rate at the Euribor rate with the objective of optimizing the Group treasury.
These loans are not bound by contractual provisions (covenants).
The fair value of loans approximates carrying value.

13. OTHER FINANCIAL LIABILITIES

	31.12.2010	31.12.2009	Change
Derivative instruments on interest rates	55	4	51
TOTAL	**55**	**4**	**51**

This item includes the negative fair value of the derivative financial instruments at year -nd that hedge interest rate risks (Note 32).

14. POST-EMPLOYMENT BENEFITS

	31.12.2010	31.12.2009
Liabilities at 1 January	2,599	2,634
Financial expenses	83	122
Use of the TFR	(372)	(157)
Liabilities at 31 December	2,310	2,599

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

FINANCIAL ASSUMPTIONS

	31.12. 2010	31.12.2009
Discount rate	4.00%	4.10%
Inflation	2.00%	2.00%

DEMOGRAPHIC ASSUMPTIONS

	31.12. 2010	31.12.2009
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	65 years for men and 60 for women, 40 years of employment	65 years for men and 60 for women, 40 years of employment

15. GENERAL PROVISIONS

	31.12.2009	Provisions	Use	Release of excess	31.12.2010
Reserve for agents' indemnities	390	22	(10)	(92)	310
Product warranty reserve	60	60	(60)	-	60
Reserve for tax risks	86	100	(16)	(20)	150
Reserve for legal risks	24	-	(24)	-	0
TOTAL	**560**	**182**	**(110)**	**(112)**	**520**

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. It was utilised in full the year against returns from prior year sales and replenished at year end, leading to a provision on the basis of 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.

16. TRADE PAYABLES

The geographical breakdown of trade payables was as follows:

	31.12.2010	31.12.2009	Change
Italy	17,384	18,606	(1,222)
Western Europe	3,180	3,494	(314)
Eastern Europe and Turkey	72	219	(147)
Asia	218	24	194
US, Canada & Mexico	132	140	(8)
South America	44	0	44
TOTAL	**21,030**	**22,483**	**(1,453)**

At 31 December 2010, the value of trade payables did not change significantly from the balance a year earlier; the average payment terms were not subject to change. The amount of trade payables in currencies other than the euro was insignificant.

17. TAX PAYABLES

	31.12.2010	31.12.2009	Change
From Giuseppe Saleri S.a.p.A. for IRES	2,052	-	2,052
For IRAP	477	-	477
For substitute tax, pursuant to Law 244/07	-	716	(716)
For IRPEF withholdings	621	596	25
TOTAL	**3,150**	**1,312**	**1,838**

Sabaf S.p.A. was part of the national tax consolidation scheme pursuant to articles 117/129 of the Unified Income Tax Law. This option was renewed in 2010 for another three years. In this scheme, the ultimate parent company Giuseppe Saleri S.a.p.A. acts as the consolidating company and the payable reported in the financial statements at 31 December 2010 refer to the balance for income taxes transferred to the parent company.

18. OTHER CURRENT PAYABLES

	31.12.2010	31.12.2009	Change
Due to employees	3,740	2,944	796
Due to social security institutions	1,949	1,736	213
Due to agents	520	352	168
Payments to clients	46	32	14
Other current payables	72	48	24
TOTAL	**6,327**	**5,112**	**1,215**

19. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2010	31.12.2009
Deferred tax assets (prepaid taxes)	1,386	1,086
Deferred tax liabilities	-	(7)
NET POSITION	**1,386**	**1,079**

Below are the key items of deferred tax liabilities and assets and their movements during FY2009 and previous years.

	Amortisation and leasing	Adjustments and provisions of value	Costs of deferred development costs	Fair value derivatives	Other temporary differences	Total
At 31.12.08	**(801)**	**607**	**(462)**	**46**	**(706)**	**(1,316)**
To the income statement	3	391	-	-	(170)	224
To the income statement for application of the substitute tax pursuant to Law 185/08	840	-	462	-	915	2,217
To shareholders' equity	-	-	-	(46)	-	(46)
At 31.12.09	**42**	**998**	**0**	**0**	**39**	**1,079**
To the income statement	53	(84)	-	-	327	296
To shareholders' equity	-	-	-	11	-	11
At 31.12.10	**95**	**914**	**0**	**11**	**366**	**1,386**

Other temporary differences refer to costs charged to the year and deductible in future years.

20. 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:

		31.12.2010	31.12.2009	Change
A.	Cash	8	10	(2)
B.	Positive balances of unrestricted bank accounts	5,018	5,540	(522)
C.	Other liquidities	0	0	0
D.	**Cash and cash equivalents (A+B+C)**	**5,026**	**5,550**	**(524)**
E.	Current bank payables (Note 12)	0	0	0
F.	Current portion of non-current debt (Note 12)	3,744	3,646	98
G.	Other current financial payables (Notes 12, 13)	2,755	1,704	1,051
H.	**Current financial debt (E+F+G)**	**6,499**	**5,350**	**1,149**
I.	**Net financial position**	**1,473**	**(200)**	**1,673**
J.	Current bank payables (Note 12)	7,707	11,463	(3,756)
K.	Other non-current financial payables	0	0	0
L.	**Non-current financial debt (J+K)**	**7,707**	**11,463**	**(3,756)**
M.	**Net financial debt (I+L)**	**9,180**	**11,263**	**(2,083)**

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

COMMENTS ON KEY INCOME STATEMENT ITEMS

21. REVENUE

Sales revenue totalled euro 132,176,000 in 2010, up by euro 19,478,000 (+17.3%) vs. 2009.

REVENUE BY PRODUCT FAMILY

	2010	2009	Change	Change %
Brass valves	31,788	26,928	4,860	+18.0%
Light alloy valves	20,027	15,276	4,751	+31.1%
Thermostats	14,829	13,746	1,083	+7.9%
Total taps and thermostats	*66,644*	*55,950*	*10,694*	*+19.1%*
Standard burners	33,154	30,106	3,048	+10.1%
Special burners	21,097	17,173	3,924	+22.8%
Burners	*54,251*	*47,279*	*6,972*	*+14.7%*
Accessories and other revenues	*11,281*	*9,470*	*1,811*	*+19.1%*
TOTAL	**132,176**	**112,699**	**19,477**	**+17.3%**

As described in detail in the Report on Operations, all product families contributed to the increase in revenue. The most innovative products (light alloy valves and special burners) registered the highest growth rates. Average sales prices remained broadly unchanged versus 2009.

GEOGRAPHICAL BREAKDOWN OF REVENUE

	2010	%	2009	%	Change %
Italy	58,688	44.4%	50,181	44.5%	+17.0%
Western Europe	8,355	6.3%	7,415	6.6%	+12.7%
Eastern Europe and Turkey	31,739	24.0%	27,284	24.2%	+16.3%
Asia	15,280	11.5%	13,099	11.6%	+16.7%
Central and South America	9,066	6.9%	7,021	6.2%	+29.1%
Africa	6,964	5.3%	6,060	5.4%	+14.9%
US, Canada & Mexico	1,965	1.5%	1,540	1.4%	+27.6%
Oceania	119	0.1%	99	0.1%	+20.2%
TOTAL	**132,176**	**100%**	**112,699**	**100%**	**+17.3%**

All markets in which the Company operates registered double-digit growth versus 2009. Results were particularly exceptional in South America, thanks to strong final demand for domestic appliances in this area.

22. OTHER INCOME

	31.12.2010	31.12.2009	Change
Sale of scraps	2,725	1,926	799
Use of provisions for risks and contingencies	112	102	10
Rental income	106	117	(11)
Services to subsidiary companies	101	80	21
Services to the subsidiary companies	60	60	0
Contingent income	344	75	269
Others	397	259	138
TOTAL	**3,845**	**2,619**	**1,226**

The increase in sales of production scraps was due to the higher volumes of production and the increase in the price of commodities (and as a result, scraps).
Services to subsidiary companies and the parent company refer to administrative, commercial, and technical services provided in the Group.

23. PURCHASES

	31.12.2010	31.12.2009	Change
Raw materials and purchases	45,869	32,705	13,164
Consumables	4,039	2,799	1,240
TOTAL	**49,908**	**35,504**	**14,404**

The average actual cost of raw materials (brass, aluminium alloys and steel) fell by around 30% compared to 2009, while the cost of other components did not change significantly.

24. COSTS FOR SERVICES

	31.12.2010	31.12.2009	Change
Outsourced processing	12,778	10,658	2,120
Lease payments	3,443	3,277	166
Natural gas and power	3,431	2,634	797
Maintenance	3,052	2,336	716
Transport and export costs	1,409	1,094	315
Advisory services	1,001	859	142
Directors' remuneration	890	805	85
Commissions	880	813	67
Waste disposal	512	410	102
Factoring commissions	418	400	18
Travel expenses and allowances	385	298	87
Canteen	367	322	45
Temporary agency workers	345	294	51
Insurance	274	292	(18)
Other payroll costs	2,433	2,357	76
TOTAL	**31,618**	**26,849**	**4,769**

The higher costs for services are related to greater business volumes.

25. PAYROLL COSTS

	31.12.2010	31.12.2009	Change
Salaries and wages	17,591	15,431	2,160
Social security costs	5,783	5,081	702
Temporary agency workers	2,586	2,140	446
Post-employment benefit reserve and Other payroll costs	1,607	1,182	425
TOTAL	**27,567**	**23,834**	**3,733**

Average group headcount in 2010 totalled 579 employees (456 blue-collars, 115 white-collars and supervisors, and 8 managers) as opposed to 560 in 2009 (438 blue-collars, 115 white-collars and supervisors, and 7 managers). The average number of temporary staff was 85 in 2010 (75 in 2009).

26. OTHER OPERATING COSTS

	31.12.2010	31.12.2009	Change
Write down of receivables	557	700	(143)
Other administration expenses	225	243	(18)
Out of period losses	211	237	(26)
Provisions for risks	160	160	0
Losses on receivables	-	92	(92)
Others provisions	22	-	22
TOTAL	**1,175**	**1,432**	**(257)**

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. The item “Other operating costs” consisted mainly of taxes other than income taxes (euro 107,000) and association fees for euro 62,000. Provisions for liabilities refer to the allocations to the risk reserve described in Note 15.

27. FINANCIAL EXPENSES

	31.12.2010	31.12.2009	Change
Interest paid to banks	475	624	(149)
Banking expenses	412	327	85
Other finance expense	92	155	(67)
TOTAL	**979**	**1,106**	**(127)**

The higher interest paid to banks was a consequence of the lower interest rates and the higher level of average financial debt during 2010 compared with 2009.

28. FOREIGN EXCHANGE GAINS/ LOSSES

In 2010, the Company reported net foreign exchange gains euro 93,000 (euro 32,000 in 2009), due to changes in the US dollar vs. euro exchange rate.

29. INCOME TAX

	31.12.2010	31.12.2009	Change
Current income tax	6,930	4,083	2,847
Deferred tax assets and liabilities	(296)	(224)	(72)
Substitute tax, under Decree Law 185/08	-	953	(953)
Release of deferred tax liabilities, under Law 185/08	-	(2,217)	2,217
Balance of previous FY	(86)	(65)	(21)
TOTAL	**6,548**	**2,530**	**4,018**

Current taxes include IRES for euro 5,310,000 and IRAP for euro1,620,000 (respectively euro 2,863,000 and euro 1,220,000 in 2009).

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.

	31.12.2010	31.12.2009
Theoretical income tax	5,443	2,998
Tax effect on permanent differences	165	89
Taxes relating to previous years	(18)	(65)
Effect of detaxing investments pursuant to Law 78/09	(548)	(392)
Other differences	(4)	(25)
IRES (current and deferred)	5,038	2,605
IRAP (current and deferred)	1,510	1,189
Substitute tax, under Decree Law 185/08	-	953
Release of deferred taxes for application of the substitute tax	-	(2,217)
TOTAL	**6,548**	**2,530**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. As shown in the table, also in 2010, the Company benefited from removing from IRES taxable income 50% of the amount of a number of investments made in the first half-year, pursuant to Law 78/09 ("Tremonti-ter).
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

In 2010, the Company concluded the dispute with the Italian Revenue Agency following a tax audit relating to 2002 and 2003 regarding income taxes, VAT and IRAP.

No significant tax lawsuits were pending at 31 December 2010.

30. DIVIDENDS

On 27 May 2010, shareholders were paid a dividend of euro 0.50 per share (total dividends of euro 5,750,000), euro 0.20 per share less than paid in 2009.
Directors have recommended payment of a dividend of euro 0.80 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 2010 is payable to all holders of shares at 23 May 2011 and is scheduled for payment from 26 May 2011.

31. 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.

32. 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.

	31.12.2010	31.12.2009
FINANCIAL ASSETS		
Amortised cost		
Cash and cash equivalents	5,026	5,551
Commercial receivables and other receivables	41,051	38,346
Other financial assets	-	-
Income statement fair value		
Financial assets held for trading	-	-
Designated financial assets	-	-
Comprehensive income statement fair value		
Securities	-	-
Equity investments	-	-
Derivative cash flow hedges	-	-
FINANCIAL LIABILITIES		
Income statement fair value		
Liabilities held for trading	-	-
Comprehensive income statement fair value		
Derivative cash flow hedges	55	4
Amortised cost		
Loans	14,151	16,809
Payables to suppliers	21,030	22,483

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 (approximately 40% of the maximum theoretical exposure) is transferred by assignment through no-recourse factoring transactions to primary financial institutions.
Credit risk relating to customers operating in emerging economies is generally attenuated by the expectation of revenue through letters of credit, confirmed by key banks.

FOREX RISK MANAGEMENT

The key currencies other than the euro which the Company is exposed to are the US dollar in relation to sales conducted in dollars (chiefly on some Asian and North American markets), and to a lesser extent to some purchases (chiefly from Asian producers). Sales in US dollars represented approximately 5% of total revenue in 2010, 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, a hypothetical and immediate revaluation of 10% of the Euro against the dollar would have led to a loss of approximately euro 78,000.

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 in 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 2010 and 31 December 2009:

AT 31.12.10

	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.11%	7,250	(46)
From 1 to 2 years	2.12%	4,491	(21)
From 2 to 3 years	2.14%	1,696	8
From 3 to 5 years	2.20%	1,732	1
More than 5 years	-	-	-
TOTAL			**(58)**

AT 31.12.09

	Average interest rates of the contracts	Notional value	Fair value
Within 1 year	2.11%	9,975	(89)
from 1 to 2 years	2.11%	7,250	24
from 2 to 3 years	2.12%	4,491	41
from 3 to 5 years	2.14%	1,732	24
more than 5 years	-	-	-
TOTAL			**0**

Sensitivity analysis

With reference to financial assets and liabilities at variable rate at 31 December 2010 and 31 December 2009, 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:

	31.12.2010		**31.12.2009**	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	66	122	58	161
Decrease of 100 base points	(8)	(119)	(32)	(167)

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 2010 and 2009, the Company did not use financial derivatives on commodities. To stabilize 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 2010 equal to 0.09) and has unused short-term lines of credit of euro 50 million. To minimize the risk of liquidity, the Administration and Finance Department:

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

Below is an analysis by expiration date of financial payables at 31 December 2010 and 31 December 2009:

AT 31.12.10

	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	more than 5 years
Unsecured loans	11,451	11,888	993	2,984	7,911	-
Loans from subsidiaries	2,700	2,700	2,700	-	-	-
Total financial payables	**14,151**	**14,588**	**3,693**	**2,984**	**7,911**	**0**
Trade payables	21,030	21,030	20,558	472	-	-
TOTAL	**35,181**	**35,618**	**24,251**	**3,456**	**7,911**	**0**

AT 31.12.09

	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	15,109	15,901	997	2,992	11,912	-
Loans from subsidiaries	1,700	1,700	1,700	-	-	-
Total financial payables	**16,809**	**17,601**	**2,697**	**2,992**	**11,912**	**0**
Trade payables	22,483	22,483	22,483	-	-	-
TOTAL	**39,292**	**40,084**	**25,180**	**2,992**	**11,912**	**0**

The various due dates are based on the period between the balance sheet date and the contractual expiration date of the commitments, the values indicated in the chart correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at 31 December 2009 and increased by the spread set forth in each contract.

HIERARCHICAL LEVELS OF THE FAIR VALUE ASSESSMENT

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

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

The following table shows the assets and liabilities that are valued at the fair value at 31 December 2010, by hierarchical level of fair value assessment.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (derivatives on currency)	-	55	-	55
TOTAL LIABILITIES	**0**	**55**	**0**	**55**

33. RELATED-PARTY AND INFRA-GROUP 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 managers with strategic responsibilities, which are covered separately in Note 37.

Impact of related-party transactions or positions on items in the statement of financial position

	Total 2010	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	40,174	449			449	1.12%
Other current receivables	877	283			283	32.27%
Trade payables	21,030	198		4	202	0.96%
Tax payables	3,150		2,052		2,052	65.14%
Current loans	6,444	2,700			2,700	41.90%

	Total 2009	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	37,502	323			323	0.86%
Other current receivables	844	365			365	43.25%
Trade payables	1,682		1,270		1,270	75.51%
Tax payables	22,483	39		5	44	0.20%
Current loans	5,346	1,700			1,700	31.80%

Impact of related-party transactions on income statement accounts

	Total 2010	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Revenue	132,176	569			569	0.43%
Other income	3,845	135	60		195	5.07%
Materials	(49,908)	(298)		(17)	(315)	0.63%
Services	(31,618)	(3,606)			(3,606)	11.40%
Financial expenses	(979)	(23)			(23)	2.35%
Write-downs/write-backs of non-current assets	94	94			94	100.00%

	Total 2009	Subsidiaries	Parent compan	Other related parties	Total related parties	Impact on the total
Revenue	112,699	421			421	0.37%
Other income	2,619	90	60		150	5.73%
Materials	(35,504)	(204)		(7)	(211)	0.59%
Services	(26,849)	(3,267)			(3,267)	12.17%
Financial expenses	(1,106)	(7)			(7)	0.63%

Transactions with the subsidiaries consist mainly of:

- business relationships with Sabaf do Brazil and Faringosi Hinges pertaining to purchases and sales of finished products or intermediate products;
- rents for premises from Sabaf Immobiliare;
- 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 with other related parties in 2010 refer to the purchase of components from Eng.In Group S.r.l., a company of which Mr. Flavio Pasotti, a director of Sabaf S.p.A., is chairman.

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

34. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2010 it did not execute any significant non-recurring transactions.

35. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2010 it did not execute any abnormal and/or unusual transactions as defined by the CONSOB memorandum.

36. COMMITMENTS

Guarantees issued

Sabaf S.p.A. provided guarantees against mortgage loans to subsidiaries. Related residual debt at 31 December 2010 was euro 5,381,000 (euro 6,219,000 as at 31 December 2009).

Sabaf S.p.A. has also issued sureties to guarantee consumer and mortgage loans granted by banks to its employees for a total of euro 6,852,000 (euro 5,573,000 as at 31 December 2009).

37. REMUNERATION TO DIRECTORS, STATUTORY AUDITORS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

The aggregate remuneration received by directors, statutory auditors and managers with strategic responsibilities, for any reason and in any form, including from subsidiaries, is as detailed below:

FULL NAME	OFFICE HELD	PERIOD OF OFFICE	TERM OF OFFICE	EMOLUMENT FOR THE OFFICE	NON MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER COMPENSATION FOR EMPLOYMENT	OTHER COMPENSATION FOR OFFICES IN SUBSIDIARIES
Saleri Giuseppe	Chairman	01.01.10 - 31.12.10	30.04.12	120				8
Saleri Gianbattista	Deputy Chairman	01.01.10 - 31.12.10	30.04.12	100				
Saleri Ettore	Deputy Chairman	01.01.10 - 31.12.10	30.04.12	100				8
Bettinzoli Angelo	Managing Director	01.01.10 - 31.12.10	30.04.12	340		85[(1)]		10
Bartoli Alberto	Director	01.01.10 - 31.12.10	30.04.12	18		37[(1)]	152	5
Cossu Leonardo	Director	01.01.10 - 31.12.10	30.04.12	29				
Cavalli Giuseppe	Director	28.04.10 - 31.12.10	30.04.12	18				
Gitti Gregorio	Director	28.04.10 - 31.12.10	30.04.12	19				
Pasotti Flavio	Director	01.01.10 - 31.12.10	30.04.12	16				
Bragantini Salvatore	Director	01.01.10 - 31.12.10	30.04.12	25				
Gardoni Fausto	Director	28.04.10 - 31.12.10	30.04.12	20				
Busi Alessandro	Chairman of the Board of Statutory Auditors	28.04.10 - 31.12.10	30.04.12	24				
Broli Enrico	Statutory Auditor	01.01.10 - 31.12.10	30.04.12	16				
Camodeca Renato	Statutory Auditor	01.01.10 -31.12.10	30.04.12	16				4
Executives with strategic responsibilities (n. 2)						49[1]	208	20

(1) bonus linked to objective-based incentive plan (MBO) for 2010, 75% of which is due to be paid in 2011 and 25% in 2012

38. SHARE-BASED PAYMENTS

At 31 December 2010, there were no equity-based incentive plans for the Company's directors and employees.

LIST OF EQUITY INVESTMENTS WITH ADDITIONAL INFORMATION REQUESTED BY [MEMORANDUM DEM 76064293 OF 28 JULY 2006]

IN SUBSIDIARIES

Company name	Registered office	Share capital at 31.12.10	Shareholders	% Ownership	Equity at 31.12.10	Results of the year 2010
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 7,699,604	EUR 967,531
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 16,038,370	EUR 704,440
Sabaf do Brasil Ltda	Jundiaì (Brazil)	BRL 31,835,400	Sabaf S.p.A.	100%	BRL 33,230,909	BRL 4,130,982
Sabaf Mexico S.A. de C.V.	San Luis Potosì (Mexico)	MXN 8,247,580	Sabaf S.p.A.	100%	MXN 4,547,209	MXN -950,092
Sabaf US Corp.	Plainfield (USA)	USD 200,000	Sabaf S.p.A.	100%	USD 102,389	USD -10,067
Sabaf Appliance Components (Kunshan) Co., Ltd.	Kunshan (Cina)	CNY 8,937,345	Sabaf S.p.A.	100%	CNY 8,937,345	-

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE

ORIGIN, POSSIBILITY OF USE, AND AVAILABILITY OF RESERVES

Description	Amount	Possibility of use	Quota 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	67,797	A, B, C	67,797	0
TOTAL	**81,740**		**79,433**	**1,634**

Key: A. for capital increases B. for coverage of losses C. for distribution to shareholders

STATEMENT OF REVALUATIONS OF ASSETS STILL HELD AT 31 DECEMBER 2010

(in thousands of euro)

		Gross value	Accumulated amortisation and depreciation	Net value
Investment property	Law 72/1983	137	(137)	0
	Merger 1989	516	(339)	177
	Law 413/1991	47	(27)	20
	Merger 1994	1,483	(731)	752
	Law 342/2000	2,870	(1,765)	1,105
		5,053	**(2,999)**	**2,054**
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**	**(19,043)**	**2,054**

GENERAL INFORMATION
Sabaf S.p.A. is a company incorporated according to Italian law.

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

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

Tax information:
R.E.A. Brescia 347512 - Tax code 03244470179
VAT Reg. No. 01786910982

APPENDIX

INFORMATION AS REQUIRED BY ARTICLE 149/12 OF THE ISSUERS' REGULATION

The following table, prepared pursuant to Article 149/12 of the CONSOB Issuers' Regulation, shows fees relating to 2010 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 distributes the service	Considerations for the year 2010
Audit	Deloitte & Touche S.p.A.	48
Certification services	Deloitte & Touche S.p.A.	3 (1)
Other services	Deloitte & Touche S.p.A.	12 (2)
TOTAL		***63***

(1) signing of Unico, IRAP and 770 forms, and statements made to obtain tax credits and other contributions for research and development.
(2) audit procedures relating to the Interim Report on Operations.

CERTIFICATION OF THE ANNUAL REPORT AND ACCOUNTS

TECHNOLOGY AND SAFETY

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

CERTIFICATION OF THE ANNUAL REPORT AND ACCOUNTS, UNDER ARTICLE 154 BIS OF LEG. DECREE 58/98

Angelo Bettinzoli, the Chief Executive Officer, and Alberto Bartoli, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Leg. Decree no. 58 of 24 February 1998 and can certify

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

of the administrative and accounting principles for drafting the annual report and accounts in 2010.

They also certify that:

- the annual report and accounts
    - were prepared in accordance with the international accounting policies recognized 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;
    - corresponds to the results of the accounting entries and ledgers;
    - Provides a true and correct representation of the business, capital and financial situation of the issuer;
- the Report on Operations includes a credible analysis of the performance and results of operations, the situation at the issuer, and a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 21 marzo 2011

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

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

Deloitte.

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 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, 2010, 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 March 31, 2010.

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, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure 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, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
April 6, 2011

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

BOARD OF STATUTORY AUDITOR'S REPORT TO THE SABAF S.P.A. SHAREHOLDERS' MEETING

PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 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, in accordance with and pursuant to article 153 of legislative decree 58/1998 (the "Italian consolidated law on finance"), taking into account Consob recommendations for listed companies.

This report is divided into the following sections:

1) supervision in fiscal year 2010;
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 2010.

1. Supervision in fiscal year 2010

During the year ended 31 December 2010, 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.

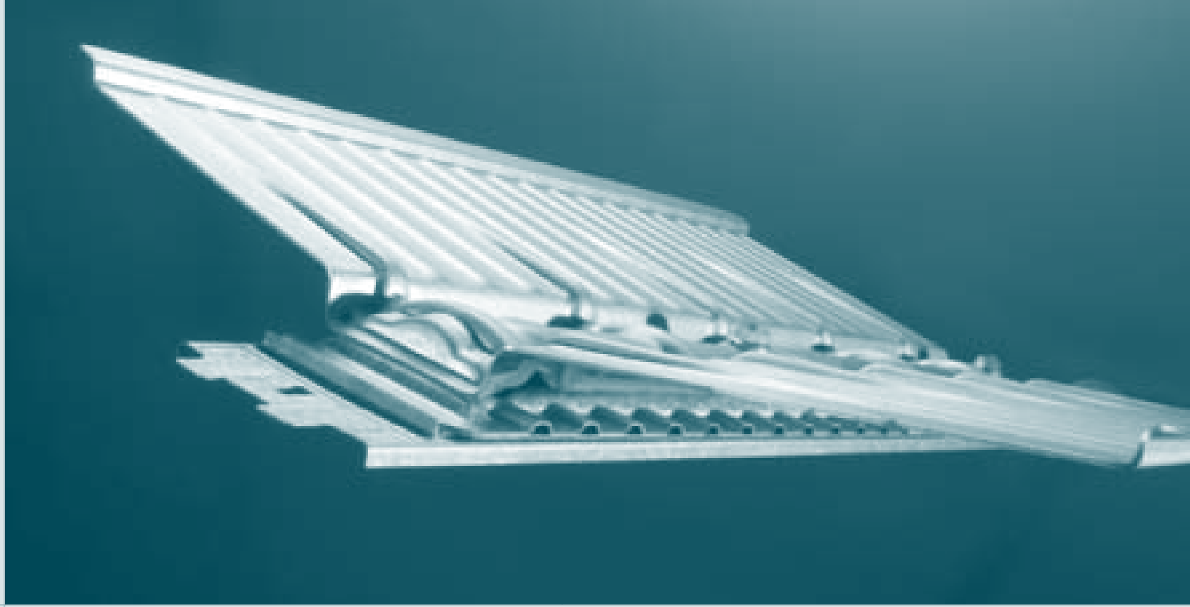
In terms of the work carried out, the board of statutory auditors reports to you that:

- *it held five board meetings, each attended by all members in office;*
- *it attended the seven meetings of the board of directors;*
- *it attended the four meetings of the internal control committee;*
- *it attended two meetings between supervisory bodies (independent auditor, internal control committee, supervisory body), in the presence of the financial reporting officer and chief internal auditor);*
- *it attended two shareholders' meetings held on 27 April 2010 and 14 December 2010;*
- *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 has compiled the documents and information considered relevant by executive directors and managers from other corporate functions where necessary.*

During meetings of the board of directors, the board of statutory auditors was informed of the management activities carried out and, where relevant, the most significant business, financial and capital transactions performed by the company or its subsidiaries in 2010.

In terms of supervision, the board of statutory auditors observes that in the areas within its purview, the principles of sound management have been applied by the company.

In the context of its supervision, 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 has examined the review procedures adopted, or in the process of being adopted, in connection with the programme of work submitted by the independent auditor on confirmation of its appointment; the board of statutory auditors has also received the technical information requested concerning the accounting policies adopted, in addition to the reporting criteria for the most significant business, financial and capital transactions.

The board of statutory auditors has examined the procedure adopted by the board of directors for the impairment test carried out on the shareholding in Faringosi Hinges S.r.l., and did not detect any anomalies or reprehensible actions according to the applicable technical standards.

Finally, the board of statutory auditors reports that, from the shareholders' meeting held on 27 April 2010 and until the date of this report, 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 the 2009 financial year, it did not issue any opinions in the legal sense.

- *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 21 March 2011.

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 during the financial year, the board of statutory auditors reports that:

- *on 23 March 2010, following the expiry of the 2007-2009 stock option plan, the board of directors, on the recommendation of the remuneration committee, approved an MBO (management by objectives) variable remuneration plan, implemented in accordance with the obligations set forth in the plan itself;*
- *on 11 May 2010, the board of directors approved the renewal of the national tax consolidation scheme for the period 2010-2012;*
- *on 9 November 2010, the board of directors approved the subscription of a capital increase in its subsidiary Sabaf Appliance Components (Kunshan, China).*

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

Finally, in terms of the most significant events occurring during the period, the board recalls that, on 14 December 2010, the ordinary and extraordinary shareholders' meeting approved the cancellation of the capital increase authorised by the shareholders' meeting on 2 August 2007, in addition to the amendments to the company's articles of association in order to comply with legislative decree 27 of 27-1-2010 *and legislative decree 39 of 27-1-2010.*

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 integrity of the company; 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 21 March 2011, the directors indicated that group companies did not engage in any atypical and/or unusual transactions in 2010.

On 9 November 2010, Sabaf's board of directors, in accordance with the applicable legislation and Consob Regulation No. 17221 of 12 March 2010, approved the procedure for related party transactions.

In their report on operations at 31 December 2010, 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.

There were no "non-recurring material transactions" within the meaning of Consob Communication No. 6064293 of 28 July 2006.

3. Organisational structure, administrative and accounting system and internal control system

The board of statutory auditors has 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 applicable legislation.
In particular, the board of statutory auditors has 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.

IThe board of statutory auditors has 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 findings of the independent auditor; f) liaising with the supervisory bodies of subsidiaries; g) being permanently involved in the work of the internal control committee.

Specifically, the board of statutory auditors acknowledges that the chief internal auditor is actively and constantly involved in monitoring the internal control system, reporting to the chief executive officer and submitting frequent and regular reports to the internal control committee and board of statutory auditors, to which he also submits the annual programme of work.

By taking part in the work of the internal control 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 expresses its opinion on the adequacy of Sabaf's internal control system and, in its capacity as the internal control and audit committee, reports 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, in the context of company rules on privileged information.

All group companies are audited by Deloitte & Touche S.p.A., appointed on the recommendation of the board of statutory auditors at the shareholders' meeting of 28 April 2009.

The board of statutory auditors acknowledges that, in addition to the audit, Deloitte & Touche S.p.A. – directly or through members of its network – was paid by the group to perform the following in fiscal year 2010:

- *certification services relating to the signature of tax returns, in return for a fee of euro 5,000;*
- *audit procedures relating to interim management reports, in return for a fee of euro12,000;*
- *tax advice on transfer pricing, in return for a fee of euro13,000.*

The annual and consolidated financial statements for the year ended 31 December 2010 contain the information required by article 149-duodecies of the Consob issuers' regulation.

The board of statutory auditors, having established that the independent auditor satisfied the independence criteria at the time of its appointment, confirms that during the period and up until today's date, no critical issues have emerged concerning the independence of the independent auditor.

The board of statutory auditors acknowledges that on 6 April 2011, Deloitte & Touche S.p.A. submitted the report referred to in 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 corresponding code of corporate governance 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 the correct application of the criteria and investigation procedures in accordance with article 3(5) of the corporate governance code for listed companies.
The board of statutory auditors has also confirmed that its members continue to satisfy the independence criteria, as required by article 10(2) of the corporate governance code for listed companies.

5. Conclusions and financial statements for the year ended 31 December 2010

Sabaf's consolidated financial statements at 31 December 2010 show a consolidated net profit of euro16,867,000; the annual financial statements of the parent company for the year ended 31 December 2010 show a net profit of euro13,217,000.
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 2010 shows a net financial position of euro 12,545,000, while the parent company closed its financial statements at 31 December 2010 with a net financial position of euro 9,180,000.

Consolidated equity at 31 December 2010 was euro 121,846,000, compared with euro 109,133,000 in the consolidated financial statements at 31 December 2009; the annual financial statements of the parent company report shareholders' equity of euro 106,519,000, compared with euro 99,053,000 for the year ended 31 December 2009.

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 6 April 2011, expressed an unqualified opinion without requesting additional information on the annual and consolidated financial statements for the year ended 31 December 2010. 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 2010.

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.

The board of statutory auditors, based on the work carried out during the year, found no impediment to the approval of the annual financial statements for the year ended 31 December 2010 and the proposals for a resolution made by the board of directors.

Brescia, 6 April 2011

Board of Statutory Auditors

This editions is also available on the website
www.sabaf.it

a printed copy can be obtained from:

SABAF SpA
Project Team for Corporate Social Responsibility

Via del Carpini, 1
25035 Ospitaletto (BS) - Italy
Tel. +39 030 6843001
Fax +39 030 6843250
E-mail: info@sabaf.it