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CHIEF EXECUTIVE OFFICER'S LETTER TO STAKEHOLDERS

Dear Shareholders and Stakeholders,

The 2008 financial year ended with overall consolidation of Sabaf's market positions, but FY 2009 began with a sharp decline in orders and revenues. In autumn we had foreseen a period of great difficulty looming on the horizon, and events have confirmed our worst expectations. These conditions forced us to place a number of employees on furlough with recourse to the Temporary Layoff Benefits Fund, while the contracts of those employees working on a fixed-term basis were not renewed.

The crisis that is sweeping through the entire productive world, both inside and outside Italy, is a crisis of rationality and, in contrast with the past, the factors that have triggered it are numerous and quite complex. This means that it is more difficult than in the past to foresee the end of the crisis, although there is no doubt that current trends will reverse course. We will have to be ready to detect the signs of that reversal as soon as they appear. We are like a mountain climber who, after properly equipping and preparing himself for a difficult mission, is hit by a storm whose duration cannot be foreseen. We only know that the storm will not last forever and that fine weather will return, because such are business cycles, just like the cycles of life. In the meantime, outside conditions force us to stay in our shelter, protected by what are robust walls for some people, or a fragile tent for others. Everything depends on what has been built in the past.

Since Sabaf is a solid company that has operated prudently and whose structures are reliable, our shelter is a guarantee of stability and robustness for the duration of the storm. But as used to happen once upon a time, in the cycles of farm life, the harder and colder winter is, the more it forces you to save and live on what you have set aside. This holds true for everyone: for the shareholders that have witnessed the our stock-market valuation fall sharply, for those who had tied a part of their earnings to stock-market gains and indices, and for wage earners whose earnings are partially eroded by the Temporary Layoff Benefits Fund.

What can we do, in expectation of a break in the weather that will allow Sabaf to resume its journey? As in all successful mountain-climbing expeditions, while you wait for the storm to pass, you prepare and check the material for the ascent, update it and, if possible, innovate as appears necessary. This is what we are doing, by continuing to invest in over twenty new products, whose impact was very positively received by the customers and firms that we supply. These are extremely significant innovations, both in terms of quality and in terms of their environmental and energy impact. In this regard, Sabaf is light years ahead of the competition and has long since started producing according to the standards that are still being debated in many countries in regard to safety, efficiency and emissions.

For us the market recovery will mean being able to exploit new-generation products whose success is certain. So, this is an extraordinary opportunity that we must know how to seize as soon as weather conditions allow us to venture forth from the shelter that we, like everyone else, have been forced withdraw to in recent months.

Life and the markets still remain quite inscrutable in the third millennium, or perhaps it is precisely our desire to keep everything under control with a simple click of the mouse that makes the events confronting us even more complex. As the old saying goes, when faced with a difficulty, ask yourself if you want to be part of the problem or the solution. To the extent of our abilities, Sabaf has equipped itself to be a part of the solution: more than anyone else, we have invested in knowledge and specific skills, and this enables us to work now on the construction of new machines that sometimes force us to work overtime, because they demand skills that not everyone has. Our growth plans have not changed, and we are always willing to offer our aid to those employees who need support in obtaining credit. So, we are not waiting for others to get us out of trouble.

Sabaf is going to come out of this situation stronger, and the restructuring of the market is going to create advantages for those who, like us, are ready to seize them.

Angelo Bettinzoli

METHODOLOGY

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 becoming more familiar with the Sabaf Group in all its dimensions.

Sections 1 – Identity, 3 – Social Sustainability and 4 – Environmental Sustainability, together with the key performance indicators (KPI) illustrated in the Introduction, comprise the Annual Report at 31 December 2008.
The social report has been prepared according to:

- The 2002 Sustainability Reporting Guidelines defined by the GRI (Global Reporting Initiative)/G3
- The AA 1000 (AccountAbility 1000) standards issued by AccountAbility, as regards the social reporting process and the dialogue with stakeholders.

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

The Annual Report was approved by the Board of Directors on 24 March 2009 and presented to shareholders at the Annual General Meeting held on 28 April 2009.

SABAF COMPLIES WITH THE CECED CODE OF CONDUCT

On 27 February 2009 Sabaf subscribed 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 participating in this initiative, Sabaf recognises and assumes responsibility for acting as a "good corporate citizen."
The CECED Italia Code of Conduct is a voluntary agreement and satisfies the desire of CECED Italia members to actively promote honest and sustainable working conditions, social responsibility and environmental quality. It also envisages that the signatory companies promote application of the principles set out in the Code in their own supply chain.
In this context, the Sabaf Annual Report represents the tool through which the Group reports on its practical implementation of the principles set out in the Code 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 themselves to supporting and promoting ten universally accepted principles covering human rights, labour rights, environmental protection and the fight against corruption. By publishing the 2008 Annual Report, we renew our commitment to make the Global Compact and its principles an integral part of our strategy, our culture and our daily operations, and we also undertake to explicitly declare this commitment to all our employees, partners, customers and public opinion in general.
The Annual Report illustrates the details of the actions taken by the Sabaf Group in support of the ten principles. The references are set out in the index of GRI indicators, following the guidelines "Making the connection. The GRI Guidelines and the UNGC Communication on Progress".

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
ensure that they are neither directly nor indirectly complicit in the abuse of human rights.

LABOUR STANDARDS
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 elimination of child labour
Principle 6
Elimination of all forms of discrimination in respect of employment and occupation

ENVIRONMENT
Principle 7
Businesses are required to support a preventive 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 commit themselves to fight all forms of corruption, including extorsion and bribery.

KEY PERFORMANCE INDICATORS (KPIS)

FINANCIAL INDICATORS

INCOME STATEMENT

(Amounts in € '000)

	2008	2007	2006
Sales revenues	165,951	158,091	138,263
EBITDA	33,236	38,531	39,230
EBIT	21,191	26,850	28,241
Pre-tax profit	19,497	24,763	27,084
Net profit	15,410	15,828	16,078
Net profit attributable to parent company shareholders	15,410	15,828	16,078

BALANCE SHEET AND FINANCIAL POSITION

(Amounts in € '000)

	31/12/2008	31/12/2007	31/12/2006
Non-current assets	97,261	97,140	90,404
Non-current assets held for sale	758	0	0
Net working capital	41,843	37,051	25,091
Financial assets	0	0	1
Provisions for risks, employee benefits, and deferred taxes	(6,945)	(13,260)	(14,350)
CAPITAL EMPLOYED	**132,917**	**120,931**	**101,146**
Equity	103,261	98,121	89,765
Net financial debt	29,656	22,810	11,381
TOTAL SOURCES	**132,917**	**120,931**	**101,146**

OTHER FINANCIAL INDICATORS

	2008	2007	2006
ROCE (return on capital employed)	15.9%	22.2%	27.9%
Dividend per share (€)	0.70[1]	0.70	0.70
Net debt/equity ratio	29%	23%	13%
Market capitalisation (31/12)/equity ratio	1.62	2.62	3.32
Sales progress	+5.0%	+14.3%	+14.3%

(Amounts in € '000)

	2008	2007	2006
Investments in research & development	342	216	444
Other investments	15,145	18,366	15,260

(Amounts in € '000)

	2008	2007	2006
Value of outsourced goods & services			
• Mechanical processing	4,259	4,330	4,010
• Enamelling and treatments	1,301	1,732	2,296
• Assembly	2,963	2,777	2,162

1 - *Proposed dividend pending shareholder approval*

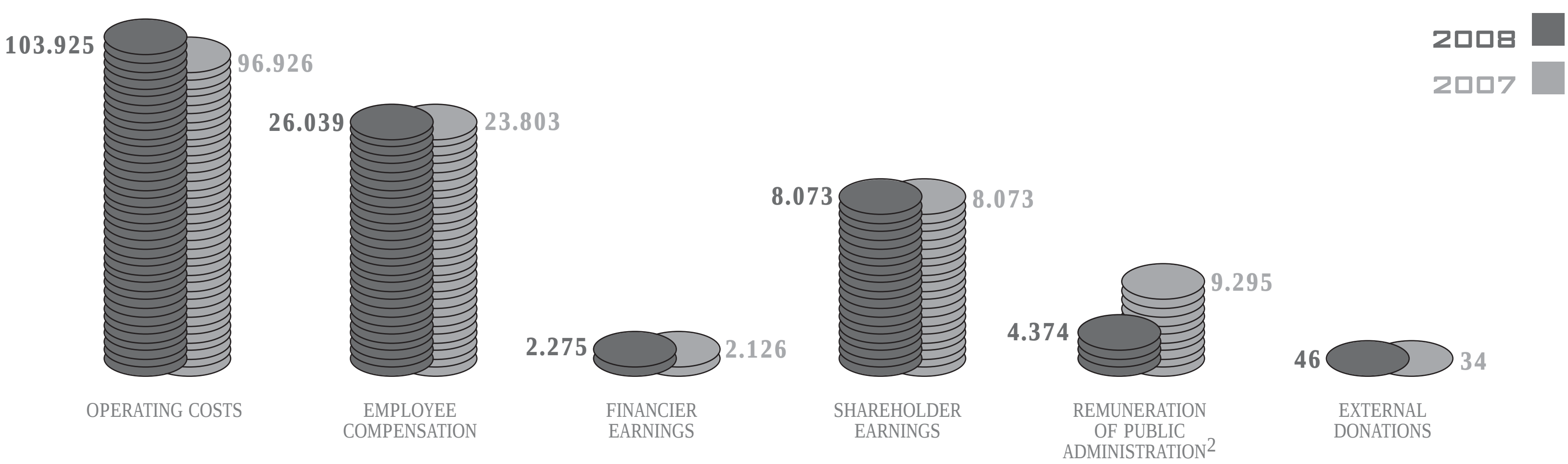
GENERATED AND DISTRIBUTED ECONOMIC VALUE

The following table shows the amounts and allocation of economic value amongst stakeholders. This analysis was prepared in accordance with GRI guidelines.
The table was prepared by defining three values of economic value: generated value, distributed value and value retained by the Group. Economic value represents the aggregate wealth generated by Sabaf, which is then allocated amongst the various stakeholders: suppliers (operating costs), staff, financiers, shareholders, the public administration and the community (external donations).

(Amounts in € '000)

	2008	2007	Change
ECONOMIC VALUE GENERATED BY GROUP	**164,347**	**159,490**	**4,857**
Revenues	165,951	158,091	7,860
Other operating income	788	819	(31)
Finance income	188	358	(170)
Adjustments	701	648	53
Allowances for doubtful accounts	(3,566)	0	(3,566)
Foreign exchange loss (gain)	393	(319)	712
Income/expenses from sale of tangible and intangible fixed assets	56	(31)	87
Adjustments to tangible and intangible fixed assets	(164)	(76)	(88)
ECONOMIC VALUE DISTRIBUTED BY GROUP	**144,732**	**140,257**	**4,475**
Operating costs	103,925	96,926	6,999
Employee compensation	26,039	23,803	2,236
Financier earnings	2,275	2,126	149
Shareholder earnings	8,073	8,073	0
Remuneration of public administration[2]	4,374	9,295	(4,921)
External donations	46	34	12
ECONOMIC VALUE RETAINED BY GROUP	**19,615**	**19,233**	**382**
Depreciation and amortization	11,937	11,574	363
Provisions	437	112	325
Use of provisions	(96)	(208)	112
Reserves	7,337	7,755	(418)

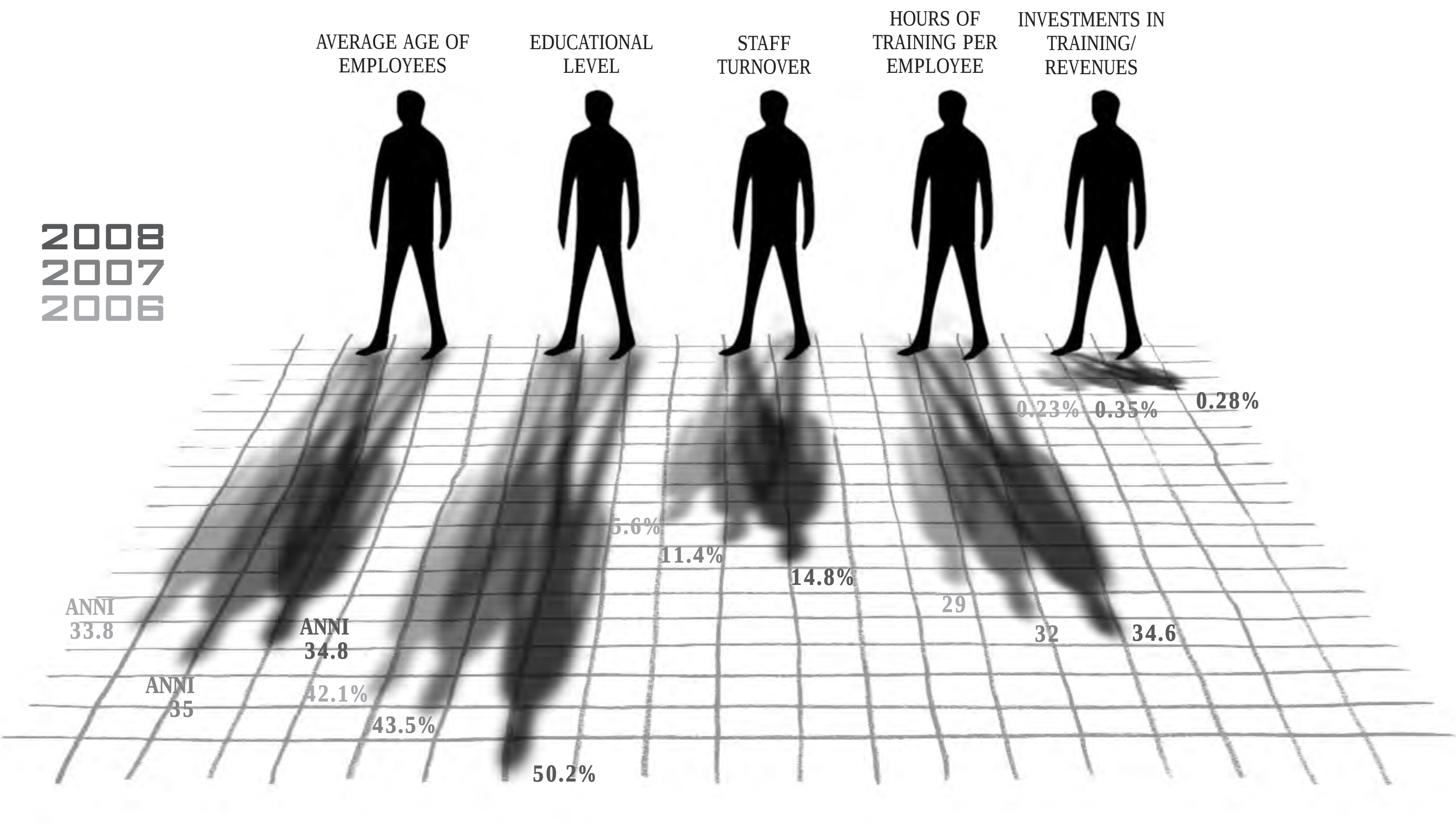
2 - *Includes deferred taxes*



NON-FINANCIAL INDICATORS [YEAR-END RATIOS/FIGURES UNLESS OTHERWISE INDICATED]

HUMAN CAPITAL

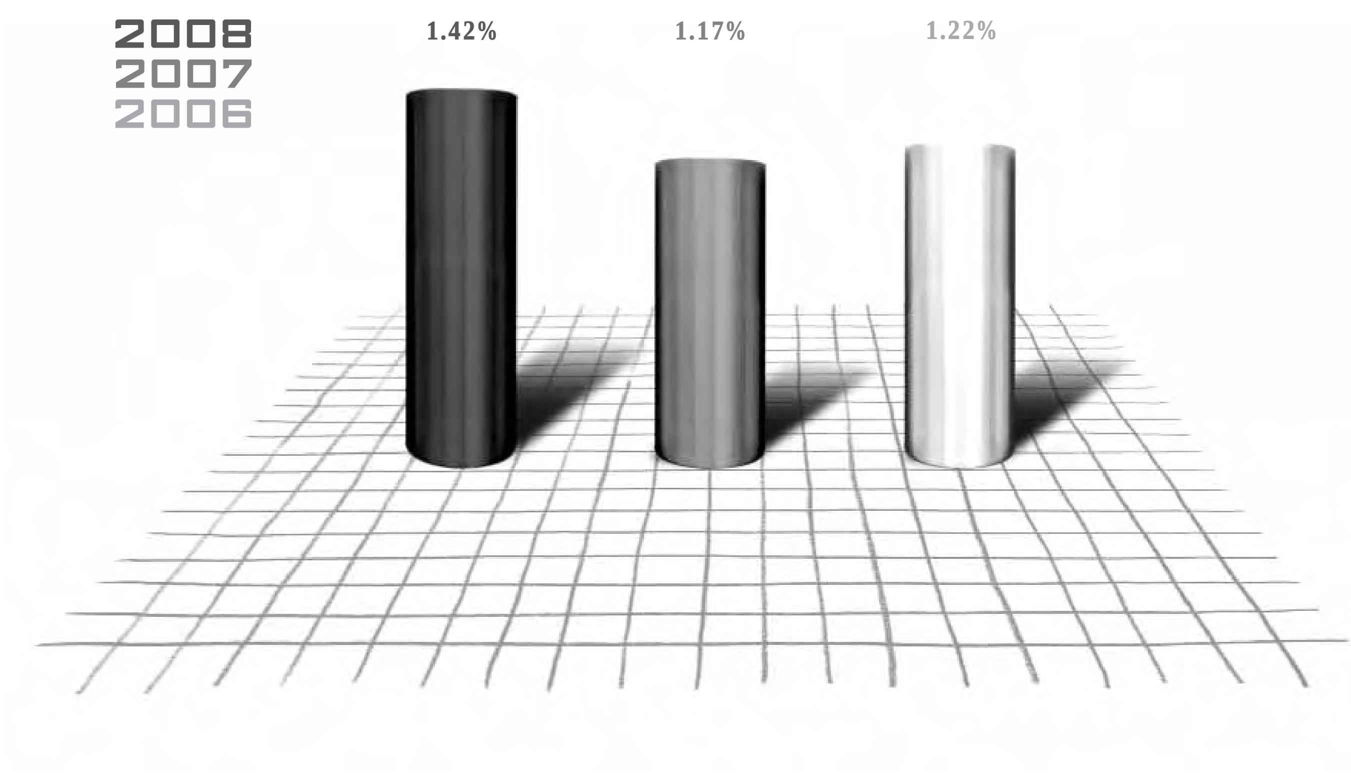
		2008	2007	2006
Average age of employees (sum of age of employees/total employees at 31/12)	years	34.8	35	33.8
Educational level (number of university and high school graduates/total employees at 31/12)	%	50.2	43.5	42.1
Staff turnover (number of leavers and dismissed employees/total employees at 31/12)	%	14.8	11.4	5.6
Hours of training per employee (hours of training/total employees at 31/12)	hours	34.6	32.0	29
Investments in training/revenues	%	0.28	0.35	0.23



INDICATORS OF STRUCTURAL CAPITAL

		2008	2007	2006
IT budget (capital expenditure + current expenses)/sales	%	1.30	1.20	0.97
Employees with PCs	%	41.2	41.6	41.6
New-product development hours/total hours worked	%	1.1	1.1	1.3
Hours dedicated to process engineering/hours worked (hours dedicated to contract work for construction of new machines for new products or to increase productive capacity/total hours worked)	%	2.5	2.5	3.0
Capital expenditure on tangible assets/sales	%	6.5	11.0	10.6
Capital expenditure on intangible assets/sales	%	1.1	0.73	0.74
Current expenses for quality/sales	%	0.10	0.12	0.14
Capital expenditure for quality/sales	%	0.10	0.07	0.07
Customer rejects (Customer charge-backs and credit notes for returned goods/sales)	%	0.09	0.08	0.06
In-house production rejects/sales (production rejects/sales)	%	1.33	1.09	1.16
Customer rejects + in-house rejects/sales (production rejects + returns from customers/sales)	%	1.42	1.17	1.22

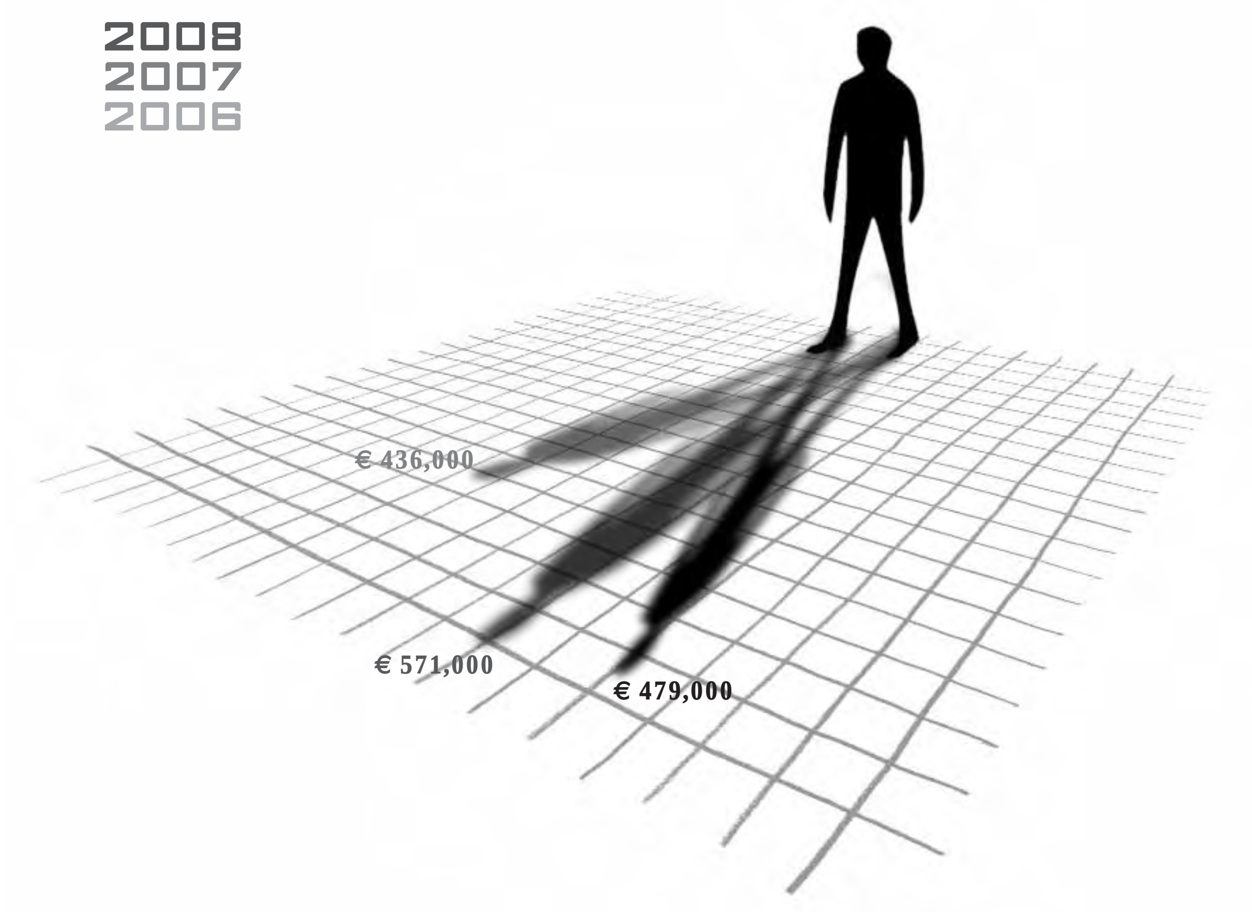
CUSTOMER REJECTS + IN-HOUSE REJECTS/SALES



INDICATORS OF RELATIONAL CAPITAL

		2008	2007	2006
Hours of strike for internal causes	number	1	5	0
Average sales per customer (total sales/number of customers)	€/000	479	517	436
% sales from new customers (sales to new customers/sales)	%	1.03	0,80	1.31
% incidence of top 10 customers	%	52	51	47
I% incidence of top 20 customers	%	73	73	67
Number of samples produced for customers	number	979	1,166	1,182
Number of different product SKUs (stock-keeping units) supplied to top 10 customers	number	1,915	1,921	2,713
Customer complaints	number	515	461	324
Certified supplier sales (certified supplier sales/sales)	%	57.1	56.3	54.3
Media presence	number	380	312	279
Number of financial analysts following Sabaf stock on an ongoing basis	number	6	6	6
Lawsuits actioned against Group companies	number	2	0	0

AVERAGE SALES PER CUSTOMER

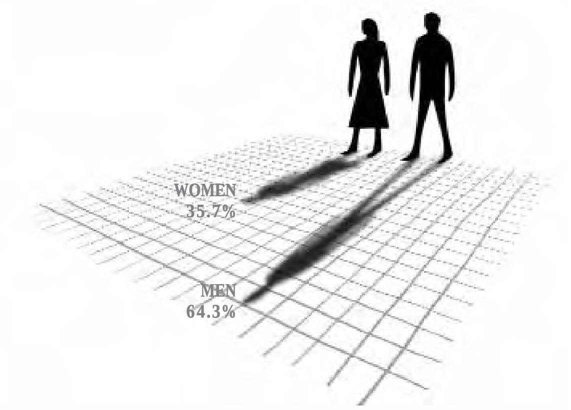


SOCIAL INDICATORS

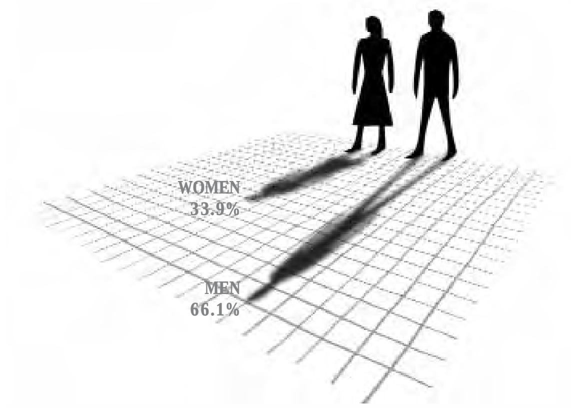
		2008	2007	2006
Total employee headcount	number	697	666	594
• Men	%	63.7	66.1	64.3
• Women	%	36.3	33.9	35.7
Sickness rate (Sick leave hours/total workable hours)	%	3.0	3.1	3.4
Accident frequency index (No. of accidents (excluding accidents in transit) per 1 mn hours worked		22.86	19.25	20.47
Accident gravity (Days of absence (excluding accidents in transit) per 1,000 hours worked)		0.91	0.27	0.19
Jobs created	number	31	72	63
% of supplier sales from suppliers in province of Brescia	%	50.2	53.3	49.6
Donations/net profit	%	0.3	0.2	0.2

TOTAL EMPLOYEE HEADCOUNT

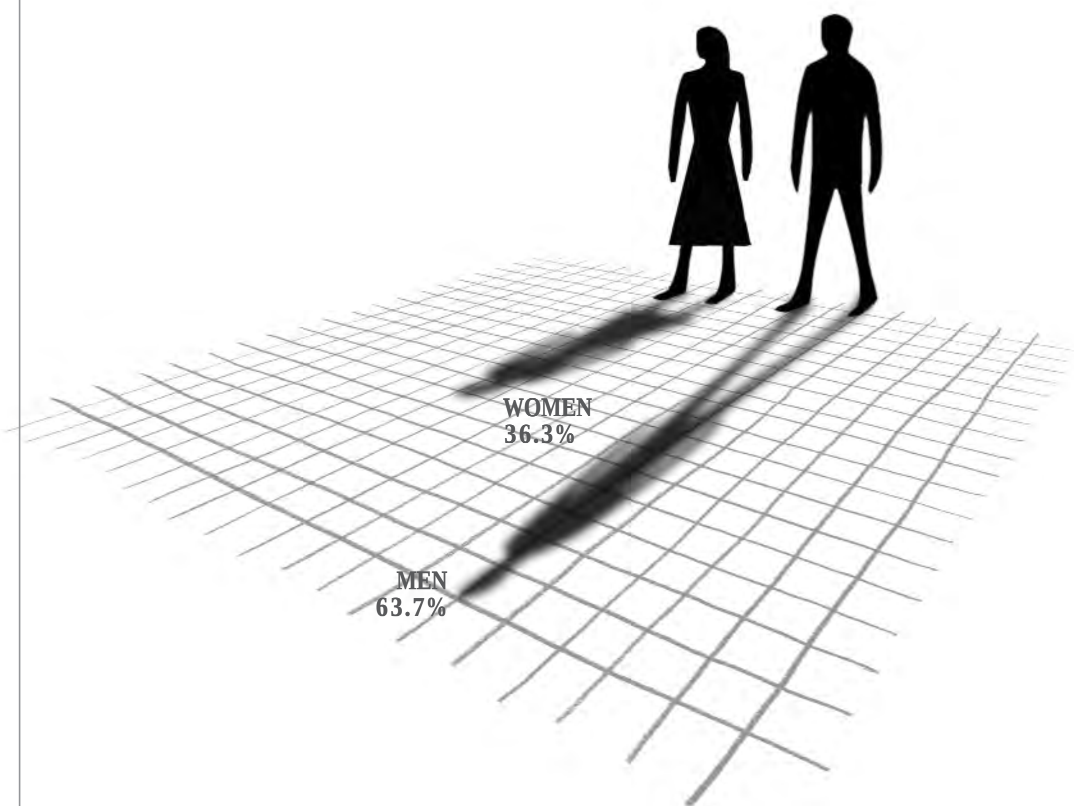
2006



2007



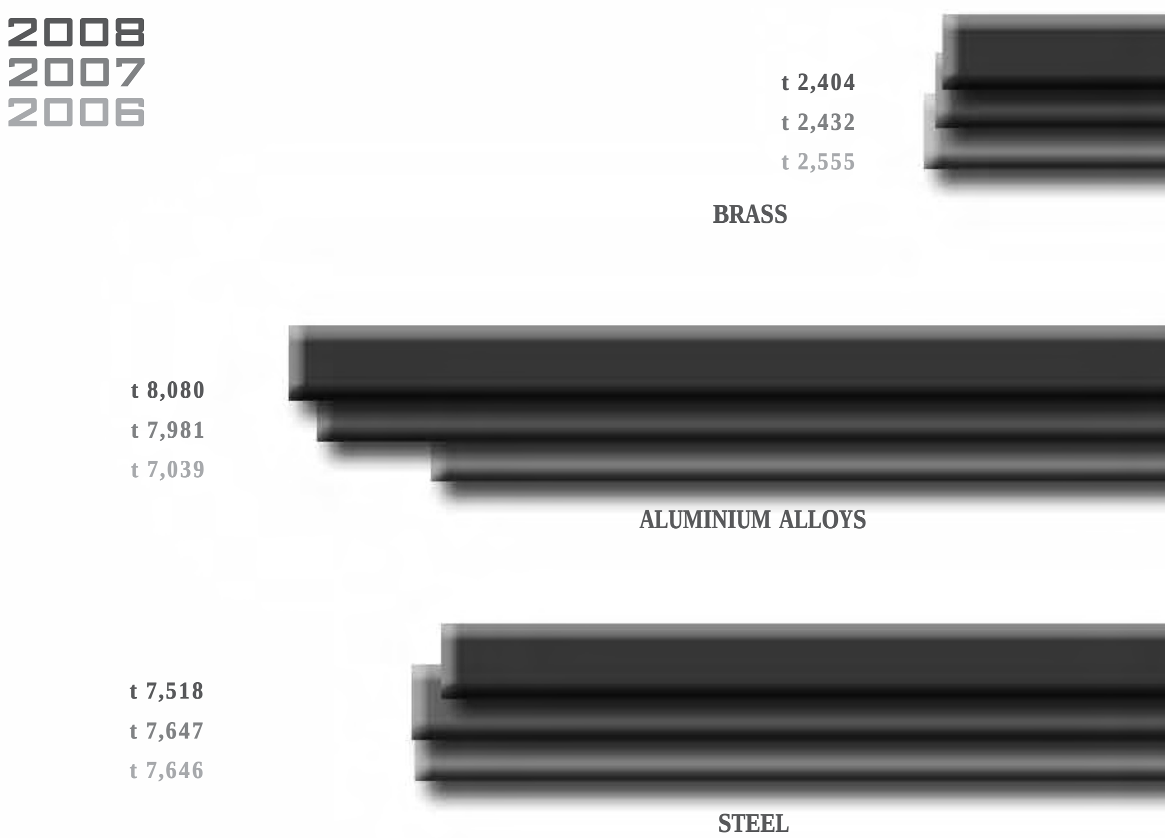
2008



ENVIRONMENTAL INDICATORS

		2008	2007	2006
Materials used				
• Brass[3]	t	2,404	2,432	2,555
• Aluminium alloys	t	8,080	7,981	7,039
• Steel	t	7,518	7,647	7,646
Waste				
• Municipal-type waste	t	196	149	130
• Total hazardous waste	t	2,079	1,319	1,252
• Total non-hazardous waste	t	6,912	7,126	7,527
Natural gas consumption	m^3 x 000	3,260	3,206	3,193
Electricity consumption	MWh	28,244	25,826	24,279
CO_2 emissions	t	19,135	8,976[4]	21,419
Current environmental spending/sales	%	0.35	0.34	0.37
Environmental investments/sales	%	0.24	0.04	0.02

MATERIALS USED



3 - Actual consumption net of recovered swarf.
The figure for 2006 has been uniformly recalculated
4 - See comment at page 71.

1

MONDAY - MOON

IDENTITY

Parent company	SABAF S.p.A.	
	Registered and administrative headquarters:	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 details:	Brescia REA 347512 Tax code 03244470179 VAT no. 01786910982
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%

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 (*)	Raffaele Ghedini
	Director (*)	Alberto Federico Giua
	Director (*)	Franco Carlo Papa
	Director (*)	Flavio Pasotti

(*) independent directors

Board of Statutory Auditors	**Chairman**	Pierluigi Bellini
	Standing Auditor	Enrico Broli
	Standing Auditor	Renato Camodeca
Independent Auditor	AGN SERCA	

GROUP HISTORY

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

1960s: In the years of the Italian “economic miracle” the household appliance sector was a front-stage player. Sabaf focused on producing valves for gas cooking appliances, i.e. components for which precision engineering is essential.

1970s: Sabaf developed a strong specialisation in the production of gas valves and strengthened a business model based on significant vertical integration and adoption of state-of-the-art process technologies.

1980s: The design and production of burners, alongside valves, supplemented Sabaf’s offering and the company became a supplier of the full range of components for gas appliances.

1990s: Giuseppe Saleri took over control of the company. This and 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 guide strategic decisions, i.e. transfer of the business to the Ospitaletto base, internationalisation of production, further expansion of the components range, and corporate governance and process management models aligned with international best practices.

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 some 50% in Europe and a global share of about 10%. Its core market therefore consists of manufacturers of household appliances, and in particular of cookers, hobs, and ovens. The large 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, both 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 permitting the 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 creation of a unique business model, the distinctive features of which are:

- Integration of R&D for products and manufacturing processes

- Strongly verticalised 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 investments designed to strengthen competitive pluses.

OPERATING ENVIRONMENT

THE COOKING APPLIANCE MARKET

In Western Europe, which accounts for about half of Sabaf products' end-user market, 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's trend is therefore directly influenced by the general economic trend and, in particular, by households' disposable income, consumer confidence, and the real estate market trend.

Conversely, in other markets the saturation level is often much lower. Faster economic growth rates and a more favourable demographic trend than in Western Europe add up to major 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

The gas cooking appliance manufacturer segment – Sabaf's core market – is distinguished by the presence of very different players, i.e.

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

For years now the sector has featured a tendency 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 meeting individual markets' specific requirements.

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

Moreover, the emergence of new players in the international scenario is causing over-supply. This in turn causes major competitive tension and will probably lead to greater concentration in the sector. However, this trend is less pronounced for kitchen ranges than for other electric appliances: in the cooking segment, design and aesthetics on the one hand and less intensive investment on the other hand also permit the success of small, highly innovative producers.

The problems faced by the sector were amplified by the slowdown in demand during 2008, leading to a full-blown crisis over the last few months. Business continuity risks for weaker operators have become exacerbated, and numerous restructurings and production streamlining measures have become necessary. In Italy, the gas cooker segment has been most penalised by this situation. The tax breaks granted for other household electric appliances (refrigerators and freezers) or other sectors (automotive) have stimulated purchases of these products while reducing the remaining amounts available for spending on durable goods.

BASIC TRENDS IN THE COOKING-APPLIANCE COMPONENT MANUFACTURER SEGMENT

The increasing levels of specialisation demanded 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 assure maintenance of high standards and ongoing improvement of their competitiveness. Concentration in the reference 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 control – independently and expertly – all business operating levers thus becomes crucially important.

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, the fact of being able to provide the entire range of components is becoming increasingly important.

Today the most dynamic components manufacturers are able to propose innovative technical and manufacturing solutions, designed to improve the appliance's performance.

REGULATORY DEVELOPMENTS CONCERNING SAFETY

Throughout the world the trend towards safe use of gas for cooking is continuing, with the aim of minimising risks of explosion caused by valves inadvertently left open with burners unlighted.
In certain European countries, national laws and regulations have already substantially imposed mandatory thermoelectric safety devices on the valves that feed exposed burners. In September 2008 the revised version of the EN 30 01:01 standard (Home cooking appliances. Safety – general requirements), which requires installation of a flame monitoring device for certification of gas cooking devices. All Member States of the European Union must comply with this regulation by March 2010.

SABAF GROUP STRUCTURE

Today Sabaf is an industrial group that, besides the direct parent company Sabaf SpA, also comprises:

FARINGOSI-HINGES S.R.L.

Acquired by Sabaf SpA in 2000, Faringosi-Hinges is one of the main manufacturers of hinges for ovens, washing machines and dishwashers.
Over the last several years, the Company has stepped up its research and development activities, which are co-ordinated by the Parent Company. The strategic objective is to focus an increasing part of activities on special products, which are hard for competitors to replicate due to the higher technical barriers and the possibility of patent protection.
In 2008 Faringosi-Hinges achieved sales of some € 10.6 million (vs. € 10.9 million in 2007) with EBIT of some € 0.7 million (€ 1.3 million in 2007) and net profit of approximately € 0.7 million (unchanged from 2007). As at 31 December 2008 equity totalled some € 6.1 million whilst the net financial position featured net cash of some € 1.5 million.

SABAF DO BRASIL LTDA

Sabaf has chosen to produce certain components directly in Brazil in order to meet the needs of multinationals present in the country, limit exposure to foreign exchange risk, and 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 intended for sale exclusively on the South American market.
Sabaf do Brasil began production activity 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. Both the design of the new factory and contracting of works have been directly co-ordinated by Sabaf SpA's management, dedicating attention during the contracting and supplier screening phase and in design activities to the safeguarding of worker safety and to environmental impact.
With introduction of the coining phase for burner covers, vertical integration of all the production phases for all burner components (bowls, burner caps and covers) was completed in 2008.
The Brazilian manufacturing activity observes the same technological standards as those applied in Italy. Specifically, the Brazilian plant is equipped with new machinery, totally similar to 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.
Major organisational and procedural changes were implemented at Sabaf do Brasil in 2008, which made it possible to improve operating efficiency and align the subsidiary's operating procedures more and more with those of the parent company. The company had sales of approximately € 6.4 million in 2008 (€ 4.8 million in 2007), with a net loss of € 158,000 (net loss of € 1.2 million in 2007). At 31 December 2008 the Company had shareholders' equity of € 8.2 million and a net financial position of € 0.7 million.

SABAF IMMOBILIARE S.R.L.

This company manages Sabaf Group property assets. In 2008, the company's activities were concentrated in two areas:

- property management inside the Ospitaletto (Brescia) industrial complex, which covers an area of approximately 100,000 square metres. In 2008 work continued on expansion of the dressing rooms and archives, and remodelling of the "ex-Corbetta" house, where a new general meeting hall and several meeting rooms will be set up.
- management of residential properties at Ospitaletto, which are reserved for sale or lease to Group employees.

In 2008 Sabaf Immobiliare posted revenues of approximately € 3 million (as in 2007) and net profits of € 774,000 (€ 781,000 in 2007). At 31 December 2008 shareholders' equity totalled about € 17.6 million, and net indebtedness totalled about € 14.1 million (figures shown in accordance with International Accounting Standards).

SABAF MEXICO S.A. DE C.V.

In 2006 the company Sabaf Mexico SA de cv, 100% owned by Sabaf SpA, was founded. The company will be able to be a base for future production activities targeting the Mexican and North American markets. Company operations have been insignificant thus far.

SABAF US CORP.

Sabaf US Corp. was incorporated in 2007, headquartered in Plainfield, Illinois, and is 100% owned by Sabaf S.p.A. The company, which is not yet operative, will represent the commercial and logistical base for sales on the United States 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 seek to foster innovation via informal communication between the various functions. The organisational set-up assures a fast decision-making process.

ORGANISATION CHART SABAF S.p.A.

VALUES, VISION, AND MISSION

In 2002 Sabaf drew up its Charter of Values, a governance tool with 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 takes as its original value – and therefore as the fundamental criterion for all its choices – the human individual, leading to an entrepreneurial vision centering round the development of a new humanism assuring the individual's dignity and freedom within a framework of shared rules of conduct.
The centrality of the individual is a universal value, i.e. a "hyper-rule" applicable regardless of differences in time and space.
In respecting this universal value the company operates promoting cultural diversities via the criterion of spatial and temporal equity.

A similar moral commitment implies automatic renouncement a priori to 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 as such means, first and foremost, restoration in the hierarchical order of things of "Being" to top priority over "Doing" and "Having", and then protection and enhancement of the "quintessential" manifestations permitting full expression of the individual in his/her entirety.

PROMOTING THE VALUE OF THOUGHT AND BELIEF:

INNOVATION AND OPENNESS 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 - constitute progress for civil society in terms of greater safety and lower environmental impact.

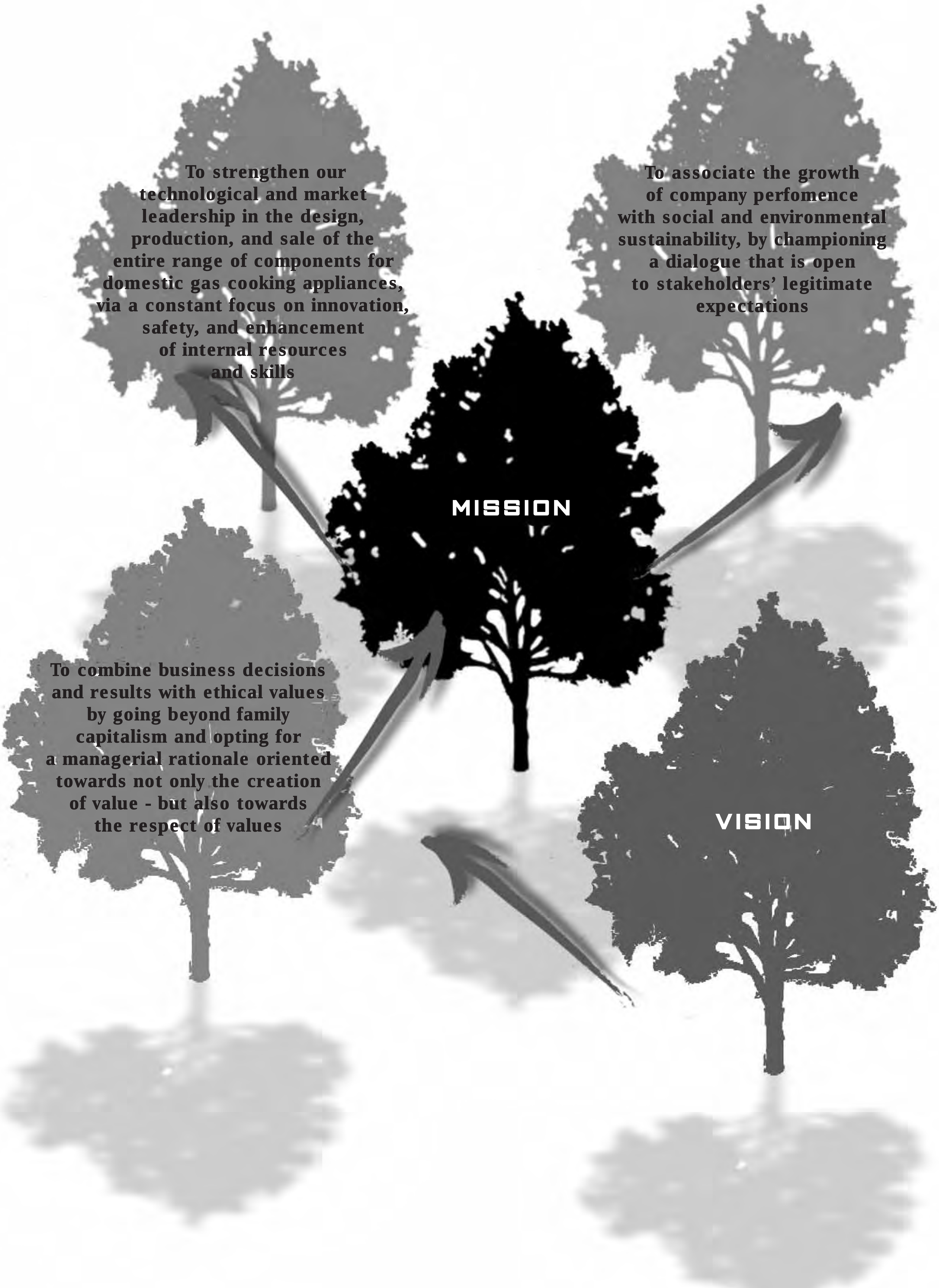
PROMOTING THE VALUE OF ACTION:

SAFETY ASSURANCE
Safety is one of the lynchpins of Sabaf's business project.
On-the-job safety in the company, defined as protection of workers' physical integrity, is assured via modernisation and ongoing improvement of the workplace and adoption of stringent quality standards.
Safety for end users is assured by offering products with the highest standards of safety and quality. Products are subject to extensive controls in compliance with the most stringent standards on the market, which ensure that they are free of defects.

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, financiers, competitors, the public administration, and the community as a whole). Because of this, 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 actual conduct are oriented towards total compliance with laws and regulations.

The Charter of Values was amended in 2008. One of the amendments explicitly stated that the scope of the document covers all Sabaf Group companies, which are formally required to adopt it.
The Charter of Values is also a reference document in the ambit of the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 and, as such, it has also been modified to set out a series of general rules of conduct with which Group employees and independent contractors must comply.


To strengthen our technological and market leadership in the design, production, and sale of the entire range of components for domestic gas cooking appliances, via a constant focus on innovation, safety, and enhancement of internal resources and skills
To associate the growth of company perfomence with social and environmental sustainability, by championing a dialogue that is open to stakeholders’ legitimate expectations
MISSION
To combine business decisions and results with ethical values by going beyond family capitalism and opting for a managerial rationale oriented towards not only the creation of value - but also towards the respect of values
VISION

STRATEGIC DESIGN

Consistently 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, enhancement of people's value, 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 levers.
Thanks to constant innovation, the company has succeeded in achieving excellent results, identifying technological and manufacturing solutions amongst the most advanced and effective currently available, and creating a virtuous circle of continuous process and product improvement - ultimately acquiring technological skills with features difficult for competitors to emulate. Our new manufacturing sites in Italy and abroad are designed to assure products based on the highest technological standards available today. They are a cutting-edge model in terms of both environmental friendliness 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

A priority underlying Sabaf's product innovation strategy is the quest for superior performance in terms of environmental impact. Our attention to environmental issues take the concrete form both of (a) innovative production processes causing lower energy impact in product manufacturing and of (b) design of products that are eco-efficient in their daily use. More specifically, innovation efforts focus above all on the development of products that reduce fuel consumption (natural or other gases) and emissions (carbon dioxide and carbon monoxide) during product use.

SAFETY

Safety has always been one of the indispensable features of the company's business project.

Safety for Sabaf is not mere compliance with existing standards, but a management philosophy aiming for continuous improvement of 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 spreading safety culture, both by fostering and encouraging the sale of products featuring thermoelectric safety devices, and via a communication policy aiming to promote 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 turned out to be a key factor for success in the specific business area, also because the company succeeded in anticipating demand for products with safety devices in the European market and in stimulating the spread of such products also 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 pursues growth via establishment in international markets, replicating its business model in emerging countries and adapting it to local culture.

Consistently 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 components range is intended to further increase our customers' loyalty via fuller satisfaction of their needs. Its ability to offer a full range of components is a further feature distinguishing Sabaf from its competitors.
This expansion is pursued via both 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 full product range in the cooking components market, thanks to its ability to adapt its production processes to customers' specific requirements.

ENHANCED EXPLOITATION OF THE VALUE 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 true "intangible assets" – i.e. the great technical and professional skill of people working in the company; its image now synonymous with quality and reliability; and its reputation as a company attentive to social and environmental problems and to the needs of its counterparts. Promotion of the idea of business and dealings with stakeholders as **"the passion for a project founded on common ethical values in which all can symmetrically recognise themselves"** is not only a moral commitment but also the true guarantee of enhanced exploitation of the value of "intangible assets"(intellectual capital). In this perspective the sharing of ethical values is the link between promotion of a business culture oriented towards social responsibility and enhanced exploitation of the value of the company's intellectual capital. Thanks to the strong "accelerator" provided by the shared-value process, Sabaf aims to strengthen its human assets (increasing employees' skills, sense of belonging, and satisfaction), thus aiding development of organisational capital (operating know-how and process improvement), whilst assuring constant development of relational capital (in terms of improvement of two-way relationships 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 choices of action and operating activities, Sabaf is applying **ProGReSS©** - "Processo di Gestione Responsabile per lo Sviluppo Sostenibile" [= responsible management process for sustainable development] – a system that, via a standard methodology, harmonises existing operating approaches in just one responsible management process designed to apply excellence-oriented paths.

The prime factors in this process are:

- **Sharing** of values, mission and of the integrated policy for sustainable development
- Adoption of a **training/action process**, able to implement improvements via inter-functional projects involving employees and featuring specific routes in terms of training and organisational communication.
- Development of an **internal control & audit system** capable of monitoring both achievement of objectives set and also any ethical risks, as well as of verifying implementation of the company's commitments to stakeholders
- Definition of **key indicators,** capable of monitoring our economic, social, and environmental performance
- Adoption of a **reporting system** able to inform the various categories of stakeholders effectively
- Definition of a **stakeholder feedback system**, in order to share and define together with stakeholders the improvement path to be implemented.

Awareness of the social and environmental implications of Group activities, together with consideration both of the importance of a co-operative 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 confronts on a daily basis. Accordingly, the Group has implemented systems for management of quality, safety, environmental and social variables, which makes it possible to monitor them on a constant basis, and it has developed specific analyses on the principal risks of the different dimensions of operations.
Detailed information about the internal control system is found in the Corporate Governance Report.

STAKEHOLDER ENGAGEMENT

With the term "stakeholders" Sabaf identifies all those groups of individuals – consisting of individual persons, 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 its stakeholders, both internal (staff and shareholders) and external (customers, suppliers, financiers, public administration, competitors, the community, and the environment), making precise commitments to each of them.

In this Annual Report we present the main information concerning Sabaf's relationships or "dealings" with stakeholders, identified as follows:

- **Staff**: members of staff are all those who have a relationship of dependent or outside employment with the company based on a hierarchical relationship. The category also includes agents and those who "represent" Sabaf in the outside environment and look after the company's relations with stakeholders:
- **Shareholders**: these are the 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:** these are the suppliers of raw materials, machinery, equipment, goods, and services
- **Financiers**: these are the banks and other financial institutions that contribute to financial support of the company
- **Competitors**: these are all companies producing components for domestic gas cooking appliances
- **Public Administration**: this category consists of central government bodies and agencies, regional governments 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"), etc.
- **Community**: this consists of the local community with which the company has dealings, schools and the academic world, end-users of household appliances (consumers) and, more in general, the entire civil society with which the company has or may have dealings
- **Environment**: this is interpreted as being both the local territorial context in which the company performs its manufacturing activities and as 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 for this aspect.

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

Staff: biennial employee satisfaction surveys, meetings with employees, and panel discussions with trade union organisations;
Customers: biennial customer satisfaction surveys;
Suppliers: a questionnaire and a biennial meeting with suppliers;
Shareholders: questionnaire sent to financial analysts and investment fund managers. One-on-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, stakeholder engagement results in the last year.

KEY SOCIAL ACCOUNTABILITY ISSUES FOR STAKEHOLDERS AND THE BUSINESS

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

CORPORATE GOVERNANCE AND PROTECTION OF MINORITY SHAREHOLDERS

Given concentration of the controlling interest in the hands of just one shareholder (the Saleri family), Sabaf undertakes to assure – also in future – substantially total separation between ownership and management. Sabaf also undertakes to assure the presence of an adequate number of highly-qualified independent directors, such as to ensure 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 makes use of the types of flexible working envisaged by current Italian legislation and, in particular, of temporary labour. The Group undertakes to assure strict compliance with relevant regulations and to keep trade-union representatives regularly informed of the use of atypical types of working.

There is an increasingly significant presence of non-EU personnel, prevalently of the Islamic religion, which poses new complexities in the management of relations with and among staff. Sabaf works actively to foster integration, assures equal opportunities for every worker and, at the same time, asks all staff to respect different sensibilities and to share the fundamental values stated in our Charter of Values.

Internalisation of production is becoming increasingly important. Sabaf undertakes to assure, via appropriate management systems, that the stated commitments made to staff are fully and tangibly implemented at all Group production sites.

CUSTOMER RELATIONS

Sabaf encourages the establishment of long-term relationships with its customers, which aid innovation in components and finished products. Customer relations are increasingly formalised with long-term agreements.

CONSUMER PROTECTION

Sabaf guarantees the maximum safety of its own products and encourages maximum transparency in disclosures to consumers and the application of increasingly stringent standards in all reference markets.

SUPPLIER RELATIONS

Sabaf's growth in size during the last few years has been accompanied by the Group's growing role in the supply chain. Sabaf is committed to monitoring its own supply chain – specifically via application of the SA8000 standard – and avoids any exploitation of a dominant position versus smaller and less organised suppliers.

ENVIRONMENT

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

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

PROPOSALS FOR IMPROVEMENT

The following specific objectives are envisaged for 2009:

STAFF

Reducing turnover and absenteeism by 50% in Sabaf do Brasil, through human-resource management targeting corporate culture, training, occupational safety and the compensation and incentive system.

QUALITY

Obtain ISO 9001 certification of the Sabaf do Brasil quality management.
Update certification in compliance with the 2008 edition of the ISO 9001 standard for Sabaf S.p.A. and Faringosi Hinges s.r.l.

ENVIRONMENT

Begin sales of new-generation higher energy efficiency burners (AE and AEO).

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TUESDAY - MARS

GOVERNANCE

CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

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 December 29th 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 December 28th 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 Market Regulation*: the Market Regulation published by Consob pursuant to Resolution 16191 of 2007.*
Report: *the corporate governance report that companies are required to prepare pursuant to Article 123 bis TUF, Article 89 bis Consob Issuers Regulation and Article IA.2,6. of the Stock Market Regulation Instructions.*
Company:*Sabaf S.p.A., also referred to hereinafter as Sabaf.*
By-laws*: the by-laws of Sabaf S.p.A.*
TUF*: Legislative Decree 58 of February 24th 1998 (Consolidated Law on Financial Intermediation).*

1. ISSUER PROFILE

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 shared 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 via 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:

- a Board of Directors responsible for management of Company operations;
- a 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 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 on STRUCTURE OF SHARE CAPITAL [pursuant to Article 123 bis TUF] at March 24th 2009

a) **Structure of share capital**

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.

The Extraordinary Shareholders' Meeting of August 2nd 2007 resolved to increase the share capital through a rights offering payable in cash on a severable basis, pursuant to Section 2441(4)(2) Italian Civil Code, excluding pre-emption rights, from Euro 11,533,450 to a maximum of Euro 12,133,450, through issuance of a maximum of 600,000 ordinary shares with a par value of Euro 1.00 each, with additional paid-in capital servicing a maximum of 600,000 non-transferable options, valid for subscription of ordinary shares, granted on a gratuitous basis to certain directors and employees of the Company as part of the stock option plan resolved by the Ordinary Shareholders' Meeting on August 2nd 2007. The capital increase may be subscribed in one or more tranches starting from August 3rd 2010 and ending on December 2nd 2010. Upon expiration of this deadline, the share capital will be considered increased by an amount equal to the subscriptions collected up through that date. A detailed description of the characteristics of the stock option plan is found in the disclosure prepared pursuant to Article 84 bis of the Consob Issuers Regulation and available on the Company website at: http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/stockOptions/documento_informativo.pdf.

b) **Restrictions on transfer of shares**

There are no restrictions on the transfer of shares.

c) **Major shareholders**

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:

Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA	56.574%	56.574%
Bestinver Gestion SGIIC SA	Bestinver Gestion SGIIC SA	7.513%	7.513%
Delta Lloyd Asset Management NV	Delta Lloyd Asset Management NV	5.133%	5.133%
Pendoli Anna	Pendoli Anna (Usufruct)	3.902%	3.902%
Nazionale Fiduciaria SpA	Nazionale Fiduciaria SpA (On behalf of third parties)	3.902%	3.902%
Sycomore Asset Management SA	Sycomore Asset Management SA	3.362%	3.362%

d) Shares granting special rights

No shares granting special rights of control have been issued.

e) Employee shareholdings: mechanism for the voting of shares

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

f) Restrictions on voting shares

There are no restrictions on voting shares.

g) Shareholder agreements

A shareholders agreement 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 December 18th1961, Gianbattista Saleri, born in Brescia on November 13th1963, Ettore Saleri, born in Brescia on April 24th 1973, Giuseppe Saleri, born in Lumezzane on August 21st 1931, Flavio Gnecchi, born in Brescia on March 15th1956 and Mario Mazzoleni, born in Milan on January 24th 1957. This agreement was notified, deposited and published pursuant to the law. It regards the entire shareholdings owned by each of these individuals in Giuseppe Saleri S.a.p.A., totalling 100% of the share capital. The main purpose of the shareholders agreement is to co-ordinate management of the equity investment in Sabaf S.p.A.

h) Change of control clauses

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) Termination benefits for directors in the event of resignation, dismissal or termination of relationship following public offer to buy shares

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.

l) Appointment and substitution of directors and amendments to by-laws

On June 26th 2007, the Extraordinary Shareholders' Meeting amended the By-laws in accordance with the provisions of the TUF, as amended by the Savings Law and the subsequent Amending Decree. The rules governing the appointment and substitution of directors were amended in accordance with these statutes, as illustrated below.

The current by-laws envisage that the Board of Directors be appointed on the basis of lists submitted by shareholders who, either individually or jointly with other shareholders, own at least 2.5% of the shares that may voted on shareholders' meeting resolutions for appointment of members to the management bodies, or the other shareholding established by Consob in its own regulation, according to the capitalisation, outstanding shares and ownership structure of the Company.

In the notice of call of the Shareholders' Meeting convened to resolve on appointment of directors, shareholders are asked to deposit their candidate lists at the registered office of the Company, together with the curriculum vitae of each candidate and complete information regarding:

- the personal and professional characteristics of the candidates indicated in the submitted lists, and any certification of their being qualified as independent members pursuant to Article 147-ter (4) TUF and Article 12 of the by-laws;
- the statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that they are not ineligible or incompatible for any reason under the law, the By-lawsor other measures applicable to their respective positions.

The shareholders' must deposit the lists at least fifteen days before the date of the Shareholders' Meeting. The lists, complete with the candidates personal information and professional qualifications, are promptly published on the Sabaf web site.

The following procedure applies to the election of directors:

- as many directors as the directors to be elected minus one are drawn from the list that received the majority of votes by shareholders;
- according to the progressive number envisaged by 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

The lists that did not receive a percentage of votes equal to at least half of what was required by the By-laws are not counted towards allocation of the directors to be elected.
At least one member of the Board of Directors, or at least two if the Board of Directors has seven seats pursuant to resolution by the Shareholders' Meeting, must satisfy the requirements of independence set out in the laws and regulations applicable to the statutory auditors of companies listed on Italian regulated markets.

If the candidates elected in accordance with the foregoing procedures do not satisfy the minimum number of independent directors in accordance with the Company By-laws, the non-independent candidate(s) that came in last place according to the progressive order of the list receiving the highest number of votes shall be replaced by the unelected independent candidate(s) included on the same list and in accordance with that list's progressive order.

If a single list is submitted, or if no list is submitted, or if the full Board of Directors is not being elected, the Shareholders' Meeting shall resolve in accordance with the legally envisaged majorities.

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

Without prejudice to the limits imposed by law, the Board of Directors may resolve on the following matters:

- the establishment or closing of branch offices;
- transfer of the registered office within the territory of Italy;
- merger in the cases envisaged in Sections 2505 and 2505 bis Italian Civil Code, including the provisions governing demerger in Section 2506 ter Italian Civil Code;
- reduction in share capital if a shareholder withdraws;
- amendments to the by-laws 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.
The Shareholders' Meeting has the prerogative of deciding on amendments to the by-laws other than those indicated hereinabove, as envisaged by law.

m) Delegations of authority to increase share capital and authorisations for purchase of treasury stock

On April 29th 2008, the Sabaf Shareholders' Meeting authorized the Board of Directors to buy back its own shares pursuant to Sections 2357 et seq. Italian Civil Code, up to a limit of 10% of the share capital. Authorization to purchase own shares aims to allow the Board of Directors to seize the opportunities offered by the market to invest in company shares, if the performance of the securities or the amount of available liquidities makes this transaction attractive. What's more, shares acquired in accordance with the mandate can be used for implementing possible future stock options plans allocated to employees and directors of the company and/or subsidiaries, or can be used for transactions related to business projects and agreements with strategic partners or as part of investment operations.
In the ambit of this plan, the Company bought back 3,947 shares at an average price of Euro 17.02 in FY 2008.These shares were still in the Company's hands at the date of this report.
The buyback program will end within 18 months after the date of the aforementioned resolution.

3. COMPLIANCE

In 2006 Sabaf S.p.A. adopted the new Corporate Governance Code and initiated the process of assessing and implementing its recommendations.
The Board of Directors of Sabaf S.p.A. confirmed the Company's adoption of the Code 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. The Corporate Governance Manual, which can be consulted in the Corporate Governance section of the Company website at www.sabaf.it, was adopted by resolution of the Board of Directors on December 19th 2006 and updated on August 2nd 2007. The Manual is complete with a number of operating guidelines designed to assist the Sabaf Board of Directors, Board of Statutory Auditors, Internal Control and Audit Committee and Supervisory Committee in properly discharging their duties.

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. MANAGEMENT AND CO-ORDINATION

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 By-laws. Furthermore, the parent company's By-laws explicitly state that it does not manage and co-ordinate the operations of Sabaf S.p.A.

5. BOARD OF DIRECTORS

5.1. MEMBERSHIP

The Shareholders' Meeting held on April 28th 2006 appointed the Board of Directors that holds office until shareholders' approval of the FY2008 annual report and accounts. The Board of Directors has 11 members, the majority of which (6) do not have executive authority.
The Chairman Giuseppe Saleri, the Deputy Chairmen Gianbattista Saleri and Ettore Saleri are members of the family that controls the Company. The Chief Executive Officer Angelo Bettinzoli has pursued his professional career at Sabaf, where he has worked for almost 40 years. After accumulating important professional experience in various sectors, the Chief Financial Officer, Alberto Bartoli, has worked for Sabaf since 1994.

The non-executive directors represent a cross-section of professional backgrounds:

- Leonardo Cossu is a professional accountant
- Franco Carlo Papa is an independent professional specialising in corporate governance, finance and business development and past president of AIAF-Associazione Italiana Analisti Finanziari (Italian Financial Analysts Association)
- Salvatore Bragantini is a former commissioner of CONSOB
- Alberto Federico Giua is professor of Product Innovation and Development at the Università Cattaneo in Castellanza
- Raffaele Ghedini is an independent professional specialising in scientific and technological research, training and consultancy
- Flavio Pasotti is a businessman and Chairman of Apindustria Brescia

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 a director of Leonessa Fiduciaria Srl, Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and statutory auditor of Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A., and Infracom Italia S.p.A.;
- Franco Carlo Papa is an independent director of DMT S.p.A., Antichi Pellettieri S.p.A. and Gefran

Name	Position	In office since	List	Exec	Non Exec	Indep.	Indep. TUF	% BoD	Other positions
Saleri Giuseppe	Chairman	28/04/06	n/a	X				100%	1
Saleri Gianbattista	Deputy Chairman	28/04/06	n/a	X				87.5%	0
Saleri Ettore	Deputy Chairman	28/04/06	n/a	X				100%	0
Bettinzoli Angelo	CEO	28/04/06	n/a	X				100%	1
Bartoli Alberto	Director	28/04/06	n/a	X				100%	0
Cossu Leonardo	Director	28/04/06	n/a		X		X	100%	6
Papa Franco Carlo	Director	28/04/06	n/a		X	X	X	62.5%	7
Bragantini Salvatore	Director	28/04/06	n/a		X	X	X	75%	4
Giua Alberto Federico	Director	28/04/06	n/a		X	X	X	50%	0
Ghedini Raffaele	Director	28/04/06	n/a		X	X	X	75%	0
Pasotti Flavio	Director	28/04/06	n/a		X	X	X	87.5%	0

Name	Position	EC	% EC	NC	% NC	CC	% CC	ICAC	% ICAC
Saleri Giuseppe	Chairman	n/a	n/a	n/a	n/a		n/a		
Saleri Gianbattista	Deputy Chairman	n/a	n/a	n/a	n/a		n/a		
Saleri Ettore	Deputy Chairman	n/a	n/a	n/a	n/a		n/a		
Bettinzoli Angelo	CEO	n/a	n/a	n/a	n/a		n/a		
Bartoli Alberto	Director	n/a	n/a	n/a	n/a		n/a		
Cossu Leonardo	Director	n/a	n/a	n/a	n/a	P	n/a	P	100%
Papa Franco Carlo	Director	n/a	n/a	n/a	n/a		n/a	M	100%
Bragantini Salvatore	Director	n/a	n/a	n/a	n/a		n/a	M	60%
Giua Alberto Federico	Director	n/a	n/a	n/a	n/a	M	n/a		
Ghedini Raffaele	Director	n/a	n/a	n/a	n/a	M	n/a		
Pasotti Flavio	Director	n/a	n/a	n/a	n/a	M	n/a		

EC: Executive Committee, NC: Nominations Committee, CC: Compensation Committee, ICC: Internal Control and Audit Committee, C: Chairman, M: Member

S.p.A., director of IGI SGR S.p.A. and Gecofin S.p.A., Chairman of the Board of Statutory Auditors of Metalwork S.p.A., and statutory auditor of Arnoldo Mondadori Editore S.p.A.;
- Salvatore Bragantini is Chairman of PROMAC S.p.A. and APEI SGR, Vice-Chairman of IW Bank S.p.A. and a director of Interpump Group S.p.A.

There were no changes in the membership of the Board of Directors during 2008, after the end of the financial year or at 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 April 28th 2006 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").

The Board of Directors verified compliance with the aforementioned criteria in FY 2008.

5.2. ROLE OF THE BOARD OF DIRECTORS

The Board of Directors met eight times during the 2008 financial year.The meetings lasted an average of about one hour twenty minutes. Five meetings have been planned for FY 2009, of which one was held on February 10th.

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.

The Board of Directors assessed the overall adequacy of the general organisational, administrative, and accounting structure of the Company as established by the Chief Executive Officer, with special reference to the internal control system and management of conflicts of interest.

When it appointed the Board of Directors, the Shareholders' Meeting held on April 28th 2006 defined the amount of compensation to be paid to directors during the three-year period 2006-2008. At the meeting held to delegate authority and duties, the Board of Directors then allocated the overall compensation approved by the Shareholders' Meeting to the individual directors.

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 (December 19th 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 By-laws, 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 Sections 2505 and 2505 bis Italian Civil Code, including the provisions governing demerger in Section 2506 ter Italian 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.

A Guideline implementing the Manual specifies that the Board of Directors examine and approve in advance all transactions with related parties, with the exception of ordinary commercial and financial transactions concluded on an arm's-length basis with subsidiaries and associates at a price of no more than Euro 1 million. The same Guideline sets out the measures designed to ensure that these transactions are executed transparently, in accordance with rules of formal and substantial fairness.

On November 11th 2008 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, and then discussing the results with the Board as a whole in order to determine any areas of improvement.
The Lead Independent Director co-ordinates the annual evaluation. He is responsible for defining the topics to be discussed during the self-evaluation. The results of the assessment were positive overall, and no significant problems were found.

The Shareholders' Meeting has not authorised general exceptions in advance to the non-competition clause envisaged in Section 2390 Italian Civil Code

5.3. DELEGATED BODIES

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
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 ample delegated powers within the limit of Euro 500,000 per individual transaction. These powers have been delegated to the Chairman and Deputy Chairmen to assure more streamlined management and are specifically designed to ensure that there are never any management "hiatuses" if the CEO is unable to exercise his functions.

Executive Committee
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.

5.4. 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.

5.5. INDEPENDENT DIRECTORS

With the abstention of those concerned, the Board of Directors reviews satisfaction by independent directors of the requirements for independence after they have been appointed and then twice annually thereafter, upon approval of the draft annual report and the half-year report.

Satisfaction of these requirements, as defined in the Corporate Governance Manual and in reference to all the principles set out in the Code, was reviewed for the first time on December 19th 2006, following adoption of the Manual. In accordance with the new criteria, Salvatore Bragantini, Raffaele Ghedini, Alberto Federico Giua, Franco Carlo Papa and Flavio Casotti were confirmed as independent directors. However, following the application of the new criteria, Leonardo Cossu, until then an independent director of the Company, was no longer considered as such since he had been a director of Sabaf S.p.A. for more than nine years.

Satisfaction by each of the non-executive directors of the requirements for independence as envisaged in the Code was reviewed twice in 2008, in February and August. On those occasions, the Company applied criteria consistent with what is set out in the aforementioned Corporate Governance Manual for assessing the independence of Directors.

The Board of Statutory Auditors audited proper implementation of the principles and procedures used to determine the independence of its members, concluding with a positive finding.

The independent directors met separately from the other directors on November 11th 2008 to assess the completeness and timeliness of the information provided to them before every meeting of the Board of Directors and to formulate any questions or requests for additional information from the Chairman of the Board of Directors.

5.6. 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 April 28th 2006 designated Franco Carlo Papa 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.

6. 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 Financial Intermediation (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.

7. BOARD OF DIRECTORS COMMITTEES

No committee has been established to perform the functions of two or more of the committees envisaged in the Code, and no committees charged to make proposals and provide advice have been set up other than the ones envisaged in the Code.

8. NOMINATIONS COMMITTEE

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

9. COMPENSATION COMMITTEE

The Board of Directors has established a Compensation Committee with four non-executive members, a majority of whom are independent.

The Committee did not have to meet in 2008: in fact, the director's variable compensation was unchanged from what was resolved in 2007 and the stock option plan approved during 2007 is still valid.

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.

On May 15th 2007 the Board of Directors established a Euro 25,000 expense account so that the Compensation Committee could fulfil its duties. These provisions were not used in 2008.

10. DIRECTORS' COMPENSATION

A significant portion of the compensation of executive directors and executives with strategic responsibilities is tied to Group earnings through a stock option plan.

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

Compensation received by directors during the 2008 financial year, for any reason and in any form, including from subsidiaries.

(in thousands of euros)

Name	Compensation for position	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
Saleri Giuseppe	80	-	-	8	88
Saleri Gianbattista	70	-	-	-	70
Saleri Ettore	70	-	-	8	78
Bettinzoli Angelo	340	-	-	20	360
Bartoli Alberto	16	-	-	162	178
Cossu Leonardo	24	-	-	-	24
Papa Franco Carlo	24	-	-	-	24
Bragantini Salvatore	24	-	-	-	24
Giua Alberto Federico	16	-	-	-	16
Ghedini Raffaele	16	-	-	-	16
Pasotti Flavio	16	-	-	-	16

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

The aggregate compensation received by the executives with strategic responsibilities (excluding the Director Alberto Bartoli), for any reason and in any form, including from subsidiaries during the 2008 financial year 2007 was Euro 663,000 (employee compensation is reported gross of social security contributions and income taxes owed by the employee).

11. INTERNAL CONTROL AND AUDIT COMMITTEE

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

The Committee held five meetings during the 2008 financial year.

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 and financial 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 and, on invitation by the Committee, the Chief Financial 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 Chief Accounting Officer and the independent auditors, verify whether uniform accounting standards and policies are properly applied in preparation of the consolidated financial statements;
- on request by the CEO, issue opinions on specific aspects concerning identification of the principal business risks as well as the design, implementation and management of the internal control system;
- examine the work plan and periodic reports prepared by the Chief Internal Auditor;
- assess the work plan prepared by external auditor, and the results illustrated in the report and any letter of suggestions;
- monitor the effectiveness of the independent auditing process;
- 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.

In 2008 the Committee:

- assessed fair application of accounting standards together with the Chief Accounting Officer and the auditors, particularly in regard to accounting of transactions involving derivative financial instruments and measurement of receivables
- expressed its opinion on the Guidelines governing management, co-ordination and control of the subsidiaries
- analysed the results of internal audits
- through exchange of information with the independent auditor, monitored the effectiveness of the auditing process
- audited compliance with the laws, regulations and internal procedures governing internal dealing and transactions with related parties
- monitored the progress of implementation of SAP.

All Company statutory auditors participate at the Committee meetings.

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

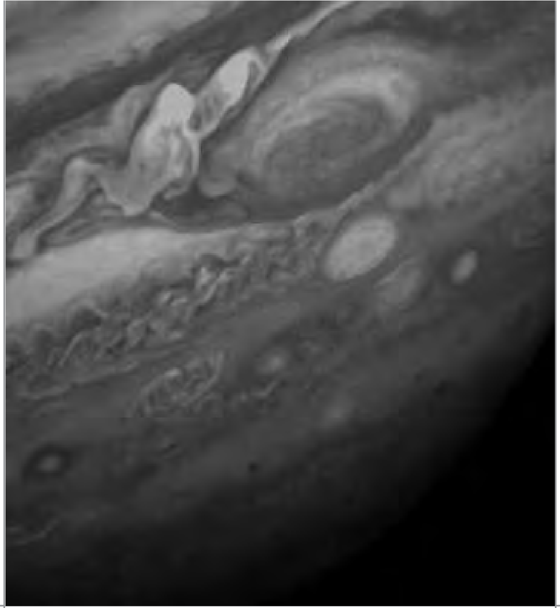
The Internal Control and Audit Committee may access corporate records and functions as necessary to discharge its duties, as well as avail itself of outside consultants in accordance with the terms and conditions established by the Board of Directors.

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 2008.

12. INTERNAL CONTROL SYSTEM

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

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



rules, procedures and organisational structures designed to ensure achievement of the following objectives with reasonable certainty:

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

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

- the organisation of the internal control system, consisting in the set of participants assigned different roles and responsibilities (as specified hereunder);
- the procedures and mechanisms for materially implementing the principles of control, as reflected in the documentation that is constantly produced and updated by the Company in defining the rules of conduct and the delegation of duties and responsibilities. These include:
- the Charter of Values;
- the measures regarding the corporate and organisational structure and associated delegations of authority;
- the mechanisms for segregation of functions in the organisation (which are also reflected in the company information systems), designed to avoid excessive concentration of decision-making/authorisation, implementation/execution, accounting and audit/control powers and functions in the organisation;
- the systems for defining business objectives and auditing and monitoring business performance;
- the policies for development and professional growth of human resources;
- 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.

The Group drafted its own Accounting Control Model as part of the financial reporting internal control system, pursuant to the Transparency Directive, as amended. This Model was approved on February 12th 2008 and is based on the following key aspects:

- general environment of control;
- process of identifying the principal risks connected with operating, asset, liability, and financial disclosures and relevant controls;
- the system of corporate procedures of relevance to preparation and disclosure of operating, asset, liability and financial disclosures (administrative and accounting procedures);
- periodic assessment of the adequacy and effective application of the identified controls;

in addition to the instructions and internal regulations implemented by the parent company to ensure an efficient system of exchanging data with the subsidiaries. Although no subsidiary is qualified as strategic, the Board of Directors has defined guidelines addressing specific aspects of internal control that are being adopted and implemented by the subsidiaries.
In 2007 Faringosi-Hinges started a project to assess the adequacy and congruency of its current organisational and control mechanisms with the requirements of Italian Legislative Decree 231 and Law 262/2005.The Company adopted its Model 231 and appointed the Internal Audit Committee in 2008.
In 2008 Sabaf do Brasil began the process of bringing its own internal control system into line with the guidelines defined by the parent company.

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.

The internal control system was found to be adequate overall in the 2008 financial year following analysis of the following aspects:

Significant events impacting the Organisation, Operation and Control Model
- Changes in the membership 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 with related parties, intercompany transactions and transactions involving potential conflict of interest
- Monitoring of the subsidiaries' internal control systems
- Principal pending litigation

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 head of information systems
- Reports by the Chief Internal Auditor

On the basis of the information and evidence that it has collected, the Board of Directors believes that the internal control system implemented in 2008 was substantially adequate in terms of the size and characteristics of the Group and fit overall for it to realize its business objectives.

12.1. 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.

The Chief Executive Officer appointed the Chief Internal Auditor on May 25th 2006 for the three-year period 2006-2008. In implementation of the Code, the Company Corporate Governance Manual currently envisages that the Chief Executive Officer propose appointment, revocation and compensation of the Chief Internal Auditor to the Board of Directors. This formal measure will be implemented starting from the next appointment.

12.2. CHIEF INTERNAL AUDITOR

The CEO Angelo Bettinzoli appointed Gianluca Beschi as Chief Internal Auditor for the three-year period 2006-2008.

Specific compensation of Euro 5,000 was allocated for payment to the Chief Internal Auditor in FY 2008.

In performing his duties, the Chief Internal Auditor reports directly to the CEO and reports on his work at least every six months to the Internal Control and Audit Committee and the Board of Statutory Auditors. Mr. 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 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.

On May 15th 2007 the Board of Directors established a Euro 25,000 expense account at the disposal of the Chief Internal Auditor so that he could perform his duties. These provisions were not used in 2008.

In 2008 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 auditing department during the financial year
- 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 dispose of the human resources and professional expertise necessary to perform this function.

12.3. 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 thwart the possibility that criminal offences falling under the scope of Legislative Decree 231/2001 be 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.

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) and Article 25 septies (negligent homicide and negligent personal injury committed in violation of occupational health and safety protection laws and regulations).

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.

On August 2nd 2006 the Sabaf S.p.A. Board of Directors appointed the Supervisory Committee for the three-year period 2006 – 2008. The members of the Supervisory Committee are the Chief Internal Auditor, Gianluca Beschi, and the Company’s independent legal counsel, Nicla Picchi.

In 2008, Supervisory Committee assessed the need to make additional updates to the Model. It decided that it was unnecessary to modify this document in regard to the offences of money laundering and computer piracy, considering them insignificant risks for Group companies.

The general part of the Model is available on the Company website at the following address:

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

12.4. INDEPENDENT AUDITOR

The accounting firm retained to audit the Company’s accounts is AGN SERCA s.n.c. It was retained by the Shareholders’ Meeting on Apriil 28th 2006 for the three-year period 2006-2008.

12.5. CHIEF ACCOUNTING OFFICER

Sabaf S.p.A. specifically amended its By-laws by introducing the position of Chief Accounting 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 By-laws was made by resolution of the Extraordinary Shareholders' Meeting on August 2nd 2007. On the same day, the Board of Directors appointed Alberto Bartoli, Chief Financial Officer, as the Chief Accounting Officer.

The By-laws envisage that the Chief Accounting 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 Chief Accounting Officer after receiving the mandatory but non-binding opinion of the Board of Statutory Auditors.

The Board of Directors has provided the Chief Accounting Officer with the following resources and authority:

- have direct contact with the independent auditor, the Internal Control and Audit Committee and the Board of Statutory Auditors;
- acquire, control and verify information and news at all equivalent or higher hierarchical levels, including at lower hierarchical levels that do not depend on the executive himself; the same powers may also be exercised vis-à-vis the subsidiaries and corporate hierarchies of the consolidated companies;
- use internal communication channels that ensure adequate intercompany information flows;
- have authority to propose/assess all procedures adopted inside the Company;
- set up administrative and accounting procedures;
- acquire control and management tools, including information systems (both hardware and software) within the annual spending limit of Euro 25,000;
- assign duties, responsibilities and deadlines for the collection and verification of information;
- avail himself of specialised external advisors for dealing with particular issues, by retaining professionals within the annual spending limit of Euro 50,000;
- use the Internal Audit department for the purposes of Law 262;
- participate at conferences, training courses and continuing education seminars;
- convene company personnel at his discretion for the purpose of updating, training and informing staff 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 respect, the Company has also revised and amended its principal administrative procedures. The process, which was initiated in 2008, will continue throughout 2009 and consider any organisational and process changes, partly in consideration of the transition to a new information system.

13. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors approved Guidelines implementing the Corporate Governance Manual for approval and execution of transactions carried out by the Group or its subsidiaries with related parties.
With the exception of ordinary commercial and financial transactions carried out at arm's-length market conditions with subsidiaries, associated companies and the parent company for amounts not exceeding Euro 1 million, the Guidelines envisage that transactions with related parties must be approved by the Sabaf Board of Directors.
Accordingly, the Board of Directors receives from the CEO, who may be supported by the Chief Internal Auditor, adequate information on the transaction to be approved, particularly in regard to the nature of the relationship, the procedures for executing the transaction, the economic and other conditions for carrying out the transaction, the applied evaluation process, the underlying interests and justifications and any risks posed to the Group.

Even if they are concluded through subsidiaries, all transactions with related parties must comply with the rules of substantial and procedural fairness, with (i) substantial fairness being construed as the fairness of the transaction in economic terms (when, for example, the transfer price of a good is consistent with market prices), (ii) procedural fairness being construed as compliance with procedures that aim to ensure the substantial fairness of the transaction.

The Sabaf Internal Control and Audit Committee must give its opinion in advance in the following cases:

- transactions with atypical or unusual related parties, i.e. whose object, nature, characteristics or conditions are unrelated to the normal business activities of the Company or feature particular problems due to their characteristics or risks connected with the nature of the counterparty;
- transactions with related parties at non-standard conditions, i.e. conditions inconsistent with market conditions or that are different from those that would have been envisaged in relations with unrelated parties;
- transactions with related parties whose object, consideration, conditions or terms for execution might impact the integrity of Company assets or the fairness and completeness of information, including accounting information (pursuant to Article 71 bis of the Consob Issuers Regulation).

The Chief Internal Auditor audits the substantial and procedural fairness of transactions with related parties.

If the nature, value or other characteristics of the transaction so require, and in order to prevent the transaction from being concluded at conditions other than what would have been plausibly negotiated by unrelated parties, the Board of Directors or the Internal Control and Audit Committee may request that the transaction be concluded with the assistance of one or more independent experts who express an opinion on the economic conditions and/or procedures for execution and/or legitimacy thereof.

No material transactions were carried out in 2008 with related parties, except for the ordinary commercial and financial transactions with subsidiaries, which were concluded at arm's length market conditions.

The Guidelines also define appropriate operating solutions that can facilitate identification and adequate management of the situations where a director has a direct interest or an interest on behalf of third parties.

The following rules must be followed if such an interest exists:

- 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.

14. APPOINTMENT OF STATUTORY AUDITORS

The Shareholders' Meeting of June 26th 2007, which resolved to amend the By-laws in accordance with the new provisions of the TUF, also amended the rules governing the voting lists used to appoint the members of the Board of Statutory Auditors, in order to reflect the new provisions set out in Article 148 TUF and the Issuers Regulation.

The aforementioned statute envisages:

- the use of voting lists for the election of statutory and alternate auditors to the Board of Statutory Auditors, mandating that at least one of the statutory auditors and one of the alternate auditors must be chosen by the minority shareholders;
- a minimum shareholding for submission of candidate lists that is equal to what is envisaged for election of the members to the Board of Directors;
- the obligation to reserve the post of Chairman of the Board of Statutory Auditors to the statutory auditor elected by the minority shareholders;
- the causes for ineligibility and forfeiture of office by the statutory auditors;
- the integrity and professional pre-requisites;

the limits on total number of management positions.

The submitted lists must be deposited at the registered office of the Company at least fifteen days before the day scheduled for the Shareholders' Meeting on the first call.
Only those shareholders who, either alone or in association with others, collectively own voting shares representing at least 2.5 per cent of the voting shares are entitled to submit lists.
The statutory auditors shall be elected as follows:

- 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;
- the third statutory auditor and the other alternate auditor are elected from the list that received the highest number of votes at the Shareholders' Meeting, among the lists submitted and voted on by shareholders who are unrelated to the controlling shareholders pursuant to applicable laws and regulations, in the numerical order in which they are named on that list.

15. STATUTORY AUDITORS

Name	Position	Term	List	Indep. Pursuant to code	% part. at B.S.A. meetings	Other positions [1]
Lucchini Italo	Chairman	28/04/2006 28/04/2009	m	X	100%	n/a
Ballerio Eugenio	Statutory Auditor	28/04/2006 28/04/2009	M	X	100%	n/a
Seccamani Mazzoli Giovannimaria	Statutory Auditor	28/04/2006 28/04/2009	M	X	100%	n/a
Bellini Pierluigi	Alternate Auditor	28/04/2006 28/04/2009	m	n/a	n/a	n/a
Bellini Pierluigi	Chairman	29/04/2008 28/04/2009	m	X	100%	16
Broli Enrico	Statutory Auditor	29/04/2008 28/04/2009	M	X	100%	27
Camodeca Renato	Statutory Auditor	29/04/2008 28/04/2009	M	X	100%	5
Guidetti Paolo	Alternate Auditor	28/04/2006 28/04/2009	M	n/a	n/a	n/a

M: *majority list; m: minority list*

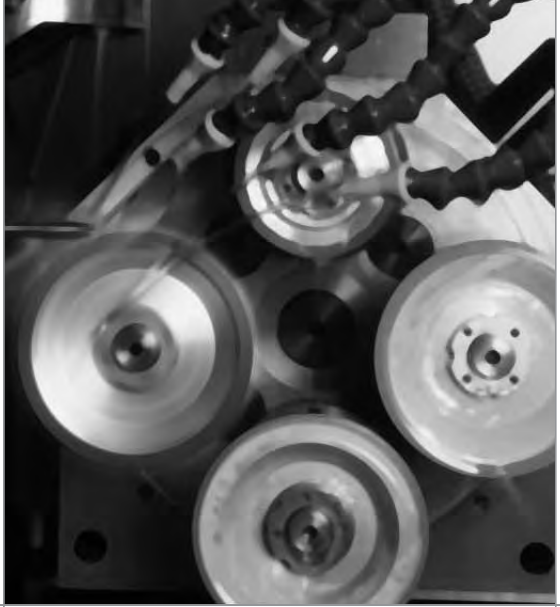
The meeting of April 29th 2008 appointed the new statutory auditors Enrico Broli and Renato Camodeca, replacing Eugenio Ballerio and Giovannimaria Seccamani Mazzoli, who had tendered their resignation from the office of full members on the Board of Statutory Auditors as they had exceeded the number of offices they could hold. At the end of the same meeting, Italo Lucchini tendered his resignation from the office of Chairman of the Board of Statutory Auditors, again because he had exceeded the number of offices he could hold pursuant to article 148-bis of Legislative Decree 58/1998 and the current regulations. Mr Lucchini was replaced by Pierluigi Bellini, the alternate statutory auditor from the minority list.
As a result, the Board of Statutory Auditors of Sabaf S.p.A. in office up to the date of the meeting approving the 2008 financial statements is currently composed of the following persons: Pierluigi Bellini (Chairman), Enrico Broli and Renato Camodeca (Statutory Auditors). The auditors' CVs are available on the Company website in the section Investor Relations/Corporate Governance/Board of Directors.

All statutory auditors of the Company are professional accountants ("dottore commercialista").

The Board of Statutory Auditors met five times in 2008, and three of those meetings were held after May.
The Board of Statutory Auditors reviewed satisfaction by all of its members of the requirements for being considered independent in FY 2008. 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 2008 there were no situations where the statutory auditors had to make such disclosure.

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



In 2008 the Board of Statutory Auditors:

- monitored the independent auditor's independence, verifying its satisfaction both of the applicable laws and regulations and the nature and amount of the services other than audits provided to the Company and its subsidiaries by the independent auditor and the entities belong to its network;
- co-ordinated its activities with the Chief Internal Auditor, the Internal Audit department and the Internal Control and Audit Committee through:
- weekly meetings for the exchange of information amongst the parties with supervisory and auditing functions;
- invitations to the Chief Internal Auditor to participate at the meetings of the Board of Statutory Auditors;
- participation of all its members at the meetings of the Internal Control and Audit Committee.

16. 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.

17. SHAREHOLDERS' MEETINGS

Without prejudice to the statutory provisions governing the solicitation and collection of proxies, shareholders may be represented at the Shareholders' Meetings pursuant to the limits and provisions of law. All shareholders may attend the Shareholders' Meeting if they possess the certification issued by the authorised intermediary that serves the notice envisaged in Section 2370(2) Italian Civil Code at least two days before the date scheduled for the Shareholders' Meeting. The shares and relevant certification may not be picked up before the end of the Shareholders' Meeting. In any event, the rules imposed by law apply to participation at the Shareholders' Meeting.

The Shareholders' Meeting approved a Shareholders' Meeting Regulation in order to govern the orderly proceedings of the Ordinary and Extraordinary Shareholders' Meetings, while simultaneously encouraging participation by shareholders and exercise of their voting rights. The regulation is available on the Company website, at the following address:

http://www.sabaf.it/opencms/opencms/Risorse/investorRelations/corporateGovernance/documentiSocietari/regas02.pdf

The Chairman of the Shareholders' Meeting moderates discussion. Voting shareholders may request to speak about the topics listed on the agenda just once, making comments and requesting information. Voting shareholders may also make motions. The request to do so may be made until the Chairman announces that discussion on the topic addressed by the request has been closed. The Chairman establishes the procedures for requests to speak and the order of persons speaking. The Chairman and, when he requests, those who assist him, answer the speakers at the end of all comments on the agenda topics, or after each person speaks. The individuals who requested to speak may give a brief reply. Considering the object and significance of the individual agenda topics, as well as the persons asking to speak, the Chairman decides in advance how long the speakers may speak and answer in order to ensure that the Shareholders' Meeting may conclude its work at just one gathering. Before the scheduled end of the comment or answer, the Chairman asks the speaker to finish. At the end of all comments, answers and any replies, the Chairman announces the closure of discussion.

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 the 2008 financial year, 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 By-laws in regard to the percentages established for taking the actions and exercising the prerogatives envisaged for protection of minority shareholders.

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the Corporate Governance structure between December 31st 2008 and the date of this report.

3

WEDNESDAY - MERCURY

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, on-the-job 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 for reasons of gender, sexual orientation, age, nationality, health, political opinions, 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 mobbing to the detriment of workers.
- To promote dialogue supporting 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, consistently with business 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 during hiring of personnel. Recruitment is based on candidates' satisfaction of business needs.

THE SA8000 STANDARD

Sabaf SpA's social accountability system complies with the requirements of the SA8000 standard, for which the company obtained certification 2005. The decision to certify the system was a consequence of total belief in the importance of the company's "human assets". The intention is to make management, suppliers, employees and outside staff aware of the need to assure full observance of the social accountability principles established in the SA8000 standard.

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

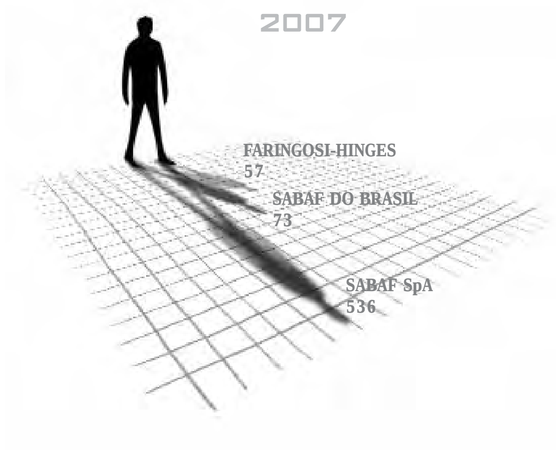
There was constant dialogue during the year between management representatives and workers' representatives concerning concrete application of the SA8000 standard.

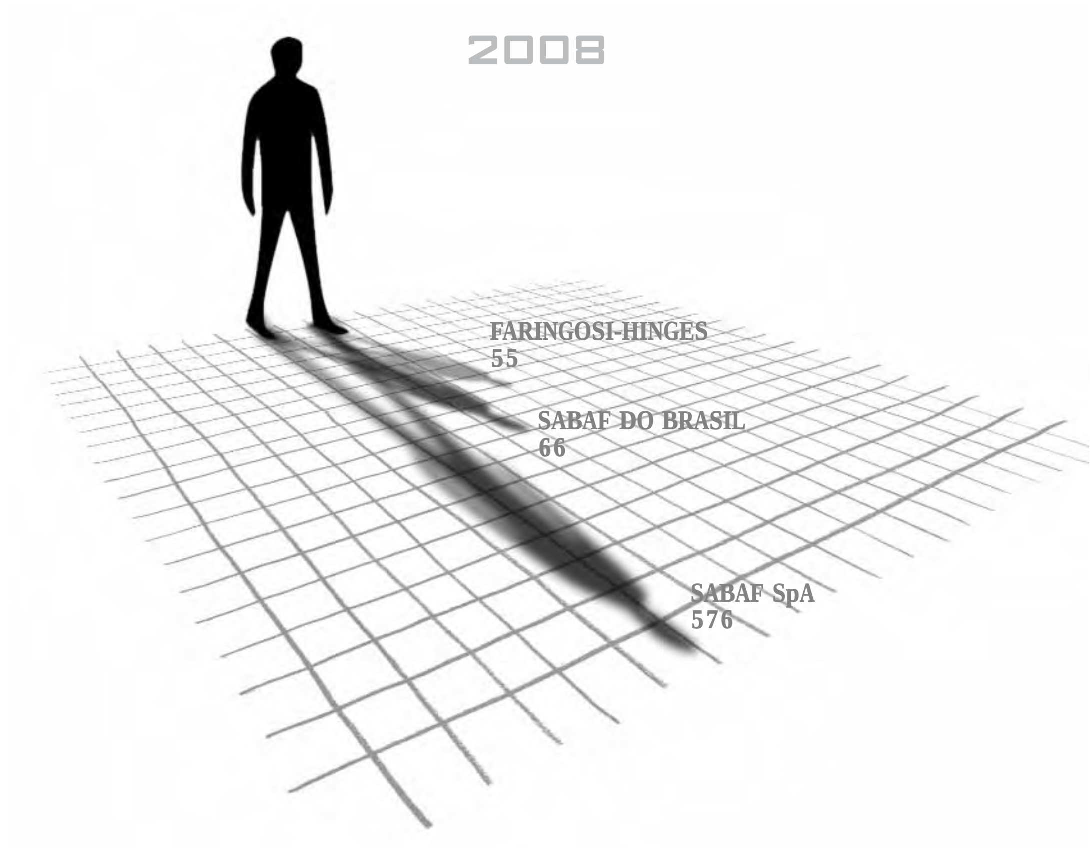
The social responsibility system was audited by CISE on 20 June 2008. Upon termination of the relationship with CISE, Sabaf S.p.A. asked IMQ / IQ NET to re-audit the system in December 2008, in order to maintain certification in accordance with the SA8000 standard (2008 edition). The certifying entity was changed in order to unify certification of the quality, environmental and social responsibility systems – which are interrelated – in a single entity. The new audit was carried out in February 2009 and confirmed that the system was effectively applied. Two minor instances of non-compliance were found, for which the necessary corrective measures were taken.

HIRING POLICY, COMPOSITION AND CHANGES IN EMPLOYEES

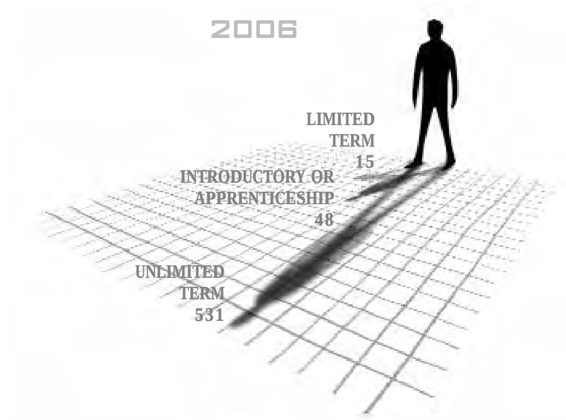
As at 31 December 2008 the Sabaf Group had 697 employees, compared with 666 at 2007 year-end (+5%).

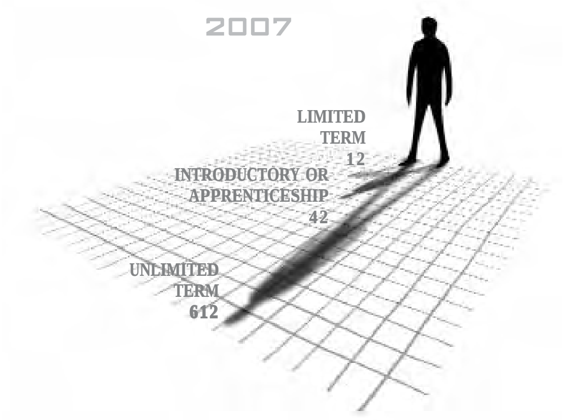
BREAKDOWN OF GROUP STAFF BY COMPANY



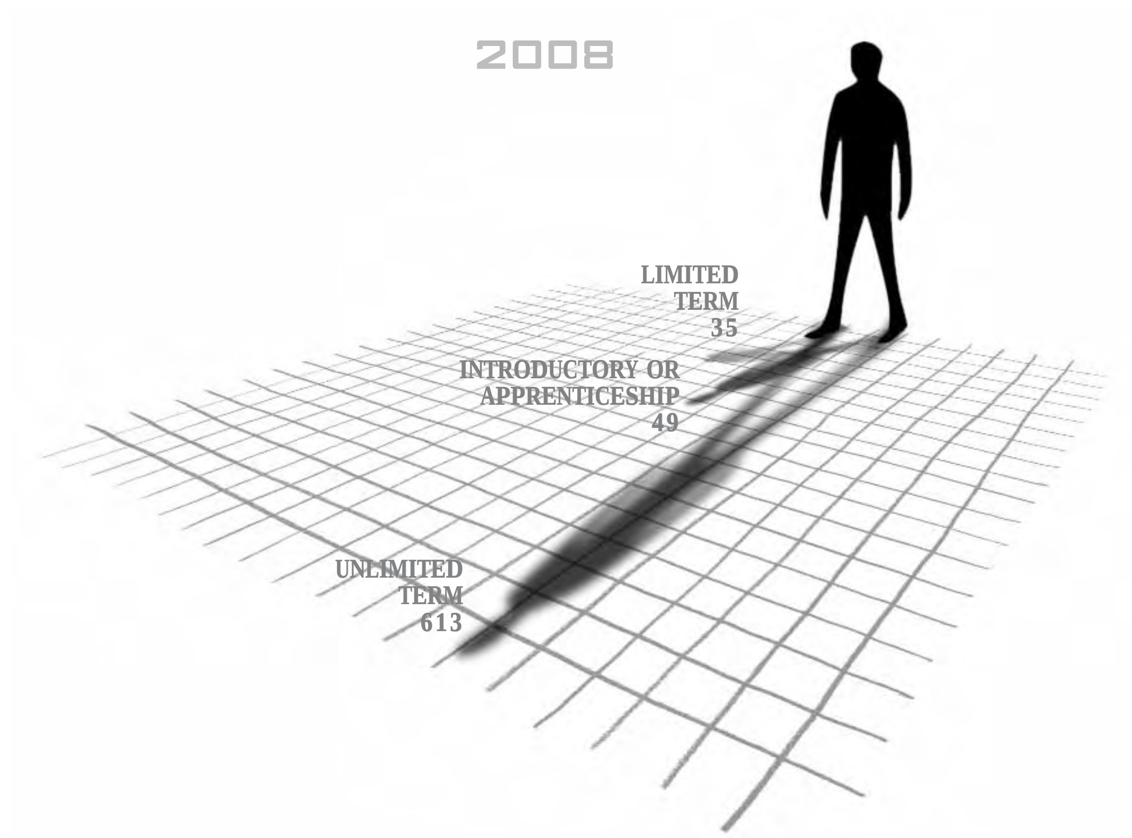


As regards basic types of employment contracts, 613 employees (87.9%) had open-ended (i.e. permanent) contracts, 49 (7.0%) had training or apprenticeship contracts, and 35 (5.0%) temporary (i.e. fixed-term) contracts.





BREAKDOWN OF SABAF GROUP STAFF BY CONTRACT TYPE



TEMPORARY STAFF [WITH A TEMPORARY AGENCY WORKER CONTRACT]

TEMPORARY STAFF	2008	2007	2006
January	140	126	136
February	147	139	130
March	134	127	116
April	139	106	104
May	134	89	125
June	168	141	159
July	168	151	165
August	161	130	153
September	162	154	134
October	160	154	103
November	129	139	119
December	43	140	123
ANNUAL AVERAGE	**140**	**133**	**131**

During 2008 Sabaf Group companies hired 74 ex-temporary workers on a permanent basis (63 in 2007).

The Sabaf Group uses temporary workers for the purposes allowed by applicable laws and regulations. Orders from all of the Group's principal customers suddenly fell drastically beginning in November 2008. Consequently, the Group reduced its activity levels and sharply limited its temporary employment contracts. This trend continued during the initial months of 2009, without any sign of market recovery.

During 2008 Sabaf hosted 10 high-school students for work-experience placements (5 in 2007). More specifically, the students of some high schools in the province of Brescia completed one-week work-experience placements at Sabaf, during which they were able to deepen their knowledge in the mechanical engineering field.

STAFF TURNOVER - 2008

SABAF S.P.A.

	31/12/07	Hired	Terminated	Change in cat.	31/12/08
Managers	6	0	1	2	7
White-collars and supervisors	112	16	14	-2	112
Blue-collars	418	74	35	0	457
TOTAL	**536**	**90**	**50**	**0**	**576**

FARINGOSI-HINGES S.R.L.

	31/12/07	Hired	Terminated	Change in cat.	31/12/08
Managers	1	0	0	0	1
White-collars and supervisors	17	1	1	0	17
Blue-collars	39	2	4	0	37
TOTAL	**57**	**3**	**5**	**0**	**55**

SABAF DO BRASIL LTDA

	31/12/07	Hired	Terminated	Change in cat.	31/12/08
Managers	1	0	1	1	1
White-collars and supervisors	15	9	13	2	13
Blue-collars	57	48	50	-3	52
TOTAL	**73**	**57**	**64**	**0**	**66**

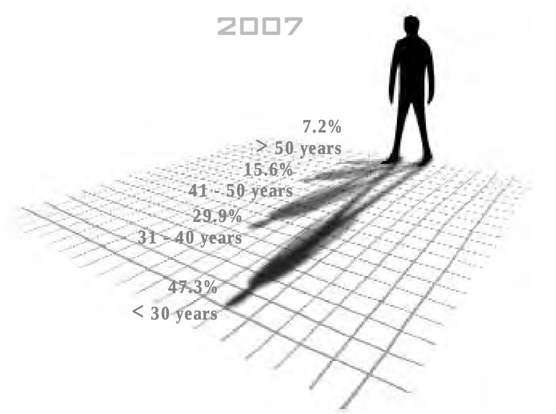
GROUP TOTAL

	31/12/07	Hired	Terminated	Change in cat.	31/12/08
Managers	8	0	2	3	9
White-collars and supervisors	144	26	28	0	142
Blue-collars	514	124	89	-3	546
TOTAL	**666**	**150**	**119**	**0**	**697**

REASONS FOR LEAVING GROUP - 2008

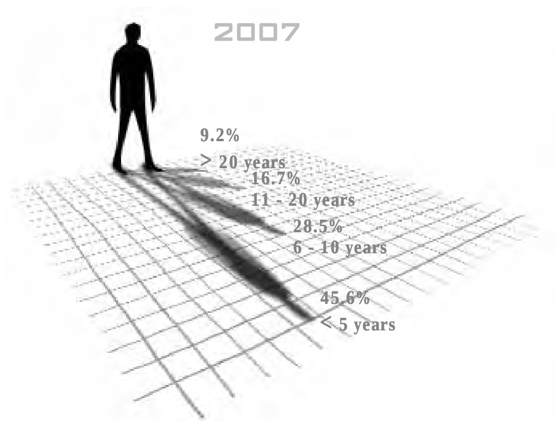
Description	Manager	Supervisors	White-collars	Blue collars	Total
Resignation	0	1	12	52	**65**
Retirement	0	0	7	6	**13**
Expiry of contract	0	0	1	2	**3**
Dismissal	2	1	6	24	**33**
Failure to pass probationary period	0	0	0	5	**5**
TOTAL	**2**	**2**	**26**	**89**	**119**

The high turnover at Sabaf do Brasil reflects the move of the production plant from Guarulhos to Jundiaì (about 80 km away) in 2007, and the high employment rate in the Jundiaì area, which is undergoing major industrial development. In order to reduce turnover, Sabaf do Brasil begain a major programme in 2008 for management of human resources. One of the priority components of this project is represented by the "integration programme," aimed at reinforcing the corporate culture – by improving the sense of belonging and identification with the Company, in order to reduce turnover by at least 50% in 2009.



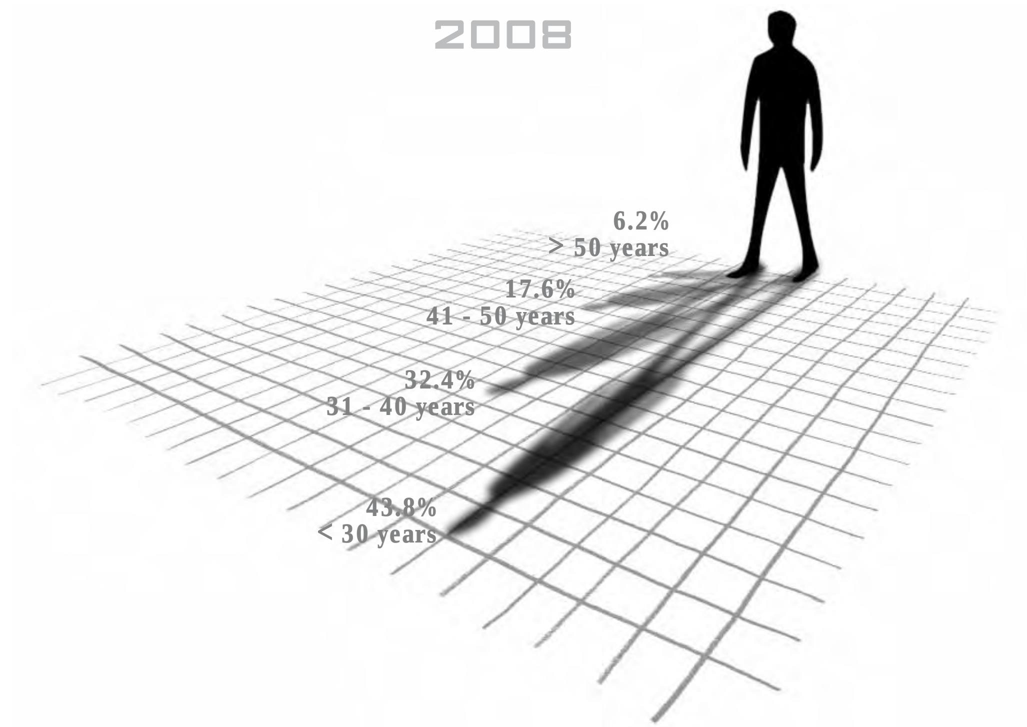
The average age of Group employees – 35 years – reflects a constantly growing company and the desire to hire young workers, giving preference to in-house training and growth rather than bringing in outside skills, also in view of the specific nature of Sabaf's business model.

The minimum age of Group employees is 17 years.

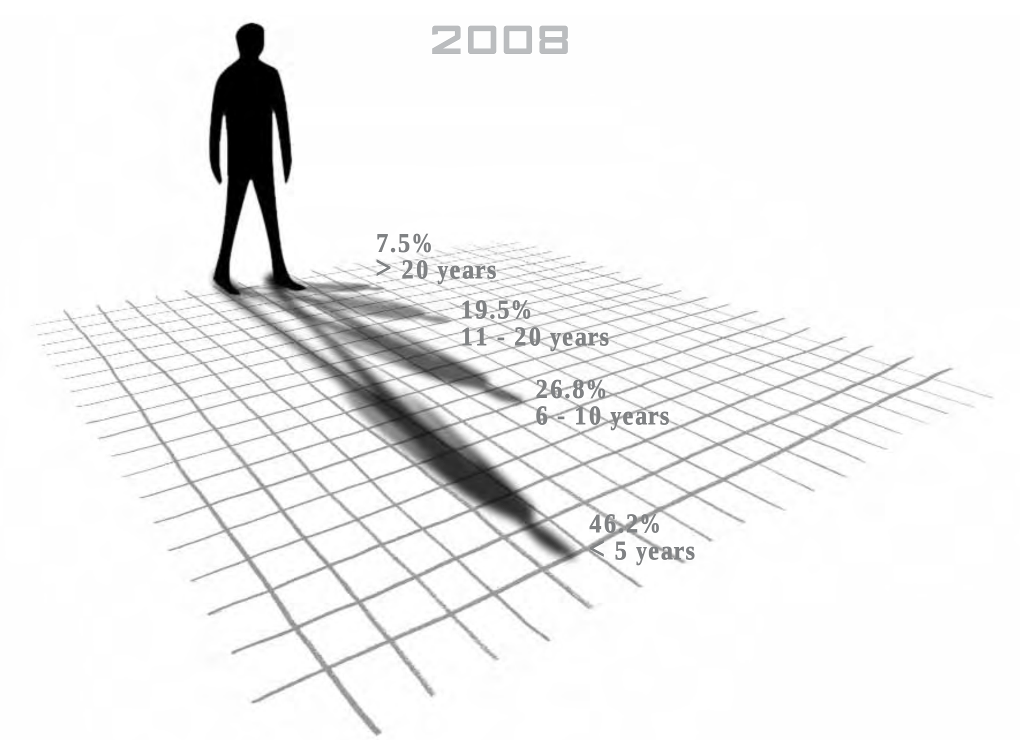


Sabaf is well aware of the fundamental importance of having a stable and qualified workforce that, together with investments in technology, is a key factor for the maintenance of the Group's competitive advantage.

BREAKDOWN OF EMPLOYEES BY AGE



BREAKDOWN OF EMPLOYEES BY SENIORITY



STAFF BREAKDOWN BY FUNCTIONAL AREA[5]

AREA	2007 M	2007 W	2007 TOTAL	2008 M	2008 W	2008 TOTAL
Production	311	159	470	320	171	491
Quality	40	26	66	37	30	67
Research & development	36	3	39	34	3	37
Logistics	26	3	29	23	3	26
Administration	11	18	29	12	21	33
Sales	11	10	21	10	12	22
Services	2	5	7	6	10	16
Procurement	3	2	5	2	3	5
TOTAL	**440**	**226**	**666**	**444**	**253**	**697**

HIRING POLICY

In order to attract the best resources, our hiring policy intends to assure equal opportunities for all candidates, avoiding any type of discrimination. The hiring policy envisages, inter alia:

- that the hiring process be carried out in at least two phases with two different contacts;
- that at least two candidates be considered for each position.

The candidates are evaluated on the basis of their education and training, previous experience, expectations and potential, according to specific corporate requirements.

All new hires receive the Charter of Values and the SA8000 standard, as well as a copy of the national collective labour contract for the industry and a booklet explaining how to read payslips.

STAFF BREAKDOWN BY EDUCATIONAL QUALIFICATIONS

EDUCATIONAL QUALIFICATION	2007 MEN	2007 WOMEN	2007 TOTAL		2008 MEN	2008 WOMEN	2008 TOTAL	
University degree	35	5	40	6.0%	35	7	42	6.0%
Higher secondary school diploma	179	71	250	37.5%	221	87	308	44.2%
Lower secondary school diploma	185	133	318	47.7%	176	150	326	46.8%
Primary school	41	17	58	8.7%	12	9	21	3.0%
TOTAL	**440**	**226**	**666**	**100%**	**444**	**253**	**697**	**100%**

TRAINING

In Sabaf the professional growth of employees is underpinned by a permanent training process. The Human Resources Department, having consulted with the functional managers concerned, devises an annual training plan, based on which specific courses to be held during the year are scheduled.

TRAINING ACTIVITIES	2007 MEN	2007 WOMEN	2007 TOTAL	2008 MEN	2008 WOMEN	2008 TOTAL
Training for new recruits, apprentices, initial employment contracts	11,586	4,153	15,739	11,560	4,970	16,530
Information systems	1,220	410	1,630	1,616	1,109	2,725
Technical training	709	379	1,088	1,300	804	2,104
Safety, environment and social responsibility	815	223	1,038	1,380	531	1,911
Administration & organisation	495	218	713	169	213	382
Foreign languages	263	310	573	95	74	168
Other	60	0	60	153	132	285
Total training hours received	***15,148***	***5,693***	***20,841***	***16,273***	***7,833***	***24,105***
Of which: training hours provided by internal trainers	5,460	967	6,427	19,001	4,971	23,971
TOTAL	**20,608**	**6,660**	**27,268**	**35,273**	**12,803**	**48,076**

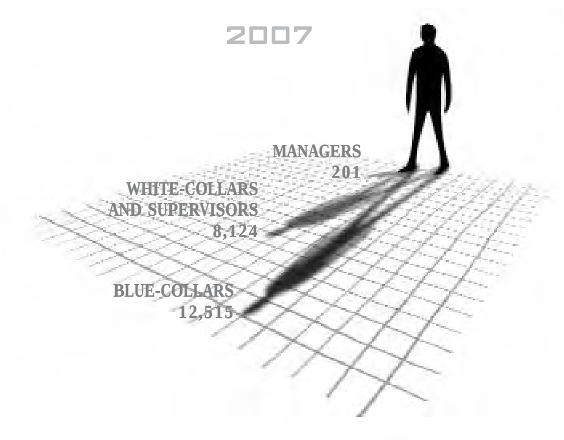
5 - The figures for 2007 have been recalculated in line with the new classification adopted in 2008

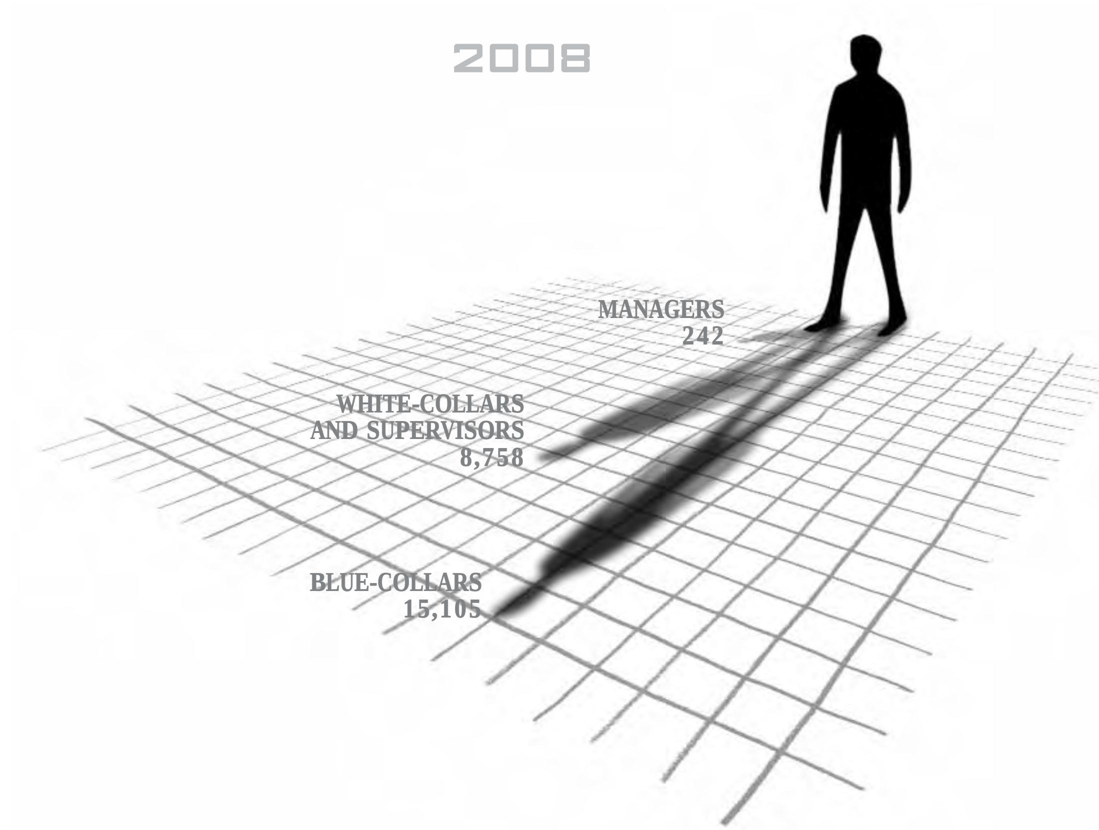
The significant increase in training hours is tied principally:

- to the high number of new hires, many of whom did not have prior work experience and thus needed longer initial training;
- implementation of the new SAP information system, for which training was provided to about 150 users.

Starting from 2008, the hours of training provided by in-house trainers, which were measured more precisely, also include the training provided to temporary workers (a total of 13,132 hours).

TRAINING HOURS BY EMPLOYEE CATEGORY





In 2008 the total cost of training Group employees – excluding measurement of the hours provided by in-house trainers – was about € 645,000 (about € 550,000 in 2007).

INTERNAL COMMUNICATION

With the main aim of reducing the “distance” between employees and employer and of developing an ongoing dialogue between all company levels, Sabaf publishes a quarterly magazine featuring the main information concerning corporate life and adressing subjects of general interest.
The most important issues dealt with in 2008 concerned: industrial relations, the relationship between school and business, business strategies and responses to the looming crisis.

The Human Resources Department officially established two weekly times at which it was available to meet with employees to provide them with advice and consultancy, even without considering issues strictly connected with the employer-employee relationship, such as information on tax and social security laws.

Bulletin boards were set up in different areas of the plant, where information about cultural and social matters, and discount and special-rate programmes for staff was displayed, in addition to organisational and trade-union news and press releases.

THE HUMAN RESOURCES PROJECT AT SABAF DO BRASIL

Sabaf do Brasil underwent major changes in 2007 and 2008. Other major challenges for the Group were the transfer of the Guarulhos facility to Jundiaì, a major increase in production activity and a thorough in-house reorganisation, culminating with the appointment of a new Chief Executive Officer in July 2008.. Human resources management demanded great attention in this context. Procedural changes were introduced to align operating processes at Sabaf do Brasil with those of the Parent Company. Numerous initiatives were undertaken to reinforce employees’ sense of belonging, motivation and level of satisfaction. New forms of internal communication were launched, including visual communication (bulletin boards and images) and the publication of a monthly newsletter. Numerous information and formal and informal discussion sessions between management and staff were established on a permanent basis. Some of the objectives of the programme are a reduction in turnover and absenteeism by at least 50% by 2009.

DIVERSITIES AND EQUAL OPPORTUNITIES

Sabaf is permanently committed to assuring equal opportunities for female staff, who today account for 36.3% of the workforce (33.9% in 2007).

The company – compatibly with organisational and production requirements – is sensitive to its staff's family needs. As of today, most requests for reduction in work hours made by workers have been satisfied. In 2008 the Sabaf Group granted a total of 36 part-time contracts (to 3 female white-collars, 29 female blue-collars, 2 male blue-collars, and 2 male blue-collar apprentices) accounting for 5.2% of the total (vs. 38 contracts in 2007).

STAFF BREAKDOWN BY GENDER - %

	2007		2008		BENCHMARK [6]
	Number	%	Number	%	%
Men	440	66,1%	444	63.7%	**85.5%**
Women	226	33,9%	253	36.3%	**14.5%**
TOTAL	**666**	**100%**	**697**	**100%**	**100%**

Comparison of Sabaf's percent breakdown of employment by gender with the average for Italian metalworking and engineering companies shows that, in its sector, Sabaf stands out for the high presence of female staff.

GENDER BREAKDOWN BY CONTRACTUAL CATEGORY - NUMBER

Category		2007	2008
BLUE-COLLAR AND SIMILAR	MEN	336	344
	WOMEN	180	202
WHITE-COLLARS AND SUPERVISORS	MEN	97	92
	WOMEN	45	50
MANAGERS	MEN	7	8
	WOMEN	1	1
TOTAL		**666**	**697**

NON-EU WORKERS[7]

	2007	2008	BENCHMARK [8]
Non-EU workers	50	59	
% of total employees	8.40%	9.35%	2.69%

22 disabled people work in the Sabaf Group, of which 5 on a part-time basis. For Sabaf annual hiring of people with disabilities is not merely a question of legal compliance, but above all the desire to aid their entry and integration in normal manufacturing processes. Sabaf S.p.A. and Collocamento Mirato are parties to an agreement for an employment programme that envisages employment of workers with disabilities.

6 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Worker breakdown by gender (2006), *http://www.federmeccanica.it*
7 - Figures refer to Italian companies only. Sabaf do Brasil is not included.
8 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Non-EU workers (2006), *http://www.federmeccanica.it*

COMPENSATION, INCENTIVE, AND ENHANCEMENT SYSTEMS

Sabaf SpA employees are hired according to the rules of the national collective labour contract for the mechanical engineering industry, supplemented by local agreements, which include:

- An extra allowance over minimum pay by employee grade
- A productivity bonus by employee grade
- A fixed performance-related bonus for all employee grades
- A variable performance-related bonus, the same for all employee grades.

In addition, a specific bonus is envisaged for employees hired by virtue of training and contracts and apprenticeships.

As has happened since its introduction in 1996, once again in 2008 the variable performance-related bonus was paid out to the extent basically indicated by the agreement. All productivity and quality targets had in fact substantially been achieved.

Reference should be made to the Explanatory Notes to consolidated accounts for an analysis of payroll costs.

Besides economic incentives – i.e. assignment of shares to employees (bonus allocations and stock-option plans), ad-personam merit increases, guarantees issued by the company for employees in the case of mortgages and personal loans, sale or rental of apartments at cost price, and company conventions for access to goods and services at special low prices – Sabaf's incentive system also includes the possibility of participating in training activities and being allowed to work part-time and take leaves of absence.

The supplemental company agreement expired on 31 December 2007 at Sabaf S.p.A. In 2008 Company management and union representatives met on numerous occasions to discuss its renewal, but they were unable to reconcile their conflicting demands before the end of the year. As the economic situation worsened in November 2008, the Company requested temporary suspension of wage claims, while union representatives did not back down from their previous demands.

9 - Gross salary of a blue-collar/Grade 3 white-collar

10 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Per-capita overtime hours (2006), http://www.federmeccanica.it

11 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Per-capita hours of absence from work (2006), http://www.federmeccanica.it

12 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Per-capita hours of absence from work (2006), http://www.federmeccanica.it

13 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Per-capita hours of absence from work (2006), http://www.federmeccanica.it

RATIO BETWEEN MINIMUM MONTHLY SALARIES ENVISAGED BY NATIONAL COLLECTIVE LABOUR CONTRACTS AND THE MINIMUM SALARY ACCORDED BY GROUP COMPANIES

	Minimum salary as per national collective contract	Minimum salary accorded	% increase vs. collective minimum
Italy [9]	Euro 1,324	Euro 1,352	+2.1%
Brazil	BRL 630	BRL 706	+12%

WORKING HOURS AND HOURS OF ABSENCE

The ordinary working week is set as being 40 hours for the 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 activation of shifts at particular times, the company takes care to inform company trade union representatives and the employees involved with the utmost timeliness.

One of the principal causes for the increase in overtime during 2008 was implementation of the new IT operating system, which required a major commitment by numerous employees (more than 14,000 hours were dedicated to the SAP project in 2008).

OVERTIME WORKING

	2007		2008		BENCHMARK [10]	
	White-Collar	Blue-collars	White-Collar	Blue-collars	White-Collar	Blue-collars
Average monthly number of workers who worked overtime	87	268	89	302		
Number of overtime hours	14,379	40,785	17,160	49,237		
Annual per-capita overtime hours	99	84	114	93	69	89

HOURS OF ABSENCE

	2007	2008	BENCHMARK [11]
Total annual hours of absence	73,879	80,404	
Hours of absence as % of workable hours	5.9%	6.0%	
Average per capita hours of absence	120.7	117.6	124.7

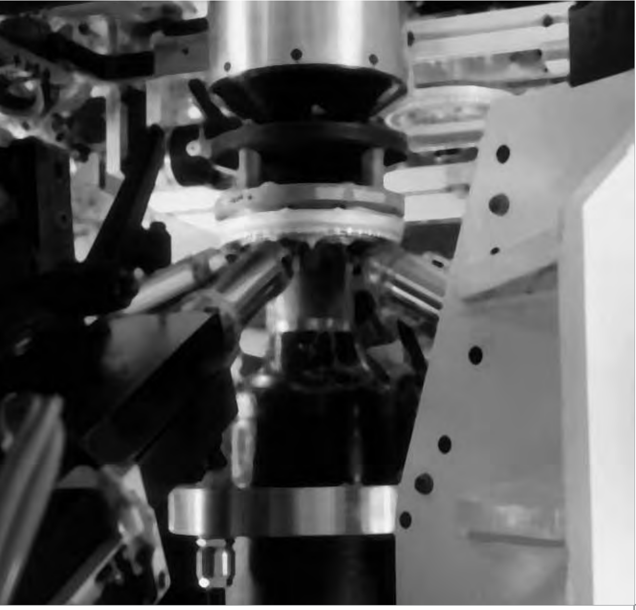
SICK LEAVE HOURS

	2007	2008	BENCHMARK [12]
Total annual sick leave hours	38,777	40,591	
Sick leave hours as % of workable hours	3.1%	3.0%	
Average per capita sick leave hours	63.0	59.4	66.5

MATERNITY-LEAVE HOURS

	2007	2008	BENCHMARK [13]
Total maternity-leave hours	25,446	33,370	
Maternity-leave hours as % of workable hours	2.0%	2.5%	
Average per capita maternity-leave hours	41.6	48.8	16.9

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



USE OF GOVERNMENT'S LAYOFF BENEFITS FUND ["CIG"]

	2007	2008
Number of hours of CIG	2,574	5,106
Annual per- capita hours	4.2	7.5

Use of the Government's Layoff Benefits Fund was necessary in 2007 at Faringosi Hinges in order to deal with reduced activity between May and July and in 2008 at Sabaf S.p.A. due to reduced production in December. In both years, recourse to CIG was extremely limited, while it was expected to increase sharply in 2009 due to the current economic crisis.

OCCUPATIONAL HEALTH AND SAFETY

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

Sabaf SpA and Faringosi Hinges s.r.l. promptly updated the corporate and operating procedures required pursuant to Legislative Decree 81/2008 (Consolidated Law on Occupational Health and Safety).

The Organisation, Operation and Control Models pursuant to Legislative Decree 231/2001 of the two companies were amended to incorporate the extension of the administrative liability of entities to manslaughter and negligent personal injury committed in violation of accident prevention and occupational hygiene and health laws and regulations.

NUMBER AND DURATION OF ACCIDENTS

	2007	2008	BENCHMARK [14]
On-site accidents	20	27	
Off-site accidents in transit	1	4	
Average absence for on-site accidents (days)	18[15]	25	
Average absence for off-site accidents in transit (days)	1[16]	70	
Total days of absence for accidents	1,715	7,648	
Average per capita hours of absence for accidents	2.80	11.19	9.5

ACCIDENT FREQUENCY INDEX

Number of accidents (excluding in-transit accidents) per 1,000,000 hours worked

	2007	2008
Index	19.25	22.86

ACCIDENT GRAVITY INDEX

Number of accidents (excluding in-transit accidents) per 1,000 hours worked

	2007	2008
Index	0.34	0.91

The frequency and gravity indices worsened in 2008 compared to 2007. Four accidents (two at Sabaf S.p.A. and two at Sabaf do Brasil) caused lengthy absences. Training was further upgraded, and programmes to improve protection and safety equipment user skills continued. A general audit of all Sabaf S.p.A. machinery and equipment was carried out in 2008. This activity will be repeated annually.

14 - FEDERMECCANICA, The metalworking industry in figures (May 2008) – Per-capita hours of absence from work (2006), http://www.federmeccanica.it
15 - Figure recalculated compared to 2007 Annual Report
16 - Figure recalculated compared to 2007 Annual Report

In compliance with current law, Group companies have prepared and implement a health-monitoring programme for their employees, with medical check-ups focusing on the specific hazards associated with their occupational activities.
In 2008 2,324 medical check-ups were performed (1,425 in 2007).

CURRENT EXPENDITURE FOR WORKER SAFETY

(Amounts in € '000)

	2007	2008
Plant, equipment, and materials	100	90
Personal protective equipment (PPE)	114	66
Outside training	8	1
Advisory services	2	10
Analyses of workplace environment	9	11
Medical check-ups (including pre-hire check-ups)	9	31
Software and database	2	1
TOTAL	**244**	**210**

Use of hazardous substances

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

INVESTMENTS FOR WORKER SAFETY

(Amounts in € '000)

	2007	2008
Plant, equipment, and materials	171	104
TOTAL	**171**	**104**

LABOUR RELATIONS

Three trade unions are represented internally at Sabaf SpA: FIOM, FIM and UILM. As at December 2008, 150 employees were card-carrying members, i.e. 21.5% of total employees (in 2007 143 employees were card-carrying members, 20.9% of the total).

Relations between top management and trade-union representatives are based on mutual transparency and fairness. During the year in Sabaf SpA there were 27 meetings between top managers and internal trade-union representatives. The main matters addressed were:

- statutory and regulatory changes affecting employee work
- definition of the company calendar
- termination of the collective transport service and public transport agreement
- the quality of the canteen service
- the platform for the supplemental company agreement
- disciplinary measures
- monitoring of fixed-term and initial job hiring contracts
- notices regarding changes in permanent staff and supply agreements
- preferential treatment for grant of advances on staff leaving indemnities (TFR)
- the calendar of the Government Layoff Benefits Fund and termination of supply agreements

The hours of participation in trade-union activities occurring during 2008 were equivalent to 0.62% of workable hours.

PARTICIPATION IN TRADE UNION ACTIVITIES

	2007	2008	BENCHMARK [17]
UNION MEETINGS			
Number of hours	2,479	3,057	
As % of workable hours	0.20%	0.23%	
Average per capita hours	4	4.5	
UNION LEAVE OF ABSENCE			
Number of hours	1,124	1,385	
As % of workable hours	0.09%	0.10%	
Average per capita hours	1.8	2.0	
STRIKES			
Number of hours	6,558	3,812	
As % of workable hours	0.53%	0.28%	
Average per capita hours	10.7	5.6	3.3
TOTAL			
Number of hours	10,161	8,254	
As % of workable hours	0.82%	0.62%	
Average per capita hours	16.6	12.1	

17 - FEDERMECCANICA, The metalworking industry in figures (May 2008) - Per-capita hours of absence from work (2006), http://www.federmeccanica.it

STRIKE HOURS IN SABAF SPA

	STRIKE HOURS	REASON	PERCENTAGE OF PARTICIPATION
11 January 2008	8	Renewal of national collective bargaining agreement	44%
15 January 2008	2	Renewal of national collective bargaining agreement	33%
11 March 2008	1	Awareness campaign on workplace mortality and accidents	28%
13 June 2008	1	Awareness campaign on workplace mortality and accidents	24%
07 November 2008	1	Company Agreement	42%
20 November 2008	4	Reform of contractual system	25%
12 December 2008	8	Labour-wage-pension-rights crisis	13%
TOTAL	**25**		**30%**

No strikes were called at Faringosi Hinges and Sabaf do Brasil in 2008.

SOCIAL ACTIVITIES AND BENEFITS

Sabaf SpA made agreements with two banks for the grant of mortgage loans and consumer loans at particularly advantageous conditions, by standing surety for employees: at 31 December 2008, 50 employees had benefited from the agreement, for 43 mortgage loans and seven consumer loans.

The Company leased 12 apartments to employees near the Ospitaletto site. A new residential complex with 54 units was built in 2007, which are allocated on a priority basis at cut rates to employees. Twenty-five apartments had been sold to employees by the end of December 2008.

Since 1 January 2008, a public transport line between Lumezzane and Ospitaletto has been operating at times coinciding with the shift change times at Sabaf. Sabaf contributed € 60,000 in 2008 to the start-up of this service, and another € 30,000 in the first half of 2009.

The company has also signed various conventions with retailers and commercial businesses for the purchase of products and services at special low prices.

LEGAL DISPUTES AND DISCIPLINARY MEASURES

During 2008 130 disciplinary measures were taken vis-à-vis employees. They were split as follows in terms of types:

- 5 verbal reminders
- 26 written reminders concerning use of personal protection equity
- 37 written reprimands
- 45 fines
- 15 suspensions
- 2 dismissals for just cause or justified reasons

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

Four lawsuits were underway at 31 December 2008 with four employees, three of which had been initiated in previous financial years, in disputes arising from termination of employment.

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, assuring 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 corporate governance practices in order to maximize the company's value and reduce business risks.
- To give fair consideration to shareholders' different interests in the company.
- To encourage dialogue between shareholders and the Board of Directors.
- To ensure correctness, 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 with supervisory authorities.
- To adopt appropriate procedures for the handling of confidential information with special reference to price-sensitive information.

SHAREHOLDER BASE

As at 24 March 2009, 1,876 shareholders were listed in the shareholders' register. Of these:

- 1,780 owned up to 1,000 shares
- 63 owned from 1,001 to 5,000 shares
- 12 owned from 5,001 to 10,000 shares
- 21 owned over 10,000 shares.

Shareholders residing outside Italy owned 25% of the share capital.

Institutional investors are very strongly present in share capital (and account for approximately 80% of the free float).

RELATIONS WITH INVESTORS AND FINANCIAL ANALYSTS

Right from the time when it went public (1998) the company has considered financial communication to be 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 perspective, even during the hard economic times in 2008 and early 2009, Sabaf has assured its complete availability to dialogue with financial analysts and institutional investors.

The brokers that prepare studies and research documents about Sabaf on an ongoing basis are: Abaxbank, Banca Akros, Berenberg, Dresdner Kleinwort, Euromobiliare and Unicredit.

In 2008 the Company met with over 100 institutional investors at roadshows organised in Milan, London, Edinburgh, Paris and Zurich.

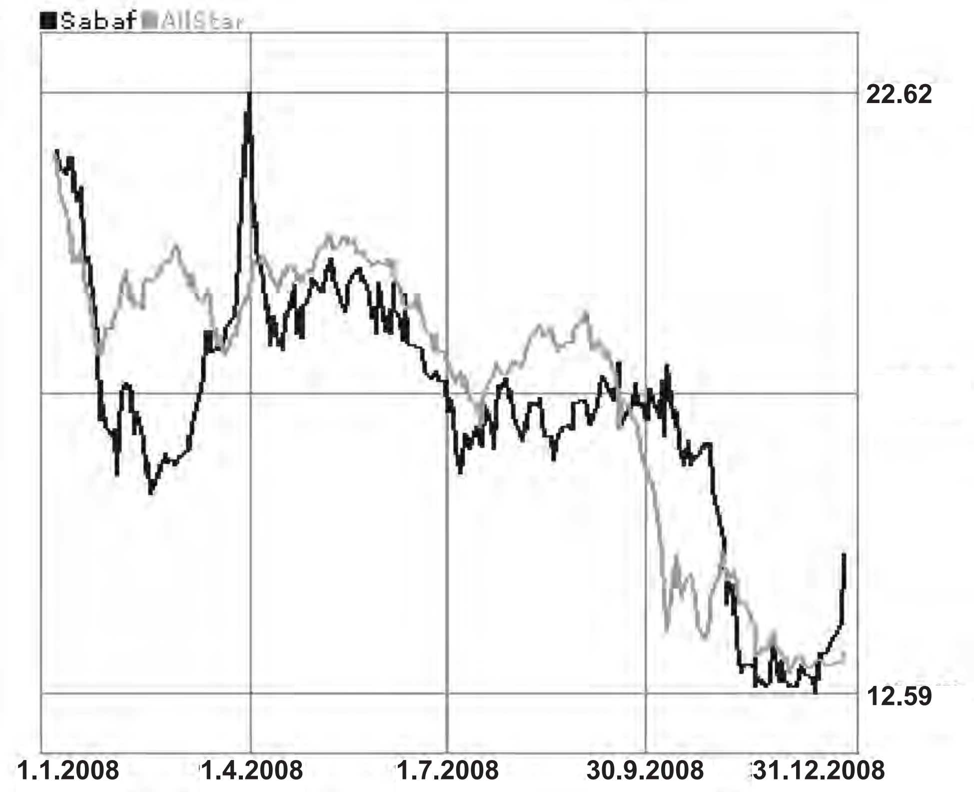
Further information on investor relations is provided in the 2008 Report on Corporate Governance and Ownership Structure.

SHAREHOLDER REMUNERATION AND SABAF STOCK PERFORMANCE

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

Year of payment	Dividends
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 - proposed dividend	0.70

During 2008 Sabaf stock hit its maximum official price on 31 March (€ 22.62) and its minimum official price on 26 November (€ 12.592). As at 30 December the official price was € 14.546. Average daily trading volume totalled 9,512 shares for an average value of € 168,000 (vs. € 385,000 in 2007).



SOCIALLY RESPONSIBLE INVESTMENTS

Sabaf is included in the Kempen SNS SRI index – the first index for socially-responsible European small caps.

Sabaf shareholders also include ethical funds, such as Etica Sgr, which participated at the shareholders' meeting on 28 April 2008 with the following presentation:

Etica SGR S.p.A.
GRUPPO BANCA POPOLARE ETICA

2003 2008 5 anni di finanza responsabile

29 APRIL 2008, SABAF SPA SHAREHOLDER MEETING

Presentation by Etica Sgr on the second item on the agenda: approval of the Annual Report at 31 December 2007

Good morning everyone, I am Alessandra Viscovi, General Manager of Etica Sgr.

Etica Sgr is the asset management company of the Banca Popolare Etica Group. It only promotes socially responsible investment funds that invest in the shares of companies that respect human rights, reduce harmful emissions and are sensitive to the development of local communities. The companies are selected on the basis of over 70 social and environmental indicators.

Sabaf is one of a small number of Italian businesses that passed our screening process. We have been investing in Sabaf since 2004 because it has demonstrated a commitment to social issues and environmental protection that is above average for its sector. After thorough analysis of the documents provided to us before the General Meeting, we have decided to vote in favour of all the items on the agenda.

As long-term investors focused on sustainable development, we learned with special interest at the "STAR conference" presentation, organised by Borsa Italiana last 6 March, that Sabaf plans to adopt the Italian industrial policy for all of its production plants, including those located outside Italy. Consequently, there would not be any qualitative impairment of working conditions in contexts featuring lower levels of protection. We would appreciate seeing the policy or a summary of it, if it is considered confidential.

Sabaf is one of the few businesses at the international level that has tied its "Share-based incentive plan" to environmental and social targets, among other objectives. We would like to ask you if the data for 2007 are already available regarding any savings realised from the reduction in hazardous waste in 2007, which was mentioned as an objective in the 2007-2009 Incentive Plan.

We would like to take this opportunity to express our satisfaction with the investment we have made in Sabaf and our appreciation of its management and the policies it has adopted in regard to financial, social and environmental sustainability issues. We would also like to encourage Sabaf to continue the work it has performed thus far with professionalism and profound ethical commitment.

LEGAL DISPUTES

There are no legal disputes underway with shareholders

SABAF AND ITS CUSTOMERS

OUR COMMITMENTS TO CUSTOMERS

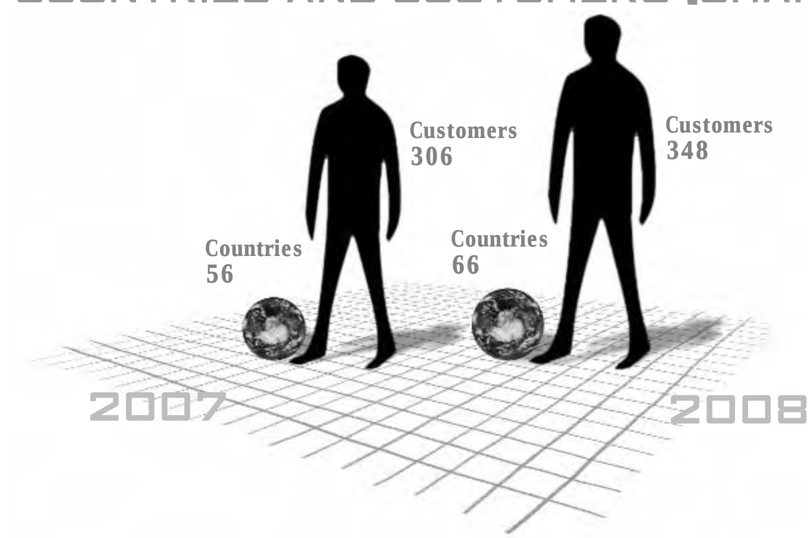
- To act with transparency, integrity and fairness.
- To communicate information on products and services in a clear and transparent manner.
- To behave morally, professionally and helpfully in dealings with customers.
- To guarantee high standards of quality for the products offered
- To assure ongoing technological research in order to offer innovative products.
- To work with customer companies to assure end-users the utmost safety when utilising products
- To encourage socially-responsible actions throughout the entire manufacturing chain
- To listen to customers' requirements via constant monitoring of customer satisfaction and of any complaints
- To inform customers of all risks associated with use of the products and of their environmental impact.

For detailed analysis of revenue breakdown by product family and geographical area, reference should be made to the Report on Operations.

Consistently with the Group's commercial policies, most of the active commercial relationships are well established and of a longstanding nature.

SALES ANALYSES

COUNTRIES AND CUSTOMERS [CHART]



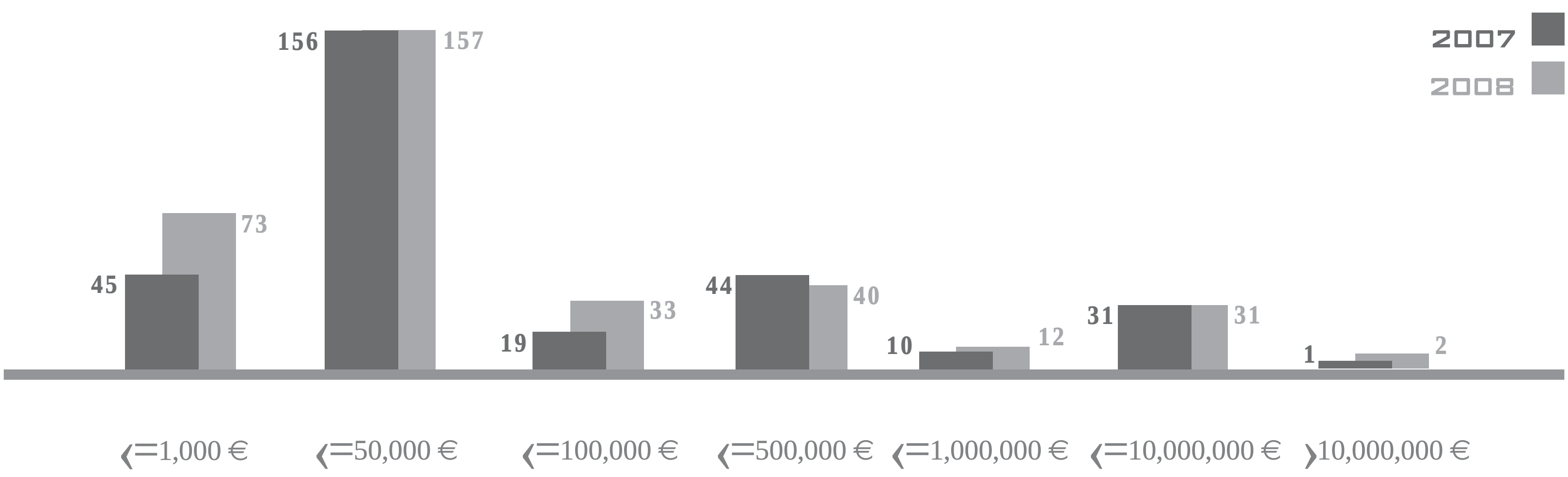
During 2008 the Sabaf Group issued invoices (> € 1,000) to 49 new customers (48 in 2007), for a total of € 1.7 mn (€ 1.3 mn in 2007), whilst 44 customers active in 2007 did not buy in 2008, for a total of some € 1.1 million (vs. 54 the previous year, for a total of € 1.3 mn).

33 customers provide us with annual sales of over € 1 mn (32 in 2007). The breakdown by sales class was as follows:

DIALOGUE WITH CUSTOMERS

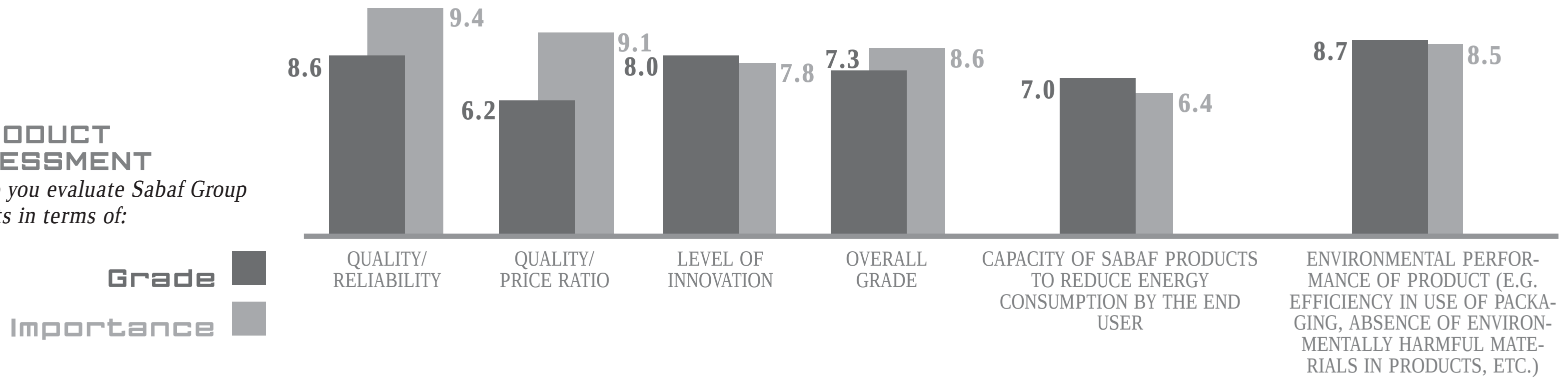
Sabaf carries out a biennial customer satisfaction survey, by using a structured questionnaire sent to its biggest customers. Highlights of the survey carried out at the beginning of 2009 are illustrated below. The assessment scale is from 1 (poor/not important) to 10 (excellent/very important).

CUSTOMER BREAKDOWN BY SALES CLASS



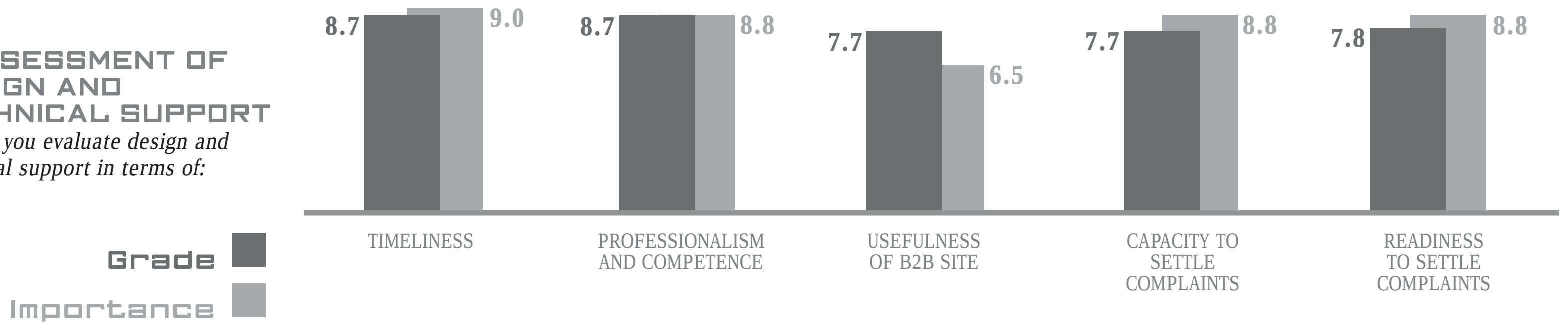
1. PRODUCT ASSESSMENT

How do you evaluate Sabaf Group products in terms of:



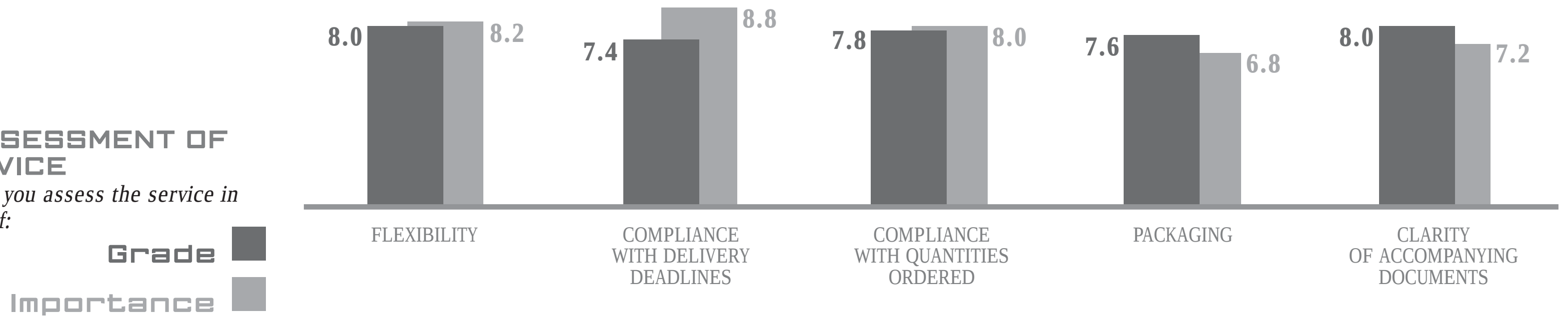
2. ASSESSMENT OF DESIGN AND TECHNICAL SUPPORT

How do you evaluate design and technical support in terms of:



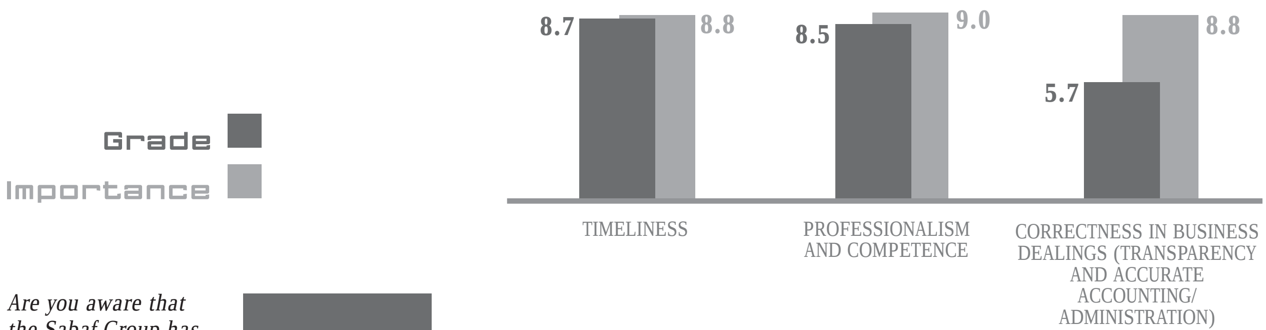
3. ASSESSMENT OF SERVICE

How do you assess the service in terms of:



4. ASSESSMENT OF COMMERCIAL ASSISTANCE

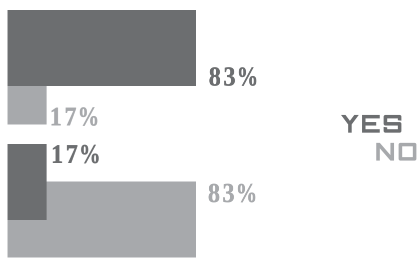
How do you assess the commercial assistance provided by the Sabaf Group in terms of:



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

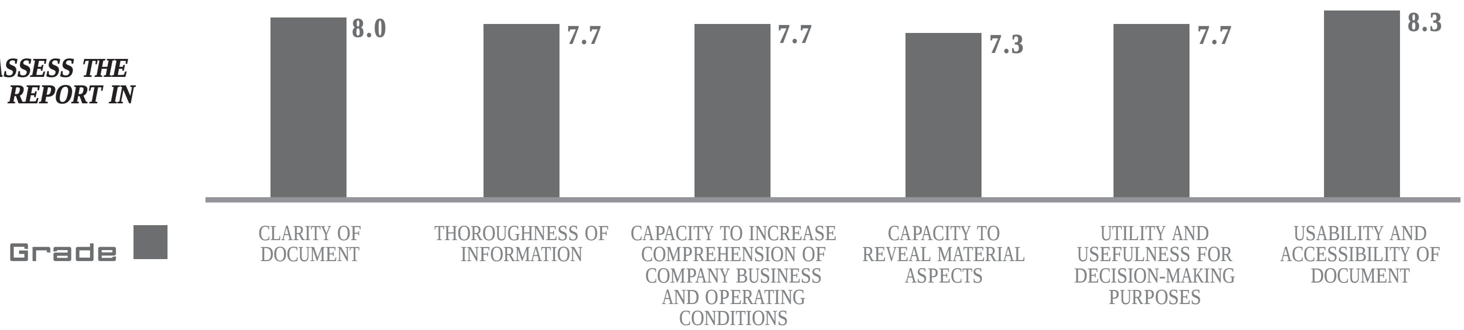
Are you aware that the Sabaf Group has obtained ISO 14001 certification?

Are you aware that the Sabaf Group has obtained SA 8000 certification?



Certain customers have affirmed their interest in cooperative activities on consumer communication activities regarding social-responsibility issues (e.g. respect of the environment, defence of human rights, ban on exploitation of workers) or activities to improve the energy or environmental efficiency of products.

HOW DO YOU ASSESS THE SABAF ANNUAL REPORT IN TERMS OF:



In addition to the headquarters office at Ospitaletto, the commercial network is based on the subsidiaries located in Brazil, the United States, Mexico and China. Sixteen agency relationships are currently active.

DEVELOPMENT OF PARTNERSHIPS

Sabaf shares the benefits generated by higher volume and productivity increases stemming from investments in automation with its customers, based on a partnership approach intended to assure the best possible market conditions possible. To those customers buying 100% of their requirements for all product lines from Sabaf, the company seeks to provide (a) top service and the best terms of purchase, (b) immediate technical and laboratory assistance, and also (c) priority in the presentation of projects for innovative products, in order to optimise co-ordination of Sabaf/customer product development.
As a rule, for those product lines for which 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 the whole calendar year. The exceptions to this are products using iron/steel - due to the absence of hedging instruments – for which prices are renegotiated if commodity prices exceed a maximum variation threshold.
Provision of special products, exclusively for a given customer, is always undertaken against conclusion of a specific supply contract.

INFORMATION AND COMMUNICATION

For Sabaf the main medium of communication with customers continues to be the one-to-one meeting, i.e. periodical meetings during which all aspects concerning product supply and related services are addressed.

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 highest standard of transparent information. Particularly in regard to gas cooking equipment, Sabaf promotes maximum transparency in providing information about:
- safety
- energy efficiency, both in the use of products and in productive processes
- the cost of use for consumers
- environmental impact, considering all phases of the life cycle: production-use-end of life recycling
- the production processes that are used

In 2008 Sabaf launched Sabaflife.com, a website that aims to address current issues on the environment and technology, particularly in regard to the safest and most efficient technologies in the home cooking field.

ENERGY EFFICIENCY LABEL

A study carried out in 2006 by the European Commission Institute for Environment and Sustainability, entitled “Electricity Consumption and Efficency Trends in the Enlarged European Union,” shows how residential electric consumption in the 15-Member EU stems 43% from refrigerators and freezers, 22% from ovens and electric griddles and 11% from washing machines.
Home cooking appliances currently do not bear an energy efficiency label, while the other large white goods (washing machines, dishwashers and refrigerators) have had such labelling for many years now.
Sabaf is promoting the adoption of a single energy label for all gas and electric cooking appliances by the competent entities and institutions. A single label would create competition between the two types of sources, by showing the primary energy saving made possible by the use of gas appliances in those countries, like Italy, where a very high percentage of energy is generated by thermoelectric sources.

CONTRACTUAL TERMS

General terms of sale are supplemented annually by price agreements, the result of negotiations with customers that normally start in October. These negotiations obviously take a variety of parameters into account, including:
- Volume purchased by the customer by individual product line and in total
- Customer’s scheduling ability and the linearity of delivery flows
- Customer’s membership of a multinational group for which master agreements or more general supply interests exist
- Punctuality of payments and the customer’s short-, medium-, and long-term solvency
- Consideration of the customer’s strategic market positioning and its consistency with Sabaf’s positioning.

Based on these general evaluations, proposals for changes in list prices are then considered, taking into account:
- Changes occurring in costs in the previous year (headed by raw materials and productivity)
- Changes projected in product cost for the coming year
- Customer’s stated budget volume for the coming year
- Respect of previous year’s budget.

THE QUALITY SYSTEM

Our quality management system is integrated with the systems of environmental management and workplace safety, and is intended to permit achievement of the following objectives, i.e. to:

a. Increase customers' satisfaction by understanding and responding to their 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 process of constant improvement, encouraging a co-makership approach
d. Enhance the value of human resources
e. Improve business performance.

CURRENT SPENDING FOR QUALITY

(Amounts in € '000)

	2007	2008
Product certification	64.6	28.1
Certification and management of quality system	1.8	1.8
Purchase of measuring instruments and equipment	64.0	78.3
Calibration of measuring instruments & equipment	32.7	49.2
Technical regulations, software, and magazines	1.9	5.6
Training	2.1	0
Trials and tests by independent laboratories	1.6	3.6
TOTAL	**168.7**	**166.6**

INVESTMENTS FOR QUALITY

(Amounts in € '000)

	2007	2008
Purchase of measuring instruments and equipment	106.9	169.3
TOTAL	**106.9**	**169.3**

The quality investments for 2008 include a new rounding meter and roughness meter, which are sophisticated devices used to check the finish of components and the male ends of light alloy valves.

Sabaf SpA's Quality System has been ISO 9001 certified since 1993 and in September 2002 it upgraded to meet the requirements of the ISO 9001:2000 ("Vision 2000") standard. Faringosi-Hinges' Quality System has been ISO 9001 certified since 2001 and in 2003 was upgraded to meet Vision 2000 requirements.

In May 2008 CSQ audited the Sabaf S.p.A. quality management system. The audit confirmed that the system was effectively applied. Only one non-critical non-conformity was revealed. The Faringosi Hinges quality management system was audited in July 2008 by ICIM. The audit did not reveal any non-conformities. Sabaf S.p.A. and Faringosi Hinges s.r.l. aim to obtain certification in accordance with the 2008 edition of IS0 9001 in 2009.

Preparatory activity for application of ISO 9001 at Sabaf do Brasil started at the beginning of 2009, with the aim of receiving certification by the end of the year.

LEGAL DISPUTES

Sabaf is party to several actions to warn several makers of counterfeit components, cookers and stove tops that promote or sell appliances with components that infringe our patents and trademarks.

SABAF AND ITS SUPPLIERS

OUR COMMITMENTS TO CUSTOMERS

- To act with transparency, correctness, integrity and contractual fairness.
- To treat quality certification, capacity for innovation and benefits for the community as key criteria for the selection of suppliers.
- 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 possessing the necessary requisites the chance to compete for Sabaf's business
- To pay suppliers when and as agreed
- To reject 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 SA8000 standard's principles 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 SpA. obtained certification of its conformity with the requirements of the SA8000 (Social Accountability 8000) standard. The company therefore requires its suppliers to respect – in all their activities – the standard's principles as the minimum prerequisite for establishment of a long-lasting relationship based on principles of social responsibility. Already since 2003 supply contracts have included an ethicality clause based on the SA8000 standard. This clause puts suppliers under obligation to assure respect of human and social rights. More specifically, suppliers undertake to avoid using in their production processes persons below the legal minimum age in the country concerned, to guarantee their workers a safe workplace, to protect trade-union freedom, to comply with legislation on working hours, and to ensure that workers are paid the legal minimum wage.
Failure to comply with or accept the principles of the SA8000 standard leads to discontinuation of the supply relationship. In 2008, 24 audits were carried out at suppliers on quality, environmental and social-responsibility management, none of which revealed any critical non-conformities. Suppliers were asked to take the appropriate measures to resolve their non-critical non-conformities.

PURCHASING ANALYSIS

The Sabaf Group aims to promote development in the areas where it operates. Therefore, when it chooses suppliers, it gives preference to local firms. Purchases made by the Group's Italian companies in Lombardy represent 66.1% of the total (66.3% in 2007).
Most non-EU supplier sales come from Switzerland and concern the purchase of machinery and equipment. Among the remaining suppliers based in non-EU countries two are located in China. These suppliers sold us components for € 295,000 in 2008 (€ 400,000 in 2007). Chinese suppliers have signed a clause to comply with the principles set out in the SA 8000 standard. In 2008 Sabaf commissioned an independent body to audit compliance with the SA 8000 standard at two of its suppliers. These inspections revealed a number of non-critical non-conformities, for which Sabaf will ask the suppliers to prepare an action plan.

GEOGRAPHICAL DISTRIBUTION OF SUPPLIERS[18]

(Amounts in € '000)

	2007		2008	
	Sales	%	Sales	%
Province of Brescia	60,769	53.3	56,170	50.2
Province of Milan	3,189	2.8	3,093	2.8
Rest of Lombardy region	11,625	10.2	14,621	13.1
Rest of Italy	24,822	21.8	24,329	21.7
Rest of EU	9,677	8.5	10,620	9.5
Non-EU countries	3,901	3.4	3,003	2.7
TOTAL	**113,984**	**100**	**111,836**	**100**

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

SUPPLIER RELATIONS AND CONTRACTUAL TERMS

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

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

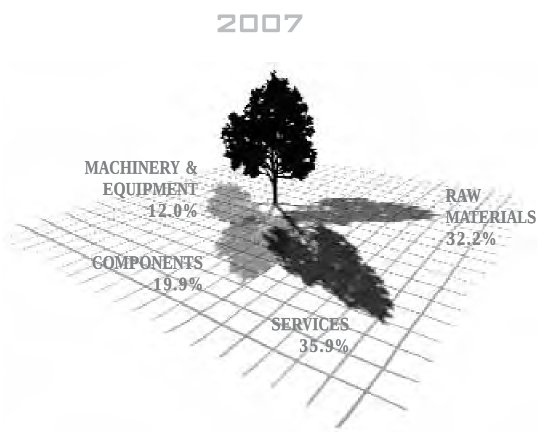
Sabaf guarantees total impartiality in supplier selection and undertakes to assure rigorous respect of agreed terms of payment (to date, saving rare exceptions, all contracts have been paid as per agreements).

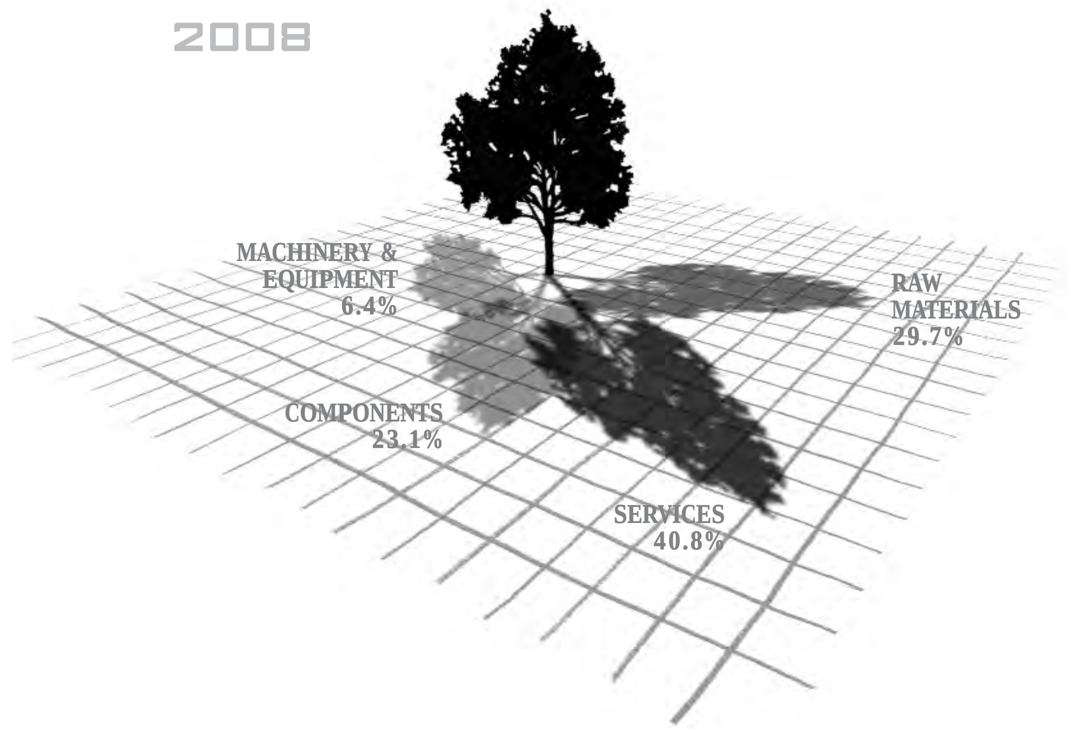
Sabaf requires its suppliers to be capable of renewing their technology over time, in order to be constantly able to offer the best value for money (price/quality ratio). It gives preference to suppliers who have obtained or are in the process of obtaining certification of their quality systems.

In 2008 sales to Sabaf Group by suppliers with certified quality systems accounted for 57.1% of the total (vs. 56.3% in 2007).

18 - excluding Sabaf do Brasil

BREAKDOWN OF PURCHASES BY TYPE





For artisan or less structured suppliers, we agree very short payment terms (mainly 30 days).

The economic crisis has not spared many of the Group's suppliers, which are facing, in some cases extreme, difficulties.
Starting from November, the volume of purchases has dwindled, both due to lower demand by customers and due to the need to reduce the level of stocks. In certain cases, and particularly in regard to the pressure moulding of burners, Sabaf has also significantly reduced its use of outsourcers in order to exploit at least a portion of its otherwise unused in-house production capacity.
In this situation, Sabaf has taken a transparent approach to presenting its choices and attempted to maintain a constant dialogue with suppliers. Specific initiatives have been taken when possible in support of suppliers facing financial hardship, for example redefinition of payment conditions.

LEGAL DISPUTES

There are no legal disputes underway with suppliers.

SABAF AND ITS FINANCIERS

OUR COMMITMENTS TO FINANCIERS

- To communicate the company's strategies and policies in a timely, complete, clear, and transparent manner, assuring total equality of disclosure
- To assure continuity of the Group as a business concern.

BANKING RELATIONS

In keeping with its yardstick values of transparency and correctness, Sabaf has always co-operated with the banking industry, providing prompt and complete information required for a comprehensive financial analysis of the business (year-end financial statements, quarterly and mid-year reports, and notification of the more significant transactions). Although it is limited, liquidity risk is constantly monitored.

The Group operates with a limited debt/equity ratio (net indebtedness / shareholders' equity of 0.29 at 31 December 2008) and provides generous, unused lines of short-term credit (26.5 million euro at the end of 2008).

At 31 December 2008 net indebtedness was 29.7 million euro, as compared with 22.8 million euro at 31 December 2007. Two unsecured five-year loans were obtained in 2008, totalling 12 million euro, in order to minimise short-term net indebtedness.

The Group deals principally with five Italian banks (UBI, Intesa San Paolo, Unicredit, BNL and B.C.C. di Pompiano) and four foreign banks (Santander, Fortis, Itau and Bancomer).

LEGAL DISPUTES

There are no legal disputes underway with financiers.

SABAF AND COMPETITORS

OUR COMMITMENTS TO COMPETITORS

- To act transparently and correctly
- To guarantee integrity in running the business.
- To promote fair competition with competitors, respecting rights relating to patents and trademarks
- To champion social responsibility actions in our sector
- To communicate in a timely, complete, clear, and transparent manner.

THE SABAF GROUP'S MAIN ITALIAN AND INTERNATIONAL COMPETITORS

Sabaf holds a market leadership position in the international arena. Its ongoing product innovation and diversified customer base enable Sabaf to defend the quality of its results even in the face of downward selling-price pressures. 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 premium part of the market – where it is able to offer high-performance products on an ongoing basis – and in the mass market.

In Italy and Europe Sabaf estimates that it has a market share of over 40% in each product segment. It is the only company providing the full range of gas cooking components, whereas its competitors produce only part of the product range.

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

Copreci is a co-operative based in Spain in the Basque region, is part of the Mondragon Co-operative Corporation and, after Sabaf, is the main valve and thermostat manufacturer in Europe

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

Defendi is an Italian Group that also has a presence in Brazil and Mexico, and is active principally in the production of burners.

Unfortunately no further information is available on competitors due to the difficulty of retrieving data.

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)	•		•	
La Micromeccanica (Italy)	•			
Nuova Star (Italy)				•
Somipress (Italy)			•	

2006 AND 2007 P&L HIGHLIGHTS OF THE SABAF GROUP'S MAIN ITALIAN COMPETITORS[19]

	2006			2007		
	SALES	OPERATING INCOME	NET INCOME	SALES	OPERATING INCOME	NET INCOME
CMI	23,196	656	33	25,623	1,110	142
DEFENDI	31,486	963	82	36,653	1,419	524
LA MICROMECCANICA	10,484	1,260	702	10,697	1,305	763
NUOVA STAR	26,269	737	197	24,088	286	141
SOMIPRESS	23,765	1,203	712	26,683	1,991	1,045

LEGAL DISPUTES

A lawsuit initiated by Sabaf SpA is underway following presumed patent infringements by a competitor.

SABAF AND THE PUBLIC ADMINISTRATION

OUR COMMITMENTS TO THE PUBLIC ADMINISTRATION

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

RELATIONS WITH THE PUBLIC ADMINISTRATION

In line with its policies, Sabaf's relationships with the public administration and tax authorities are geared towards the utmost transparency and correctness.
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 the Ospitaletto town authorities with copies of the analyses relating to emissions released into the atmosphere by its factories as a result of production.

INCOME TAXES AND OTHER TAXES PAID

In 2008 the group paid €4.4 mn in taxes to the State, representing 2.7% of the economic value generated[20] (vs. € 9.3 mn in 2007, corresponding to 5.8% of the economic value). The tax rate (the ratio of income taxes to pre-tax income) was 21% (36.1% in 2007), having benefited from the one-off tax breaks provided by the 2008 Italian National Budget Act.

Sabaf appreciates legislative measures aiming to reduce the tax burden of companies that invest on a continuous basis and/or hire staff. We also point out that Sabaf has never received government grants or any particular government aid to support its business.

19 - Sabaf presentation of company accounts. Most recent available data
20 - In accordance with GRI guidelines

TAXES

(Amounts in € '000)

	2007	2008
Current income tax	9,305	8,017
Deferred income tax	1,180	(918)
Law 244/07 substitute tax	-	2,469
Reversal of deferred taxes pursuant to Law 244/07	-	(5,524)
Recalculation of the deferred tax rate	(1,505)	-
Balance of previous FY	(45)	43
TOTAL INCOME TAX	**8,935**	**4,087**
Other taxes	360	287
TOTAL	**9,295**	**4,374**

LEGAL DISPUTES

During 2005 the direct parent company Sabaf SpA was the subject of an official tax audit by the Italian Inland Revenue authority concerning FY2003 (subsequently partly extended also to FY2002) and relating to corporate income tax, VAT, and Italian regional business tax (Italian acronym = IRAP). In the 2006 financial year, Sabaf S.p.A. received the relevant assessment notices, against which it has filed appeals. In 2007 the Provincial Tax Court partially accepted the arguments of Sabaf, which filed an appeal before the Court of Appeal in 2008. The related effects of this tax dispute on the FY2008 annual report are illustrated in the Explanatory Notes to individual and consolidated year-end accounts.

SABAF AND THE COMMUNITY

OUR COMMITMENTS TO THE COMMUNITY

- To operate within local communities in a socially responsible manner, i.e. as a "good citizen".
- To help improve the quality of life in the communities where the company does business, through actions in the social, cultural, educational and sports areas.
- To encourage the utmost respect for human rights in the local communities where the company operates.
- To donate to and sponsor non-profit associations consistently with the policies established beforehand 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 THE COMMUNITY

The attention that Sabaf dedicates to the community as a whole does not take the form merely of cash donations to humanitarian, sporting, and cultural associations present in the area but also, and above all, of constant activity to disseminate good corporate business practices.

CHARITY INITIATIVES AND DONATIONS

In 2008 donations totalled some € 46,000 (€ 35,000 in 2007) and mainly supported local social and humanitarian initiatives.

DISTANCE ADOPTIONS

For several years now Sabaf has suggested to its suppliers replacement of conventional Christmas presents with something more useful and meaningful, i.e. donations to the Associazione Volontari per il Servizio Internazionale (AVSI – association of volunteers for international service), an Italian non-profit NGO working on international projects to aid development. The donations have been earmarked for long-distance support of 20 children living in various countries in the world.

RELATIONS WITH UNIVERSITIES AND THE STUDENT WORLD

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

Since 2002 Sabaf has been collaborating with the AIESEC (Associazione Internazionale di Studenti in Scienze Economiche e Commerciali – international association of students in economic and business sciences) – the world's largest undergraduate organisation, which in recent years has been particularly active in the study of corporate social responsibility.
Sabaf provided support for creation of a local AIESEC committee at Brescia University and has taken part in many educational programmes for undergraduates and in projects promoting corporate social responsibility.

RELATIONS WITH INDUSTRY ASSOCIATIONS

Sabaf belongs to the **Confederazione Italiana della Piccola e Media Impresa (CONFAPI)** [Italian confederation of small and medium enterprises], which today represents over 50,000 companies and whose institutional purpose is the defence of the interests and enhancement of the value of Italian SMEs.

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

4

THURSDAY - GIOVE

ENVIRONMENTAL SUSTAINABILITY

OUR COMMITMENTS TO THE ENVIRONMENT

- To manage manufacturing activities in a way that minimises direct and indirect environmental impact.
- To apply a precautionary approach as regards 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 connected with their jobs and are committed to working in a way that respects the environment, thus helping to achieve corporate goals.
- To provide the local authority with all information needed to understand any environmental risks associated with Sabaf's operations.

DIALOGUE WITH ENVIRONMENTALIST ASSOCIATIONS AND INSTITUTIONS

The Group has long promoted the dissemination of information about the lower environmental impact resulting from the use of gas in cooking instead of electricity. The use of gas to generate heat offers far higher yields than those that can be obtained with electric cooking appliances. In addition, throughout the world the cooking market increasingly requires high-power and numerous cooking points (plates/burners) to cook meals fast. An increase in electric hobs would cause an increase in electricity consumption typically peak at around meal times, further increasing electricity demand that is already difficult to meet. If this increased electricity demand were to be met by constructing new power stations, the cost for users would be significantly higher.

ENVIRONMENTAL POLICY, PROGRAMME, AND OBJECTIVES

Sabaf has always dedicated special attention to the environment, constantly seeking to reduce the impact of its industrial operations. The company's strong awareness of the importance of respecting environmental balances is reflected in various decisions taken over the years - which not only respect legal requirements but also aim to achieve constant progress in the company's environmental performance.
The Ospitaletto production site's environmental management system had been certified as compliant with the ISO 14001 standard since 2003. With implementation of the ISO 14001 standard Sabaf has also pinpointed the main environmental risks associated with its production, which are systematically monitored and managed.
With Region of Lombardy Decree no. 2763 of 19 March 2008, containing Decree no. 12537 of 25 October 2007, Sabaf Spa received the Integrated Environmental Authorisation (IPPC) pursuant to Legislative Decree 59 of 18 February 2005.

PRODUCT INNOVATION AND ENVIRONMENTAL SUSTAINABILITY

A priority underlying Sabaf's product innovation strategy is the quest for superior performance in terms not only of environmental impact but also in products' production and utilisation.

LIGHT ALLOY VALVES

The production of aluminium alloy values offers several advantages over the production of brass valves: elimination of the hot moulding step required by brass, reduced lead content in the product, lower weight and consequently lower consumption for packaging and transport.

SABAF SERIES III BURNERS

Series III burners stand out for their yields, much higher than the standard (65% vs. 52%). The greater efficiency of the Sabaf Series III burner means lower gas consumption (some 20% less) and faster achievement of the desired cooking temperature. Greater efficiency and lower consumption also translate into halving of carbon monoxide emissions and significant reduction of 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 can mount either the AE (high efficiency) or AEO (brass high efficiency) versions without modifying the structure of the appliance and without changing the heights of the grills.The first sales of this new generation of burners are expected to be made in 2009.

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 the optimal use of natural resources. As stated, the use of combustible gas to produce heat in fact 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 products fully meet the requirements of the 2002/95/EC directive (the **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 products fully meet the requirements of the **2000/53/EC** *(ELV – end-of-life vehicles)* **directive**, i.e. their heavy-metal content (lead, mercury, cadmium, and chromium 6) is lower than the limits set by the directive.

In September 2004 Sabaf initiated recycling of **paper/cardboard, glass, cans, and plastic.** Accordingly, Sabaf has retained the services of Cogeme, a company in which the town of Ospitaletto is a shareholder, and which has meticulously planned management of the local territory for years, and in particular environmental services.

In 2008 recycling made it possible to recover 130,990 Kg of paper and cardboard and plastic packaging.

MATERIALS USED	Consumption 2007 (t)	Consumption 2008 (t)
Brass	2,432	2,404
Aluminium alloys	7,981	8,080
Zamak	80	67
Steel	7,647	7,518

100% of the brass and 65% of the aluminium alloys used are produced by recovering waste; 35% of aluminium alloys and 100% of steel is produced from mineral sources.

ELECTRICITY	Consumption 2007 (MWh)	Consumption 2008 (MWh)
TOTAL	25,826	28,244

NATURAL GAS	Consumption 2007 (m^3x 1000)	Consumption 2008 (m^3x 1000)
TOTAL	3,206	3,260

Given its levels of energy consumption, which are far below the limit imposed by Article 19 of Law 10/91 (10,000 tep), Sabaf has not appointed an energy manager.

Sabaf SpA and Sabaf do Brasil use natural gas as their energy source for the die-casting of aluminium and for firing enamelled lids.
Faringosi-Hinges production does not use natural gas as an energy source.

WATER	Consumption 2007 (m^3)	Consumption 2008 (m^3)
Total mains water	18,494	17,752
Total well water	36,177	28,327
TOTAL	54,671	46,079

All water used in Group companies' manufacturing processes is channelled to disposal and therefore there are no industrial water discharges. The water used in pressure moulding and enamelling processes in Italy is recovered by concentration plants, which were activated in 2006 and 2008, respectively, and which significantly reduced the quantities of water used and waste produced.

Waste

Chips and waste coming from the manufacturing process are identified and collected separately, for subsequent recycling or disposal. Chips from brass, aluminium and steel processing and leftovers from die-casting of aluminium are directly reutilised in processing.
Waste for disposal and recycling is summarised below.

WASTE (metric tons)	2007	2008
Municipal-type waste	149	196
Non-hazardous (for disposal)	3,795	2,103
Non-hazardous (for recycling)	3,330	4,809
TOTAL NON-HAZARDOUS WASTE	7,125	6,912
Hazardous (for disposal)	1,272	1,587
Hazardous (for recycling)	47	492
TOTAL HAZARDOUS WASTE	1,319	2,079

The reduction in non-hazardous waste for disposal is mainly attributable to activation of the concentration plant for waste produced by the enamelling plants.

The increase in non-hazardous wastes to be recovered is mainly attributable to the different classification of processing discards. Since Legislative Decree 4 of 16 January 2008 came into force, processing discards, which were previously managed as "secondary raw material," are now subject to waste treatment.

No major spills occurred in 2008.

Following the start-up of concentration plants for waste and the different regulatory classification, the index of prevalence of hazardous/non-hazardous waste, which was identified in previous years among the significant indices in the environmental management system, was not calculated for 2008, and it has not been defined as a specific objective for 2009.

Atmospheric emissions

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

In Sabaf SpA three production processes take place, i.e.:

1- Production of burner components (injector-holder casings and flame spreaders) envisages 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 involves the emission of oily and PERC (perchloroethylene) mists of a not very significant entity, as well as of dust and carbon dioxide.

2- Production of burner lids, for which steel is used as a raw material and subjected to blanking and coining. The semi-finished lids then undergo washing, sand blasting, and application and firing of enamel. All this leads to dust emission.

3- Production of valves and thermostats, in which the materials mainly used are cast brass bars and bodies (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 pressed bars and bodies with removal of materials, (b) washing of semi-processed products and components so obtained, (c) finishing of the body/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.

In Faringosi Hinges the main material used to produce hinges is steel. The latter undergoes a series of mechanical processes that do not lead to any significant emission.

In Sabaf do Brasil the entire burner process is performed. Taking into account the limited production volumes, analysis of the internal process,does not show any significant emissions.

The efficiency of purification systems is assured by their regular maintenance and regular monitoring of all emissions, which have so far shown themselves to be well within legal limits

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

	2007		2008	
Origin of impact	**Target**	**Actual**	**Target**	**Actual**
Unit A: extractor for pressure die-casting islands	Remain 45% below legal limit and therefore maintain iE_E*n* < 45	iE_E = 16,5	Remain 40% below legal limit and therefore maintain iE_E*n* < 40	iE_E = 16,3
Unit A: extractor for smelting furnace	iE_E*n* < 50	iE_E = 16,2	iE_E*n* < 50	iE_E = 10,1
Unit A: sand blaster	iE_E*n* < 40	iE_E = 20,1	iE_E*n* < 40	iE_E = 19,8
Unit A: extractor for bar-processing lathes	iE_E*n* < 30	iE_E = 1,4	iE_E*n* < 30	iE_E = 8,4
Unit A: extractor for furnace scorification	iE_E*n* < 30	iE_E = 4,5	iE_E*n* < 30	iE_E = 5,7
Unit B: extractor for transfer machines/lathes	iE_E*n* < 30	iE_E = 13,6	iE_E*n* < 30	iE_E = 11,1
Unit B: metal parts washing machine	iE_E*n* < 80	iE_E = 14,1	iE_E*n* < 65	iE_E = 11,8
Unit B: electrical discharge machining eqpt.	iE_E*n* < 40	iE_E = 2,7	iE_E*n* < 40	iE_E = 2,2
Unit B: extractor for grinders	iE_E*n* < 30	iE_E = 2,8	iE_E*n* < 30	iE_E = 1,7
Unit C: sand blaster	iE_E*n* < 40	iE_E = 24,5	iE_E*n* < 40	iE_E = 26,9
Unit C: enamel application line and firing furnace	iE_E*n* < 100	iE_E =24,5	iE_E*n* < 100	iE_E = 45,0

Monitoring performed during 2007 and 2008 showed compliance of all emissions with legal limits.

CO_2 EMISSIONS[21] (tonnes)	2007	2008
Use of natural gas	6,272	6,377
Use of electricit	2,704	12,758
TOTAL CO_2 emissions	**8,976**	**19,135**

In 2007 Sabaf acquired 21,550 RECS (Renewable Energy Certificate System) certificates, which attest to the production of electricity from renewable sources and which made it possible to significantly reduce CO_2 emissions from the consumption of electricity. The initiative was not repeated in 2008.

The use of natural gas to power the smelting furnaces leads to the emission of NOX (nitrogen oxides) and SOX (sulphur oxides) into the atmosphere but in insignificant quantities. The use of a relatively clean fuel such as natural gas in combustion processes enables Sabaf to contribute only negligibly to national emissions of greenhouse gases – considering that some 550 million metric tons of CO_2 are emitted in Italy each year.

There are no emissions of the so-called greenhouse gases CH_4 (methane), N_2O (nitrogen dioxide), HFCs (hydrofluorocarbons), and SF_6 (sulphur hexafluoride). At present in Sabaf no substances harmful for the ozone layer are present, with the exception of the refrigerant fluid (R22) used in air conditioners.

CURRENT ENVIRONMENTAL SPENDING

(Amounts in € '000)

	2007	2008
Plant, equipment, and materials	23	56
Advisory service	2	10
Analyses of emissions	5	24
Waste disposal	501	476
Software and database	2	1
TOTAL	**533**	**567**

ENVIRONMENTAL INVESTMENTS

(Amounts in € '000)

	2007	2008
Plant, equipment, and materials	61	399
TOTAL	**61**	**399**

The principal environmental investment made in 2008 concerned construction of the enamelling-process waste concentration plant.

LEGAL DISPUTES

There are no legal disputes underway concerning environmental matters.

21 - Calculated according to the "INSTRUCTIONS FOR IMPLEMENTATION OF THE EUROPEAN COMMISSION'S DECISION C(2004)130 OF JANUARY 29TH 2004 THAT ESTABLISHES THE GUIDELINES FOR MONITORING AND NOTIFICATION OF GREENHOUSE GASES PURSUANT TO DIRECTIVE 2003/87/EC OF THE EUROPEAN PARLIAMENT AND COUNCIL" issued by the Italian Environment and Industry Ministries.

REPORT OF THE AUDITORS ON THE REVIEW OF THE SOCIAL REPORT

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

Report of the auditors on the review of the social report

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

1 We have carried out the review of the social report of the SABAF Group (the "Group") at 31 December 2008, consisting of the following sections of the Annual Report of the Group at the same date:

- "Introduction"
- Section 1 "Identity"
- Section 3 "Social sustainability"
- Section 4 "Environmental sustainability"

As stated in the "Introduction" paragraph, the Group's social report at 31 December 2008 has been prepared in compliance with the "Sustainability Reporting Guidelines" established by GRI - Global Reporting Initiative in 2006. The parent's directors are responsible for the preparation of the social report in accordance with the above-mentioned guidelines. 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 (IAASB), carrying out the following procedures:

- verifying that the financial data and information in the "Generated and distributed economic value" paragraph included in the "Introduction" to the social report are consistent with those included in the group's consolidated financial statements as at and for the year ended 31 December 2008, which were audited by other auditors who issued their report thereon on 30 March 2009 pursuant to article 156 of Legislative decree no. 58 of 24 February 1998;

- 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 delegates 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 and their adequacy in relation to the objectives described, and that the internal control system correctly manages data and information;

- analysing the completeness of qualitative information included in the social report and its consistency throughout;
- verifying the stakeholders' involvement process, in terms of methods used and completeness of persons involved, and analysis of the minutes of the meetings or of any other information available, with regard to 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 events that would be identified during an audit.

3 Reference should be made to our report dated 14 April 2008 on the prior year social report, the figures and information of which are presented for comparative purposes as required by the guidelines referred to in paragraph 1.

4 Based on our review, nothing has come to our attention that causes us to believe that the SABAF Group's social report at 31 December 2008 is not in conformity with the guidelines referred to in paragraph 1.

Bergamo, 9 April 2009

KPMG S.p.A.

(Signed on the original)

Stefano Azzolari
Director

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LEGENDA
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A: Additional
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PR6 - C	Laws, standards and voluntary codes of conduct on marketing and advertising	N/A This indicator is not relevant to this type of business	
PR9 - C	Sanctions for non-compliance with laws or regulations	No endorsement	

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5

REPORT ON OPERATIONS

FRIDAY - VENUS

GROUP BUSINESS AND FINANCIAL STATUS

After three quarters of growth, the fourth quarter witnessed a dramatic decline in orders, especially from European clients. The year as a whole ended with a 5% increase in revenue, from € 158.1 million to € 166 million. The increase was due exclusively to higher sales volumes while average sale prices were slightly lower. Profits were down chiefly due to write-downs of commercial receivables (€ 3.6 million), heightened levels of competition, and non-recurring costs on new production lines. EBITDA amounted to € 33.2 million (€ 38.5 million in the previous year), EBIT was € 21.2 million (€ 26.8 million a year earlier), and net income was € 15.4 million (€ 15.8 million at 31 December 2007).

(Amounts in € '000)

	2008	2007	Change	Change%
Sales revenue	165,951	158,091	7.860	5.0%
(EBITDA)	33,236	38,531	-5,295	-13.7%
(EBIT)	21,191	26,850	-5,659	-21.1%
Pre-tax profit	19,497	24,763	-5,266	-21.3%
Net profit	15,410	15,828	-418	-2.6%
Earnings per share (euro)	1.336	1.372	-0.036	-2.6%
Diluted earnings per share (euro)	1.336	1.372	-0.036	-2.6%

The breakdown of revenue by product line was as follows:

SALES BY PRODUCT LINE

(Amounts in € '000)

	2008	2007	Change	Change%
Simple brass valves	8,936	11,665	-2,729	-23.4%
Brass valves with safety devices	30,252	27,674	2,578	9.3%
Light alloy valves (simple and with safety devices)	15,923	8,309	7,614	91.6%
Thermostats	18,948	18,991	-43	-0.2%
Total valves and thermostats	*74,059*	*66,639*	*7,420*	*11.1%*
Standard burners	46,818	46,087	731	1.6%
Special burners	18,255	18,919	-664	-3.5%
Burners	*65,073*	*65,006*	*67*	*0.1%*
Hinges	*10,417*	*10,751*	*-334*	*-3.1%*
Accessories and other revenues	*16,402*	*15,695*	*707*	*4.5%*
TOTAL	**165,951**	**158,091**	**7,860**	**5.0%**

Light-alloy valves, with and without safety devices, achieved the biggest increase. Against essential stability in sales of burners, sales of valves increased by 11.1%. Hinge sales reported a slight decrease.
The geographical breakdown of revenue was as follows:

SALES BY GEOGRAPHICAL AREA

(Amounts in € '000)

	2008	%	2007	%	Change%
Italy	72,460	*43.7*	74,039	*46.8*	*-2.1%*
Western Europe	13,443	*8.1*	15,480	*9.8*	*-13.2%*
Eastern Europe and Turkey	38,840	*23.4*	29,143	*18.4*	*33.3%*
Asia	11,305	*6.8*	13,970	*8.8*	*-19.1%*
Latin America	13,680	*8.2*	9,975	*6.3*	*37.1%*
Africa	12,390	*7.5*	10,387	*6.6*	*19.3%*
North America & Mexico	3,309	*2,0*	4,517	*2.9*	*-26.7%*
Oceania	524	*0,3*	580	*0.4*	*-9.7%*
TOTAL	**165,951**	**100.0**	**158,091**	**100.0**	**5.0%**

During 2008, the most buoyant growth rates were again reported in South America, Africa and Eastern Europe, led by Turkey, a country that holds second place after Italy. Sales in North America were down (already hard hit by the recession), Asia (due to the crisis in South Korea), Western Europe and Italy, which has maintained significant shares, but in which symptoms of the crisis can be seen in financially weak manufacturers (the Antonio Merloni Group, which had represented a 5% share of the Sabaf Group's revenue, went into receivership in October 2008).

Due to the small margins on light alloy valves and the write-downs of commercial receivables, the profit indices in 2008 reported a decrease: EBITDA fell from 24.4% to 20.0% of revenues, EBIT decreased from 17.0% to 12.8%, EBT decreased from 15.7% to 11.7% while net profit decreased from 10.0% to 9.3% with the tax rate falling from 36.1% to 21%. The lower impact of the tax rate is due to the benefit offered by the Finance Act 2008 which included the option of realigning off balance sheet deductions by eliminating the EC box on tax returns.
The cost of brass and aluminium alloys was lower respectively by 15% and 10% versus 2007, while the cost of steel was higher by 15% versus 2007. Costs for other components did not change significantly while payroll costs increased by 10.9%.
To face the contraction in production, starting in December, the Group reduced its staff by 130 individuals who had been employed on short-term contracts (out of a total staff of 800).
Net finance expense as a percentage of sales increased to 1.3% (1.1 % in 2007) due to greater use of debt financing.

Operating cash flow (net profit plus depreciation & amortisation) rose from € 27.4 million to € 27.3 million, equivalent to 16.5% (vs. 17.3% in 2007).

Please refer to the introductory part of the Annual Report for a detailed examination of financial indicators.

BALANCE-SHEET AND FINANCIAL STATUS

Reclassification based on financial criteria is as shown below:

(Amounts in € '000)

	31/12/2008	31/12/2007
Non-current assets	*97,261*	*97,140*
Non-current assets held for sale	*758*	*0*
Current assets	75,185	76,668
Current liabilities	(33,342)	(39,617)
Net working capital	*41,843*	*37,051*
Current financial assets	*0*	*0*
Provisions for risks, employee benefits, and deferred taxes	*(6,945)*	*(13,260)*
Net capital employed	**132,917**	**120,931**
Net short-term financial position	(7,067)	(10,503)
Net medium/long-term financial position	(22,589)	(12,307)
Net financial debt	**(29,656)**	**(22,810)**
EQUITY	**103,261**	**98,121**

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

(Amounts in € '000)

	2008	2007
Net short-term financial position	***(10,503)***	***3,539***
Operating cash flow	15,903	14,531
Cash flow from investment activities	(12.556)	(18,740)
Cash flow from financing activities	10,359	(2,361)
Change in shareholders' equity	(10.270)	(7,472)
Cash flow for the period	**3,436**	**(14,042)**
Net short-term financial position	***(7,067)***	***(10,503)***

In FY2008, the Sabaf Group made capital investments of some € 15.5 million. The year's main investments consisted in the purchase or in-house construction of machinery for use in production of light alloy valves with and without safety devices for cookers and hobs. Net working capital amounted to € 41.8 million vs. € 37.1 million in FY2007, increasing € 37.1 million year-on-year. Net finance expense as a percentage of sales increased to 25.2% (23.4% in 2007). Lower trade receivables were offset by an even larger decrease in trade payables due to the declining levels of business reported at year-end and the decrease in investments.

Self-financing generated by operating cash flow totalled € 15.9 million (9.6% on sales) vs. € 14.5 million in FY2007.
The net financial position showed net debt of € 29.7 million (vs. € 22.8 million at 31 December 2007). The net short-term financial position was negative by € 22.6 million and consisted of € 6.2 million in mortgages, € 6.4 million in payables to leasing companies, and € 10 million in unsecured loans at 5 years, incurred at a EURIBOR 3-month rate plus a spread of 1.10% and 1.20% in order to minimize short-term debt. The net short-term financial position was negative by € 7.1 million and consisted of (a) cash and cash equivalents of € 11.2 million and (b) short-term debts of € 18.3 million, consisting in turn of bank account overdrafts of € 14.3 million and of € 4 million for the current portion of long-term borrowings.
Equity amounted to € 103.3 million vs. € 98.1 million in FY2007. The debt/equity ratio was 0.29 vs. 0.23 in 2007.

RISK FACTORS RELATED TO THE SECTOR WHERE 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 the performance of the gross domestic product, the level of consumer and corporate confidence, interest rate trends, the cost of raw materials, the unemployment rate, and the ease in access to credit. In the last quarter of 2008, the instability that had been created on the financial markets transitioned to the real economy, especially after the failure of the American bank, Lehman Brothers, which led to a significant decline in demand on all the Group's key reference markets. This decline worsened in the early months of 2009. At the present, there is serious uncertainty about the measures being taken by governments and it is extremely difficult to predict when the crisis situation will be overcome. If this uncertainty extends significantly, the activities, strategies and future prospects of the Group could be negatively affected, with the resulting negative impact on the business and financial situation of the Group.

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.
This sector experienced a downturn in the last months of last year and a similar trend is expected for the first months of 2009. This lack of growth will negatively impact the demand for products offered by the company, with consequent reductions in revenue and profits expected by year-end.
To face this situation of uncertainty, the Group aims to retain and reinforce its leadership position wherever possible through:

- expansion into highly profitable and low saturation appliance markets;
- maintaining 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 PRICES OF COMMODITIES

The Group uses steel and alloys such as brass, aluminium alloys and steel in its production processes. The sales prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients during the year any changes in the prices of commodities. The Group protects itself from the risk of changes in the price of brass and aluminium with sup-

ply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments.
At the date of this report, purchase prices were fixed for brass and aluminium alloys for most of Sabaf's needs until July 2009 and December 2009, respectively. As for steel, however, in compliance with the Group policies in effect, the Group did not see the need to hedge its risk of price fluctuation.
Any further increase in the price of commodities not hedged (especially brass and steel) could have negative effects on expected profits.
For more information on commodity risk management, see Note 33 of the consolidated financial statements, on reporting information for the purposes of IFRS 7.

RISKS RELATED TO CURRENCY EXCHANGE RATES

The Sabaf Group operates primarily in Euro. It does execute transactions in other currencies, such as the US dollar and the Brazilian real.
Since sales in US dollars accounted for 7% of consolidated revenue, the gradual depreciation expected in the coming months could lead to a loss in competitiveness on the markets where sales are made in that currency (South and North America, South Korea).
At the date of this report, the Group has derivative contracts to hedge the risk of the euro/dollar exchange rate for a total notional amount of USD 6 million. The transaction sets a value of the dollar collections expected from 2 October 2008 to 31 December 2009 at the euro/dollar exchange rate of 1.4435 and includes the ability to sell four fixed batches of USD 250,000 each, freely exercisable any working day until 31 December 2009. At 31 December 2008, the fair value of this financial instrument was negative for € 176,000 and was booked to "other financial liabilities" with an offset - net of the related tax effect € reported in shareholders' equity.
For more information on how this risk is managed, see Note 33 of the consolidated financial statements, as regards reporting information 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. At present, no hedge instruments have been used.
For more information on how this risk is managed, see Note 33 of the consolidated financial statements, as regards reporting information 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's not possible to automatically exclude incidents of this nature.
In order to transfer the risk of third-party liability damage arising from malfunctioning of its products, Sabaf has signed insurance policies with deductible of up to € 10 million per individual claim.

RISKS OF REVENUE CONCENTRATION

The Group is characterized by a strong concentration in its revenue, with 55% arising from sales with its 10 biggest clients. Relationships with clients 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 month.

CUSTOMER INSOLVENCY RISK

The large concentration of revenue on a small number of clients, under the previous point, generates a concentration of the respective commercial receivables, with the resulting increase in the negative impact on economic and financial results in the event of insolvency of one of them.
To minimize this risk, the Group tends to favour the larger brands in the sector, considered more reliable. The risk is also partially transferred to third parties by no-recourse assignment or partially guaranteed through the request for letters of credit issued by leading banks for customers. The remainder of the receivable risk is covered in the financial statements by a doubtful account provision considered congruous.
For more information on how this risk is managed, see Note 33 of the consolidated financial statements, as regards reporting information for the purposes of IFRS 7.

RISKS CONNECTED TO THE PRESENCE IN EMERGING ECONOMIES

Sabaf Group sales are earned for 44% on the Italian market, 8% in Western Europe, 23% in Eastern Europe and the remaining 25% in the rest of the world. Products sold in Italy can be exported by customers in foreign markets, making more significant the percentage of sales earned, directly and indirectly, abroad.
As regards sales in emerging economies (including Iran, which accounts for 2% of direct Group sales in 2008, in addition to indirect sales made by our clients which are more difficult to measure), political or economic instability or changes in the regulatory and/or local law situations, or new tariffs or taxes or embargos imposed in the coming months of the year could affect a portion of Group sales and the related profitability.

RESEARCH & DEVELOPMENT

In 2008, the Sabaf Group expanded its range of aluminium valves with safety devices, studying two new versions (one for cookers and one for hobs) with outlet parallel to the inlet, which will make them easier to apply to cooking appliances.

In addition, the Group has also developed a new model of brass valve for hobs which would cover an underserved market sector.

As regards burners, a new burner platform was created which, taking the Series II burner as its basis, makes it possible to achieve even better performance than the Series III model. This new platform can mount either the AE (high efficiency) or AEO (brass high efficiency) versions without modifying the structure of the appliance and without changing the heights of the grills. The AEO version (for which Sabaf recently filed a patent) was designed to comply with new Chinese legislation as well as installations in the sector of semi-professional hobs.

In the area of special burners, beginning with a project initiated in 2007, Sabaf is working on a new platform of dual burners which, as in the AE and AEO platform, starts with the same air intake from below and the same grills, but can mount five burners:

- Dual Europa 5 kW;
- Dual Cina 5 kW (similar in design to the AEO family, it complies with Chinese law but can also be used for semi-professional applications);
- Dual Torche 5 kW (vortex burner with vertical flames);
- Dual Cina 6 kW (similar in design to the AEO family, it complies with Chinese law but can also be used for semi-professional applications);
- Dual Torche 6 kW (vortex burner with vertical flames).

Sabaf came up with a solution for triple-crown burners to boost the power of the MiniWok, which increased from 2.5 kW to 3.2 kW. For the emerging markets (Brazil and India), it is also possible to mount the MiniWok in low-cost hobs with air intake from below. This version is expected to be popular thanks to the low cost of the application.

In addition, Sabaf completed the design of a burner for ovens and grills and launched the investment for its mass production. This burner, available in three models with varying power levels, makes it possible to improve performance (connection time of the thermocouple is 1.5 seconds, ignition at the first spark) and shorten the assembly time of the component in the oven while also using less costly components (for example, single circuit thermocouples). Sabaf also filed a patent for this product.

In terms of hinges, the production process was completed on the dampened spring, designed in 2007.

Improvements were made to production processes across the entire Group, which were accompanied by development and creation of machinery, utensils and moulds.

Developments costs have been accounted for as assets if all the conditions stated by the international accounting principles are met, otherwise they are accounted for as costs for the period. Research cost are always accounted for as costs for the period.

SHARE PERFORMANCE

During 2008, Sabaf shares reached their highest official price on 31 March (€ 22.62) and their lowest on 26 November (€ 12.592). On 30 December, the official price was € 14.546. Average daily trading volume was 9,512 shares, equivalent to an average daily total value of € 168,000 (€ 385,000 in 2007).

INVESTMENT IN OWN SHARES

In the year 2008, Sabaf S.p.A. acquired 3,947 shares at an average price of € 17.02, as part of a buy-back plan deliberated by the shareholders' meeting on 29 April 2008. These shares were still in the portfolio at 31 December 2008.

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, including 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 a communications decision as much as the result of a strategic reflection underscoring that social responsibility is an essential part of Company policies. Achieving a virtuous cycle that unites economic development with environmental and social sustainability is the only way to guarantee the long-term growth of Sabaf S.p.A. The document preparation process strictly complies with the international generally accepted principles for preparing both sustainability and financial reports.

PERSONNEL / STAFF

We note that in 2008, in the Sabaf Group there have been no:

- on-the-job deaths of personnel for which the Company has been held responsible;
- serious on-the-job accidents that have led to serious or very serious injury to personnel, for which the Company has been held responsible;
- 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 Sustainability section of the Annual Report.

ENVIRONMENT

We report that in 2008, there have been 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 Sustainability section of the Annual Report.

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

With reference to the internal control system on financial reporting, the Group has set up its own Accounting Control Model approved on 12 February 2008, which is based on the following features:

- general environmental controls;
- identifying the key risks related to the business and financial circumstances and related controls;
- system of relevant company procedures for the purposes of drafting and publishing the business and financial information (administrative and accounting procedures);
- periodic assessments of the adequacy and actual application of the controls made;

added to this are instructions and internal regulations through which the parent company ensures an efficient system of information exchange with its subsidiaries.

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 financial statements and will be included in the financial statement report.

ORGANISATION, OPERATION & CONTROL MODEL PURSUANT TO ITALIAN LEG. DECREE 231/2001

Sabaf S.p.A.'s Board of Directors approved the Organisation, Operation and Control model on 2 August 2006, pursuant to Legislative Decree no. 231/2001 and at the same time appointed a Supervisory Committee. In 2008, the Board of Directors changed the model, to incorporate two new special protocols regarding contracts and for management of real estate activities and to introduce a new special section referring to safety in the workplace.

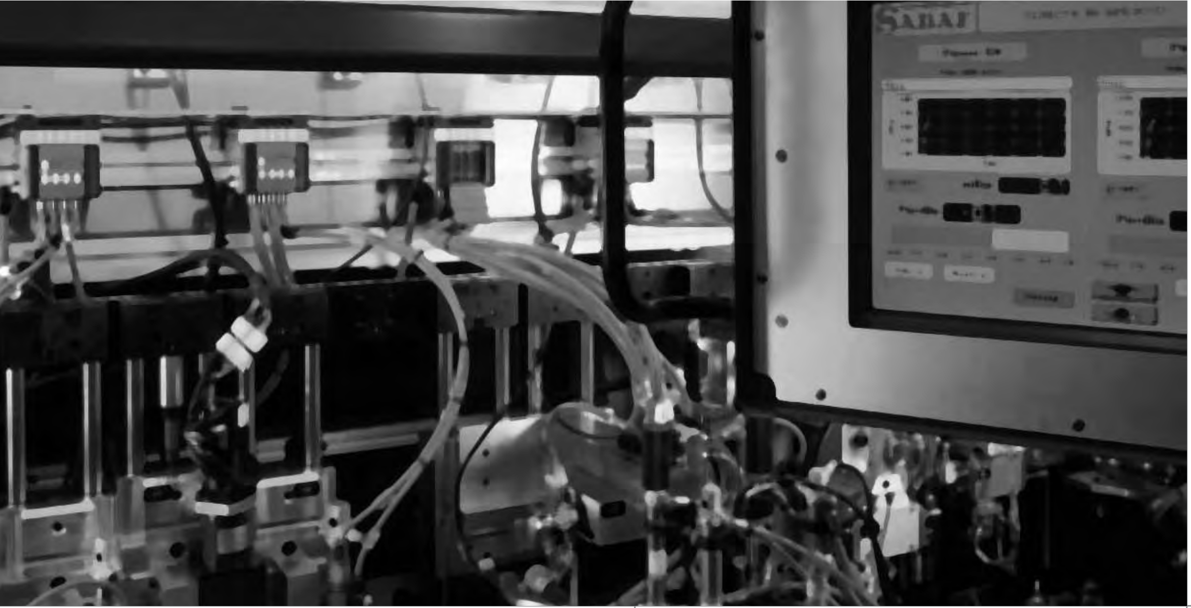
EQUITY INCENTIVE PLAN OF 2 AUGUST 2007 VIA GRANTING OF STOCK OPTIONS

At the meeting held on 2 August 2007, Sabaf SpA's shareholders approved an equity-based incentive plan for the company's directors and employees. The plan involves the granting of 600,000 options for the purchase of the same number of new ordinary shares, to be issued via a reserved capital increase also approved on that date. The options have been granted free of charge, with a strike price for purchasing the shares of € 27.64 each. The options can only be exercised if certain criteria are met, relating to consolidated EBITDA and EBIT at 31 December 2009; the share price on that date; and specific environmental and employment targets. The options can be exercised between 3 August 2010 and 2 December 2010. More specifically, based on FY2008 results and on the new forecasts drafted for subsequent FYs, the likelihood of achievement of the consolidated operating targets (EBITDA and EBIT) as at 31 December 2009 envisaged by the Plan was deemed to be zero. As a result, the income statement in the first half of 2008 does not include costs incurred against the stock options plan in effect.

See the information document per Art. 84-bis of CONSOB Regulation 11971 for a detailed description of the terms and conditions of the plan. Further details are provided in Note 38 to Sabaf SpA's individual statutory financial statements.

ADOPTION OF A NEW INTEGRATED IT MANAGEMENT SYSTEM

Our internationalisation strategies and the need to replace the integrated application currently used were the key reasons underlying the project to redesign the Sabaf Group's information systems. The project started in the early months of 2006 with gathering of the various company departments' operating and information requirements. At year-end 2006, after a careful analysis, the SAP management system was chosen and implemented. During 2007 the Administration and Finance application components were implemented while as from January 2009, the application area involved all operating and strategic processes typical of the manufacturing companies (with the sole exception of the Technical drawing & Industrial maintenance areas) as well as the Document Management and Treasury Management processes. The rewarding and active partnership with personnel at all levels of the organization has made it possible to start up the new system, while avoiding unproductive downtime and costly budget overruns. Just a few months after start up, new application coverage and extensions were planned and launched and the *roll-out* project was set up at Sabaf do Brasil.



PERSONAL DATA PROTECTION

With regard to Legislative Decree no. 196 of 30 June 2003, in 2008 the Group continued its work to ensure compliance with current regulations.

The Official Security Plan (OSP) relating to the year 2008 was drawn up in compliance with the law. Starting in 2009, it is no longer necessary to prepare an OSP, since the company regularly deals with confidential data inherent only to the state of health of employees and/or collaborators, without indication of the related diagnosis and membership in labour organizations.

DERIVATIVE FINANCIAL INSTRUMENTS

Commentary to this item is provided in Note 20 to the consolidated financial statements.

ABNORMAL OR UNUSUAL TRANSACTIONS

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

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 must not 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 By-laws. Furthermore, the parent company's By-laws explicitly state that it does not manage and co-ordinate the operations of Sabaf S.p.A.

In contrast, Sabaf S.p.A., as the parent company, exercises direction and co-ordination activity over its subsidiaries.

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 to the statutory financial statements of Sabaf S.p.A.

FISCAL CONSOLIDATION

On 15 May 2007 Sabaf S.p.A. approved renewal of the fiscal consolidation contract valid for three years 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. Subsequently, on 16 December 2008, this contract was partly modified to acknowledge new items introduced by the Finance Act 2008. For Sabaf S.p.A., joining the fiscal consolidation does not imply higher taxes, as it makes no difference if these are paid at the expiration dates to the tax authorities or to its parent company. Having made the offsets and adjustments necessary, the parent company will handle payment and be liable for any damages the subsidiary may incur for the former's failure to comply.

MAJOR EVENTS OCCURRING AFTER YEAR-END AND EXPECTED BUSINESS PROGRESS

In January, a company was set up in China, Sabaf Kunshan, a 100% subsidiary of Sabaf S.p.A. In 2009, the Company will act as a logistics base but the Group expects to start up production of burners for the local market by the end of 2010. The investment required in 2010 is estimated at € 2 million.

Early 2009 has reported an additional contraction in the volumes of business and is determined not only by the slowdown in consumption of durable goods that has spread across all the main markets, but also by the need of many clients to reduce the inventories accumulated in the second half of 2009. No signs of improvement can be seen in the short term in market conditions. In this context, the Sabaf Group expects a significant contraction in 2009, more marked in the first months of the year.

The present market situation has not affected development projects underway, which are oriented toward reinforcing the competitive situation on international markets. In terms of product innovation, in particular, in 2009, the Sabaf Group will introduce new burners on interchangeable platforms and whose common feature is high-energy efficiency.

SABAF S.P.A. BUSINESS AND FINANCIAL STATUS

(Amounts in € '000)

	2008	2007	Change 2008/2007	Change%
Sales revenue	149,564	142,878	6,686	4.7%
EBITDA	28,862	34,353	-5,491	-16.0%
EBIT	19,132	24,703	-5,571	-22.6%
Pre-tax profit	17,940	24,157	-6,217	-25.7%
Net profit	14,025	15,666	-1,641	-10.5%

Balance-sheet and financial status

Reclassification based on financial criteria is as shown below:

(Amounts in € '000)

	31/12/2008	31/12/2007
Non-current assets	*83,674*	*82,640*
Current assets	69,019	68,083
Current liabilities	(29,870)	(35,832)
Net working capital	*39,149*	*32,251*
Reserves for risks and contingencies and Post-employment benefit reserve	*(3.417)*	*(3.747)*
Deferred tax liabilities	*(2,367)*	*(8,018)*
Net capital employed	**117,039**	**103,126**
Net short-term financial position	(8,192)	(10,001)
Net medium/long-term financial position	(9,955)	(17)
Net short-term financial position	**(8,192)**	**(10,001)**
Net financial position	**98,892**	**93,108**

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

(Amounts in € '000)

	2008	2007
Net short-term financial position	*(10,001)*	*2,393*
Operating cash flow	10,448	13,141
Cash flow from investment activities	(10,371)	(16,789)
Cash flow from financing activities	9,973	(673)
Change in shareholders' equity	(8.241)	(8,073)
Cash flow for the period	**1,809**	**(12,394)**
Net short-term financial position	***(8,192)***	***(10,001)***

The year 2008 ended with a 4.7% increase in sales, which rose from € 142.9 to € 149.6 million, due entirely to the higher volumes. Profits underwent a contraction, due to the worsening of the competitive pressure, non-recurring costs on new production lines, and the large write-downs made to receivables. EBITDA amounted to € 28.9 million (€ 34.4 million a year earlier), EBIT amounted to € 19.1 million (€ 24.7 million a year earlier) and profit was € 14 million (€ 15.7 million at 31 December 2007).

Due to the still small profits on light alloy valves and the write-downs of receivables, profit indices in 2008 reported a contraction: EBITDA fell from 24% to 19.3% of revenues, the EBIT decreased from 17.3% to 12.8%, the EBT decreased from 16.9% to 12% while net profit decreased from 11.0% to 9.4% with the tax rate falling from 35.1% to 21.8%. The lower impact of the tax rate is attributed to the special benefits set forth by the Finance Act 2008 which included an optional regime of realignment of the off balance sheet deductions by redemption of the EC box.

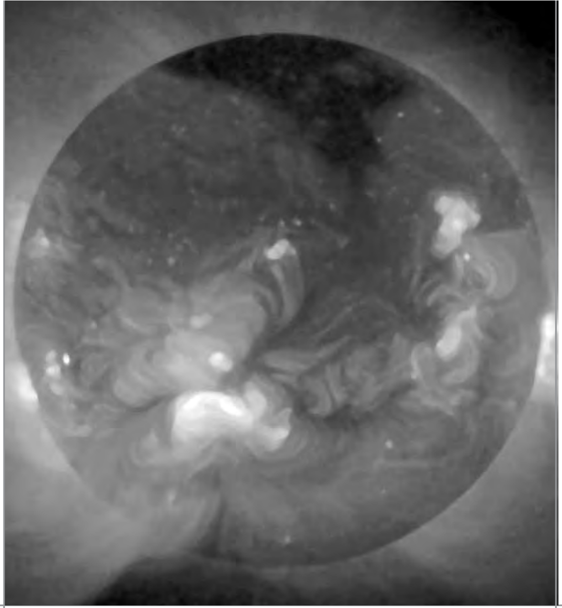
The cost of brass and aluminium alloys was lower respectively by 15% and 10% versus 2007, while the cost of steel was higher by 15% versus 2007. Costs for other components did not change significantly while payroll costs increased by 12.9%.
To face the contraction in production, starting in December, the Company reduced its staff by 130 individuals who had been employed on short-term contracts (out of a total staff of 700).
Net finance expense as a percentage of sales increased to 0.83% (0.67 % in 2007) due to greater use of debt financing.

Operating cash flow (net profit plus depreciation & amortisation) went from € 24.9 million to € 23.8 million, equivalent to 15.9% (vs. 17.4% in 2007).

In 2008 Sabaf S.p.A. invested about € 11.4 million in fixed assets. The year's main investments consisted of the purchase or in-house construction of machinery for use in production of light alloy valves with and without safety devices for cookers and hobs and implementation of the SAP management software.

Net working capital amounted to € 39.1 million vs. € 32.3 million in FY2007, increasing € 32.3 million year on year: net finance expense as a percentage of sales increased to 26.1% (22.6% in 2007. A decrease in trade receivables was offset by an even larger decrease in trade payables due to the lower levels of business reported at year end and the decrease in investments.

Self-financing generated by operating cash flow totalled € 10.4 million (7% on sales) vs. € 13.1 million in FY2007.



The net financial position featured net debt of € 18.1 million (vs. € 10 million at 31 December 2007. The net medium-/long-term financial position reported net debt of € 10 million, of which € 5 million in unsecured loans, incurred for 5 years at a EURIBOR 3-month rate plus a spread of 1.10% and 1.20% in order to minimize short-term debt. The net short-term financial position was negative by € 8.2 million and consisted of (a) cash and cash equivalents of € 8.1 million and (b) short-term debts of € 16.3 million, consisting in turn of current account overdrafts of € 14.1 million and of € 2.1 million for the current portion of medium to long-term borrowings, and other financial payables for € 0.1 million.

Equity amounted to € 98.9 million vs. € 93.1 million in FY2007. The debt/equity ratio was 0.18 vs. 0.11 in 2007.

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 2008 financial year and Group shareholders' equity at 31 December 2008 with similar values of the parent company, Sabaf S.p.A.:

Description	31.12.2008		31.12.2007	
	Profit of the year	Equity	Profit of the year	Equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**14,025**	**98,892**	**15,666**	**93,108**
Shareholders' equity and net result of consolidated companies	1,334	31,941	206	32,136
Elimination of equity investments' carrying value	0	(34,185)	445	(33,685)
Consolidation difference	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	0	0	(500)	0
Others	51	11	11	(40)
Group net profit and shareholders' equity	**15,410**	**103,261**	**15,828**	**98,121**

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 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 at 01/ 01/2008	Number of shares acquired	Number of shares sold	Number of shares at 31 /12/2008
Giuseppe Saleri	Indirect through the subsidiary Giuseppe Saleri S.a.p.A.	6,388,014	136,989	-	6,525,003
Angelo Bettinzoli	Direct	22,000	-	-	22,000
Gianbattista Saleri	Direct	11,000	-	-	11,000
Gianbattista Saleri	Indirect through the spouse	4,051	-	-	4,051
Ettore Saleri	Direct	5,000	6,000	-	11,000
Alberto Bartoli	Direct	7,500	-	-	7,500
Executives with strategic responsibilities*	Direct	27,192	-	-	27,192

** includes four 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 a director of Leonessa Fiduciaria Srl, Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and statutory auditor of Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A., and Infracom Italia S.p.A.;
- Franco Carlo Papa is an independent director of DMT S.p.A., Antichi Pellettieri S.p.A. and Gefran S.p.A., director of IGI SGR S.p.A. and Gecofin S.p.A., Chairman of the Board of Statutory Auditors of Metalwork S.p.A., and statutory auditor of Arnoldo Mondadori Editore S.p.A.;
- Salvatore Bragantini is Chairman of PROMAC S.p.A. and APEI SGR, Deputy Chairman of IW Bank S.p.A. and director of Interpump Group S.p.A.

ALLOCATION OF 2008 EARNINGS

First and foremost, we would like to thank our employees, the Statutory Auditors, the independent auditors and the Control Committee for their invaluable cooperation. We recommend approving the financial statements for the year ended 31 December 2008 with the recommendation to allocate the year's profits of € 14,025,161 as follows:

- to shareholders, a dividend of € 0.70 per share, paid as of 28 May 2009 (coupon date 25 May 2009), with a total outlay of € 8,073,000;
- the remainder to the extraordinary reserve.

Ospitaletto, 24 March 2009
The Board of Directors


sunday
friday
tuesday
wednesday
thursday
monday
saturday

6

SATURDAY - SATURNO

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS	Notes	31.12.2008	31.12.2007
NON-CURRENT ASSETS			
Property, plant, and equipment	1	84,813	86,515
Intangible assets	2	10,366	9,137
Equity investments	3	645	419
Non-current receivables	4	176	253
Deferred tax assets	19	1,261	816
Total non-current assets		**97,261**	**97,140**
CURRENT ASSETS			
Inventories	5	27,893	27,935
Trade receivables	6	42,078	46,723
Tax receivables	7	2,530	1,520
Other current receivables	8	2,684	490
Cash and cash equivalents	9	11,229	7,262
Total current assets		**86,414**	**83,930**
Non-current assets held for sale	10	**758**	**0**
TOTAL ASSETS		**184,433**	**181,070**

(in thousands of euro)

EQUITY AND LIABILITIES	Notes	31.12.2008	31.12.2007
EQUITY			
Share capital	11	11,533	11,533
Retained earnings, other reserves		76,318	70,760
Net profit for period		15,410	15,828
Total equity attributable to group parent company		*103,261*	*98,121*
Minority interest		*0*	*0*
Total equity		**103,261**	**98,121**
NON-CURRENT LIABILITIES			
Loans	13	22,589	12,307
Post-employment benefit obligations and retirement reserves	14	3,007	3,581
Reserves for risks and contingencies	15	1,046	735
Deferred tax liabilities	19	2,892	8,944
Total non-current liabilities		**29,534**	**25,567**
CURRENT LIABILITIES			
Loans	13	18,120	17,76
Other Financial liabilities		176	0
Trade payables	16	25,217	33,682
Tax payables	17	2,593	905
Other liabilities	18	5,532	5,030
Total current liabilities		**51,638**	**57,382**
TOTAL LIABILITIES & EQUITY		**184,433**	**181,070**

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

CONTINUING OPERATIONS	Notes	31.12.2008	31.12.2007
OPERATING REVENUES AND INCOME			
Revenue	22	165,951	158,091
Other income	23	884	1,027
Total operating revenues and income		**166,835**	**159,118**
OPERATING COSTS			
Materials	24	(72,228)	(72,511)
Change in inventories		208	6,735
Services	25	(27,700)	(27,590)
Payroll costs	26	(30,094)	(27,146)
Other operating costs	27	(4,486)	(723)
Costs for capitalised in-house work		701	648
Total operating cost		**(133,599)**	**(120,587)**
ROPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, A ND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**33,236**	**38,531**
Depreciation and amortization		(11,937)	(11,574)
Capital gains/(losses) on disposal of non-current assets		56	(31)
Write-downs/write-backs of non-current assets		(164)	(76)
OPERATING PROFIT (EBIT)		**21,191**	**26,850**
Finance income		188	358
Finance expenses	28	(2.275)	(2.126)
Foreign-exchange gains/(losses)	29	393	(319)
Profits and losses from equity investments		0	0
PRE-TAX PROFIT		**19,497**	**24,763**
Income tax	30	(4,087)	(8,935)
Minority interests		0	0
NET PROFIT FOR THE YEAR		**15,410**	**15,828**
EARNINGS PER SHARE (EPS)	31		
Base		**1.336 euro**	**1.372 euro**
Diluted		**1.336 euro**	**1.372 euro**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in thousands of euro)

	Share capital	Share premium reserve	Legal reserve	Treasury shares	Other reserves	Net profit for period	Total shareholders' equity	Minority interest	Total shareholders' equity
Balance at 31 December 2006	**11,533**	**10,002**	**2,267**	**0**	**49,885**	**16,078**	**89,765**	**0**	**89,765**
Allocation of 2006 earnings			40		7,965	(16,078)	(8,073)		(8,073)
Change in translation reserve					588		588		588
Other changes					13		13		13
FY2007 net profit						15,828	15,828		15,828
Balance at 31 December 2007	**11,533**	**10,002**	**2,307**	**0**	**58,451**	**15,828**	**98,121**	**0**	**98,121**
Allocation of 2007 earnings					7,755	(15,828)	(8,073)		(8,073)
Acquisition of treasury shares				(67)			(67)		(67)
Change in the fair value reserve of derivative financial instruments					(121)		(121)		(121)
Change in translation reserve					(2,032)		(2,032)		(2,032)
Other changes					23		23		23
FY2008 net profit						15,410	15,410		15,410
Balance at 31 December 2008	**11,533**	**10,002**	**2,307**	**(67)**	**64,076**	**15,410**	**103,261**	**0**	**103,261**

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euro)

		31.12.2008	31.12.2007
A.	***OPENING NET SHORT-TERM FINANCIAL POSITION***	***(10,503)***	***3,539***
B.	**CASH FLOW FROM OPERATIONS**		
	Net profit for the year before minority interests	15,410	15,828
	Depreciation and amortisation	11,937	11,574
	Change in deferred tax assets and liabilities	(6,497)	(325)
	Capital (gains)/losses on asset disposal	(56)	31
	(Write-up)/write-downs of non-current assets	164	76
	Net change in post-employment benefit and retirement reserves	(574)	(358)
	Net change in reserve for risks and contingencies	311	(335)
		20,695	***26,491***
	Change in net working capital:		
	Inventories	42	(6,858)
	Trade receivables	4,645	(7,919)
	Trade payables	(8,465)	4,573
	Other receivables and payables	(1,014)	(1,756)
		(4,792)	***(11,960)***
	Operating cash flow	**15,903**	**14,531**
C.	**CASH FLOW FROM INVESTMENT ACTIVITIES**		
	Investments in non-current assets:		
	Intangible	(1,745)	(1,156)
	Tangible	(13,742)	(17.177)
	Financial	(226)	(227)
	Proceeds from disposal and retirement of fixed assets	2,064	69
	Conversion different in property, plant and equipment	1,093	(249)
TOTAL		**(12,556)**	**(18,740)**
D.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	New loans (medium-/long-term portion)	14,269	1,500
	Repayment of loans and transfer of current portion of long-term loans to current liabilities	(3,987)	(4,113)
	Change in non-current financial receivables	77	251
	Change in current financial assets	0	1
TOTAL		**10,359**	**(2,361)**
E.	**CHANGE IN SHAREHOLDERS' EQUITY**		
	Distribution of dividends	(8,073)	(8,073)
	Change in translation reserve	(2,032)	588
	Change in fair value reserve	(121)	0
	Change in treasury shares	(67)	0
	Other changes in equity	23	13
TOTAL		**(10,270)**	**(7,472)**
F.	**CASH FLOW DURING THE PERIOD (B+C+D+E)**	**3,436**	**(14,042)**
G.	***CLOSING NET SHORT-TERM FINANCIAL POSITION (A+F)***	***(7,067)***	***(10,503)***

EXPLANATORY NOTES

ACCOUNTING STANDARDS

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Consolidated year-end accounts for the financial year 2008 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, 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 balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and 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. The Group found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraph 25 of IAS standard 1) on the continuity of the company, including by virtue of 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 balance sheet;
- 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 2008 did not undergo any changes compared with 31 December 2007 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 Ltda.

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 as 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 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 reported as increases to 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, as from 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 share holders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated balance sheet and income statement.

EURO TRANSLATION OF FOREIGN-CURRENCY INCOME STATEMENTS AND BALANCE SHEETS

The 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 31.12.08	Average exchange rate 2008	Exchange rate at 31.12.07	Average exchange rate 2007
Brazilian real	3.244	2.674	2.611	2.664

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

Description	31.12.2008 Net profit	31.12.2008 Shareholders' equity	31.12.2007 Net profit	31.12.2007 Shareholders' equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**14,025**	**98,892**	**15,666**	**93,108**
Shareholders' equity and net result of consolidated companies	1,334	31,941	206	32,136
Elimination of consolidated equity investments' carrying value	0	(34,185)	445	(33,685)
Consolidation difference	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	0	0	(500)	0
Others	51	11	11	(40)
Group net profit and shareholders' equity	**15,410**	**103,261**	**15,828**	**98,121**

SEGMENT REPORTING

A segment is a distinguishable component of a group that provides a set of related products and services (business segment) or that provides products or services within a particular economic environment (geographical segment). The Sabaf Group operates in essentially a single business segment – components for household cooking appliances – and produces primarily in just one geographical area – Italy. Consequently, the segment reporting required by IAS 14 is not provided.

ACCOUNTING POLICIES

The accounting standards and policies applied for preparation of consolidated financial statements as at 31 December 2008 are shown below:

PROPERTY, PLANT, AND EQUIPMENT

These assets are posted at purchase or construction cost. The cost also 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 increasing the assets' 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

Non-current 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 consolidated financial statements applying the same policy followed for owned tangible assets. 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.

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 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. The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, estimated future cash flows 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.
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.

REAL ESTATE INVESTMENT

As allowed by IAS 40, non-operating buildings and constructions owned for the purpose of earning rental income 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.

EQUITY INVESTMENTS AND NON-CURRENT RECEIVABLES

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-finished 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. 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, despite being transferred legally, continue to be stated with "Trade receivables" until they are collected, which is never prior to the due date.

CURRENT FINANCIAL ASSETS

Financial assets held for trading are assessed at *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 balance sheet only when a legal or constructive obligation exists determining the use of resources with an impact on profit and loss to meet that obligation and it is possible to estimate the amount reliably. If the impact is significant, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect the fair market value of the present cost of money and specific risks associated with the liability.

RESERVE FOR POST-EMPLOYMENT BENEFIT OBLIGATIONS

The reserve for Italian post-employment benefit obligations 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. Up to 31 December 2006, post-employment benefits were considered defined-benefit plans and accounted for in compliance with IAS 19, using the projected unit-credit method. The rules for such provisions were changed by Italian Law no. 296 of 27 December 2006 and the subsequent decrees and regulations issued in the early months of 2007. In the 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.

SHARE-BASED PAYMENTS

The Group accords additional benefits to some executive directors and employees via equity participation plans (i.e. stock option plans). As established by IFRS 2 (Share-based Payments), these plans are a component of beneficiaries' income, the cost of which consists of the fair value of stock options calculated at the grant date and is recognised in the income statement on a straight-line basis over the period between grant date and vesting date, directly offset in shareholders' equity. Changes in fair value after the grant date do not affect initial measurement. The estimate of the number of options that are expected to be vested may be revised, if necessary, if subsequent information indicates that the number of options that are expected to be vested differs from previous estimates.

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 adjusted to 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 hedged item is adjusted for the changes in 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.
Financial revenue is reported on an accrual-accounting basis.

FINANCE INCOME

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

FINANCE 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 cred-

its 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.

INVESTMENT IN OWN SHARES
Treasury shares are booked in a specific reserve as a reduction of shareholders' equity. The carrying value of treasury 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, and other provisions and reserves. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

NEW ACCOUNTING STANDARDS
No accounting standards or interpretations have been issued or reviewed, effective 1 January 2008, that have had a substantial effect on the Group's financial statements.

COMMENTS ON SIGNIFICANT BALANCE SHEET ITEMS

1. PROPERTY, PLANT, AND EQUIPMENT

	Property	Plant & equipment	Other assets	Assets under construction	TOTAL
EXPENSE					
At 31 December 06	**44,510**	**110,190**	**20,275**	**10,672**	**185.647**
Increases	2,003	11,621	1,633	5,523	20,780
Disposals	-	(56)	(413)	(3,059)	(3,528)
Reclassification to another item	-	121	-	(800)	(679)
Forex differences	69	235	62	-	366
At 31 December 07	**46,582**	**122,111**	**21,557**	**12,336**	**202,586**
Increases	1,253	10,520	1,621	6,684	20,078
Disposals	(1,596)	(461)	(140)	(108)	(2,305)
Reclassification to another item	1	(58)	57	(7,423)	(7,423)
Forex differences	(558)	(749)	(195)	-	(1,502)
At 31 December 08	**45,682**	**131,363**	**22,900**	**11,489**	**211,434**
ACCUMULATED DEPRECIATION					
At 31 December 06	**7,748**	**80,560**	**16,878**	**-**	**105,186**
Depreciation of the year	1,198	8.457	1,541	-	11.196
Eliminations for disposals	-	(33)	(395)	-	(428)
Forex differences	-	94	23	-	117
At 31 December 07	**8,946**	**89,078**	**18,047**	**-**	**116,071**
Depreciation of the year	1,239	8,809	1,452	-	11,500
Eliminations for disposals	-	(438)	(102)	-	(540)
Forex differences	(27)	(270)	(113)	-	(410)
At 31 December 08	**10,158**	**97,179**	**19,284**	**-**	**126,621**
CARRYING VALUE					
At 31 December 08	**35,524**	**34,184**	**3,616**	**11,489**	**84,813**
At 31 December 07	**37,636**	**33,033**	**3,510**	**12,336**	**86,515**

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

	31.12.2008	31.12.2007	Change
Land	6,186	6,375	(189)
Industrial buildings	28,230	30,113	(1,883)
Residential buildings	1,108	1,148	(40)
TOTAL	**35,524**	**37,636**	**(2,112)**

The carrying value of industrial property includes an amount of € 8,315,000 (€ 10,913,000 in 2007) relating to industrial buildings and related land held under finance leases.

Key investments in the year consisted of completion of the production lines of simple and safety light-alloy valves for cookers and hobs. In addition, burner production capacity was increased by 10% by starting up new pressure die-casting islands.

2. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
EXPENSE					
At 31 December 2006	**9,008**	**1,864**	**1,257**	**981**	**13,110**
Increases	-	968	216	409	1,593
Decreases/reclassification	-	-	-	(531)	(531)
Al 31 dicembre 2007	**9.008**	**2.832**	**1.473**	**859**	**14.172**
Increases	-	1,515	54	176	1,745
Decreases/reclassification	-	-	-	(101)	(101)
At 31 December 2008	**9,008**	**4,347**	**1,527**	**934**	**15,816**
DEPRECIATION					
At 31 December 2006	**2,406**	**1,761**	**200**	**384**	**4,751**
Quota 2007	-	165	140	73	378
Decreases	-	-	-	(94)	(94)
At 31 December 2007	**2,406**	**1,926**	**340**	**363**	**5,035**
Quota 2008	-	252	148	37	437
Decreases	-	-	-	(22)	(22)
At 31 December 2008	**2,406**	**2,178**	**488**	**378**	**5.450**
NET CARRYING VALUE					
At 31 December 2008	**6,602**	**2,169**	**1,039**	**556**	**10.366**
At 31 December 2007	**6,602**	**906**	**1,133**	**496**	**9,137**

Goodwill booked in the balance sheet mainly stems from acquisition of Faringosi Hinges S.r.l. and is allocated to the "Hinges" CGU (cash generating unit). The Group verifies the recoverability of goodwill at least once a year or more frequently if there may be value impairment. The CGU's recoverable value is verified by determining value of use. The assumptions used for calculating value of use concerns the growth rate, expected changes in selling prices and cost trends during the period used for calculation, and the benchmark interest rate. The rates of growth adopted are based on future market expectations and on the Group's expansion prospects in the sector. The Group prepares operating cash flow forecasts based on the most recent budget approved by the Board of Directors for the next five years; these are augmented by the so-called "terminal" value, which expresses the operating flows that the cash generating unit can generate, beginning from the sixth year to infinity. At 31 December 2008 the value in use of the CGUs was calculated based on a discount rate of 7.5% to 8.5% and a growth rate between 1.25 and 2.25%. Based on the above assumptions, the value in use of the CGUs "hinges", calculated was higher than the carrying value of the assets allocated to the units and therefore it was not adjusted.

Other intangible assets have a finite useful life and are 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 made in the year, amounting to € 1,481,000, related to the second implementation phase of the new SAP management system.

3. EQUITY INVESTMENTS

	31.12.2008	31.12.2007	Change
Sabaf Mexico S.A. de c.v.	548	387	161
Sabaf U.S. Corp.	65	-	65
Other shareholdings	32	32	-
TOTAL	**645**	**419**	**226**

During FY2008, the value of our equity interest in Sabaf Mexico S.A. de c.v. and Sabaf U.S. both 100% owned by Sabaf SpA, increased following subscribed and paid-in capital increases. These equity investments were not consolidated since they were not yet operational or irrelevant for the purposes of consolidation.

4. NON-CURRENT RECEIVABLES

	31.12.2008	31.12.2007	Change
Tax receivables	86	135	(49)
Guarantee deposits	12	48	(36)
Others	78	70	8
TOTAL	**176**	**253**	**(77)**

5. INVENTORIES

	31.12.2008	31.12.2007	Change
Raw materials	8,952	10,744	(1,792)
Semi-processed goods	13,953	13,391	562
Finished products	5,791	5,854	(63)
Obsolescence provision	(803)	(1,058)	255
Write-down provision	-	(996)	996
TOTAL	**27,893**	**27,935**	**(42)**

The value of inventory at 31 December 2008 is not significantly different from the value at year-end 2007. The increase that appeared in the year was absorbed pursuant to the lower levels of business in the last few months of the year.
Obsolescence provision amounted to € 197,000 for raw materials, € 203,000 for semi-processed goods, and € 403,000 for finished products (respectively € 197,000, € 453,000, and € 408,000 at year-end 2007).

It should also be noted that the € 208,000 increase in inventories booked in the 2008 income statement differs by € 250,000 from the balance-sheet change due to differences between the average and current exchange rate of the Sabaf do Brasil subsidiary.

6. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2008	31.12.2007	Change
Italy	23,579	28,714	(5,135)
Western Europe	2,792	2,790	2
Eastern Europe and Turkey	9,839	6,650	3,189
Asia	1,744	2,474	(730)
Latin America	2,018	2,560	(542)
Africa	2,067	2,816	(749)
Nord America e Messico	953	1,088	(135)
Oceania	273	241	32
Gross total	**43,265**	**47,333**	**(4,068)**
Provision for doubtful accounts	(1,187)	(610)	(577)
NET TOTAL	**42,078**	**46,723**	**(4,645)**

The decrease in trade receivables vs. 2007 year-end reflects the decrease in sales in the last quarter of the year. Average payment terms did not change significantly. At 31 December 2008, trade receivables included balances of some USD 3.5 million, posted at the €/USD exchange rate as at 31 December 2008, i.e 1.3917. The amount of trade receivables recognised in accounts includes € 16.6 million of receivables assigned on a no-recourse basis (€ 21.8 million at 31 December 2007). In view of the difficult market context and the resulting higher risk of insolvency by certain clients, the doubtful account provision at 31 December 2008 was adjusted to € 1,187,000.

At 31 December 2008, trade receivables broken down by age is as follows:

Current receivables (not past due)	39,064
Outstanding up to 30 days	2,743
Outstanding from 30 to 60 days	790
Outstanding from 60 to 90 days	12
Outstanding longer than 90 days	656
TOTAL	**43,265**

7. TAX RECEIVABLES

	31.12.2008	31.12.2007	Change
From Giuseppe Saleri SapA per IRES	1,334	290	1,044
From inland revenue for VAT	542	636	(94)
Tax	654	594	60
TOTAL	**2,530**	**1,520**	**1,010**

The receivable from Giuseppe Saleri SapA at 31 December 2008 relates to the balance of 2008 income tax transferred by the Group's Italian companies to the ultimate parent company as part of domestic tax consolidation.

8. OTHER CURRENT RECEIVABLES

	31.12.2008	31.12.2007	Change
Receivables from factoring company	2,208	-	2,208
Receivables to from suppliers	319	201	118
Others	157	289	(132)
TOTAL	**2,684**	**490**	**2,194**

Receivables from factoring companies refer to trade receivables assigned on a no-recourse basis. Trade receivables refer to bonuses agreed with some suppliers and on returns on purchases.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 11,229,000 as at 31 December 2008 (€ 7,262,000 at 31 December 2007) consisted almost exclusively of bank current account balances. Cash and cash equivalents as at 31 December 2008 included current account balances of some USD 2.9 million following collection of trade receivables and settlement of financial derivatives at the current euro/USD exchange rate of 1.3917.

10. NON-CURRENT ASSETS HELD FOR SALE

	31.12.2008	31.12.2007	Change
Residential buildings	758	-	758
TOTAL	**758**	**0**	**758**

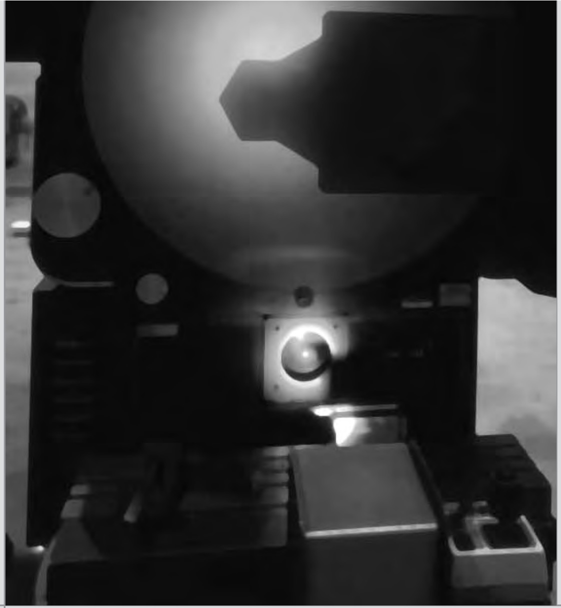
This item refers to some residential units developed by the Group and sold to during 2009.

11. SHARE CAPITAL

At 31 December 2008, the direct parent company's share capital consisted of 11,533,450 shares of a par value of € 1.00 each. On 2 August 2007, the shareholders' meeting approved the increase in share capital from € 11,533,450 to € 12,133,450, through issue of up to 600,000 ordinary SABAF shares of the nominal value of € 1.00 each to service the stock option plan, described in Note 35.

12. TREASURY SHARES

In the year 2008, Sabaf S.p.A. acquired 3,947 shares at an average price of € 17.02, as part of a buy-back plan deliberated by the shareholders' meeting on 29 April 2008. These shares are still in the portfolio at 31 December 2008.



13. LOANS

	31.12.2008		31.12.2007	
	Current	Non Current	Current	Non Current
Real-estate finance leases	1,201	6,386	1,352	5,317
Property mortgages	746	6,248	670	6,990
Unsecured loans	2,045	9,955	606	-
Bank overdrafts and short-term and long-term borrowings	14,128	-	15,137	-
TOTAL	**18,120**	**22,589**	**17,765**	**12,307**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor. In order to reduce short-term financial debt, in 2008, the Group incurred two unsecured loans for a total of € 12 million, repayable quarterly, at the Euribor rate plus a spread of 1.10% and 1.20%. At 31 December 2008, two short-term credit lines for € 12 million were opened, at the Euribor rate plus a spread of 0.75% and 0.80%. 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 the carrying value.

14. POST-EMPLOYMENT BENEFIT OBLIGATIONS [TFR] AND RETIREMENT RESERVES

	31.12.2008		31.12.2007	
	TFR	Retirement reserves	TFR	Retirement reserves
Liabilities at 1 January	**3,511**	**70**	**3,877**	**62**
Social security costs	-	8	80	8
Finance expenses	169	-	182	-
Recognition of the actuarial losses	-	-	296	-
Curtailment	-	-	(189)	-
Amounts paid out	(751)	-	(735)	-
Liabilities at 31 December	**2,929**	**78**	**3,511**	**70**

The post-employment benefit reserve is assessed using the following assumptions:

FINANCIAL ASSUMPTIONS

	31.12.2008	31.12.2007
Discount rate	5,90%	5,50%
Inflation	2,00%	2,00%

DEMOGRAPHIC ASSUMPTIONS

	31.12.2008	31.12.2007
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	1% for year based on age/seniority	1% for 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. RESERVES FOR RISKS AND CONTINGENCIES

	31.12.2007	Provisions	Uses	31.12.2008
Reserve for agents' indemnities	529	48	(52)	525
Reserve for product warranties	80	-	(33)	47
Reserve for legal risks	45	348	-	393
Reserve for tax risks	81	-	-	81
TOTAL	**735**	**396**	**(85)**	**1,046**

The reserve for agents' indemnities covers amounts payable to agents if the company terminates the agency relationship.
The product warranty reserve covers all expenses for product services to be provided while products are under guarantee. It was utilised during the year against returns from prior year sales and replenished against the risk of future costs on sales already completed.
The reserve for tax risks was provisioned to cover the contingent liability connected with an official tax audit of the 2002 and 2003 tax periods on the Parent Company.
The reserve for legal risks was allocated against the possibility of potential liabilities relating to some labour-related suits and a legal action filed with a former supplier.
The provisions booked to the reserves 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:

	31.12.2008	31.12.2007	Change
Italy	21,816	30,015	(8,199)
Western Europe	3,051	3,337	(286)
Eastern Europe and Turkey	115	68	47
Asia	28	62	(34)
Latin America	200	183	17
Nord America & Mexico	7	17	(10)
TOTAL	**25,217**	**33,682**	**(8,465)**

The decrease in trade payables is related to lower sales volumes and lower investments in the latter part of the year; average payment terms have not been subject to change. The total value of trade payables in currencies other than the Euro was insignificant

17. TAX PAYABLES

	31.12.2008	31.12.2007	Change
IRPEF withholdings	793	887	(94)
For substitute tax, pursuant to Law 244/07	1,750	-	1,750
Other tax payables	50	18	32
TOTAL	**2,593**	**905**	**1,688**

The payable for the substitute tax pursuant to Law 244/07 refers to application of the option described under Note 30. The first instalment of € 741,000 was paid in June 2008; the payable booked to these financial statements refers to the two subsequent instalments € 988,000 falling due in June 2009 and € 741,000 falling due in June 2010, plus the accrued interest on the payment instalment plan, equal to € 21,000.

18. OTHER CURRENT PAYABLES

	31.12.2008	31.12.2007	Change
Due to employees	3,113	2,765	348
Due to pension agencies	1,733	1,667	66
Due to agents	438	398	40
Customer down payments	20	48	(28)
Other current payables	228	152	76
TOTAL	**5,532**	**5,030**	**502**

19. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2008	31.12.2007
Deferred tax liabilities	2,892	8,944
Deferred tax assets (prepaid taxes)	(1,261)	(816)
Net position	**1,631**	**8,128**

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

	Depreciation and leasing	Provisions and value adjustments	Deferred development costs	Fair value of derivatives	Other	Total
At 31 December 2006	**7,655**	**(383)**	**462**	**0**	**719**	**8,453**
Debit to the income statement 2007	95	10	151	-	924	1.180
Adjustment in rate	(1.207)	57	(96)	-	(259)	(1.505)
At 31 December 2007	**6,543**	**(316)**	**517**	**0**	**1,384**	**8,128**
To income statement	9	(263)	(55)	-	(609)	(918)
To the income statement for application of the substitute tax pursuant to Law 244/07	(5.373)	(139)	-	-	(12)	(5.524)
To equity	-	-	-	(55)	-	(55)
At 31 December 2008	**1,179**	**(718)**	**462**	**(55)**	**763**	**1,631**

At 31 December 2008, the Group posted a decrease of € 5.5 million in deferred tax liabilities following application of the option for substitute taxation of previous off-balance sheet deductions, set forth by Law 244/07 (Financial Bill 2008) and described in Note 30.

At the balance-sheet date, the Group had unused tax losses carried forward totalling € 10 million accumulated by the subsidiaries. Due to the difficulty of predicting future taxable amounts for these companies, no deferred tax assets were booked against the amount of these previous losses.

20. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its operations, the Sabaf Group is exposed to market risks. Specifically, the Group has to address:
- the risk of changes in commodity prices;
- exchange rate risk;
- interest rate risk.

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.

DERIVATIVES ON COMMODITIES
In FY 2007 and 2008, the Group did not use financial derivatives on commodities.

DERIVATIVES ON CURRENCY
At 31 December 2008, there was a forward sale of USD 6,000,000 at an EURO/USD exchange rate of 1.4435 to hedge a percentage of the USD revenue expected in 2009. At 31 December 2008, the fair value of this financial instrument was negative for € 176,000 and was booked to "other financial liabilities" with an offset - net of the related tax effect - in shareholders' equity.
The transactions denominated in foreign currencies in 2008 have not been hedged by derivative financial instruments; in the 2007 income statement, an amount of € 183,000 was reported to increase sales revenue, against derivative instruments on currencies that had opened and closed in the year.

DERIVATIVES ON INTEREST RATES
In FYs 2007 and 2008, the Group did not use interest-rate derivatives on commodities.

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:

		31.12.2008	31.12.2007
A.	Cash	13	16
B.	Positive balances of unrestricted bank accounts	10,749	7,246
C.	Other liquidities	467	0
D.	**Cash (A+B+C)**	**11,229**	**7,262**
E.	Current bank overdrafts	14,128	15,137
F.	Current portion of the non-current debt	3,992	2,628
G.	Other current payables	176	0
H.	**Current financial debt (E+F+G)**	**18,296**	**17,765**
I.	**Current net financial debt**	**7,067**	**10,503**
J.	Non-current bank payables	16,203	6,990
K.	Non-current financial debts	6,386	5,317
L.	**Non-current financial debt**	**22,589**	**12,307**
M.	**Net financial debt**	**29,656**	**22,810**

COMMENTS ON KEY INCOME STATEMENT ITEMS

22. REVENUE

Sales revenue totalled € 165,951,000 in FY2008, up by € 7,860,000 (+5%) vs 2007. Refer to the "Report on Operations" section for comments on the change in revenue and an analysis of the breakdown by product category and geographical area.

23. OTHER INCOME

	31.12.2008	31.12.2007	Change
Dedicated equipment	158	255	(97)
Contingent income	198	253	(55)
Use of provisions for risks and contingencies	96	208	(112)
Rental income	123	123	-
Royalties	141	-	141
Other income	168	188	(20)
TOTAL	**884**	**1,027**	**(143)**

24. MATERIALS

	31.12.2008	31.12.2007	Change
Raw materials and purchased components	67,580	68,352	(772)
Consumables	4,648	4,159	489
TOTAL	**72,228**	**72,511**	**(283)**

The actual cost of brass and aluminium alloys was down respectively by 15% and 10% versus 2007, while the cost of steel was up by 15% versus 2007. The cost of other components did not change significantly.

25. COSTS FOR SERVICES

	31.12.2008	31.12.2007	Change
Outsourced processing	8,782	9,116	(334)
Natural gas and power	4,648	4,121	527
Maintenance	4,610	4,210	400
Freight, carriage, transport	1,648	1,647	1
Commissions	1,331	1,380	(49)
Advisory services	724	1,170	(446)
Directors' remuneration	900	934	(34)
Temporary agency workers	549	484	65
Travel expenses and allowances	420	498	(78)
Canteen	449	408	41
Insurance	339	316	23
Other payroll costs	3,300	3,306	(6)
TOTAL	**27,700**	**27,590**	**110**

26. PAYROLL COSTS

	31.12.2008	31.12.2007	Change
Salaries and wages	18,325	16,563	1,762
Social security costs	6,015	5,392	623
Temporary agency workers	4,504	3,838	666
Post-employment benefit reserve and Other payroll costs	1,250	1,353	(103)
TOTAL	**30,094**	**27,146**	**2,948**

Average group headcount in totalled 683 employees (530 blue-collars, 145 white-collars and supervisors, and 8 managers), as opposed to 634 in 2007 (485 blue-collars, 141 white-collars and supervisors, and 8 managers). Average temporary staff numbered 140 in 2008 (133 in 2007).

27. OTHER OPERATING COSTS

	31.12.2008	31.12.2007	Change
Losses on receivables	2,975	12	2,963
Write down of Receivables	1,143	-	1,143
Use of provision for doubtful accounts	(552)	-	(552)
Other administration expenses	483	599	(116)
Provisions for liabilities	390	18	372
Others provisions	47	94	(47)
TOTAL	**4,486**	**723**	**3,763**

The losses on receivables reported in 2008 are almost exclusively related to the balance of receivables from the Antonio Merloni Group, in receivership since October 2008. Receivables were written down to adjust the related reserve to the higher risk of insolvency by some clients, in view of the difficult market context.

In 2008, the item "Other operating costs" consisted mainly of taxes other than income taxes (€ 287,000), and contingent liabilities of € 72,000.

Provisions for liabilities refer to the allocations described in Note 15.

28. FINANCE EXPENSES

	31.12.2008	31.12.2007	Change
Interest paid to banks	1,413	1,005	408
Interest paid on finance lease contracts	321	355	(34)
Banking expenses	230	402	(172)
Other finance expense	311	364	(53)
TOTAL	**2,275**	**2,126**	**149**

29. FOREIGN-EXCHANGE GAINS/(LOSSES)

During FY2008, the Group made net foreign exchange gains of € 393,000 (net losses of € 319,000 in 2007). This was mainly due to the revaluation of the US dollar against the Euro and the Brazilian real.

30. INCOME TAX

	31.12.2008	31.12.2007	Change
Current income tax	8,017	9,305	(1,288)
Deferred tax assets and liabilities	(918)	1,180	(2,098)
Substitute tax, under Law 244/07	2,469	-	2,469
Release of deferred tax liabilities, under Law 244/07	(5,524)	-	(5,524)
Recalculation of the rate of deferred taxation	-	(1,505)	1,505
Balance of previous FY	43	(45)	88
TOTAL	**4,087**	**8,935**	**(4,848)**

The tax rate is positively influenced by the cut in the Italian corporate tax rate (IRES) from 33% to 27.5% in 2008. In addition, in FY 2008, some Group companies used the option set forth by Law 244/07 (Finance Bill 2008) to account for previous off-balance sheet deductions (mainly accelerated amortization), against which deferred tax liabilities were booked in the accounts at 31 December 2007 for € 5,524,000. The substitute tax amounted to € 2,469,000, payable in three annual instalments. As a result, taxes booked in the income statement of these consolidated financial statements were lower by € 3,055,000. Current income taxes include corporate income tax (IRES) of € 6,134,000 and Italian regional business tax (IRAP) of € 1,827,000 and Brazilian income tax of € 56,000 (respectively € 7,313,000, € 1,992,000 and € 0 in 2007).

TAX STATUS

During 2005, the direct parent company Sabaf S.p.A. was the subject of an official tax audit by the Italian Inland Revenue authority concerning FY2003 (subsequently partly extended also to FY2002) and relating to corporate income tax (IRES), VAT, and Italian regional business tax (IRAP). During 2006 Sabaf S.p.A. received the related official tax audit notices, against which it filed an appeal. The Provincial Tax Commission ruled partly in favour of the petitions of the company, which in any case filed an appeal of second instance in 2008. The Company had already paid in advance € 268,000 for taxes, fines, and interest, and had maintained risk provision of € 81,000 against the contingent liability connected with the dispute indicated above.

Reconciliation between the tax burden cbooked 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 following table:

	31.12.2008	31.12.2007
Theoretical income tax	5,362	8,172
Tax effect on permanent differences	157	182
Taxes relating to previous years	174	(55)
Deferred tax liabilities not allocated	(142)	222
Use of tax losses	(120)	(138)
Recalculation of deferred taxation for rate adjustment	-	(1,416)
Other differences	(29)	22
Income tax reported in the financial statements, not including IRAP (current and deferred)	**5.402**	**6.989**
IRAP (current and deferred)	1,740	1,946
Substitute tax, under Law 244/07	2.469	-
Release of deferred taxes for application of the substitute tax, under Law 244/07	(5,524)	-
TOTAL	**4,087**	**8,935**

Theoretical taxes were calculated by applying the current corporate income tax (IRES) rate, i.e. 27.50% in 2008 and 33% in 2007, to the pre-tax result. For the purposes of reconciliation, IRAP (regional business tax) 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

(Euro '000)

	2008	2007
Net profit of the year	15,410	15,828

NUMBER OF SHARES

(Euro '000)

	2008	2007
Weighted average number of ordinary shares for calculating basic EPS	11,533.45	11,533.45
Dilution effect arising from potential ordinary shares	---	---
Weighted average number of ordinary shares for calculating diluted EPS	11,533.45	11,533.45

32. DIVIDENDS

On 29 May 2008, shareholders were paid a dividend of € 0.70 per share (total dividends of € 8,073,000); this amount was unchanged from 2007 to 2008.
As regards the current year, directors have proposed payment of a dividend of € 0.70. This dividend is subject to approval of shareholders in the annual shareholders' meeting and was not reported under liabilities.
The dividend proposed is payable to all holders of shares at 25 May 2009 and is scheduled for payment as from 28 May 2009. The estimated total dividend payable is € 8,073,000.

33. INFORMATION ON FINANCIAL RISK

The Group is exposed to financial risks related to its operations, and mainly:

- credit risk, 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 interest rates;
- liquidity risk, which can be expressed with the inability to find financial resources necessary to ensure Group operations.

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 offset by the use of 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 made in US dollars represent 7% of total revenue in 2008. As mentioned in Note 20, at 31 December 2008, there was a forward sale of USD 6,000,000 at an EURO/USD exchange rate of 1.4435 to hedge a percentage of the USD revenue expected in 2009. At 31 December 2008, the fair value of this financial instrument was negative for € 176,000 and was booked to “other financial liabilities” with an offset - net of the related tax effect - in shareholders’ equity. For future commercial flows against which the hedge operation above was executed, it is reasonable to believe that the change in the interest rate can produce an opposite economic effect of an equal amount, on the underlying hedged transactions.

INTEREST RATE RISK MANAGEMENT

This refers to financial instruments on which interest accrues at a floating rate and which are not hedged by derivative financial instruments.

Sensitivity analysis

With reference to financial assets and liabilities at floating rate at 31 December 2008 and 31 December 2007, 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 a higher (or lower) net charges before taxes on an annual basis of € 351,000 and € 264,000, respectively.

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 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 2007 and 2008, no contracts were entered into based on derivative financial instruments on commodities.

LIQUIDITIES RISK MANAGEMENT

The Group operates with a low debt ratio (net debt / shareholders’ equity at 31 December 2008 equal to 0.29) and has unused short-term lines of credit of € 26.5 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 the analysis by expiration date of the financial payables at 31 December 2008:

	Carrying value	Contractual cash flows	Within 1 year	from 1 to 5 years	more than 5 years
Short-term lines of credit and overdrafts	14,128	14,128	14,128	-	-
Loans	18,994	22,055	3,689	16,269	2,097
Finance leases	5,319	5,696	1,350	4,346	-
Pre-loan leasing	2,268	n.a.	n.a.	n.a.	n.a.
Derivatives on currency	176	176	176	-	-
TOTAL	**40,885**	**42,055**	**19,343**	**20,615**	**2,097**

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 2008 and increased by the spread set forth in each contract. Pre-financing leasing refers to 18-year property lease contracts which may be activated in 2009 and of which it is not currently possible to provide the detail of future cash flows by expiration date.

34. 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 2008	Direct parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Percentage of total
Trade receivables	42,078	-	102	-	102	0.24%
Tax receivables	2,530	1,334	-	-	1,334	52.73%

	Total 2007	Direct parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Percentage of total
Property, plant and equipment	86,515	-	-	9	9	0.01%
Intangible assets	9,137	-	-	24	24	0.26%
Trade receivables	46,723	-	84	-	84	0.18%
Tax receivables	1,520	290	-	-	290	19.08%

Impact of related-party transactions on income statement accounts

	Total 2008	Direct parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Percentage of total
Revenue	165.951	-	297	-	297	0,18%
Other income	884	60	-	-	60	6,79%
Materials	(72.228)	-	-	(9)	(9)	0,01%

	Total 2007	Direct parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Percentage of total
Revenue	158,091	-	88	-	88	0.06%
Other income	1,027	60	-	-	60	5.842%
Materials	(72,511)	-	-	(13)	(13)	0.02%

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 the unconsolidated subsidiary Sabaf Mexico SA de c.v. related exclusively to the sale of hinges to in order to maintain a surplus of stock located close to the buying market.

Transactions with other related parties in FY2008 refer to the purchase of components from Eng.In Group Srl, a company of which Mr. Flavio Pasotti, a director of Sabaf S.p.A., is chairman.

REMUNERATION TO DIRECTORS AND STATUTORY AUDITORS

Remuneration paid to members of Sabaf SpA's Board of Directors and Board of Statutory Auditors, including for offices held in subsidiaries is shown below:

	31.12.2008	31.12.2007
Directors' remuneration	742	742
Salaries to the directors	152	145
Non-monetary benefits to the directors	-	-
Compensation to statutory auditors	49	49
TOTAL	**943**	**936**

35. SHARE-BASED PAYMENTS

At the meeting held on 2 August 2007, Sabaf SpA's shareholders approved an equity-based incentive plan for the company's directors and employees. The plan involves assigning 600,000 options for the purchase of the same number of new ordinary shares, to be issued via a reserved capital increase, also approved on that date. The options have been granted free of charge, with a strike price for purchasing the shares of € 27.64 each. The options can only be exercised if certain criteria are met, relating to consolidated EBITDA and EBIT at 31 December 2009; the share price on that date; and specific environmental and employment targets. The options can be exercised between 3 August 2010 and 2 December 2010. See the disclosure pursuant to Art. 84-bis of CONSOB Regulation 11971 for a detailed description of the terms and conditions of the plan.

The fair value of the stock option plan has been calculated by applying the following method:

- Estimate of unit fair value for individual options as at 2 August 2007
- Attribution of the likelihood of occurrence of contractual events (*non-market conditions*).
- Estimate of the plan's overall fair value, factoring in the number of options granted against the likelihood of occurrence of contractual events.

Unit fair value has been calculated using the Cox-Rubinstein binominal model, the market standard for the valuation of Bermuda-style and American-style options, including the uncertainty of achievement of the contractual targets linked to the stock's price. The unit fair value of each option is € 3.9377.
On the date of the Plan's approval, the likelihood of occurrence of the non-market conditions was estimated to be 60.13%. The number of options granted, adjusted for the likelihood of occurrence, was 360,802 and total fair value was € 1,420,000.

In compliance with paragraphs 19 and 20 of IFRS 2, in preparing the present set of financial statements, directors reviewed – based on the further information at their disposal – the likelihood of occurrence of the contractual events. More specifically, based on FY2008 results and on the new forecasts devised for subsequent FYs, the likelihood of achieving consolidated operating targets (EBITDA and EBIT) at 31 December 2009 set forth by the Plan was deemed to be zero. Consequently, no costs have been reported in the FY2008 income statement against the current stock option plan.

36. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that it did not execute any significant non-recurring transactions during 2008.

37. 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 2008.

38. COMMITMENTS

GUARANTEES ISSUED

The Sabaf Group has issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to Group employees for a total of € 5,021,000 (€ 5,034,000 at 31 December 2007).

39. CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

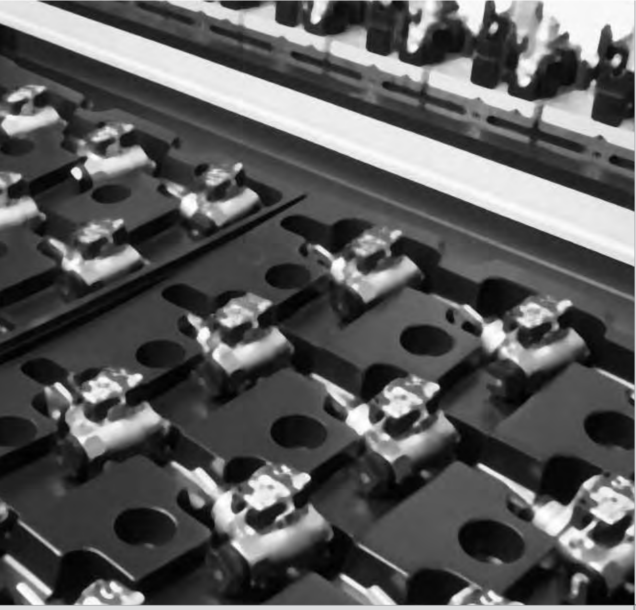
COMPANIES CONSOLIDATED ON A 100% LINE-BY-LINE BASIS

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

UNCONSOLIDATED COMPANIES

Company name	Registered location	Share capital	Shareholders	% Ownership
Sabaf Mexico S.A. de C.V.	San Luis Potosi (Messico)	MXN 8,247,580	Sabaf S.p.A.	100%
Sabaf US Corp.	Plainfield (USA)	USD 100,000	Sabaf S.p.A.	100%

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE



40. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office:	Via dei Carpini, 1 25035 Ospitaletto (Brescia) Italy
Contacts: Tel:	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 Partita IVA 01786910982

APPENDIX

INFORMATION PURSUANT TO ART. 149/12 OF THE CONSOB ISSUERS' REGULATION

The following table, prepared pursuant to Article 149/12 *of* the CONSOB Issuers' Regulation, reports the fees relating to FY2008 for independent auditing services 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)

	Service provider	Recipient	Fees paid for FY 2008
Audit	AGN SERCA s.n.c.	Direct parent company	61
	AGN SERCA s.n.c.	Subsidiary companies	25
Certification services	AGN SERCA s.n.c.	Direct parent company	1
Other services			-
TOTAL			**87**

**Certification of the Consolidated Annual Report and Accounts,
in accordance with 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., having taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Leg. Decree no. 58 of 24 February 1998, herewith attest:

- the appropriateness in relation to the company's characteristics and
- the actual application

of the administrative and accounting principles for drafting the consolidated annual report and accounts in 2008.

It is further attested 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;
  - correspond to the corporate books and accounting records;
  - are appropriate to provide a truthful and correct picture of the income statement, balance sheet, and cash flow of the issuer and the companies included in the consolidation;
- the report on operations includes a credible analysis of the performance and results of operations, the situation at the issuer, and the companies included in the area of consolidation, along with a description of the key risks and uncertainties to which they are exposed.

Ospitaletto, 24 March 2009

Chief Executive Officer
Angelo Bettinzoli

Financial Reporting Officer
Alberto Bartoli

AGN serca
revisione e organizzazione contabile

25124 Brescia, Via Cipro 1
tel. 030 2427246 - telefax 030 2427273
e-mail: agnserca@agnserca.it

AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
in accordance with art. 156 of Legislative Decree n. 58 of February 24, 1998

(Translation from the original issued in Italian)

To the Shareholders of
SABAF S.p.A.

1. We have audited the consolidated financial statements, consisting of balance sheet, income statement, changes in shareholders' equity and cash flows and related explanatory notes, of SABAF S.p.A. and its subsidiaries (the "SABAF Group") as of December 31, 2008. The Directors of SABAF S.p.A. are responsible for the preparation of these consolidated financial statements in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued pursuant to art. 9 of Legislative Decree n. 38/2005. 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 and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the adequacy and accuracy of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.
For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our auditors' report issued on March 31, 2008.

3. In our opinion, the consolidated financial statements of SABAF Group as of December 31, 2008 comply with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued pursuant to art. 9 of Legislative Decree n. 38/2005; therefore they are clearly stated and give a true and fair view of the financial position, the results of operations, changes in shareholders' equity and cash flows of SABAF Group for the year then ended.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the consolidated financial statements, as required by art. 156, paragraph 4-bis, letter d), of Legislative Decree n. 58/98. For this purpose, with reference to the financial information included therein, we have read the Report on Operations and verified the consistency of such financial information with the consolidated financial statements of SABAF Group as of December 31, 2008. With reference to the other information included in the Report on Operations, our procedures consisted solely in a reading of the Report on Operations as a whole based on the information acquired during our audit, conducted in accordance with the auditing standards indicated in the paragraph 2 above. In our opinion, based on this activity, the Report on Operations is consistent with the consolidated financial statements of SABAF Group as of December 31, 2008.

Brescia (Italy) – March 30, 2009

***AGN* SERCA**

Signed on the original by

Valter Bertocchi

Auditor

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

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2008

To the shareholders:

The SABAF Group consolidated financial statements as at 31 December 2008, which include the balance sheet, income statement, statement of changes in equity, statement of cash flows, and the related explanatory notes, and which have been made available to you, show net profits of € 15.410 million, attributable entirely to the shareholders of the parent company.

The consolidated financial statements, which have been provided to us as required by law, together with the directors' report on operations, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and with the measures issued in implementation of Article 9 of Legislative Decree 38/2005.

The audits conducted by the independent auditor, AGN Serca, have led to the following conclusion: "The Sabaf Group consolidated financial statements as at 31 December 2008 comply with the International Financial Reporting Standards endorsed by the European Union, as well as with the measures issued in implementation of Article 9 of Legislative Decree 38/2005. As such, they have been prepared in a clear manner and represent a true and accurate view of financial performance and standing, as well as of the cash flows and changes in equity of the Sabaf Group for the financial year ended on such date."

The directors' report on operations adequately describes the financial performance and standing and the trends in operations for the 2008 financial year, as well as related developments subsequent to the close of 2008, for all consolidated companies.

Our assessment of the above has shown that it is consistent with the separate financial statements of Sabaf S.p.A. and with the consolidated financial statements of the Sabaf Group.

Ospitaletto, 6 April 2009

The Board of Statutory Auditors

(Pierluigi Bellini – Chairman)
(Enrico Broli – Statutory Auditor)
(Renato Camodeca – Statutory Auditor)

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STATUTORY FINANCIAL STATEMENTS OF SABAF S.p.A.

BALANCE SHEET

(in thousands of euro)

ASSETS	Notes	31.12.2008	31.12.2007
NON-CURRENT ASSETS			
Property, plant, and equipment	1	43,978	45,274
Intangible assets	2	3,805	2,594
Equity investments	3	34,830	34,104
Non-current receivables		10	45
Deferred tax assets (prepaid taxes)	18	1,051	623
Total non-current assets		**83,674**	**82,640**
CURRENT ASSETS			
Inventories	4	25,586	24,771
Trade receivables	5	38,434	42,243
Tax receivables	6	1,728	711
Other current receivables	7	3,271	358
Cash and cash equivalents	8	8,144	4,310
Total current assets		**77,163**	**72,393**
TOTAL ASSETS		**160,837**	**155,033**

(in thousands of euro)

EQUITY AND LIABILITIES	Notes	31.12.2008	31.12.2007
EQUITY			
Share capital	9	11,533	11,533
Retained earnings, other reserves		73,334	65,909
Net profit for period		14,025	15,666
Total equity		**98,892**	**93,108**
NON-CURRENT LIABILITIES			
Loans	11	9,955	17
Post-employment benefit obligations and retirement reserves	13	2,634	3,125
Reserves for risks and contingencies	14	783	622
Deferred tax liabilities	18	2,367	8,018
Total non-current liabilities		**15,739**	**11,782**
CURRENT LIABILITIES			
Loans	11	16,189	14,311
Other Financial liabilities	12	147	0
Trade payables	15	22,485	30,315
Tax payables	16	2,343	824
Other liabilities	17	5,042	4,693
Total current liabilities		**46,206**	**50,143**
TOTAL LIABILITIES & EQUITY		**160,837**	**155,033**

INCOME STATEMENT

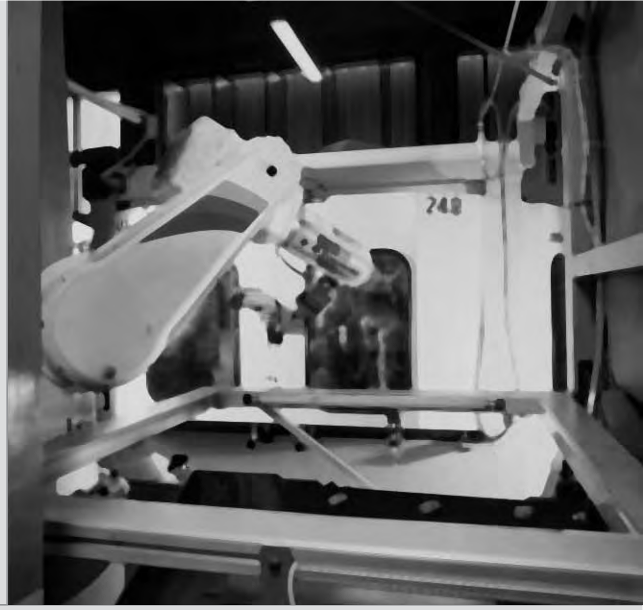
(in thousands of euro)

CONTINUING OPERATIONS	Notes	2008	2007
OPERATING REVENUES AND INCOME			
Revenue	21	149,564	142,878
Other income	22	736	692
Total operating revenue and income		**150,300**	**143,570**
COPERATING COSTS			
Materials	23	(64,582)	(64,456)
Change in inventories		815	6,773
Services	24	(27,261)	(27,278)
- from related parties	*33*	*(3,072)*	*(3,011)*
Payroll costs	25	(27,536)	(24,391)
Other operating costs	26	(3,562)	(481)
Costs for capitalised in-house work		688	616
Total operating cost		**(121,438)**	**(109,217)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**28,862**	**34,353**
Depreciation and amortisation	1,2	(9,790)	(9,221)
Capital gains/(losses) on disposal of non-current assets		60	16
Write-downs/write-backs of non-current assets		0	(445)
OPERATING PROFIT (EBIT)		**19,132**	**24,703**
Finance income		70	132
Finance expenses	27	(1,305)	(1,097)
Forex gains/(losses)	28	43	(81)
Profits and losses from equity investments	29	0	500
PRE-TAX PROFIT		**17,940**	**24,157**
Income tax	30	(3,915)	(8,491)
NET PROFIT FOR THE YEAR		**14,025**	**15,666**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of euro)

	Share capital	Share premium reserve	Legal reserve	Treasury shares	Other riserves	Not profit for period	Total equity
Balance at 31 December 2006	**11,533**	**10,002**	**2,267**	**0**	**47,472**	**14,241**	**85,515**
Allocation of 2006 earnings			40		6,128	(14,241)	(8,073)
FY2007 net profit						15,666	15,666
Balance at 31 December 2007	**11,533**	**10,002**	**2,307**	**0**	**53,600**	**15,666**	**93,108**
Allocation of 2007 earnings					7,593	(15,666)	(8,073)
Acquisition of treasury shares				(67)			(67)
Change in the fair value reserve of derivative financial instruments					(101)		(101)
FY2008 net profit						14,025	14,025
Balance at 31 December 2008	**11,533**	**10,002**	**2,307**	**(67)**	**61,092**	**14,025**	**98,892**



CASH FLOW STATEMENT

(in thousands of euro)

		31.12.2008	31.12.2007
A.	***OPENING NET SHORT-TERM FINANCIAL POSITION***	***(10,001)***	***2,393***
B.	**CASH FLOW FROM OPERATIONS**		
	Net income (loss) for the year	14,025	15,666
	Depreciation and amortisation	9,790	9,221
	Change in deferred tax assets and liabilities	(6,079)	(282)
	(Write-up)/write-downs, capital gains/capital losses	(60)	429
	Net change in post-employment benefit and retirement reserves	(491)	(322)
	Net change in reserve for risks and contingencies	161	(355)
		17,346	***24,357***
	Change in net working capital:		
	Inventories	(815)	(6,773)
	Trade receivables	3,809	(7,444)
	Trade payables	(7,830)	3,961
	Other receivables and payables	(2,062)	(960)
		(6,898)	***(11,216)***
	Operating cash flow	**10,448**	**13,141**
C.	**CASH FLOW FROM INVESTMENT ACTIVITIES**		
	Investments in non-current assets:		
	Intangible	(1,725)	(1,213)
	Tangible	(9,660)	(12,816)
	Financial	(726)	(2,811)
	Proceeds from disposal and retirement of fixed assets	1,740	51
	TOTAL	**(10,371)**	**(16,789)**
D.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	New loans (medium-/long-term portion)	12,000	0
	Repayment of loans and transfer of current portion of long-term loans to current liabilities	(2,062)	(674)
	Change in non-current financial receivables	35	1
	TOTAL	**9,973**	**(673)**
E.	**CHANGE IN SHAREHOLDERS' EQUITY**		
	Change in fair value reserve	(101)	0
	Change in treasury shares	(67)	0
	Distribution of dividends	(8.073)	(8.073)
	TOTAL	**(8,241)**	**(8,073)**
F.	**CASH FLOW DURING THE PERIOD (B+C+D+E)**	**1,809**	**(12,394)**
G.	***CLOSING NET SHORT-TERM FINANCIAL POSITION (A+F)***	***(8,192)***	***(10,001)***

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Sabaf S.p.A. individual year-end accounts for the financial year 2008 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, 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 balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement, and these explanatory notes. Financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years and on the presumption of a going-concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraph 25 of IAS standard 1) on the continuity of the company, including by virtue of the strong competitive position, high profitability, and solidity of the financial structure.

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 balance sheet;
- 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.

Adoption of these policies and formats permits more meaningful representation of the Company's capital, business, and financial status.

SEGMENT REPORTING

A segment is a distinctly identifiable part of an entity that supplies a combination of related products and services (business segment) or supplies products and services in a given economic area (geographical segment). Sabaf S.p.A. substantially operates in just one business segment – components for household cooking appliances – and in just one geographical area – Italy. Consequently, the segment reporting required by IAS 14 is not provided.

ACCOUNTING POLICIES

The accounting standards and policies applied for preparation of the financial statements as at 31 December 2008 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 increasing the assets' 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

Non-current 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 consolidated financial statements applying the same policy followed for owned tangible assets. 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.

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 ten years.

The SAP management system is amortised in five years, beginning from the date it enters production.

IMPAIRMENT OF VALUE

At each balance-sheet date, Sabaf S.p.A. 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 an asset's recoverable value individually, the Group estimates the recoverable value of the cash-generating unit (CGU) to which the asset belongs.

The recoverable amount is the higher between the net selling price and value in use. In measuring the value of use, estimated future cash flows 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.

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.

EQUITY INVESTMENTS AND NON-CURRENT RECEIVABLES

Equity investments not classified as held for sale are recognised in accounts at cost, reduced for impairment of value.

If there are specific indications of impairment, the value of the equity investment is submitted to impairment testing. For the purposes of impairment testing, the carrying value of the equity investment is compared with the recovery value, defined as the higher of the fair value, minus the cost of sale, and the value of use. If the recoverable amount of an equity investment is estimated to be lower than its carrying value, its carrying value is reduced to the lower recoverable amount. This reduction is impairment, which is reported in the income statement.

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 fair value, allocating profit and loss effects to finance income or expense.

RESERVES FOR RISKS AND CONTINGENCIES

Reserves for risks and contingencies are provisioned to cover losses and debts, the existence of which is certain or probable, but whose amount or date of occurrence cannot be determined at the end of the accounting period. Provisions are recognised in the balance sheet only when a legal or constructive obligation exists determining the use of resources with an impact on profit and loss to meet that obligation and it is possible to estimate the amount reliably.

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 B ENEFIT 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 rules for such provisions were changed by Italian Law no. 296 of 27 December 2006 and the subsequent decrees and regulations issued in the early months of 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 portions accruing before 1 January 2007 (and not yet paid as at balance-sheet). Conversely, portions accruing after that data are assimilated with a defined-contribution plan.

SHARE-BASED PAYMENTS

The Company accords additional benefits to some executive directors and employees via equity participation plans (i.e. stock option plans). As established by IFRS 2 (Share-based Payment), these plans are a component of beneficiaries' income, the cost of which consists of the fair value of stock options calculated at the grant date and which is reported in the income statement on a straight-line basis over the period between grant date and vesting date, directly offset in shareholders' equity. Changes in fair value after the grant date do not affect initial measurement. The estimate of the number of options that are expected to be vested may be revised, if necessary, if subsequent information indicates that the number of options that are expected to be vested differs from previous estimates.

PAYABLES

Payables are stated at their face value; the portion of interest included in 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 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 future transactions planned.
The Company does not use derivatives for trading purposes.
Derivatives are initially recognised at cost and are then fair valued 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 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.

FINANCE INCOME
Finance income includes interest receivable on funds invested, positive foreign exchange differences 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.

FINANCE 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 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 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.

INVESTMENT IN OWN SHARES
Treasury shares are booked in a specific reserve as a reduction of shareholders' equity. The carrying value of treasury 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 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, and other provisions and reserves. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

NEW ACCOUNTING STANDARDS
No accounting standards or interpretations have been issued or revised, effective 1 January 2008, that have had a substantial effect on the company's financial statements.

COMMENTS ON SIGNIFICANT BALANCE SHEET ITEMS

1. PROPERTY, PLANT, AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	TOTAL
EXPENSE					
At 31 December 06	**12,539**	**100,414**	**16,931**	**5,390**	**135,274**
Increases	93	10,871	1,296	556	12,816
Disposals	-	(28)	(313)	(12)	(353)
Reclassification to another item	-	121	-	(121)	-
At 31 December 07	**12,632**	**111,378**	**17,914**	**5,813**	**147,737**
Increases	1,244	9,954	1,299	3,663	16,160
Disposals	(1,596)	(357)	(130)	-	(2,083)
Reclassification to another item	-	-	-	(6,500)	(6,500)
At 31 December 08	**12,280**	**120,975**	**19,083**	**2,976**	**155,314**
ACCUMULATED DEPRECIATION					
At 31 December 06	**4,320**	**75,158**	**14,455**	**-**	**93,933**
Depreciation of the year	341	7,332	1,180	-	8,853
Eliminations for disposals	-	(24)	(299)	-	(323)
At 31 December 07	**4,661**	**82,466**	**15,336**	**-**	**102,463**
Depreciation of the year	349	7,889	1,116	-	9,354
Eliminations for disposals	-	(354)	(127)	-	(481)
At 31 December 08	**5,010**	**90,001**	**16,325**	**-**	**111,336**
CARRYING VALUE					
At 31 December 08	**7,270**	**30,974**	**2,758**	**2,976**	**43,978**
At 31 December 07	**7,971**	**28,912**	**2,578**	**5,813**	**45,274**

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

	31.12.2008	31.12.2007	Change
Land	1,291	1,291	-
Industrial buildings	5,979	6,680	(701)
TOTAL	**7,270**	**7,971**	**(701)**

The carrying value of property includes an amount of € 361,000 thousand (€ 823,000 in 2007) relating to industrial property held under finance lease contracts.

Key investments in the year consisted of completion of the production lines of simple and safety light-alloy valves for cookers and hobs. In addition, burner production capacity was increased by 10% by starting up new pressure die-casting islands.

2. INTANGIBLE ASSETS

	Patents, know-how and software	Development costs	Other intangible assets	TOTAL
EXPENSE				
At 31 December 2006	**1,840**	**1,257**	**1,144**	**4,241**
Increases	943	216	54	1,213
Decreases	-	-	(3)	(3)
At 31 December 2007	**2,783**	**1,473**	**1,195**	**5,451**
Increases	1,495	54	176	1,725
Decreases	-	-	(101)	(101)
At 31 December 2008	**4,278**	**1,527**	**1,270**	**7,075**
AMORTISATION				
At 31 December 2006	**1.757**	**200**	**530**	**2.487**
Quota 2007	148	140	82	370
At 31 December 2007	**1.905**	**340**	**612**	**2.857**
Quota 2008	229	148	59	436
Decreases	-	-	(23)	(23)
At 31 December 2008	**2.134**	**488**	**648**	**3.270**
CARRYING VALUE				
At 31 December 2008	**2,144**	**1,039**	**622**	**3,805**
At 31 December 2007	**878**	**1,133**	**583**	**2,594**

Intangible assets have a finite useful life and are consequently amortised based on this lifetime. The main investments made in the FY, totalling € 1,481,000, related to purchase of licenses and to the initial implementation phase of the new SAP management system.

3. EQUITY INVESTMENTS

	31.12.2008	31.12.2007	Change
In subsidiary companies	34,798	34,072	726
Other shareholdings	32	32	-
TOTAL	**34,830**	**34,104**	**726**

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

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf Mexico	Sabaf U.S.	Total
HISTORICAL COST						
At 31 December 06	**13,475**	**10,329**	**8,151**	**160**	**-**	**32,115**
Increases in capital	-	-	2,583	227	-	2,810
At 31 December 07	**13,475**	**10,329**	**10,734**	**387**	**-**	**34,925**
Increases in capital	-	-	500	161	65	726
At 31 December 08	**13,475**	**10,329**	**11,234**	**548**	**65**	**35,651**
WRITE-DOWN RESERVE						
At 31 December 2006	**-**	**-**	**409**	**-**	**-**	**409**
Write-downs	-	-	444	-	-	444
AAt 31 December 2007	**-**	**-**	**853**	**-**	**-**	**853**
Write-downs	-	-	-	-	-	-
At 31 December 2008	**-**	**-**	**853**	**-**	**-**	**853**
CARRYING VALUE						
At 31 December 08	**13,475**	**10,329**	**10,381**	**548**	**65**	**34,798**
At 31 December 07	**13,475**	**10,329**	**9,881**	**387**	**0**	**34,072**

In 2008, € 500,000 was paid in for increases in capital at Sabaf do Brasil, € 161,000 at Sabaf Mexico and € 65,000 at Sabaf U.S. to finance development of the business of the subsidiaries.

The carrying value of the equity investment in Faringosi Hinges is higher than shareholders' equity for € 4,185,000. At 31 December 2008, Sabaf S.p.A. determined the recoverable value of the equity investment, considered to be equal to its value of use. The assumptions used for calculating value of use reflect the growth rate, expected changes in selling prices and costs during the period used for calculation, and the benchmark interest rate. Growth rates are based on future market expectations and on the Group's expansion prospects in the sector. Operating cash flows are derived from the most recent budgets approved by the Board of Directors of the subsidiary for the next five years and made by the parent company; 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. This value is calculated based on a discount rate of 7.5% to 8.5% and a growth rate of between 1.25 and 2.25%, and was higher than the carrying value of the equity investment, which was not written down.

At 31 December 2008, the value of the stake in Sabaf do Brasil was higher than the shareholders' equity of the subsidiary - converted to the Euro/Real exchange rate at 31 December 2008 of 3.2436 for € 2,171,000. The higher carrying value versus shareholders' equity is due to the devaluation of the Real at year-end 2008. The Company did not write down the investment since the decrease in value was not considered long-term, partly in view of the performance of the Euro/Real exchange rate subsequent to the end of the year.

4. INVENTORIES

	31.12.2008	31.12.2007	Change
Commodities	8,439	9,867	(1,428)
Semi-processed goods	13,056	11,753	1,303
Finished products	4,741	4,051	690
Obsolescence provision	(650)	(900)	250
TOTAL	**25,586**	**24,771**	**815**

Inventories have increased in FY 2008 in relation to the higher volumes of business; this increase was smaller in the latter part of the year due to the decrease in demand after November and expected to extend through 2009. The obsolescence provision amounted to € 180,000 for raw materials, €170,000 for semi-processed goods, and € 300,000 for finished products (respectively € 180,000, € 420,000, and € 300,000 at year-end 2007).

5. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2008	31.12.2007	Change
Italy	22,273	26,834	(4,561)
Western Europe	2,444	2,456	(12)
Eastern Europe and Turkey	9,538	6,265	3,273
Asia	1,744	2,472	(728)
Latin America	858	1,234	(376)
Africa	2,067	2,816	(749)
North America & Mexico	240	440	(200)
Oceania	268	234	34
GROSS TOTAL	**39,432**	**42,751**	**(3,319)**
Provision for doubtful accounts	(998)	(508)	(490)
NET TOTAL	**38,434**	**42,243**	**(3,809)**

The decrease in trade receivables vs. year-end 2007 reflects the decrease in sales in the last quarter of the year. Average payment terms did not change significantly. At 31 December 2008, trade receivables included balances of some USD 1.6 million, posted at the €/USD exchange rate in December 2008, i.e 1.3917. The amount of trade receivables recognised in accounts includes € 16.3 million of receivables assigned on a no-recourse basis (€ 20.8 million as at 31 December 2007). In view of the difficult market context and the resulting higher risk of insolvency by certain clients, the doubtful account provision at 31 December 2008 was adjusted to € 998,000.
At 31 December 2008, trade receivables broken down by age is as follows:

Current receivables (not past due)	36,042
Outstanding up to 30 days	2,253
Outstanding from 30 to 60 days	623
Outstanding from 60 to 90 days	1
Outstanding over 90 days	513
TOTAL	**39,432**

6. TAX RECEIVABLES

	31.12.2008	31.12.2007	Change
From inland revenue for VAT	490	534	(44)
From inland revenue for IRAP	14	-	14
From Giuseppe Saleri SapA for IRES	1,224	177	1,047
TOTAL	**1,728**	**711**	**1,017**

The tax receivable from Giuseppe Saleri SapA relates to the balance of income tax transferred to the ultimate parent company as part of domestic tax consolidation.

7. OTHER CURRENT RECEIVABLES

	31.12.2008	31.12.2007	Change
Receivables from factoring companies	1,818	-	1,818
Advances paid to subsidiaries	943	-	943
Credits from suppliers	319	201	118
Others	191	157	34
TOTAL	**3,271**	**358**	**2,913**

Receivables from factoring company refers to trade receivables assigned on a no-recourse basis. Advances to subsidiaries refer to the payment made to Sabaf Immobiliare for rental amounts on property owned by the latter. Trade receivables refer to bonuses allowed from some suppliers and on returns on purchases.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to € 8,144,000 at 31 December 2008 (€ 4,310,000 at 31 December 2007) refer almost exclusively to bank account balances. At 31 December 2008, cash and cash equivalents included positive bank account balances of USD 1,343,000, arising from collection of trade receivables and posted at the current euro/USD exchange rate of 1.3917.

9. SHARE CAPITAL

At 31 December 2008, the company's share capital consisted of 11,533,450 shares with a par value of € 1.00 each. Subscribed and paid-in share capital did not change during the year.
On 2 August 2007 the shareholders' meeting approved an increase of share capital from € 11,533,450 to a maximum of € 12,133,450 via issue of a maximum number of 600,000 ordinary shares of the company with a par value of € 1.00 each, to service the stock option plan described in Note 38.

10. TREASURY SHARES

In the year 2008, Sabaf S.p.A. acquired 3,947 shares at an average price of € 17.02, as part of a buy-back plan deliberated by the shareholders' meeting on 29 April 2008. These shares were still in the portfolio at 31 December 2008.

11. LOANS

	31.12.2008		31.12.2007	
	Current	Non Current	Current	Non Current
Property leasing	17	-	75	17
Unsecured loans	2,045	9,955	606	-
Bank overdrafts and other borrowing	14,127	-	13,630	-
TOTAL	**16,189**	**9,955**	**14,311**	**17**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor. In order to reduce short-term borrowing, in 2008, the Company incurred two unsecured loans for a total of € 12 million at the Euribor rate plus a spread of 1.10% and 1.20%, repayable quarterly. At 31 December 2008, two short-term lines of credit for €12 million were also incurred, at the Euribor rate plus a spread of 0.75% and 0.80%.
The fair value of loans approximates carrying value.
These loans are not bound by contractual provisions (*covenants*).

12. OTHER FINANCIAL LIABILITIES

This item, equal to € 147,000 at 31 December 2008, includes the negative fair value of a derivative financial instrument opened at 30 September 2008 to hedge a percentage of the USD revenue expected in 2009, for a notional value of USD 5 million.

13. POST-EMPLOYMENT BENEFIT RESERVE (TFR)

	31.12.2008	31.12.2007
Liabilities at 1 January	**3,125**	**3,447**
Social security costs	-	66
Finance expenses	160	163
Recognition of the actuarial losses	-	288
Curtailment	-	(192)
Use of the TFR	(651)	(647)
Liabilities at 31 December	**2,634**	**3,125**

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

FINANCIAL ASSUMPTIONS

	31.12. 2008	31.12.2007
Discount rate	5,90%	5,50%
Inflation	2,00%	2,00%

DEMOGRAPHIC ASSUMPTIONS

	31.12. 2008	31.12.2007
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	1% per year based on age/seniority	1% per year based on age/seniority
Retirement age	65 years for men and 60 for women, 40 years of employment	665 years for men and 60 for women, 40 years of employment

14. RESERVES FOR RISKS AND CONTINGENCIES

	31.12.2007	Provisions	Uses	31.12.2008
Reserve for agents' indemnities	460	47	(52)	455
Product warranty reserve	80	-	(33)	47
Reserve for tax risks	82	-	(1)	81
Reserve for legal risks	-	200	-	200
TOTAL	**622**	**247**	**(86)**	**783**

The reserve for agents' indemnities covers amounts payable to agents if the company terminates the agency relationship.
The product warranty reserve covers all expenses for product services to be provided while products are under warranty and is estimated based on past experience. It was used during the year against returns from prior year sales. The reserve for tax risks has been allocated for against the contingent liability connected with an official tax audit of the 2002 and 2003 tax periods. During FY2008 the reserve for legal risks was allocated with € 200,000 against the possibility of potential liabilities relating to two employment suits. 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.

15. TRADE PAYABLES

The geographical breakdown of trade payables was as follows:

	31.12.2008	31.12.2007	Change
Italy	19,370	26,905	(7,535)
Western Europe	2,972	3,268	(296)
Eastern Europe and Turkey	111	64	47
Asia	28	62	(34)
North America & Mexico	2	14	(12)
Latin America	2	2	-
TOTAL	**22,485**	**30,315**	**(7,830)**

The decrease in commercial payables is related to the lower volumes of business and lower investment in the latter part of the year; average payment terms did not change significantly. The amount of trade payables in currencies other than the euro was insignificant.

16. TAX PAYABLES

	31.12.2008	31.12.2007	Change
For IRAP	-	4	(4)
For substitute tax, pursuant to Law 244/07	1,630	-	1,630
For IRPEF withholdings	713	820	(107)
TOTAL	**2,343**	**824**	**1,519**

The payable for the substitute tax pursuant to Law 244/07 refers to application of the option described under Note 30. The first instalment of € 690,000 was paid in June 2008; the payable booked to these financial statements refers to the two subsequent instalments (€ 920,000 falling due in June 2009 and € 690,000 falling due at June 2010), plus accrued interest on the payment instalment plan, equal to € 20,000.

17. OTHER CURRENT PAYABLES

	31.12.2008	31.12.2007	Change
From Sabaf Immobiliare for Group VAT	-	107	(107)
Due to employees	2,921	2,564	357
Due to social security institutions	1,599	1,537	62
Due to agents	438	398	40
Customer down payments	13	55	(42)
Other current payables	71	32	39
TOTAL	**5,042**	**4,693**	**349**

18. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2008	31.12.2007
Deferred tax liabilities	2,367	8,018
Deferred tax assets (prepaid taxes)	(1,051)	(623)
NET POSITION	**1,316**	**7,395**

The following table shows the key items forming deferred tax liabilities and assets and their movements during the year in question and in previous years:

	Amortisation and leasing	Amortisation and value adjustments	Deferred develop-ment costs	Fair value derivatives	Other	Total
At 31 December 2006	**6,887**	**(361)**	**462**	**0**	**689**	**7,677**
To the income statement	(30)	12	151	-	965	1,098
To shareholders' equity	-	-	-	-	-	0
Allowance adjustment	(1,077)	54	(96)	-	(261)	(1,380)
At 31 December 2007	**5,780**	**(295)**	**517**	**0**	**1,393**	**7,395**
To the income statement	(35)	(181)	(55)	-	(680)	(951)
To the income statement for application of the substitute tax pursuant to Law 244/07	(4,944)	(131)	-	-	(7)	(5,082)
To shareholders' equity	-	-	-	(46)	-	(46)
At 31 December 2008	**801**	**(607)**	**462**	**(46)**	**706**	**1,316**

At 31 December 2008, deferred tax liabilities reported a decrease of € 5,082,000 following application of the option for substitute taxation of previous off-balance sheet deductions, set forth by Law 244/07 (Financial Bill 2008), as described below in Note 30.

19. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its operations, Sabaf is exposed to market risks. Specifically, the Company has to address:
- the risk of changes in commodity prices;
- exchange rate risk;
- interest rate risk.

It is part of Sabaf's policies 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 set up speculative transactions. When the derivatives used for hedging purposes meet the necessary requisites, hedge accounting rules are followed.

Derivatives on commodities

In FYs 2007 and 2008, the Company did not use financial derivatives on commodities.

Derivatives on currency

At 31 December 2008, there was a forward sale of USD 5,000,000 at a EURO/USD exchange rate of 1.4435 to hedge a percentage of the USD revenue expected in 2009. At 31 December 2008, the fair value of this financial instrument was negative for € 147,000 and was booked to “other financial liabilities” with an offset - net of the related tax effect - in shareholders’ equity.

The transactions denominated in foreign currencies in 2008 have not been hedged by derivative financial instruments; in the 2007 income statement, an amount of € 183,000 was reported to increase sales revenue, against derivative instruments on currencies that had opened and closed in the year.

Derivatives on interest rates

In FYs 2007 and 2008, the Company did not use financial derivatives on interest rates.

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:

		31.12.2008	31.12.2007	Change
A.	Cash	10	15	(5)
B.	Positive balances of unrestricted bank accounts	8,134	4,295	3,839
C.	Other liquidities	0	0	0
D.	**Cash (A+B+C)**	**8,144**	**4,310**	**3,834**
E.	Current bank overdrafts	14,127	13,630	497
F.	Current portion of the non-current debt	2,062	681	1,381
G.	Other current payables	147	0	147
H.	**Current financial debt (E+F+G)**	**16,336**	**14,311**	**2,025**
I.	**Current net financial debt**	**8,192**	**10,001**	**(1,809)**
J.	Non-current bank payables	9,955	0	9,955
K.	Non-current financial debts	0	17	(17)
L.	**Non-current financial debt**	**9,955**	**17**	**9,938**
M.	**Net financial debt**	**18,147**	**10,018**	**8,129**

21. REVENUE

Sales revenue totalled € 149,564,000 in FY2008, up by € 6,686,000 (+4.7%) vs. 2007.

REVENUE BY PRODUCT FAMILY

	2008	2007	Change	Change %
Simple brass valves	8,936	11,665	(2,729)	-23.4
Brass valves with safety devices	30,252	27,674	2,578	+9.3
Light alloy valves (simple and with safety devices)	15,923	8,309	7,614	+91.6
Thermostats	18,948	18,991	(43)	-0.2
Total valves and thermostats	*74,059*	*66,639*	*7,420*	*+11.1*
Standard burners	40,661	42,004	(1,343)	-3.2
Special burners	18,255	18,919	(664)	-3.5
Burners	*58,916*	*60,923*	*(2,007)*	*-3.3*
Accessories and other revenues	*16,589*	*15,316*	*1,273*	*+8.3*
TOTAL	**149,564**	**142,878**	**6,686**	**+4,7**

In FY 2008, the Company was able to further increase its market share in the valve market, thanks to the growing success of the light alloy valves. Following the regulatory changes taking place in the key European markets, the company continued the trend to replace simple valves with safety valves. Sales of burners have remained essentially stable in volumes while average sale prices are lower than in 2007.

GEOGRAPHICAL BREAKDOWN OF REVENUE

	31.12.2008	%	31.12.2007	%	Change %
Italy	70,310	*47.0*	69,887	*48.9*	*+0.6*
Western Europe	13,028	*8.7*	12,591	*8.8*	*+3.5*
Eastern Europe and Turkey	37,778	*25.3*	28,121	*19.7*	*+34.3*
Asia	11,246	*7.5*	13,909	*9.7*	*-19.1*
Central and South America	5,165	*3.4*	5,299	*3.7*	*-2.5*
Africa	10,251	*6.9*	10,304	*7.2*	*-0.5*
North America & Mexico	1,272	*0.9*	2,202	*1.6*	*-42.2*
Oceania	514	*0.3*	565	*0.4*	*-9.0*
TOTAL	**149,564**	***100.0***	**142,878**	***100.0***	***+4.7***

The geographical area where the Company earned the highest growth was Eastern Europe due to the major increase in this area in appliance production and due to the further increase in sales to Turkish clients. The market with the greatest absolute decrease was the Asian market, due to the lower sales in the Middle East.

22. OTHER INCOME

	31.12.2008	31.12.2007	Change
Services to subsidiary companies	131	12	119
Contingent income	127	230	(103)
Rental income	123	123	-
Use of provisions for risks and contingencies	84	208	(124)
Services to the subsidiary companies	60	60	-
Others	211	59	152
TOTAL	**736**	**692**	**44**

Services to subsidiary companies and the parent company refer to administrative, commercial, and technical services provided in the Group.

23. PURCHASES

	31.12.2008	31.12.2007	Change
Raw materials and purchases	60,206	60,677	(471)
Consumables	4,376	3,779	597
TOTAL	**64,582**	**64,456**	**126**

The actual cost of brass and aluminium alloys was down respectively by 15% and 10% versus 2007, while the cost of steel was up by 15% versus 2007. The cost of other components did not change significantly.

24. COSTS FOR SERVICES

	31.12.2008	31.12.2007	Change
Outsourced processing	8,082	8,481	(399)
Natural gas and power	4,254	3,692	562
Lease payments	3,094	3,034	60
Maintenance	3,610	3,424	186
Transport and export costs	1,212	1,068	144
Commissions	1,119	1,223	(104)
Advisory services	526	904	(378)
Directors' remuneration	696	696	0
Temporary employment costs	549	478	71
Waste disposal	473	506	(33)
Travel expenses and allowances	381	445	(64)
Canteen	364	349	15
Insurance	298	265	33
Other payroll costs	2.603	2.713	(110)
TOTAL	**27,261**	**27,278**	**(17)**

25. PAYROLL COSTS

	31.12.2008	31.12.2007	Change
Salaries and wages	16,689	14,699	1,990
Social security costs	5,388	4,770	618
Temporary agency workers	4,465	3,830	635
Post-employment benefit reserve and Other payroll costs	994	1,092	(98)
TOTAL	**27,536**	**24,391**	**3,145**

Average group headcount in 2008 totalled 559 employees (438 blue-collars, 115 white-collars and supervisors, and 6 managers) as opposed to 513 in 2007 (394 blue-collars, 113 white-collars and supervisors, and 6 managers). The average number of temporary staff was 138 in 2008 (129 in 2007).

26. OTHER OPERATING COSTS

	31.12.2008	31.12.2007	Change
Losses on receivables	2,525	12	2,513
Write down of receivables	502	-	502
Other administration expenses	288	375	(87)
Provisions for risks	200	-	200
Others provisions	47	94	(47)
TOTAL	**3,562**	**481**	**3,081**

The losses on receivables reported in 2008 are almost exclusively related to the balance of receivables from Tecnogas S.p.A. of the Antonio Merloni Group, in receivership since October 2008. Receivables were written down to adjust the related reserve to the higher risk of insolvency by some clients, in view of the difficult market context.

The item “Other operating costs” consisted mainly of taxes other than income taxes (€ 122,000), contingent costs for € 72,000 and association fees for € 50,000. Provisions for risks refer to allocation of the reserve for legal risks described in Note 14.

27. FINANCE EXPENSES

	31.12.2008	31.12.2007	Change
Interest paid to banks	912	546	366
Interest paid on finance lease contracts	3	8	(5)
Banking expenses	209	354	(145)
Other finance expense	181	189	(8)
TOTAL	**1,305**	**1,097**	**208**

The higher interest paid to banks was a consequence of the higher level of average financial debt during FY2008 compared with FY2007.

28. FOREIGN-EXCHANGE GAINS/LOSSES

In 2007, the Company reported net foreign exchange gains in the amount of € 43,000 (net losses of € 81,000 in 2007), primarily due to changes in the US dollar vs. euro exchange rate.

29. GAINS AND LOSSES ON EQUITY INVESTMENTS

	31.12.2008	31.12.2007	Change
Dividends Faringosi Hinges	-	500	(500)
TOTAL	**0**	**500**	**(500)**

Profits refer to dividends paid out by Faringosi Hinges Srl pertaining to the 2007 financial year; dividends were not distributed by the subsidiaries in 2008.

30. INCOME TAX

	31.12.2008	31.12.2007	Change
Current income tax	7,597	8,797	(1,200)
Deferred tax assets and liabilities	(951)	1,100	(2,051)
Substitute tax, pursuant to Law 244/07	2,300	-	2,300
Release of deferred tax liabilities, pursuant to Law 244/07	(5,082)	-	(5,082)
Adjustment in deferred tax rates	-	(1,380)	1,380
Balance of previous FY	51	(26)	77
TOTAL	**3,915**	**8,491**	**(4,576)**

Current domestic income taxes include IRES tax in the amount of € 5,904,000 and IRAP taxes totalling € 1,693,000 (€ 6,977,000 and € 1,829,000 respectively in 2007).
The tax rate is positively influenced by the reduction in the Italian corporate tax rate (IRES) from 33% to 27.5% in 2008. In addition, in the year 2008, Sabaf used the option set forth by Law 244/07 (Finance Bill 2008) to account for € 17.7 million in previous off-balance sheet deductions (mainly accelerated amortisation), against which deferred tax liabilities were booked in the accounts at 31 December 2007 for € 5,082,000. The substitute tax amounted to € 2,300,000, payable in three annual instalments. As a result, taxes booked in the income statement of these financial statements were lower by € 2,782,000.

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

	31.12.2008	31.12.2007
Theoretical income tax	4,934	7,972
Tax effect on permanent differences	42	116
Taxes relating to previous years	165	(23)
Deferred tax liabilities not allocated	-	(11)
Recalculation of deferred taxation for rate adjustment	-	(1,301)
Other differences	(8)	-
IRES (current and deferred)	**5,133**	**6,753**
IRAP (current and deferred)	1,564	1,738
Substitute tax, pursuant to Law 244/07	2,300	-
Release of deferred taxes for application of the substitute tax Law 244/07	(5,082)	-
TOTAL	**3,915**	**8,491**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50% in 2008 and 33% in 2007, to the pre-tax result. For the purposes of reconciliation, IRAP is not considered because its taxable base is different to that of pre-tax profit and inclusion of the tax would generate distortionary effects.

TAX STATUS

During 2005 the direct parent company Sabaf S.p.A. was the subject of an official tax audit by the Italian Inland Revenue authority concerning FY2003 (subsequently partly extended also to FY2002) and relating to corporate income tax (IRES), VAT, and Italian regional business tax (IRAP). During 2006 Sabaf S.p.A. received the related official tax audit notices, against which it filed an appeal. The Provincial Tax Commission ruled partly in favour of the petitions of the company, which in any case filed an appeal of second instance in 2008. The Company had already paid in advance € 268,000 for taxes, fines, and interest, and had maintained risk provision of € 81,000 against the contingent liability connected with the dispute indicated above.

31. DIVIDENDS

On 29 May 2008, shareholders were paid a dividend of € 0.70 per share (total dividends of € 8,073,000), unchanged on 2007.
As regards the current year, directors have proposed payment of a dividend of € 0.70. This dividend is subject to approval of shareholders in the annual shareholders' meeting and was not included under liabilities.
The dividend proposed for 2008 is payable to all holders of shares at 25 May 2009 and is scheduled for payment as from 28 May 2009.

32. INFORMATION ON FINANCIAL RISK

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.

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 offset by the use of 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 (chiefly on some Asian and American markets). Sales made in US dollars represent 5% of total revenue in 2008. As mentioned in Note 19, at 31 December 2008, there was a forward sale of USD 5,000,000 at a EURO/USD exchange rate of 1.4435 to hedge a percentage of the USD revenue expected in 2009. At 31 December 2008, the fair value of this financial instrument was negative for € 147,000 and was booked to "other financial liabilities" with an offset - net of the related tax effect - in shareholders' equity.
For future commercial flows against which the hedge operation above was executed, it is reasonable to believe that the change in the interest rate can produce an opposite economic effect of an equal amount, on the underlying hedged transactions.

INTEREST RATE RISK MANAGEMENT

This refers to financial instruments on which interest accrues at a floating rate and which are not hedged by derivative financial instruments.
Sensitivity analysis
With reference to financial assets and liabilities at floating rate at 31 December 2008 and 31 December 2007, 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 higher (or lower) net charges before taxes on an annual basis of € 221,000 and € 122,000, respectively.

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 Company is unable to pass on to clients any changes in the prices of commodities 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 2007 and 2008, no contracts were entered into based on derivative financial instruments on commodities.

LIQUIDITY RISK MANAGEMENT

The Company operates with a low debt ratio (net debt / shareholders' equity at 31 December 2008 equal to 0.18) and has unused short-term lines of credit of € 10 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 the financial payables at 31 December 2008:

	Carrying value	Contractual financial flows	Within 1 year	from 1 to 5 years	more than 5 years
Short-term lines of credit and overdrafts	14,127	14,127	14,127	-	-
Unsecured loans	12,000	13,666	2,640	11,026	-
Finance leases	17	17	17	-	-
Derivatives on currency	147	147	147	-	-
TOTAL	**26,291**	**27,957**	**16,931**	**11,026**	**0**

The various expiration 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, shares of interest are determined based on the value of the reference parameter at 31 December 2008 and increased by the spread set forth in each contract.

33. RELATED-PARTY TRANSACTIONS

Impact of related-party transactions on balance sheet accounts

	Total 2008	Subsidiaries	Parent company	Other related parties	Total related parties	Percentage of the total
Trade receivables	38,434	269	-	-	269	0.70%
Other current receivables	3,271	1,037	-	-	1,037	31.70%
Tax receivables	1,728	-	1,224	-	1,224	70.83%
Trade payables	22,485	40	-	6	46	0.20%

	Total 2007	Subsidiaries	Parent company	Other related parties	Total related parties	Percentage of the total
Property, plant, and equipment	45,274	-	-	9	9	0.02%
Intangible assets	2,594	-	-	24	24	0.93%
Trade receivables	42,243	113	-	-	113	0.27%
Tax receivables	711	-	177	-	177	24.89%
Trade payables	30,315	57	-	-	57	0.18%
Other liabilities	4,693	107	-	-	107	2.28%

Impact of related-party transactions on income statement accounts

	Total 2008	Subsidiaries	Parent company	Other related parties	Total related parties	Percentage of the total
Revenue	149,564	475	-	-	475	0.32%
Other income	736	140	60	-	200	27.17%
Materials	(64,582)	(181)	-	(9)	(190)	0.29%
Services	(27,261)	(3,072)	-	-	(3,072)	11.27%
Non-current available for sale	60	5	-	-	5	8.33%

	Total 2007	Subsidiaries	Parent company	Other related parties	Total related parties	Percentage of the total
Revenue	142,878	374	-	-	374	0.26%
Other income	692	12	60	-	72	10.40%
Materials	(64,456)	(110)	-	(13)	(123)	0.19%
Services	(27,278)	(3,034)	-	-	(3,034)	11.12%
Write-downs/write-backs of non-current assets	(445)	(445)	-	-	(445)	100.00%
Profits and losses from equity investments	500	500	-	-	500	100.00%

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 SapA, which does not perform activities of direction and co-ordination pursuant to Article 2497 of the Italian Civil Code, consist of:
- administration 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 FY2008 refer to the purchase of components from Eng.In Group Srl, 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 2008 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 2008 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 2008 was € 6,994,000 (€ 7,660,000 as at 31 December 2007).

Sabaf S.p.A. has also issued sureties to guarantee consumer and mortgage loans granted by Banco di Brescia to its employees for a total of € 5,021,000 (€ 5,034,000 as at 31 December 2007).

37. REMUNERATIONON PAID TO DIRECTORS AND AUDITORS

The aggregate compensation received by executives, for any reason and in any form, including from subsidiaries, is as detailed below:

FULL NAME	OFFICE	TERM OF OFFICE	EXPIRATION OF THE OFFICE	EMOLUMENT OF THE OFFICE	NON-MONETARY BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER COMPENSATION
Saleri Giuseppe	Chairman	01.01.08 - 31.12.08	30.04.09	80			8
Saleri Gianbattista	Deputy Chairman	01.01.08 - 31.12.08	30.04.09	70			
Saleri Ettore	Deputy Chairman	01.01.08 - 31.12.08	30.04.09	70			8
Bettinzoli Angelo	Chief Executive Officer	01.01.08 - 31.12.08	30.04.09	340			20
Bartoli Alberto	Director	01.01.08 - 31.12.08	30.04.09	16			162
Cossu Leonardo	Director	01.01.08 - 31.12.08	30.04.09	24			
Papa Franco Carlo	Director	01.01.08 - 31.12.08	30.04.09	24			
Ghedini Raffaele	Director	01.01.08 - 31.12.08	30.04.09	16			
Pasotti Flavio	Director	01.01.08 - 31.12.08	30.04.09	16			
Bragantini Salvatore	Director	01.01.08 - 31.12.08	30.04.09	24			
Giua Alberto Federico	Director	01.01.08 - 31.12.08	30.04.09	16			
Lucchini Italo	Chairman of the Board of Statutory Auditors	01.01.08 - 29.04.08		14			
Ballerio Eugenio	Auditor	01.01.08 - 29.04.08		9			
Seccamani Mazzoli Giovannimaria	Auditor	01.01.08 - 29.04.08		9			
Bellini Pierluigi	Chairman of the Board of Statutory Auditors	29.04.08 - 31.12.08	30.04.09	7			
Broli Enrico	Auditor	29.04.08 - 31.12.08	30.04.09	5			
Camodeca Renato	Auditor	29.04.08 - 31.12.08	30.04.09	5			
Executives with strategic responsibilities (5)							663

38. SHARE-BASED PAYMENTS

At the meeting held on 2 August 2007, Sabaf S.p.A.'s shareholders approved an equity-based incentive plan for the Company's directors and employees. The plan involves assigning 600,000 options for purchase of the same number of new ordinary shares, to be issued via a reserved capital increase, also approved on that date. The options have been granted free of charge, with a strike price for purchasing the shares of € 27.64 each. The options can only be exercised if certain criteria are met, relating to consolidated EBITDA and EBIT at 31 December 2009; the share price on that date; and specific environmental and employment targets. The options can be exercised between 3 August 2010 and 2 December 2010. See the disclosure pursuant to Art. 84-bis of CONSOB Regulation 11971 for a detailed description of the terms and conditions of the plan.

The fair value of the stock option plan has been calculated applying the following method:

- estimate of unit fair value for individual options as at 2 August 2007
- attribution of likelihood of occurrence of contractually envisaged events (non-market conditions).
- estimate of the plan's overall fair value, factoring in the number of options granted against the likelihood of occurrence of contractual events.

Unit fair value has been calculated using the Cox-Rubinstein binominal model, the market standard for the valuation of Bermuda-style and American-style options, including the uncertainty of achievement of the contractual targets linked to the stock's price. The unit fair value of each option is € 3.9377.
On the date of the Plan's approval, the likelihood of occurrence of the non-market conditions was estimated to be 60.13%. The number of options granted, adjusted for the likelihood of occurrence was 360,802 and total fair value was € 1,420,000.

In compliance with paragraphs 19 and 20 of IFRS 2, in preparing the present set of financial statements, directors reviewed – based on the further information at their disposal – the likelihood of occurrence of the contractual events. More specifically, based on FY2008 results and on the new forecasts devised for subsequent FYs, the likelihood of achieving consolidated operating targets (EBITDA and EBIT) at 31 December 2009 set forth by the Plan was deemed to be zero. Consequently, no costs have been reported in the FY2008 income statement against the current stock option plan.

The detail of stock options granted to directors and, as an aggregate, to executives with strategic responsibilities is shown in the following table:

STOCK OPTIONS GRANTED TO DIRECTORS AND TO EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

		Options held at the beginning of the year			Options assigned during the year			Options exercised in the year			Options falling due in the year	Options held at the end of the year		
Full name	Role	Number of options	Average strike price	Average expiration date	Number of options	Average strike price	Average expiration date	Number of options	Average strike price	Average market price at exercise	Number of options	Number of options	Average strike price	Average expiration date
Bettinzoli Angelo	Chief Executive Officer	132,000	27.64	02/12/2010	-	-	-	-	-	-	-	132,000	27.64	02/12/2010
Bartoli Alberto	Director	45,000	27.64	02/12/2010	-	-	-	-	-	-	-	45,000	27.64	02/12/2010
	Executives with strategic responsibilities (5)	157,000	27.64	02/12/2010	-	-	-	-	-	-	50.000	107,000	27.64	02/12/2010

LIST OF SHAREHOLDINGS IN SUBSIDIARIES AND OTHER SIGNIFICANT EQUITY INVESTMENTS

SUBSIDIARY COMPANIES

Company name	Registered office	Share capital at31/12/2008	Shareholders	% Ownership	Equity at 31/12/2008	of the year 2008
Faringosi-Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S.p.A.	100%	EUR 6,143,897	EUR 717,750
Sabaf Immobiliare s.r.l.	Ospitaletto (BS)	EUR 25,000	Sabaf S.p.A.	100%	EUR 14,474,641	EUR -112,461
Sabaf do Brasil Ltda	Jundiaì (Brasile)	BRL 31,835,400	Sabaf S.p.A.	100%	BRL 26,626,347	BRL -421,609
Sabaf Mexico S.A. de C.V.	San Luis Potosì (Messico)	MXN 8,247,580	Sabaf S.p.A.	100%	MXN 5,683,487	MXN -240,470
Sabaf US Corp.	Plainfield (USA)	USD 100.000	Sabaf S.p.A.	100%	USD 9,991	USD -90,009

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE

ORIGIN, POSSIBILITY OF USE, AND AVAILABILITY OF RESERVES

Description	Amount	Possibility of use	Portion 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		
Extraordinary reserve				
Quota subject to taxation against the company in case of distribution				
- To account for inventories according to IAS 2	1,756	A, B, C	1,756	1,756
- To account for leasing according to IAS 17	2,186	A, B, C	2,186	2,186
- To account for post-employment benefits according to IAS 19	407	A, B, C	407	407
- To account for development costs according to IAS 38	1,066	A, B, C	1,066	1,066
Distributable amount not subject to taxation in case of distribution	53,975	A, B, C	53,975	0
TOTAL	**73,334**		**71,026**	**7,049**

Key:
A: for capital increases
B: for loss coverage
C: for distribution to shareholders

STATEMENT OF REVALUATIONS OF ASSETS STILL HELD AT 31 DECEMBER 2008

(in thousands of euro)

		Gross value	Accumulated amortisation and depreciation	Net value
Land and buildings	Law 72/1983	137	(130)	7
	Merger 1989	516	(309)	207
	Law 413/1991	47	(23)	24
	Merger 1994	1,483	(642)	841
	Law 342/2000	2,870	(1,593)	1,277
		5,053	**(2,697)**	**2,356**
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	7,081	(7,081)	0
		15,834	**(15,834)**	**0**
Industrial and commercial equipment	Law 72/1983	**161**	**(161)**	**0**
Other assets	Law 72/1983	**50**	**(50)**	**0**
TOTAL		**21,098**	**(18,742)**	**2,356**

GENERAL INFORMATION

Sabaf S.p.A. is a company incorporated according to Italian law.

Registered and administrative office: Via dei Carpini, 1
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Tax information:
R.E.A. Brescia 347512
Codice Fiscale 03244470179
Partita IVA 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 FY2008 for independent auditing services 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 distribute the service	Considerations for the year 2008
Audit	AGN SERCA s.n.c.	61
Certification services	AGN SERCA s.n.c.	1
Other services	-	-
TOTAL		**62**

Certification of the Statutory Annual Report and Accounts,
in accordance with 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., having taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Leg. Decree no. 58 of 24 February 1998, herewith attest:

- the appropriateness in relation to the company's characteristics and
- the actual application

of the administrative and accounting principles for drafting the statutory annual report and accounts in 2008.

It is further attested that:

- the Statutory 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;
  - correspond to the corporate books and accounting records;
  - are appropriate to provide a truthful and correct picture of the income statement, balance sheet, and cash flow of the issuer;
- the report on operations includes a credible analysis of the performance and results of operations, the situation at the issuer, along with a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 24 March 2009

Chief Executive Officer	**Financial Reporting Officer**
Angelo Bettinzoli	Alberto Bartoli

AGN serca
revisione e organizzazione contabile

25124 Brescia, Via Cipro 1
tel. 030 2427246 - telefax 030 2427273
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AUDITORS' REPORT

in accordance with art. 156 of Legislative Decree n. 58 of February 24, 1998

(Translation from the original issued in Italian)

To the Shareholders of
SABAF S.p.A.

1. We have audited the financial statements, consisting of balance sheet, income statement, changes in shareholders' equity and cash flows and related explanatory notes, of SABAF S.p.A. as of December 31, 2008. The Directors of SABAF S.p.A. are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued pursuant to art. 9 of Legislative Decree n. 38/2005. 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 and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the adequacy and accuracy of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.
For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference is made to our auditors' report issued on March 31, 2008.

3. In our opinion, the financial statements of SABAF S.p.A. as of December 31, 2008 comply with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued pursuant to art. 9 of Legislative Decree n. 38/2005; therefore they are clearly stated and give a true and fair view of the financial position, the results of operations, changes in shareholders' equity and cash flows of SABAF S.p.A. for the year then ended.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of Legislative Decree n. 58/98. For this purpose, with reference to the financial information included therein, we have read the Report on Operations and verified the consistency of such financial information with the financial statements of SABAF S.p.A. as of December 31, 2008. With reference to the other information included in the Report on Operations, our procedures consisted solely in a reading of the Report on Operations as a whole based on the information acquired during our audit, conducted in accordance with the auditing standards indicated in the paragraph 2 above. In our opinion, based on this activity, the Report on Operations is consistent with the financial statements of SABAF S.p.A. as of December 31, 2008.

Brescia (Italy) – March 30, 2009

***AGN* SERCA**

Signed on the original by

Valter Bertocchi

Auditor

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

BOARD OF STATUTORY AUDITORS REPORT TO THE SHAREHOLDERS

To the shareholders:
Following the meeting of shareholders of 29 April 2008, the chairman of the Board of Statutory Auditors, Italo Lucchini, tendered his resignation due to exceeding the maximum number of corporate positions held (as established by Article 148-bis of Legislative Decree 58 of 24 February 1998). He has been replaced by the alternate auditor, Pierluigi Bellini, taken from the same minority lists and now the chairman of this board. At the aforementioned meeting, the shareholders appointed the new statutory auditors Enrico Broli and Renato Camodeca, replacing Eugenio Ballerio and Giovannimaria Seccamani Mazzoli, who had tendered their resignations for the same reason.
The current Board of Statutory Auditors shall come to an end upon completion of this meeting of shareholders.
SABAF S.p.A. has been a publicly listed company in Borsa Italiana's Star segment since 1998. As a result, and pursuant to the aforementioned Legislative Decree 58 of 24 February 1998 and the current by-laws, account auditing is to be done by an independent auditor, which is currently AGA Serca s.n.c.
Therefore, this report has been prepared in accordance with the provisions mentioned above, as well as with CONSOB communications relating to listed companies.
During the year, we have overseen the obligations established by Article 149 of Legislative Decree 58 of 24 February 1998, which, in particular, has enabled us to report to you in regard to the matters below.
We have attended the meetings of the Board of Directors, during which the directors kept us informed of the activities carried out and of the most significant financial transactions executed, or to be executed, by the company and/or its subsidiaries. In that regard, we have verified, and we are certain, that the transactions approved and executed were in compliance with both the law and the by-laws, did not go against any shareholder resolutions, and were in line with the principles of proper administration.
The current organization of the company is suited to the company's size, which has made it possible to collect a full range of information concerning observance of the principles of proper, diligence and administrative practice, in part through meetings with the heads of the company's departments and with the representatives of the independent auditing firm in conjunction with the periodic audits.
The system of internal controls is updated on a continuous basis and is suited to the size and structure of the company and its subsidiaries, and during its most recent meeting, the Board of Directors expressed its approval of such system based on the recommendation of the Internal Control and Audit Committee.
In so far as we have observed and verified, the system of accounting and administration is suited to properly representing the facts of operations.
The Board of Directors has, as required by law, provided us with its report on operations for the first half of the year and has published such report as required by CONSOB. The Board of Directors has also approved and published the interim reports for the first, third and fourth quarters of the year.
In relation to relevant CONSOB communications, and within the scope of our responsibilities, we can confirm the following:
- The information provided by the directors in their report on operations is complete and exhaustive;
- In accordance with Legislative Decree 58 of 24 February 1998, we have been kept sufficiently informed to carry out our duties;
- The periodic audits conducted did not reveal any atypical or unusual transactions (as defined by CONSOB communication on 28 July 2006);
- With regard to intercompany transactions and transactions with related parties, in the notes to the financial statements, the directors report on the existence of limited trading of goods and services between your company and the other companies of the Group;
- The report of the independent auditor contains no significant issues or other items of note, and said report also states that the report on operations is consistent with the financial statements for the year;

- In 2008, the Board of Directors met eight times, and the Internal Control and Audit Committee held five meetings, all of which were attended by the Board of Statutory Auditors;
- The previous Board of Statutory Auditors met twice during 2008; as of 31 December 2008, the current Board of Statutory Auditors met three times for the periodic audits;
- The company follows the code of corporate governance for Italian publicly listed companies, as published in March 2006.

With regard to the financial statements for the year, which showed net profits of € 14.025 million at 31 December 2008, net of taxes for the year in the amount of ?3.915 million, we have verified compliance with the law as concerns their layout and preparation by way of the audits we conducted, within the scope of our responsibilities, in accordance with Article 149 of Legislative Decree 58 of 24 February 1998. We have also taken account of the information provided to us by the independent auditor.

Therefore, we are able to recommend approval of the financial statements for the year ended 31 December 2008, and we concur with the recommended allocation of earnings as approved by the Board of Directors.

It should be noted that Giuseppe Saleri SapA, the ultimate parent company of SABAF S.p.A., does not exercise any direction or coordination over SABAF S.p.A.

In contrast, SABAF S.p.A., as the parent company of the Group, exercises both direction and coordination over its subsidiaries.

We have noted that, in 2008, SABAF S.p.A. gave the independent auditor, AGA Serca s.n.c., just one additional assignment to those of account auditing, auditing of the separate and consolidated financial statements, limited audit of the half-year report, and the audits arranged for the interim reports on operations. This additional assignment concerned the signing of the tax return forms at a cost of € 750.

The independent auditor has also reported that, in relation to the company's current organizational structure, no other entities can be considered to form a “network” with it, as defined by Article 149-bis(2) of the Issuers Regulation.

No facts emerged during the meetings with our counterparts at the subsidiaries or ultimate parent company that are worthy of mention in this report.

As concerns the activities of the Supervisory Committee (appointed in accordance with Legislative Decree 231/2001), which were conducted regularly throughout the year, we report as follows:
- The Supervisory Committee attended meetings with the other supervisory bodies;
- On a semi-annual basis, the board reported to the Board of Directors regarding its activities, while also submitting proposals to update the Organization, Operation and Control Model pursuant to Legislative Decree 231/2001.

The Security Planning Document was updated for 2008, as required by Legislative Decree 196/2003.

With reference to legislation concerning insider dealing and market manipulation (“market abuse”), the company has established the tools required by Article 115-bis of Legislative Decree 58/1998, which sets forth the requirement to keep records of the persons who have access to privileged information.

The company has implemented rules of insider dealing, as required by Article 114(7) of Legislative Decree 58/1998.

During the year, no reports were filed to the Board of Statutory Auditors pursuant to Article 2408 of the Italian civil code.

The Board of Statutory Auditors is not aware of any petitions.

Ospitaletto, 6 April 2009

The Board of Statutory Auditors

(Pierluigi Bellini – Chairman)
(Enrico Broli – Statutory Auditor)
(Renato Camodeca – Statutory Auditor)