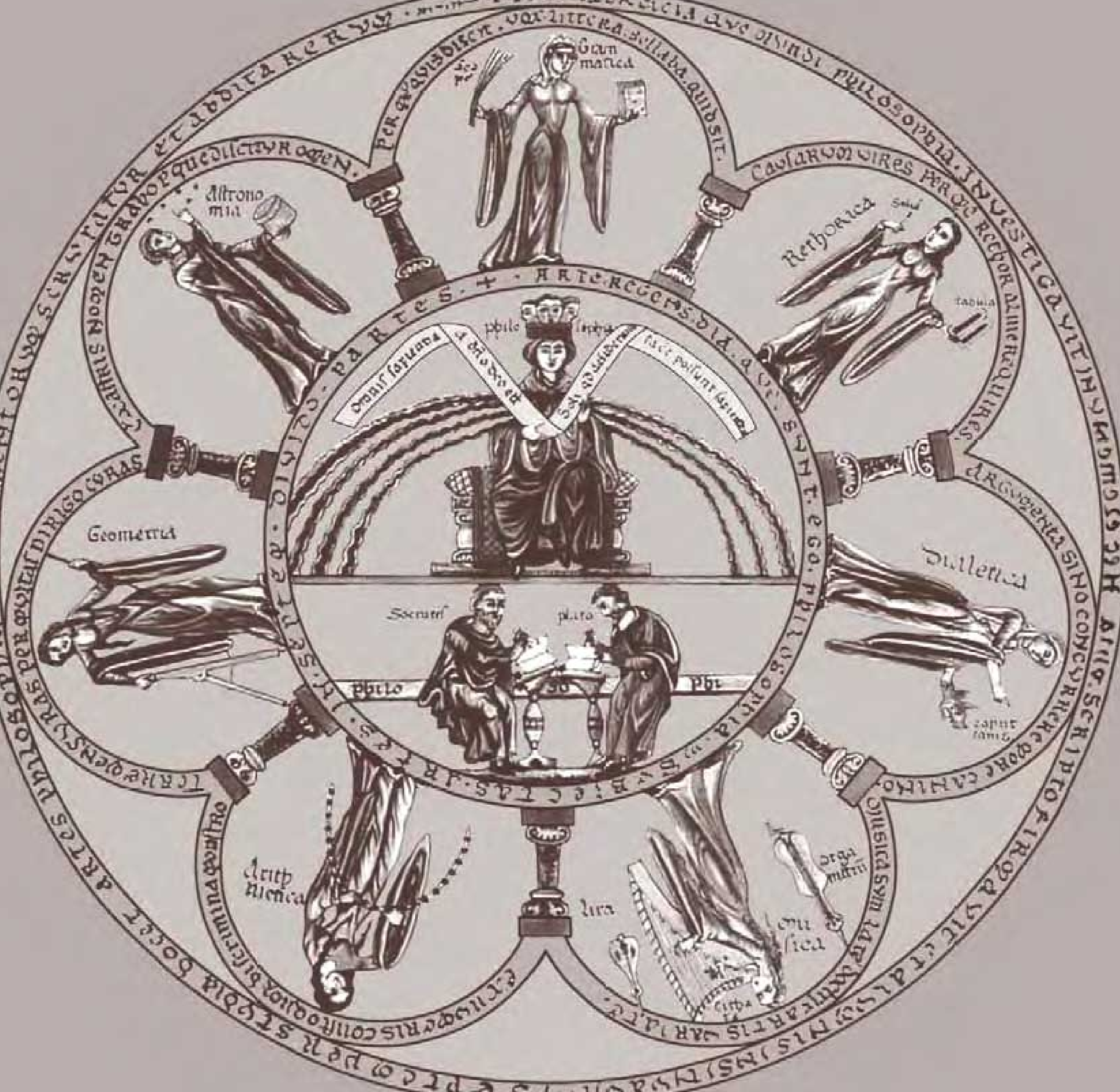
SABAF

2009

Annual Report

FINANCIAL, SOCIAL, AND ENVIRONMENTAL PERFORMANCE

SABAF®



Gram matica
Rethorica
Dialetica
Geometria
Astrono mia
Arith metica
Musica
philo sophia
Socrates
plato
lira
tabula
caput canis

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CHIEF EXECUTIVE OFFICER'S LETTER TO STAKEHOLDERS

Dear Shareholders and Stakeholders,

The crisis that began towards the end of 2008 worsened dramatically during the first few months of 2009, impacting all the markets on which the Sabaf Group operates. A slow recovery began in May, when activity returned to a more satisfying level, albeit far from the highs reached in 2008.

Consequently, in 2009 Group sales revenues totalled Euro 127.1 million, down 21.5% from Euro 162 million in 2008. Margins were obviously affected by the severe fall in revenues, but the measures taken to contain costs and recover production efficiency on the light alloy valve lines helped 2009 earnings indices to remain close to their 2008 values: EBITDA increased from 20.5% of sales to 22.4%, EBIT slipped from 13.1% to 12.8%, EBT fell from 12% to 11.4%, and net profit decreased from 9.5% to 9.1%.

They say we pulled off a miracle, given the general scenario. But more than a miracle, it was a question of strategies, people, choices and systematic commitment. I said here a year ago that we were in the middle of an epochal storm and that 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 did, 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 significant innovations, both in terms of quality and in terms of their environmental and energy impact. I would like to share a single figure with you that illustrates the philosophy of Sabaf and our intentions: during the first three months of 2009, while sales plummeted and our house was shaken by an earthquake of planetary proportions, we invested over Euro 3 million in capital expenditure, far more than we had invested at the beginning of the previous year.

We accepted the challenge and confronted it head on, parrying every blow, even those that hurt the most: layoffs subsidised by government benefits, a week-long factory shutdown and the impossibility of rehiring many temporary workers. We rolled up our sleeves and, just as you have to do in these cases, we tried to improve our efficiency from top to bottom, digging down into the remotest corners of our value creation process for every possible opportunity to increase profitability. We worked on purchasing processes; we in-sourced the construction of our machinery and tools even more; we reduced inventory, cut delivery times and selected customers. So, we did what that police inspector did to solve the case that troubled him the most: in the absence of evidence, he did not lose heart, he did not skip any step, going so far as to analyse even the most apparently banal and least suspicious aspect of the crime scene confronting him. In the end he was rewarded for his meticulousness, his attention, his will and his determination.

In 2009 the Sabaf Group also continued expanding its line of light alloy safety valves for cooker tops, while undertaking study of a new version that aims to cut customer costs by introducing aluminium valves in the existing product platforms (the "zero changes" project). A line of safety valves (both in brass and in aluminium) with ignition only at 90° was studied to comply with the change in safety standards that will impose stricter safety rules from spring 2010. A new family of burners was studied for mounting on the existing drip pan (3.3 and 3.8 Kw), satisfying the new regulatory standards.

Our strategy is increasingly focused on expansion in high-margin markets with a low saturation of home appliances and maintaining high quality and safety standards. These make it possible to differentiate products through the use of resources and implementation of production processes that our competitors find hard to sustain. So, we can say that we are light years ahead of the competition and that the end of the crisis, whenever that happens, all of these efforts will allow us to increase our market share even more.

One of the reasons for our satisfaction is that at 31 December 2009, the Sabaf Group headcount was 673, down for normal reasons by only 24 employees, compared with 31 December 2008. We rehired most of the temporary workers whose contracts had to be terminated at the end of 2008. So, overall, we can say that we have ridden out the storm while saving all of the firm's know-how and human capital. This is no small feat considering the general fall in employment throughout the western world.

Our hope is that everyone can comprehend the effort we made. We went up against a terribly strong adversary and we did not lose. Perhaps someone does not grasp the dimensions of the challenge we faced, but we are not looking for recognition or medals.

Angelo Bettinzoli

"A man has to do what he has to, without considering the personal consequences of the obstacles, dangers and pressures that he faces, and this is the basis of all human morality."
(Winston Churchill)

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 2009.
The accountability report has been prepared according to:

- The 2006 Sustainability Reporting Guidelines defined by the GRI/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 23 March 2010 and presented to shareholders at the Annual General Meeting held on 27 April 2010.

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 2009 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 extortion and bribery.

KEY PERFORMANCE INDICATORS (KPIs)

FINANCIAL INDICATORS

INCOME STATEMENT

(Amounts in € '000)

	2009	2008	2007
Sales revenues	127,088	161,984	154,166
EBITDA	28,518	33,236	38,531
EBIT	16,218	21,191	26,850
Pre-tax profite	14,548	19,497	24,763
Net profit	11,583	15,410	15,828
Net profit attributable to parent company shareholders	11,583	15,410	15,828

BALANCE SHEET AND FINANCIAL POSITION

(Amounts € '000)

	31/12/2009	31/12/2008	31/12/2007
Non-current assets	99,038	97,261	97,140
Non-current assets held for sale	0	758	0
Net working capital	33,191	41,843	37,051
CAPITAL EMPLOYED	**132,229**	**139,862**	**134,191**
Shareholders' equity	109,133	103,261	98,121
Deferred income tax	240	2,892	8,944
Provisions for risks, employee termination benefits (TFR)	3,695	4,053	4,316
Net financial debt	19,161	29,656	22,810
TOTAL SOURCES	**132,229**	**139,862**	**134,191**

OTHER FINANCIAL INDICATORS

	2009	2008	2007
ROCE (return on capital employed)	12.3%	15.2%	20.0%
Dividend per share (€)	0.50 [1]	0.70	0.70
Net debt/equity ratio	18%	29%	23%
Market capitalisation (31/12)/equity ratio	1.74	1.62	2.62
Sales progress	-21.5%	+5.0%	+14.3%

(Amounts in € '000)

	2009	2008	2007
Investments in research & development	386	342	216
Other investments	11,979	15,145	18,366

(Amounts in € '000)

	2009	2008	2007
Value of outsourced goods & services			
• Brass moulding and aluminium extrusion	4,613	6,358	5,907
• Other processing	6,651	8,782	9,116

1 - *proposed dividend*

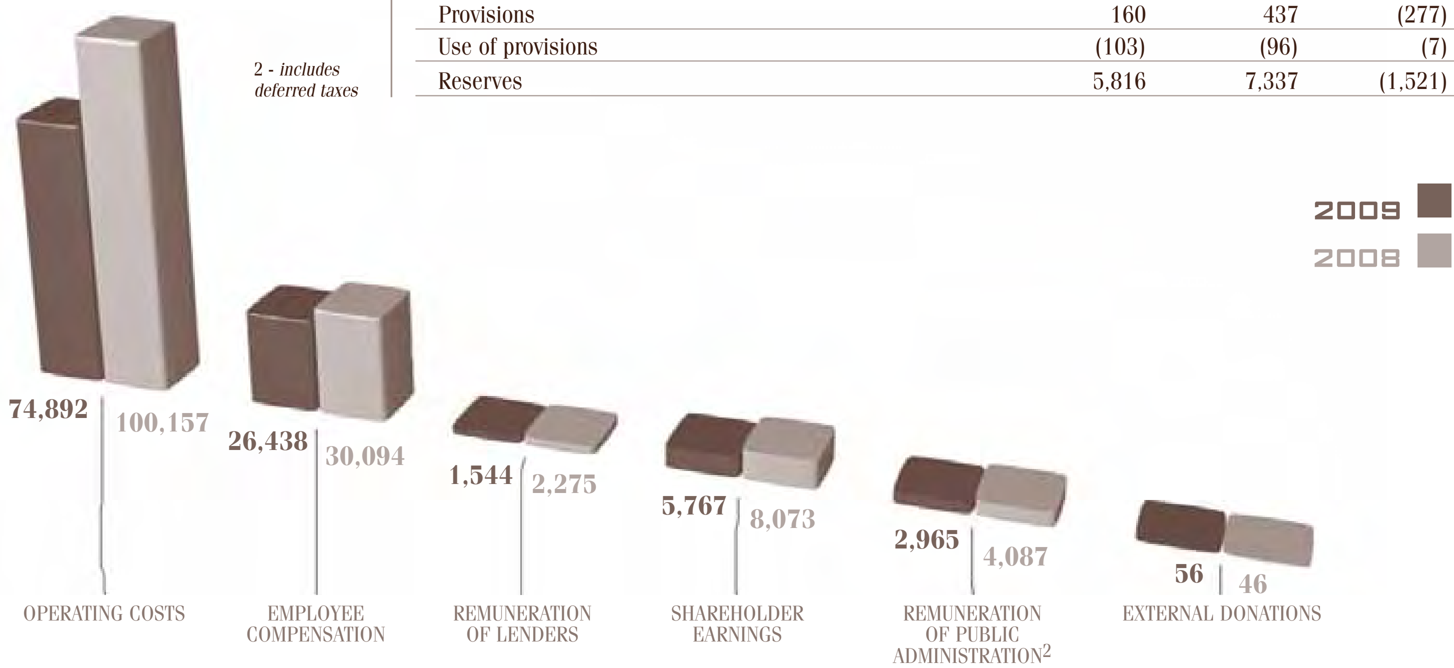
GENERATED AND DISTRIBUTED ECONOMIC VALUE

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 overall wealth created by Sabaf, which is then allocated amongst its various stakeholders: suppliers (operating costs), staff and independent contractors, lenders, shareholders, the public administration and society (grants and gifts outside the company).

(Amounts value in € '000)

	2009	2008	Change
ECONOMIC VALUE GENERATED BY GROUP	**129,830**	**164,347**	**(34,517)**
Revenue	127,088	161,984	(34,896)
Other income	2,816	4,755	(1,939)
Financial income	207	188	19
Adjustments	935	701	234
Write down of receivables	(878)	(3,566)	2,688
Foreign exchange loss (gain)	(333)	393	(726)
Income/expenses from sale of tangible and intangible fixed assets	(5)	56	(61)
Adjustments to tangible and intangible fixed assets	0	(164)	164
ECONOMIC VALUE DISTRIBUTED BY GROUP	**111,662**	**144,732**	**(33,070)**
Operating costs	74,892	100,157	(25,265)
Employee compensation	26,438	30,094	(3,656)
Remuneration of lenders	1,544	2,275	(731)
Shareholder earnings	5,767	8,073	(2,306)
Remuneration of public administration[2]	2,965	4,087	(1,122)
External donations	56	46	10
ECONOMIC VALUE RETAINED BY GROUP	**18,168**	**19,615**	**(1,447)**
Depreciation and amortisation	12,295	11,937	358
Provisions	160	437	(277)
Use of provisions	(103)	(96)	(7)
Reserves	5,816	7,337	(1,521)

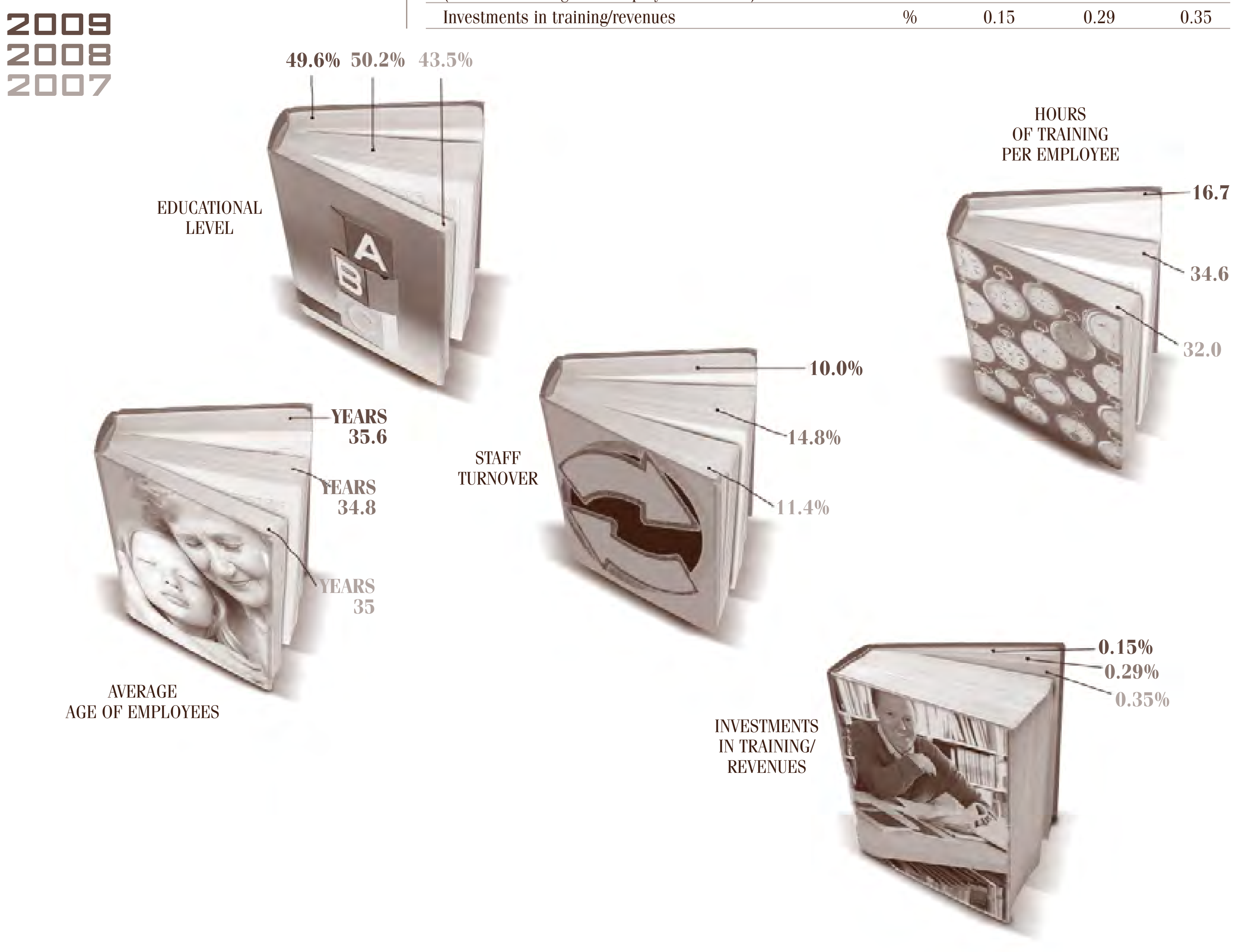
2 - includes deferred taxes



NON-FINANCIAL INDICATORS

HUMAN CAPITAL

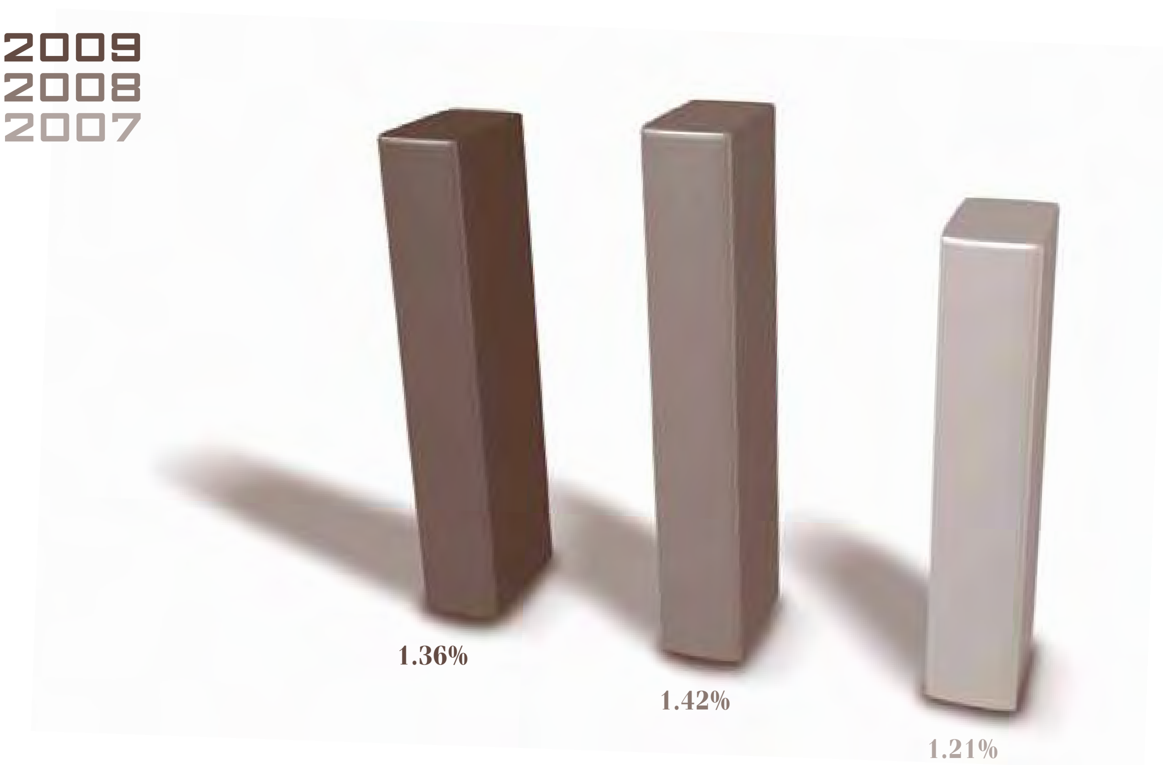
		2009	2008	2007
Average age of employees (sum of age of employees/total employees at 31/12)	years	35.6	34.8	35
Educational level (number of university and high school graduates/total employees at 31/12)	%	49.6	50.2	43.5
Staff turnover (number of leavers and dismissed employees/total employees at 31/12)	%	10,0	14.8	11.4
Hours of training per employee (hours of training/total employees at 31/12)	hours	16.7	34.6	32.0
Investments in training/revenues	%	0.15	0.29	0.35



INDICATORS OF STRUCTURAL CAPITAL

		2009	2008	2007
IT budget (capital expenditure + current expenses)/sales	%	1.1	1.3	1.2
Employees with PCs	%	43.4	41.2	41.6
New-product development hours/total hours worked	%	1.6	1.1	1.1
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	2.5
Capital expenditure on tangible assets/sales	%	7.1	6.5	9.0
Capital expenditure on intangible assets/sales	%	1.1	1.1	1.1
Current expenses for quality/sales	%	0.10	0.10	0.11
Capital expenditure for quality/sales	%	0.02	0.10	0.07
Customer rejects (Customer charge-backs and credit notes for returned goods/sales)	%	0.08	0.09	0.08
In-house production rejects/sales (production rejects/sales)	%	1.28	1.37	1.12
Customer rejects + in-house rejects/sales (production rejects + returns from customers/sales)	%	1.36	1.42	1.21

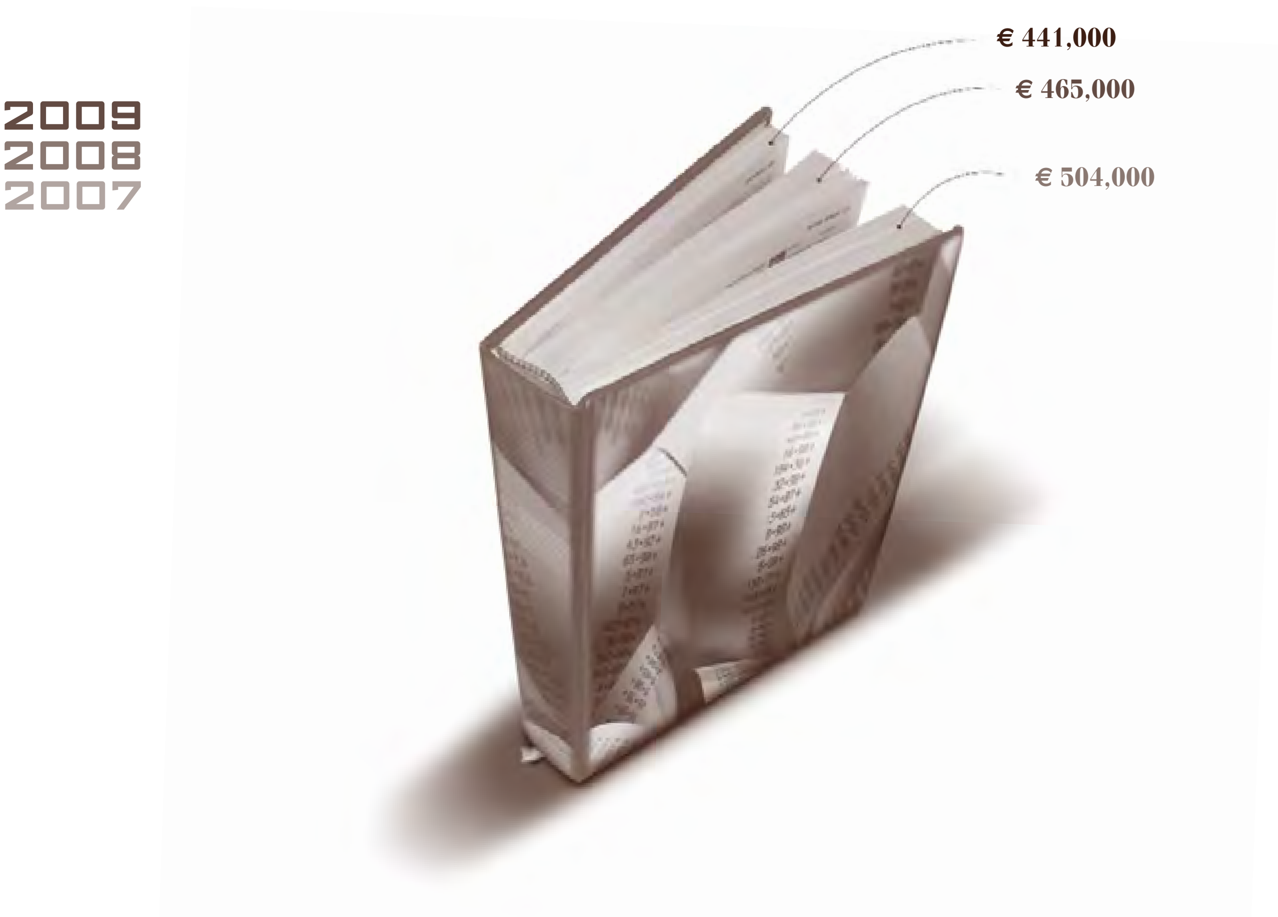
CUSTOMER REJECTS + IN-HOUSE REJECTS/SALES



INDICATORS OF RELATIONAL CAPITAL

		2009	2008	2007
Hours of strike for internal causes	number	16	1	5
Average sales per customer (total sales/number of customers)	€/000	441	465	504
% Sales from new customers (sales to new customers/sales)	%	0.69	1.26	0.80
% Incidence of top 10 customers	%	47	52	51
% Incidence of top 20 customers	%	72	73	73
Number of samples produced for customers	number	886	979	1,166
Number of different product SKUs (stock-keeping units) supplied to top 10 customers	number	2,176	1,915	1,921
Customer complaints	number	466	515	461
Certified supplier sales (certified supplier sales/sales)	%	59.6	57.1	56.3
Media presence	number	179	380	312
Number of financial analysts following Sabaf stock on an ongoing basis	number	3	6	6
Lawsuits actioned against Group companies	number	0	2	0

AVERAGE REVENUE PER CUSTOMER



SOCIAL INDICATORS

		2009	2008	2007
Total employee headcount	number	673	697	666
• Men	%	64.2	63.7	66.1
• Women	%	35.8	36.3	33.9
Sickness rate (Sick leave hours/total workable hours)	%	2.8	3.0	3.1
Accident frequency index (No. of accidents (excluding accidents in transit) per 1 mn hours worked)		29.41	22.86	19.25
Accident gravity (Days of absence (excluding accidents in transit) per 1,000 hours worked)		0.54	0.91	0.27
Jobs created (lost)	number	(24)	31	72
% of supplier sales from suppliers in province of Brescia	%	44.7	50.2	53.3
Donations/net profit	%	0.7	0.3	0.2

TOTAL EMPLOYEE HEADCOUNT

2007

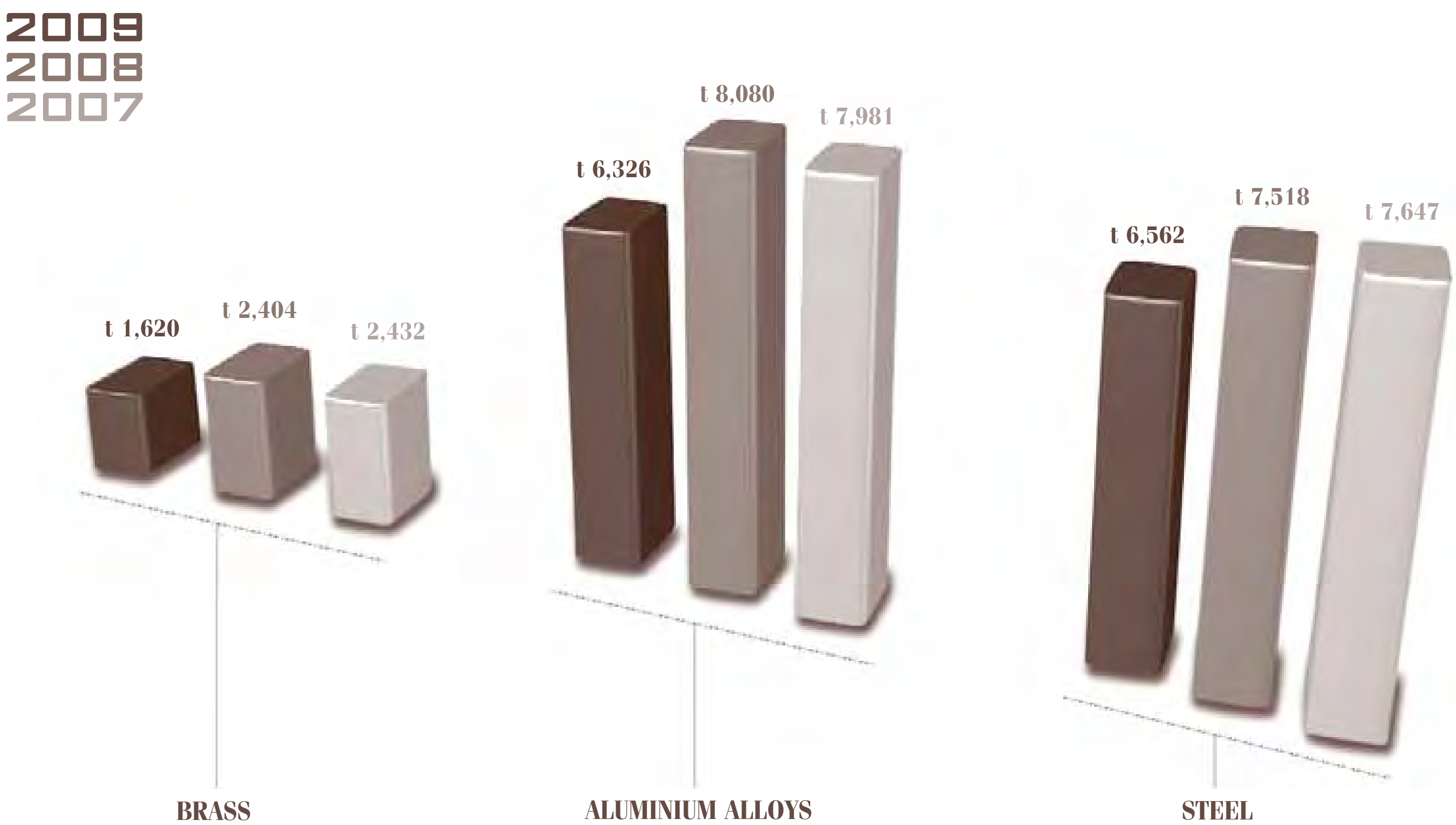
2008

2009

ENVIRONMENTAL INDICATORS

		2009	2008	2007
Materials used				
• Brass	t	1,620	2,404	2,432
• Aluminium alloys	t	6,326	8,080	7,981
• Steel	t	6,562	7,518	7,647
Waste				
• Municipal-type waste	t	183	240	149
• Total hazardous waste	t	2,552	2,187	1,319
• Total non-hazardous waste	t	5,224	6,844	7,126
Natural gas consumption	m³ x 000	3,088	3,260	3,206
Electricity consumption	MWh	16,820	28,244	25,826
CO_2 emissions	t	13,328	19,135	8,976
Current environmental spending/sales at 31/12	%	0.43	0.35	0.35
Environmental investments/sales at 31/12	%	0.00	0.25	0.04

MATERIALS USED



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IDENTITY

Direct parent company

SABAF S.p.A.

Registered and administrative office:	Via dei Carpini, 1 25035 Ospitaletto (Brescia)	
Contacts:	Tel:	+39 030 - 6843001
	Fax:	+39 030 - 6848249
	E-mail:	info@sabaf.it
	Sito web:	http://www.sabaf.it
Tax information:	R.E.A.	Brescia 347512
	Tax Code No.	03244470179
	VAT Reg. 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 (*)	Giuseppe Cavalli
Director (*)	Fausto Gardoni
Director (*)	Gregorio Gitti
Director (*)	Flavio Pasotti

(*) independent directors

Board of Auditors

Chairman	Alessandro Busi
Statutory Auditor	Enrico Broli
Statutory Auditor	Renato Camodeca

Indipendent Auditor

DELOITTE & TOUCHE S.p.A.

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.

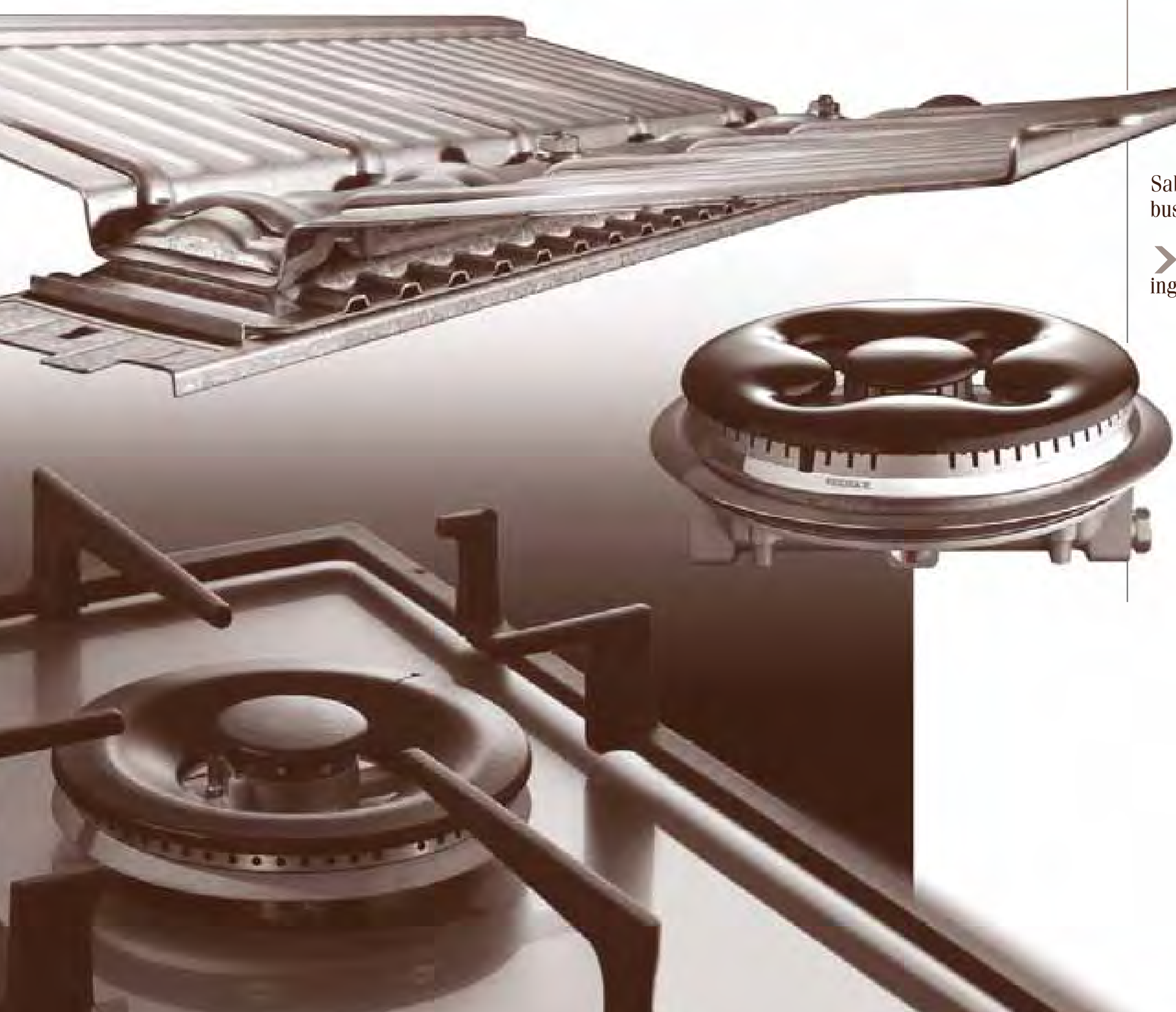
BUSINESS AND PRODUCTS

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
- Intensely vertical integration of production, in which high-value phases are performed using exclusive technologies
- The ability to combine major automation with flexibility and large production runs with customisation
- A constant flow of capital expenditure aimed at reinforcing competitive advantages.

OPERATING ENVIRONMENT

THE COOKING APPLIANCE MARKET

In Western Europe, which accounts for about half of 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 at the international level 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 that began in 2008 and dramatically accelerated in 2009. The risk that weaker players go out of business became manifest, with numerous instances of necessary restructuring and streamlining of production. This reaction appeared to be both prompt and strong. The available data for H2 2009 on leading companies in the industry show that they had returned to healthy levels of profitability.
However, the recovery appears slow and weak, so additional streamlining over the short and medium term cannot be ruled out.

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.

The crisis in 2009 also confronted component makers with new challenges. In the first half of the year, component makers had to deal with a fall in demand that was much more pronounced than the fall in final consumption, due to the severe inventory cutbacks that were made all the way down the supply chain. Over the following months, the contraction in demand appeared to stabilise, but the signs of demand revealed by the market remained very limited, forcing producers to guarantee constantly growing levels of flexibility.

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. This standard will come into force on 1 April 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 2009 Faringosi Hinges achieved sales of some Euro 8.4 mn (Euro 10.4 mn in 2008) with EBIT of about Euro 0.8 mn (Euro 0.7 mn in 2008) and net profit of approximately Euro 0.6 mn (Euro 0.7 mn in 2008, unchanged from 2007). As at 31 December 2009 equity totalled some Euro 6.7 mn whilst the net financial position featured net cash of some Euro 2.6 mn.

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. Today all steps in the production of all burner components (drip pans, burner heads and caps) for the South American market are carried out at Jundiaì.

The Brazilian manufacturing activity observes the same technological standards as those applied in Italy. Specifically, the Brazilian plant is equipped with new machinery, 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.

Due in part to government measures to support the home appliance industry, the Brazilian market was only marginally impacted by the global crisis. Steady demand and the improvement in operating efficiency enabled Sabaf do Brasil to achieve absolutely positive results. The company had about Euro 6.6 mn in sales revenues (Euro 6.4 mn in 2008), with EBIT of Euro 1.2 mn and net profit of Euro 0.9 mn (net loss of Euro 0.2 mn in 2007). At 31 December 2009 the Company had shareholders' equity of Euro 11.6 mn and a net financial position of Euro 2.5 mn.

SABAF IMMOBILIARE S.R.L.

This company manages Sabaf Group property assets. The activity of the company is concentrated in two principal areas:

- property management inside the Ospitaletto (Brescia) industrial complex, which covers an area of approximately 100,000 square metres. Work on expansion of the dressing rooms and archives was completed in 2009. Remodelling of the "ex-Corbetta" house was also completed, financed by a finance lease made with UBI Leasing and begun in September 2009. A lease with Sabaf SpA was signed for these properties, beginning July 2009.
- management of residential properties at Ospitaletto, which are reserved for sale or lease to Group employees.

In 2009 Sabaf Immobiliare posted revenues of approximately Euro 3.3 mn (Euro 3 mn in 2008) and net profits of Euro 1,691,000 (Euro 774,000 in 2008). At 31 December 2009 shareholders' equity totalled about Euro 19.3 mn, and net indebtedness totalled about Euro 13 million (figures shown in accordance with International Accounting Standards).

SABAF MEXICO S.A. DE C.V.

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

SABAF US CORP.

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

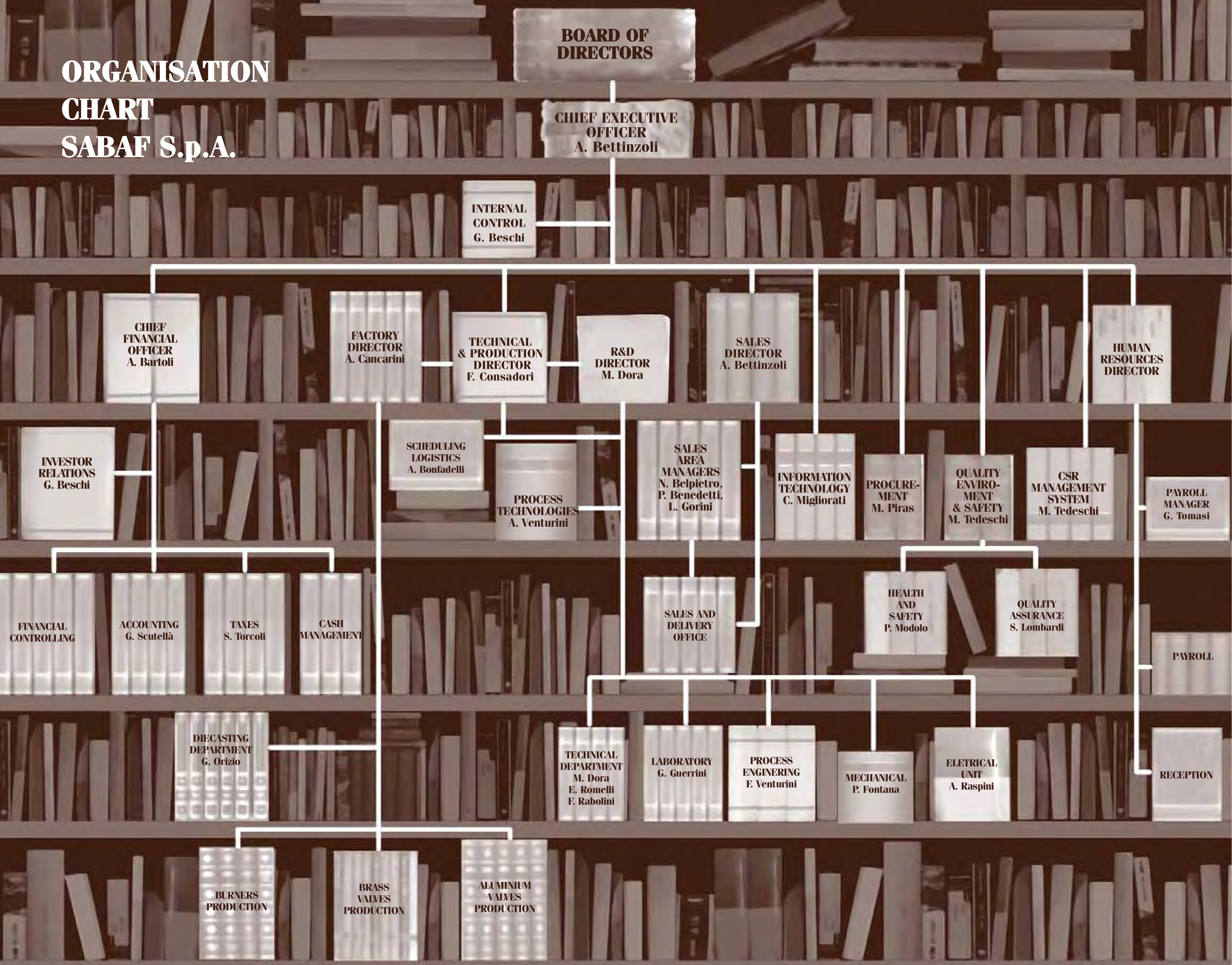
SABAF APPLIANCE COMPONENTS [KUNSHAN] CO. LTD.

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

ORGANISATION

In order to achieve its objectives the company has adopted a functional, lean and flexible organisation model to enable it to address the complexity of its sector and to 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 centring 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 THINKING AND BELIEVING:

INNOVATION AND COMMITMENT TO CHANGE
Sabaf invests in state-of-the-art technological solutions and in the development of its staff's skills and professionalism, to encourage constant innovation of the company's processes and products - which, besides strengthening its competitive edge - constitute progress for civil society in terms of greater safety and lower environmental impact.

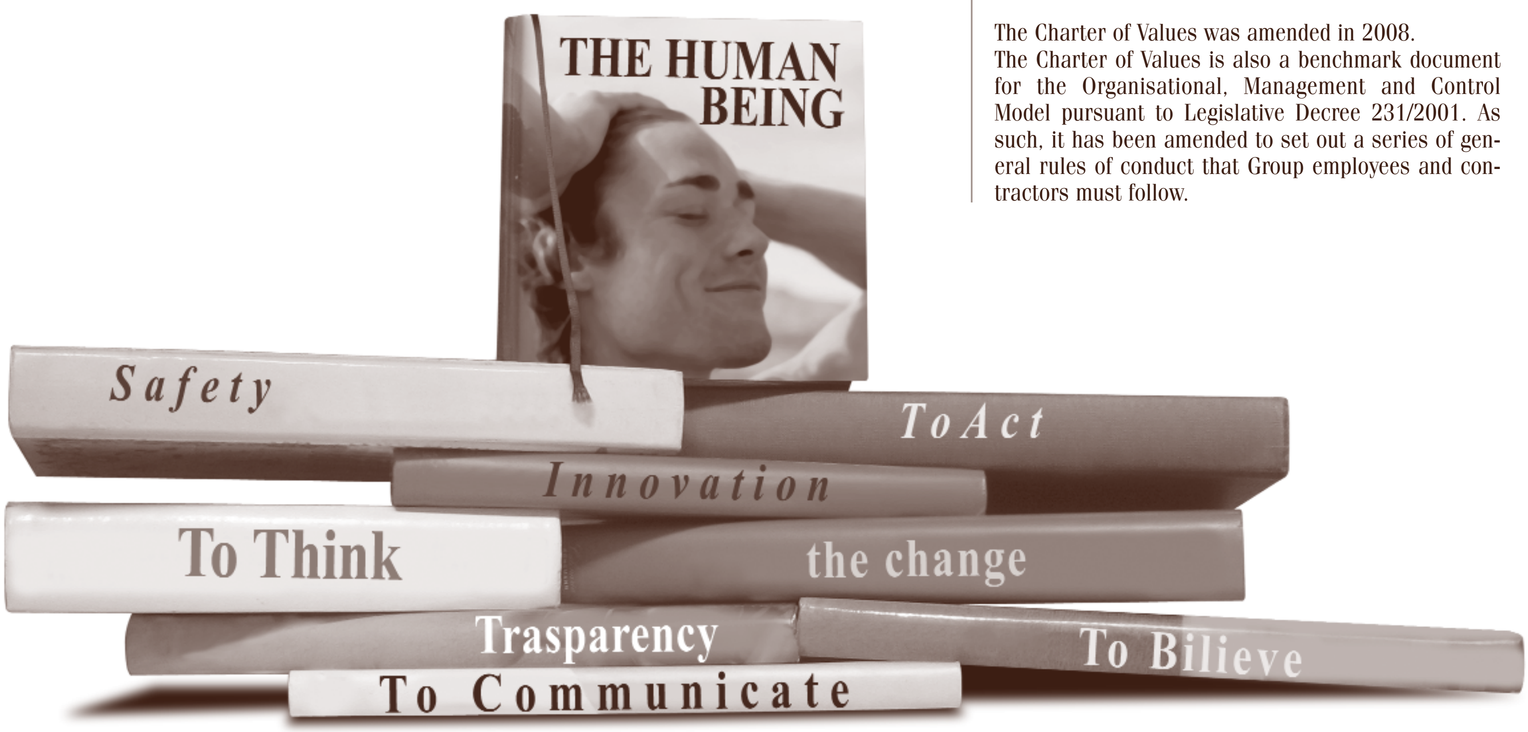
PROMOTING THE VALUE OF ACTION:

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.
The Charter of Values is also a benchmark document for the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001. As such, it has been amended to set out a series of general rules of conduct that Group employees and contractors must follow.



VISION

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

MISSION

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

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

STRATEGIC FOCUS

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 applies **ProGReSS(c)** - "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 predefined objectives 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 clear and complete **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:** this is comprised of everyone who is an employee or independent contractor of the company and organised according to 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.
- **Lenders:** these are the banks and other financial institutions that contribute to financial support of the Group.
- **Competitors:** these are all companies producing components for home 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 Group has dealings, schools and the academic world, end-users of household appliances (consumers) and, more in general, the entire civil society with which the Group has or may have dealings
- **Environment:** this is interpreted as being both the local territorial context in which the Group 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.tati del confronto con gli stakeholder nel corso dell'ultimo anno.

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 Muslims, 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.

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 2010:

STAFF

Reducing turnover and absenteeism 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 system.

ENVIRONMENT

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

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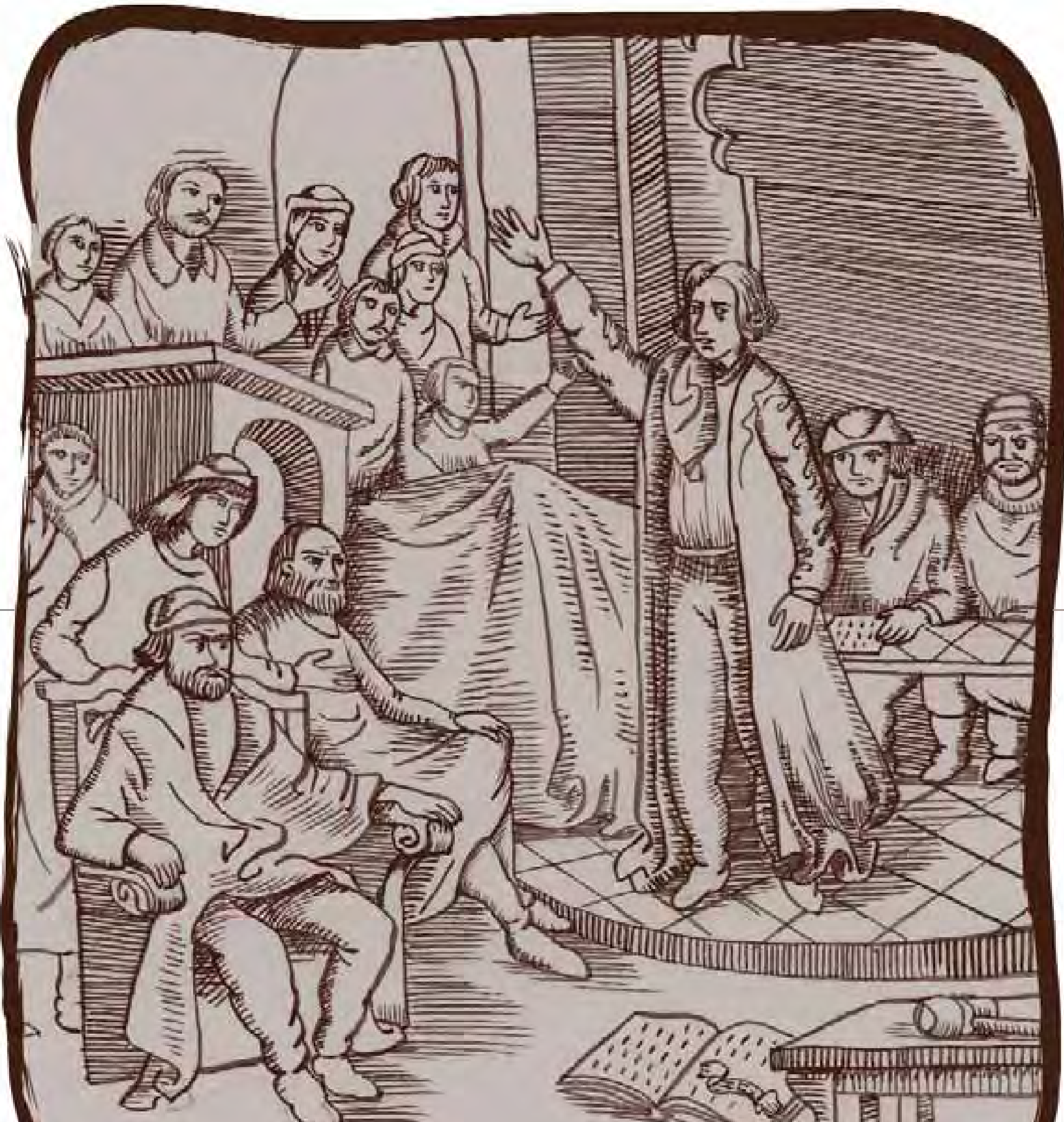


GOVERNANCE

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

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 Issuers Regulation: the Issuers Regulation published by Consob pursuant to Resolution 16191 of 2007 (as amended).
Report: the Report on Corporate Governance and Ownership Structure that companies must prepare pursuant to Article 123-bis TUF.
Company: Sabaf S.p.A., also referred to hereinafter as Sabaf.
By-laws: the by-laws of Sabaf S.p.A.
TUF: Legislative Decree 58 of February 24th 1998 (Consolidated Law on Finance).

1. DESCRIPTION OF ISSUER

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

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

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

As a further step along this path, Sabaf's management believes that ethics founded on the centrality of the individual and respect of 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 through which the Board of Directors renders explicit the Company's values, standards of conduct, and commitments vis-à-vis all stakeholders - shareholders, employees, customers, suppliers, financiers, the public administration, the community and the environment.

THE SABAF MANAGEMENT AND CONTROL MODEL

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

> 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 ABOUT OWNERSHIP STRUCTURE (pursuant to Art. 123-bis (1) TUF) at March 23rd 2010

a) **Structure of share capital (ex art. 123-bis (1)(a) TUF)**

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

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-emptive 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 resolution stipulated that the capital increase may be subscribed in one or more tranches, beginning 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.
The stock option plan, a detailed description of which 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, envisaged satisfaction of certain parameters, such as: consolidated EBITDA and EBIT at December 31st 2009; the price of the shares at that date, and specific environmental and employment targets.

The targets for consolidated EBITDA and EBIT and share price at December 31st 2009 were not met; therefore, the options were not exercisable and expired on that date.

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

There are no restrictions on the transfer of shares.

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

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

SIGNIFICANT SHAREHOLDINGS

Reporting party	Direct shareholder	% of ordinary shares	% of voting shares
Saleri Giuseppe	Giuseppe Saleri SAPA	55.299 %	55.299 %
Delta Lloyd Asset Management NV	Delta Lloyd Asset SGIIC SA	10.564 %	10.564 %
Pendoli Anna	Pendoli Anna (usufruct)	3.902 %	3.902 %
Nazionale Fiduciaria SpA	Nazionale Fiduciaria SpA (on behalf of third parties)	3.902%	3.902%
Baillie Gifford & CO	Baillie Gifford Overseas Limited	2.501 %	2.501 %

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

No shares granting special rights of control have been issued.

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

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

f) Restrictions on voting rights (pursuant to Art. 123-bis (1)(f) TUF)
There are no restrictions on voting shares.

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

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 18th 1961, Gianbattista Saleri, born in Brescia on November 13th 1963, 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 15th and Mario Mazzoleni, born in Milan on January 24th 1957. It was notified, filed and published in accordance with the law and governs the entire shareholdings held by each one in Giuseppe Saleri S.a.p.A., representing 100% of the share capital. The main purpose of the shareholders agreement is to co-ordinate management of the equity investment in Sabaf S.p.A.

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

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

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

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 financial instruments or the amount of available liquidity makes this transaction attractive. Furthermore, shares acquired in accordance with the mandate can be used for implementing possible future stock-option 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.

At December 31st 2009 Sabaf S.p.A. had 32,503 own shares, equal to 0.282% of the share capital.
The buyback program will end within 18 months after the date of the aforementioned resolution.

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

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

Note that:

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

3. COMPLIANCE

(pursuant to Art. 123-bis (2)(a) TUF)

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 Manual, which is updated to reflect legislative and regulatory changes, is available in the Corporate Governance section of the website www.sabaf.it. It was adopted pursuant to the Board of Directors resolution of December 19th 2006 and subsequently, in its updated version, during the meeting held on September 22nd 2009. The Sabaf S.p.A. Corporate Governance Manual contains certain oper-

ating Guidelines, which were updated in 2009 and then submitted for approval by the Board of Directors. These guidelines were issued to ensure that the administrative and control bodies of Sabaf properly carried out 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. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT
(Art. 123-bis (1)(l) TUF)

The Extraordinary Shareholders' Meeting mentioned hereinabove 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 details and professional qualifications 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-laws or other measures applicable to their respective positions.

The shareholders must file 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.

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

Upon expiration of the previous Board of Directors, the Shareholders' Meeting held on 28 April 2009 elected the new Board in compliance with the By-laws (Article 12).
On the basis of the only list that was filed (by the shareholder Giuseppe Saleri S.a.p.A.), that Shareholders' Meeting confirmed that the Board of Directors had eleven seats, the majority of which (six) reserved to directors without executive authority, appointed to serve until approval of the 2011 annual report.
The Board of Directors serving for the period 2009 - 2011 is chaired by Giuseppe Saleri, and its Deputy Chairmen Gianbattista Saleri and Ettore Saleri, who are members of the family that owns the controlling interest in the Company.
No changes were made for the position of Chief Executive Officer, Angelo Bettinzoli, who has passed his professional career at Sabaf, where he has worked for more than 40 years, and Director Alberto Bartoli, who is also Chief Financial Officer and has been employed by Sabaf since 1994, after acquiring major professional experience in various sectors.

BOARD OF DIRECTORS

Members	Position	from	to	List	Exec	Non Exec	Indep. Code	Indep. TUF	% BoD	Other positions
Saleri Giuseppe	Chairman	28/04/09	2011	n/a	X				100%	1
Saleri Gianbattista	Deputy Chairman	28/04/09	2011	n/a	X				100%	0
Saleri Ettore	Deputy Chairman	28/04/09	2011	n/a	X				100%	0
Bettinzoli Angelo	CEO	28/04/09	2011	n/a	X				100%	1
Bartoli Alberto	Director	28/04/09	2011	n/a	X				100%	0
Cossu Leonardo	Director	28/04/09	2011	n/a		X		X	100%	7
Bragantini Salvatore	Director	28/04/09	2011	n/a		X	X	X	88%	4
Cavalli Giuseppe	Director	28/04/09	2011	n/a		X	X	X	100%	2
Gardoni Fausto	Director	28/04/09	2011	n/a		X	X	X	100%	0
Gitti Gregorio	Director	28/04/09	2011	n/a		X	X	X	50%	7
Pasotti Flavio	Director	28/04/09	2011	n/a		X	X	X	100%	0
Directors who vacated their seat during the financial year										
Papa Franco Carlo	Director	28/04/06	28/04/09	n/a		X	X	X	100%	n/a
Giua Alberto Federico	Director	28/04/06	28/04/09	n/a		X	X	X	100%	n/a
Ghedini Raffaele	Director	28/04/06	28/04/09	n/a		X	X	X	100%	n/a

Members	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	M	n/a	C	100%
Salvatore Bragantini	Director	n/a	n/a	n/a	n/a		n/a	M	50%
Giuseppe Cavalli	Director	n/a	n/a	n/a	n/a	M	n/a		
Fausto Gardoni	Director	n/a	n/a	n/a	n/a	C	n/a		
Gregorio Gitti	Director	n/a	n/a	n/a	n/a		n/a	M	0%
Pasotti Flavio	Director	n/a	n/a	n/a	n/a	M	n/a		

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

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

- Leonardo Cossu is a professional accountant
- Salvatore Bragantini is a former commissioner of CONSOB
- Giuseppe Cavalli has held important positions at such entities as Merloni Elettrodomestici/Indesit Company and Merloni Termosanitari
- Fausto Gardoni, former Chairman, Chief Executive Officer and General Manager at other industrial companies
- Gregorio Gitti, founding partner of the Studio Legale Gitti - Pavesi law firm in Milan, a university professor and author of numerous publications, has served on the Boards of Directors of numerous medium and large industrial companies
- Flavio Pasotti is a businessman and former Chairman of Apindustria Brescia

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

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

- Giuseppe Saleri is Chairman of Giuseppe Saleri SapA, the financial company that controls Sabaf S.p.A.;
- Angelo Bettinzoli is an independent director of Gefran S.p.A.;

- Leonardo Cossu is Chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and Quifin S.p.A. and statutory auditor of Ambrosi S.p.A., Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A. and Futurimpresa S.G.R. S.p.A.;
- Gregorio Gitti is Chairman of Metalcam S.p.A., Independent Director of Edison S.p.A., Director of Ansaldo STS S.p.A., Director of Flos S.p.A., Director of Librerie Feltrinelli s.r.l., Director of Hopa S.p.A. and Deputy Vice Chairman of the Board of Directors of Tethys S.r.l.;
- Giuseppe Cavalli is Chief Executive Officer of Acciaierie di Sicilia (Alfa Acciai Group);
- Salvatore Bragantini is Chairman of Pro Mac S.p.A. and Apei SGR and Director of Interpump Group S.p.A.

The composition of the Internal Control and Audit Committee and the Compensation Committee was changed in April 2009 upon appointment of the new Board of Directors.

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

MAXIMUM NUMBER OF POSITIONS HELD AT OTHER COMPANIES

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

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

At its meeting on April 28th 2009, the Board of Directors confirmed compliance with the aforementioned criteria for 2009.

4.3. DUTIES OF THE BOARD OF DIRECTORS
(pursuant to Art. 123-bis (2)(d) TUF)

The Board of Directors met eight times during the 2009 financial year. The meetings lasted an average of about one hour and forty minutes. Five meetings have been planned for FY 2010, of which one was held on February 9th.

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

The Board of Directors is responsible for examining and approving the Company’s and Group’s strategic, business, and financial plans and budgets, the Sabaf corporate governance system and the organisation of the Group headed by the Company.

In FY 2009, the Board of Directors assessed the overall adequacy of the general organisational, administrative, and accounting structure of the Company and its key subsidiaries, as established by the Chief Executive Officer, with special reference to the internal control system and management of conflicts of interest.

When it elected the Board of Directors, the Shareholders’ Meeting held on April 28th 2009 determined the amount of owed to the members of the Board of Directors for the three-year period 2009 - 2011. Then, at its first meeting (April 28th 2009), the Board assigned the powers and delegations of authority, and allocated the compensation decided by the Shareholders’ Meeting amongst its members.

The Corporate Governance Manual envisages that the compensation of executive directors be decided by the Board of Directors upon examination of proposals by the Compensation Committee (as illustrated hereunder) and consultation with the Board of Statutory Auditors. This rule came into effect on the date that the Manual was first approved (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:

- he 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.

During the year, the Board of Directors carried out its annual review of the size, membership and activities of the Board of Directors as a whole and its committees. After having considered various approaches for evaluation, the Sabaf Board of Directors decided that the individual directors would evaluate themselves, by filling out and returning specific questionnaires distributed at the September 22nd 2009 Board meeting. It then discussed the results at the November 10th 2009 Board meeting.
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 not-to-compete clause envisaged in Section 2390 Italian Civil Code.

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

4.4. OFFICERS WITH DELEGATIONS OF EXECUTIVE AUTHORITY

Chief Executive Officer

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

Chairman and Deputy Chairmen of the Board of Directors

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

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

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

None.

Reports to the Board of Directors

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

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

all other activities or transactions that are deemed worthy of reporting.

4.5. OTHER DIRECTORS WITH EXECUTIVE AUTHORITY

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

4.6. INDEPENDENT DIRECTORS

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

Satisfaction of these requirements by the members of the current Board of Directors, as defined in the Corporate Governance Manual and in reference to all the principles set out in the Code, was reviewed at its first meeting, on April 28th 2009. The following members qualified as independent directors: Salvatore Bragantini, Giuseppe Cavalli, Fausto Gardoni, Gregorio Gitti and Flavio Pasotti.
On the contrary, Leonardo Cossu, although he is independent pursuant to TUF, is not pursuant to the Corporate Governance Code, insofar as he has been a director of Sabaf S.p.A. for over nine years.

Satisfaction of the prerequisites for independence of the individual, non-executive members was reviewed by the Board of Directors at its meeting on February 10th 2009 (for the Board of Directors in office until April 2009), and then again after appointment of the new Board of Directors in April 2009. 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.

At its meeting on March 3rd 2009, the Board of Statutory Auditors audited proper implementation of the principles and procedures used to determine the independence of its members, including examination of their statements, and concluded that they were indeed independent. This audit was repeated at its June 10th 2009 meeting for the independent directors elected by the Shareholders' Meeting on April 28th.

Because the independent auditors were elected in April 2009, they were unable to meet without the other directors.
The thoroughness and timeliness of the information provided to them before every Board of Directors meeting and the definition of any questions or details to be requested from the Chairman of the Board of Directors were assessed during the many other meetings at which they participated in the absence of the other directors: meetings by the Internal Control Committee and meetings with the Control Bodies.

4.7. LEAD INDEPENDENT DIRECTOR

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

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

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

5. HANDLING OF CONFIDENTIAL INFORMATION

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

6. INTERNAL BOARD COMMITTEES (PURSUANT TO ART. 123-BIS (2)(D) TUF)

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

7. NOMINATIONS COMMITTEE

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

8. COMPENSATION COMMITTEE

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

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

The Committee did not need to meet during 2009: the variable compensation of executive directors and top management were defined during the previous years. However, the Committee met on four occasions during 2010, in order to prepare a new managerial incentive plan, replacing the previous one that expired on December 31st 2009, as mentioned above.

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

Functions of the Compensation Committee

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

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

The Board of Directors has established a Euro 25,000 expense account so that the Compensation Committee could fulfil its duties. These provisions were not used in 2009.

9. DIRECTORS' COMPENSATION

A major portion of the compensation of executive directors and key managers is tied to the economic results achieved by the Group. A previously illustrated in this document, the pre-existing stock-options plan expired on December 31st 2009. The Compensation Committee has already initiated preparatory measures for development of a new incentive plan to be finalised and approved in 2010.

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.

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

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

The aggregate compensation received by the executives with strategic responsibilities (excluding the Director Alberto Bartoli), for any reason and in any form, including from subsidiaries during the 2009 financial year was Euro 214,000 (employee compensation is reported gross of social security contributions and income taxes owed by the employee).

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

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

10. INTERNAL CONTROL AND AUDIT COMMITTEE

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

Composition and duties of the Internal Control and Audit Committee (pursuant Art. 123-bis, (2)(d) TUF)
The Committee held five meetings, lasting an average of about one hour and thirty minutes during FY 2009. Four meetings are scheduled to be held in 2010, including one already held on February 9th.

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

COMPENSATION RECEIVED BY DIRECTORS DURING THE 2009 FINANCIAL YEARS, FOR ANY REASON AND IN ANY FORM, INCLUDING FROM SUBSIDIARIES.

(Amounts in € '000)

Name	Compensation for position	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
Saleri Giuseppe	120	-	-	8	128
Saleri Gianbattista	100	-	-	-	100
Saleri Ettore	100	-	-	8	108
Bettinzoli Angelo	340	-	-	10	350
Bartoli Alberto	18	-	-	156	174
Cossu Leonardo	27	-	-	-	27
Bragantini Salvatore	25	-	-	-	25
Cavalli Giuseppe	18	-	-	-	18
Gardoni Fausto	18	-	-	-	18
Gitti Gregorio	21	-	-	-	21
Pasotti Flavio	18	-	-	-	18

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.

For more information about the composition and operations of the committee during FY 2009, reference is made to section 4.2. hereinabove.

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 2009 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
- reviewed the results of risk assessments carried out at Sabaf do Brasil e Sabaf S.p.A. and validated the consequent Audit Plan for FY 2010;
- within the scope of the Company and Group organisational structure, it assessed the need to identify key managers and formally identify certain key subsidiaries;
- analysed the results of internal audits
- requested action in addition to what was envisaged in the pre-existing Audit Plan;
- 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 conclusion of the SAP implementation project at Sabaf S.p.A. and its operational launch at the subsidiary Sabaf do Brasil.

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. During FY 2009 this expense account was partially used to perform specific measures (not envisaged in the Audit Plan) for analysing the configuration of the principal information system perimeter security devices and identify any existing vulnerabilities ("Vulnerability Assessment").

11. INTERNAL CONTROL SYSTEM

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

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

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

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

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

- the Charter of Values;
- the measures regarding the corporate and 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 policies for development and professional growth of human resources;
- the systems for defining business objectives and auditing and monitoring business performance;
- the operating and financial reporting systems, as well as internal and external communication systems;
- the body of company procedures, including those envisaged in the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 and those established pursuant to Law 262/2005 in regard to the administrative and accounting procedures for preparation of financial statements;
- the processes of continuous auditing and monitoring carried out at the various levels of the organisation, both within the scope of business processes and through independent structures.

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

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.

During FY 2009, Sabaf identified and measured its principal corporate risks, in order to (i) update the previous risk assessment carried out in 2007; (ii) acquire more information about the Group's principal risks, whether they be business risks, context risks, process risks or legal/compliance risks and, finally (iii) elaborate an audit plan to address the findings and risks uncovered.
This process engaged the heads of all Company offices and departments, including the Chief Executive Officer, and the Supervisory Committee appointed pursuant to Legislative Decree 231/2001. The possible causes and likely effects of every risk were identified. The internal control system and the strategies for mitigation of existing risks were described and assessed. This assessment was carried out in terms of its impact and probability, on the basis of internally prepared qualitative and quantitative scales.
Three different guidelines have been elaborated specifically in regard to the scale of "impact," that are to be used in connection with the assessed event: (i) financial losses; (ii) harm to persons; (iii) harm to reputation, with the greatest of the three being measured for the purpose of the analysis.

For more details on the principal risks revealed by the analysis, reference is made to the section of the Report on Operations dedicated to description of the "principal risks and uncertainties" pursuant to Article 154-bis (5)(e) of the Consolidated Law on Finance and Section 2428 of the Italian Civil Code.

The internal control system was found to be adequate overall in the 2009 financial year following analysis of the following aspects:
Significant events impacting the Organisation, Operation and Control Model

- statutory and regulatory changes;
- 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;
- vulnerability of systems;
- transactions in derivative financial instruments;
- transactions on own shares;
- transactions with related parties, intercompany transactions and transactions involving potential conflict of interest;
- monitoring of the subsidiaries' internal control systems;

principal pending litigation;
- situation of delinquent accounts.

Results of audits carried out by internal and external auditors

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

On the basis of the information and evidence that it has collected, the Board of Directors believes that the internal control system implemented in 2009 was substantially adequate in terms of the size and characteristics of the Group and fit overall for it to realize its business objectives.

This conclusion, which refers to the entire Internal Control System, reflects the limits inherent in all Internal Control Systems. Although it is well-conceived and functions efficiently, the Internal Control System can guarantee the realisation of corporate objectives only with "reasonable certainty."

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

Sabaf considers the internal control system on financial reporting to be an integral part of its own risk management system.
Consequently, since 2008 Sabaf has integrated the activities connected with management of its internal control system on financial reporting with its Internal Audit and Compliance process by (i) preparing an individual Audit Plan, whose test plan is shared and broken down according to specific control objectives (e.g. operating control, compliance with Law 262/2005 and Legislative Decree 231/2001, and the security and profiling of corporate information systems) and (ii) assigning execution of measures to a single structure responsible for reporting on results to the delegated supervisory bodies.
Furthermore, in 2009 the Company carried out the risk assessment, the only one at the Group level, by integrating it for the specific aspects connected with individual compliance measures, including those connected with Law 262.

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

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

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

The Accounting Control Model is based on the following key elements:

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

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

Sabaf updates its Model to reflect changes in its operations and/or organisation, while also updating procedures and specific controls to monitor compliance with Law 262 on the basis of the risk assessment results, outcomes of periodic audit activities and other changes in the systems and processes that might be made to the structure.

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

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

The 2009 assessment defined the significant processes, which were subjected during the year to punctual audits in regard to specific control objectives (existence; completeness and accuracy; assessment; rights and obligations; presentation and disclosure).

The outcomes of the audits of individual processes are reported by Internal Audit to the Financial Reporting Officer and the Chief Internal Auditor at specific meetings following each assessment. The members of the Internal Control and Audit Committee and the participants at the meetings with the supervisory bodies are informed of the results of these assessments at the planned meetings.
The Chief Internal Auditor submits a detailed annual report to the Internal Control and Audit Committee on the adequacy and effective functioning of the internal control system.
In FY 2009, this report was submitted to the Internal Control and Audit Committee at the meeting held on February 9th 2010 and, subsequently to the Board of Directors.

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

11.1. DIRECTOR WITH EXECUTIVE AUTHORITY OVER INTERNAL CONTROL SYSTEM

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

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

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

11.2. CHIEF INTERNAL AUDITOR

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

In carrying out his duties, the Chief Internal Auditor reports directly to the Chief Executive Officer and reports at least once every six months (five times in 2009 alone) on his activities to the Internal Control and Audit Committee and the Board of Statutory Auditors. Dr Beschi is also the Investor Relations Manager in the Administration and Finance Department.
The Chief Internal Auditor:

- had direct access to all information useful for performance of his assigned duties;
- reported on his activities to the Internal Control and Audit Committee 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 2009.

In 2009 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
- actively participated in the annual risk assessment;
- verified compliance with the procedures implemented for management of material risks
- co-ordinated and encouraged the exchange of information between the supervisory bodies
- reported on his activities and their results to Internal Control and Audit Committee and the Board of Statutory Auditors
- co-ordinated the process of collecting and analysing information of relevance to assessment of the internal control system.

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

11.3. ORGANISATION, OPERATION AND CONTROL MODEL pursuant to Legislative Decree 231/2001

Sabaf S.p.A. adopted the Organisation, Operation and Control Model pursuant to Legislative Decree 231/2001 (also referred to hereinafter as the "Model") in 2006. The Model is designed to 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 serious or extremely serious personal injuries committed with violation of occupational health and safety laws).

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 6th 2009 the Board of Directors of Sabaf S.p.A. appointed the Supervisory Committee for the period August 2009 - August 2012. The members of the Supervisory Committee remained the same: Gianluca Beschi, the Chief Internal Auditor, and Nicla Picchi, a Company's independent legal counsel, while allocating it an annual expense account of Euro 20,000, which was not used in 2009.

Taking action through the Internal Audit function and in accordance with its own Audit Plan, the Supervisory Committee audited the actual application and knowledge of control and conduct rules. During the period, the Supervisory Committee, which met seven times, systematically audited the effectiveness of the Model by conducting internal audits and interviewing the personnel assigned to sensitive activities. It also held training courses for employees, amended the specific protocols of the Model (approved by the Board of Directors at its meeting on December 15th 2009) and initiated a review of the applicability/materiality of the criminal offences introduced to the regulation during the financial year. Detailed analysis of corporate processes and additional amendments to the document were initiated in 2009 and will be concluded in 2010.

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

11.4. INDEPENDENT AUDITOR

Following expiration of the contract with the independent auditor AGN SERCA s.n.c., the mandate for auditing the Company's accounts was granted to Deloitte & Touche S.p.A. by the Shareholders' Meeting held on April 28th 2009.

During FY 2009, this independent auditor met with the other supervisory bodies of Sabaf just one time (on July 21st). Representatives of AGN SERCA attended the previous meeting held by the supervisory bodies, on March 10th 2009.
Minutes of both these meetings were prepared by the Chief Internal Auditor, who acted as secretary.

11.5. FINANCIAL REPORTING OFFICER

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

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

- have direct contact with the independent auditor, the Internal Control and Audit Committee and the Board of Statutory Auditors;
- acquire, control and verify information and news at all equivalent or higher hierarchical levels, including at lower hierarchical levels that do not depend on the executive himself; the same powers may also be exercised vis-à-vis the subsidiaries and corporate hierarchies of the consolidated companies;
- use internal communication channels that ensure adequate intercompany information flows;
- have authority to propose/assess all procedures adopted inside the Company;
- et 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 in order to update, train and make them aware of their obligations.

The Company has defined the roles and responsibilities of the persons who are variously involved in the process of preparing and auditing Group financial disclosures and the characteristics and operating procedures for management of the administrative and accounting control system. In this ambit, during FY 2009 the Company (i) completed its review and modification of the principal administrative procedures, to take account of intervening organisational and process changes, partly in view of the transition to the new

SAP information system, and (ii) performed, through the Internal Audit function, audits on the effective application of existing procedures.

12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors approved Guidelines for application of the Corporate Governance Manual (see section 3 “Compliance”) for approval and execution of the transactions implemented by the Company 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.

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.

13. 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.

14. STATUTORY AUDITORS [pursuant to Art. 231-bis [2][d] TUF]

BOARD OF AUDITORS

Position	Members	Term	List	Indep. Pursuant to code	% part. B.A. meetings	Number of other positions[2]
Chairman	Alessandro Busi	28/04/2009 Aprile 2012	m	X	100%	9
Statutory Auditor	Enrico Broli	29/04/2009 Aprile 2012	M	X	100%	24
Statutory Auditor	Renato Camodeca	29/04/2009 Aprile 2012	M	X	100%	8
Alternate Auditor	Riccardo Rizza	28/04/2009 Aprile 2012	m	n/a	n/a	n/a
Alternate Auditor	Guidetti Paolo	28/04/2009 Aprile 2012	M	n/a	n/a	n/a
STATUTORY AUDITORS WHO VACATED THEIR SEAT DURING THE FINANCIAL YEAR						
Chairman	Pierluigi Bellini	29/04/2008 28/04/2009	m	X	100 %	-

M: *majority list*; m: *minority list*

The term of the Board of Auditors expired upon approval of the FY 2008 annual report. The Shareholders' Meeting held on April 28th 2009 elected the Board of Auditors for the period 2009 - 2011.

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

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

The standing members of the Board of Auditors are chartered accountants. The details of their professional qualifications and backgrounds are found in the curricula vitae available on the Company web site, in the section Investor Relations/Corporate Governance/Organi Sociali.
The Board of Auditors met six times in FY 2009. At its meeting on June 10th 2009, the Board of Auditors reviewed satisfaction of the prerequisites for independence of all its members. When it carried out these reviews, it applied all the principles envisaged in the Code regarding the independence of directors.

Five meetings are scheduled for FY 2010.

No further changes were made to the Board of Auditors during the year and up to the date of this report.

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 2009 there were no situations where the statutory auditors had to make such disclosure.

In 2009 the Board of Statutory Auditors:

- proposed to the Shareholders' Meeting the independent auditor to be retained for auditing the Company accounts during the period 2009-2017, after informing the Board of Directors and Internal Control and Audit Committee;
- monitored the independent auditor's independence, verifying its satisfaction both of the applicable laws

2 - *Management and control positions at the entities envisaged in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code.*

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:
- two 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.

15. SHAREHOLDERS' RELATIONS

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

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

16. SHAREHOLDERS' MEETINGS [pursuant to Art. 123-bis [2][c] TUF]

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

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 2009 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.

17. OTHER CORPORATE GOVERNANCE PRACTICES

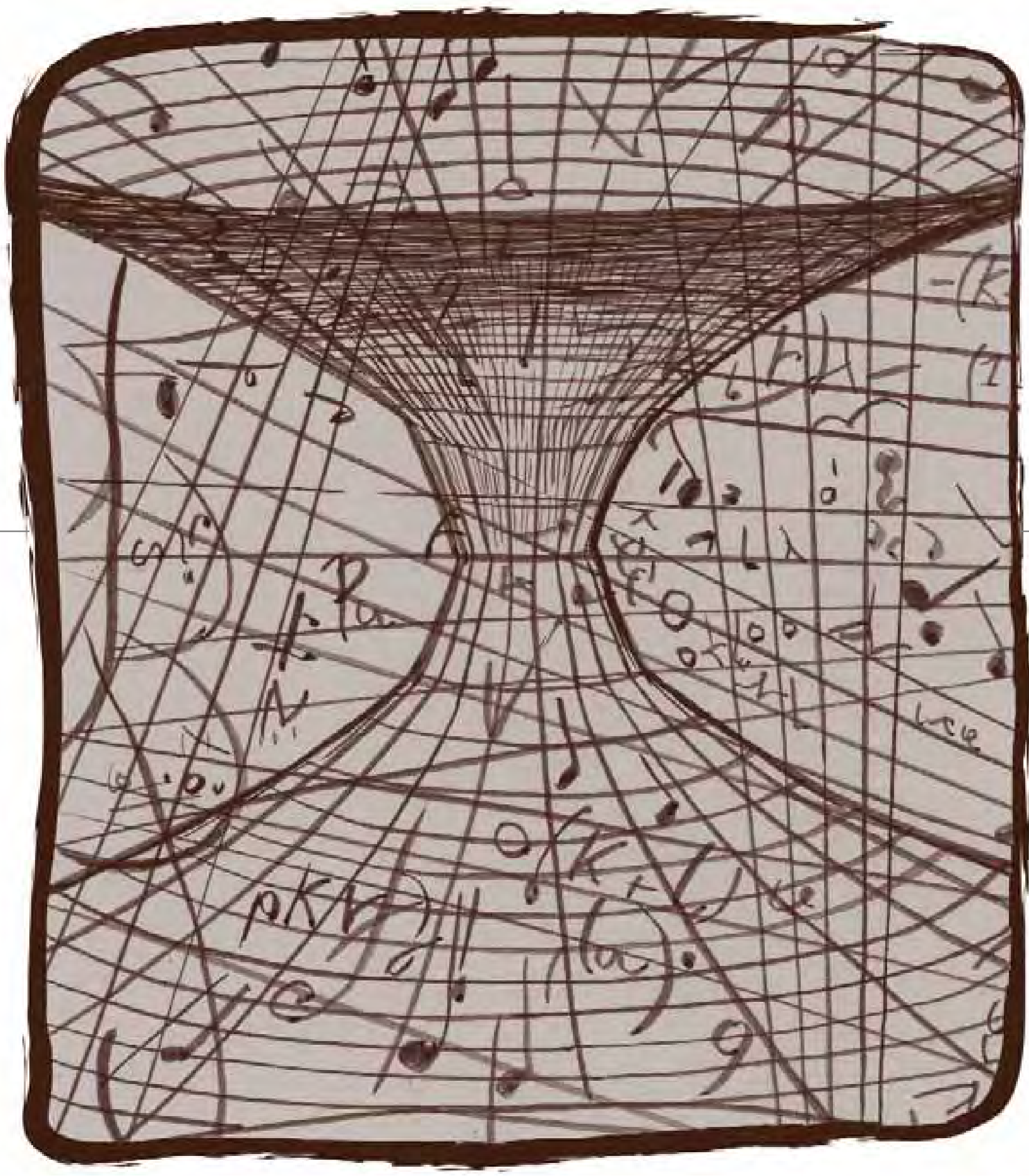
There are no other corporate governance practices in addition to those described in the preceding sections of this document.

18. CHANGES SINCE THE END OF THE REPORTING PERIOD

No changes occurred in the corporate governance structure between December 31st 2009 and the date of this report.

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

3



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 in recruitment and hiring; choices are made according to the match between candidate qualifications and company needs.

THE SA 8000 STANDARD

The Sabaf S.p.A. social accountability system complies with the SA 8000 Standard, for which the company obtained certification in 2005. The decision to certify the system resulted from the conviction that the company's human resources are an important asset. In particular, it aims to raise the awareness of management, suppliers, employers and independent contractors of full compliance with the principles of Social Accountability set out in the standard.

In implementing SA 8000, 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 SA 8000 standard.

The social accountability management system was audited by IMQ / IQ NET in September 2009. The auditors collected evidence of the company's commitment to supporting the Social Accountability System. No instances of non-compliance were found.

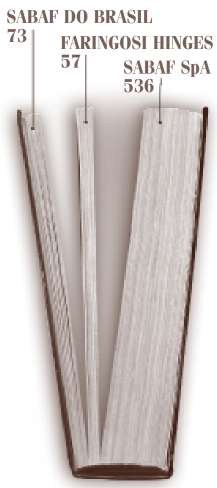
SA 8000
IQNet
CERTIFIED

HIRING POLICY, COMPOSITION AND CHANGES IN EMPLOYEES

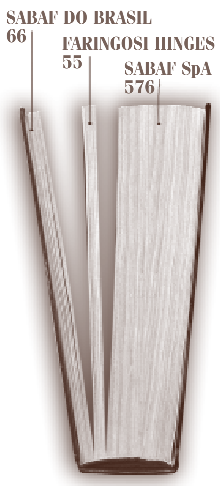
As at 31 December 2009 the Sabaf Group had 673 employees, compared with 697 at 2008 year-end (-3.4%).

BREAKDOWN OF GROUP STAFF BY COMPANY

2007



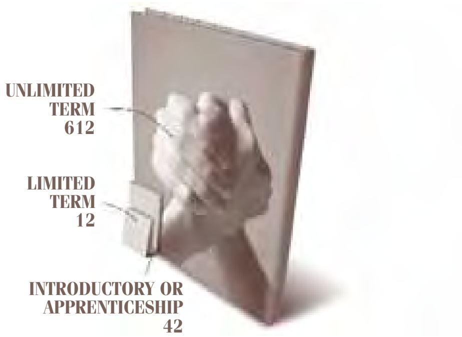
2008



2009

As regards basic types of employment contracts, 626 employees (93.0%) had open-ended (i.e. permanent) contracts, 24 (3.6%) had training or apprenticeship contracts, and 23 (3.4%) temporary (i.e. fixed-term) contracts.

2007



2008

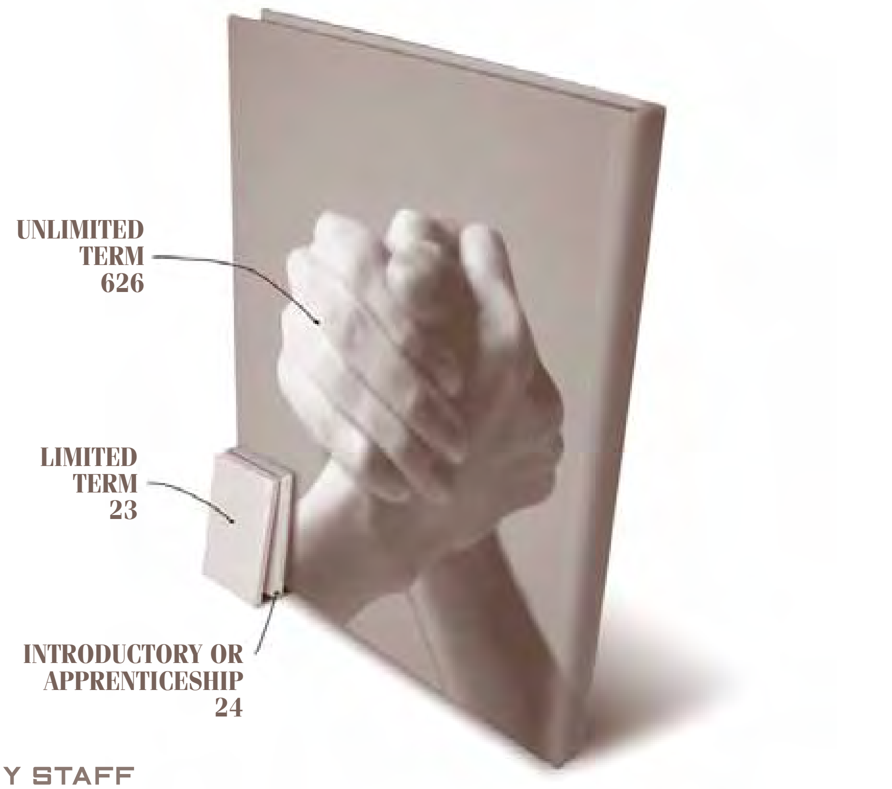
The reduction in the overall headcount, which reflected the cutbacks in operating activity, was limited to structural levels. No extraordinary measures were implemented during the financial year to reduce the number of redundancies. As illustrated below, the production cutback was managed by reducing the use of temporary workers and, for the first few months of the year, layoffs with government benefits.

The Sabaf Group uses temporary workers for the purposes allowed by applicable laws and regulations. Due to the drastic reduction in activity, this form of work was largely unused during the first four months of 2009, while it was gradually re-implemented thereafter as the recovery gradually got underway.

During 2009 Sabaf Group companies hired 22 ex-temporary workers on a permanent basis (74 in 2008).

BREAKDOWN OF SABAF GROUP STAFF BY CONTRACT TYPE

2009



TEMPORARY STAFF [WITH A TEMPORARY AGENCY WORKER CONTRACT]

TEMPORARY STAFF	2009	2008	2007
January	3	140	126
February	2	147	139
March	2	134	127
April	1	139	106
May	40	134	89
June	95	168	141
July	119	168	151
August	113	161	130
September	151	162	154
October	150	160	154
November	121	129	139
December	105	43	140
ANNUAL AVERAGE	**75**	**140**	**133**

During 2009 Sabaf hosted 6 high-school students for work-experience placements (10 in 2008). 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 improve their understanding of the mechanical engineering field.

STAFF TURNOVER - 2009

SABAF S.P.A.

	31/12/08	Hired	Terminated	Change in category	31/12/09
Managers	7	0	1	1	7
White-collars and supervisors	112	2	4	1	111
Blue-collars	457	21	30	-2	446
TOTAL	**576**	**23**	**35**	**0**	**564**

FARINGOSI HINGES S.R.L.

	31/12/08	Hired	Terminated	31/12/09
Managers	1	0	0	1
White-collars and supervisors	17	0	0	17
Blue-collars	37	1	3	35
TOTAL	**55**	**1**	**3**	**53**

SABAF DO BRASIL LTDA

	31/12/08	Hired	Terminated	Change in category	31/12/09
Managers	1	0	0	0	1
White-collars and supervisors	13	3	4	0	12
Blue-collars	52	37	46	0	43
TOTAL	**66**	**40**	**50**	**0**	**56**

GROUP TOTAL

	31/12/08	Hired	Terminated	Change in category	31/12/09
Managers	9	0	1	1	9
White-collars and supervisors	142	5	8	1	140
Blue-collars	546	59	79	-2	524
TOTAL	**697**	**64**	**88**	**0**	**673**

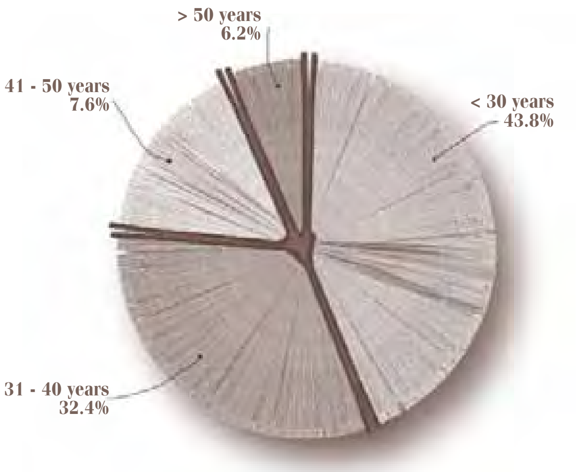
REASONS FOR TERMINATION OF EMPLOYMENT IN 2009

Description	Managers	Middle Managers	White-Collar Staff	Blue-collars	Total
Resignation	1	0	0	29	30
Retirement	0	0	1	2	3
Expiry of contract	0	0	3	15	18
Dismissal	0	1	3	28	32
Failure to pass probationary period	0	0	0	5	5
TOTAL	**1**	**1**	**7**	**79**	**88**

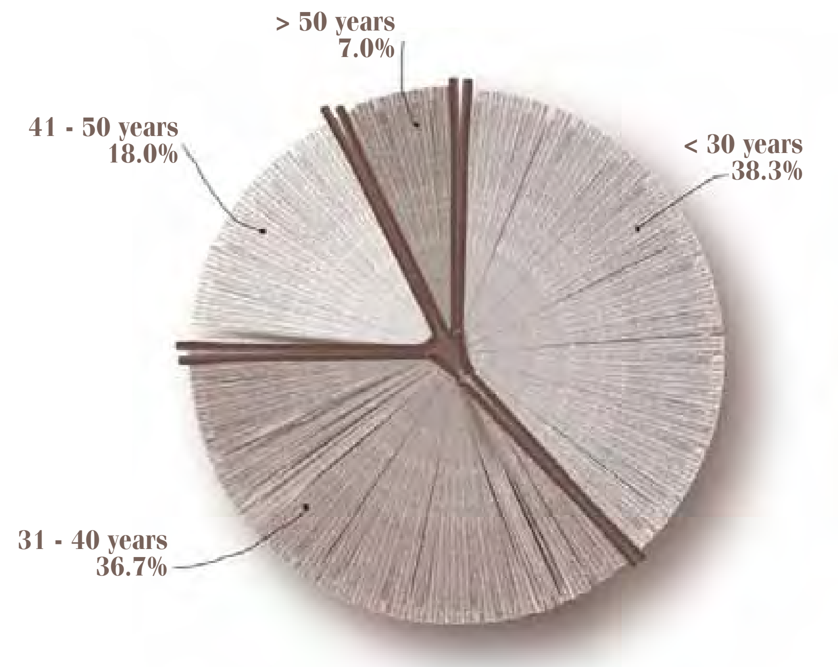
There was extremely high turnover at Sabaf do Brasil in 2009, due to the high demand for labour in the Jundiaì area, which is undergoing major industrial development. The integration programme, designed to reinforce the corporate culture, sense of belonging and identity failed to bring turnover down to normal levels. New initiatives, including a revision in pay policies, were implemented at the beginning of 2010.

BREAKDOWN OF EMPLOYEES BY AGE

2008



2009

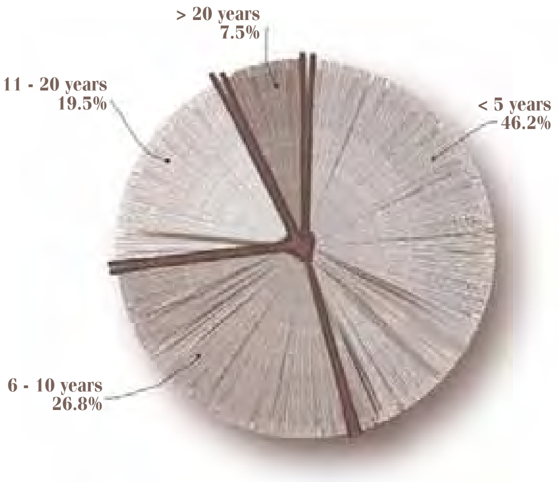


The average age of Group employees - 36 years - reflects a constantly growing company and the desire to hire young workers, giving preference to in-house training and growth rather than bringing in outside skills, also in view of the specific nature of Sabaf's business model.

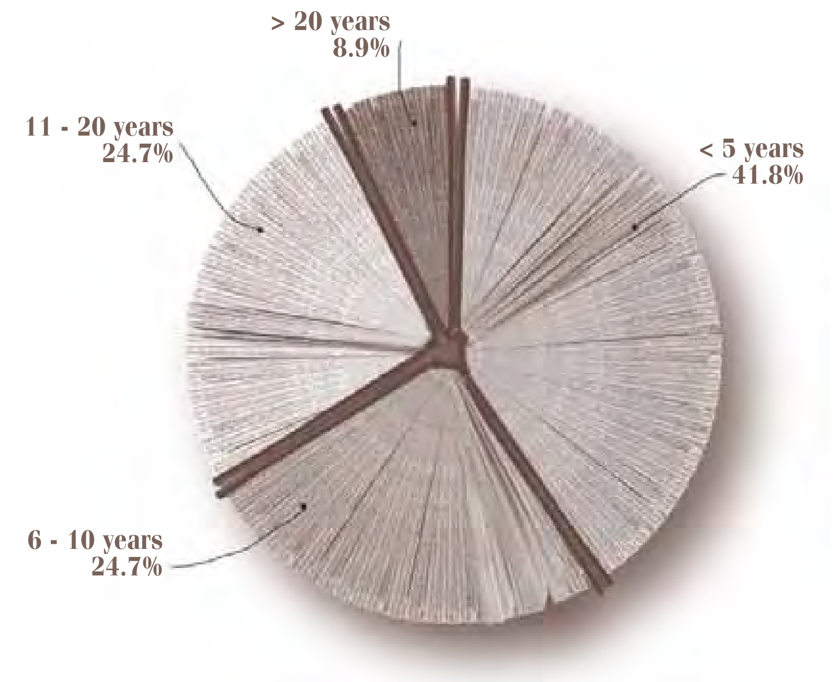
The minimum age of Group employees is 16 in Italy and 15 in Brazil.

BREAKDOWN OF EMPLOYEES BY SENIORITY

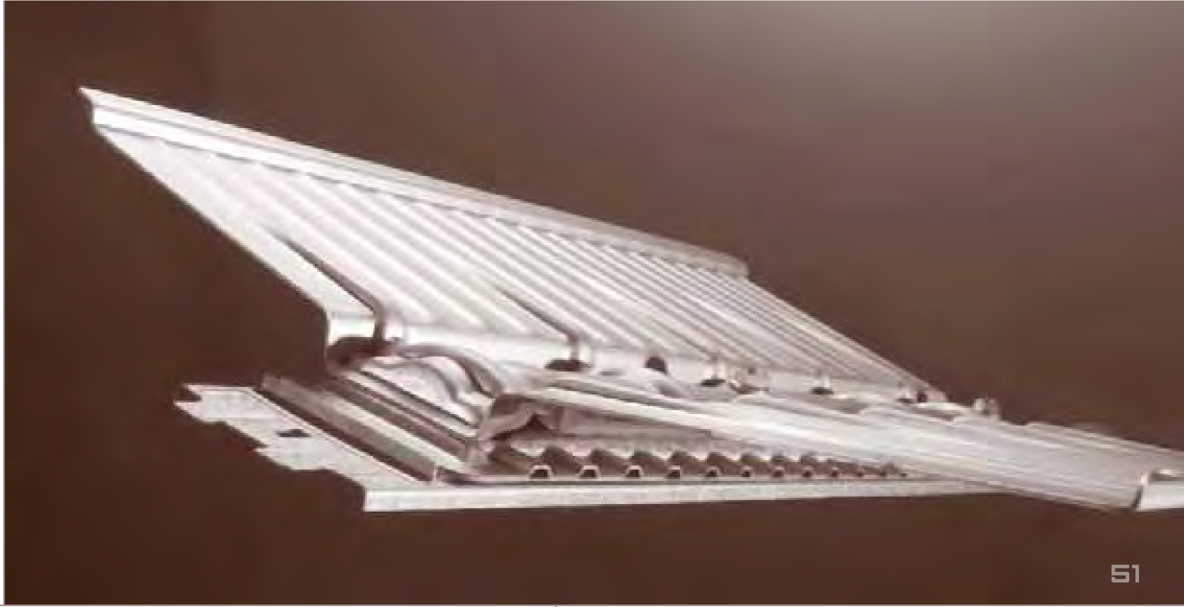
2008



2009



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



STAFF BREAKDOWN BY FUNCTIONAL AREA

	2008			2009		
Area	M	F	Total	M	F	Total
Production	320	171	491	313	165	478
Quality	37	30	67	36	28	64
Research & development	34	3	37	34	2	36
Logistics	23	3	26	21	2	23
Administration	12	21	33	9	19	28
Sales	10	12	22	12	11	23
Services	6	10	16	5	10	15
Procurement	2	3	5	2	4	6
TOTAL	**444**	**253**	**697**	**432**	**241**	**673**

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 SA 8000 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	**2008**				**2009**			
	MEN	WOMEN		**TOTAL**		MEN	WOMEN	**TOTAL**
University degree	35	7	42	6.0%	33	9	42	6.2%
High school diploma	221	87	308	44.2%	212	80	292	43.4%
Middle school diploma	176	150	326	46.8%	178	143	321	47.7%
Primary school	12	9	21	3.0%	9	9	18	2.7%
TOTALE	**444**	**253**	**697**	**100%**	**432**	**241**	**673**	**100%**

TRAINING

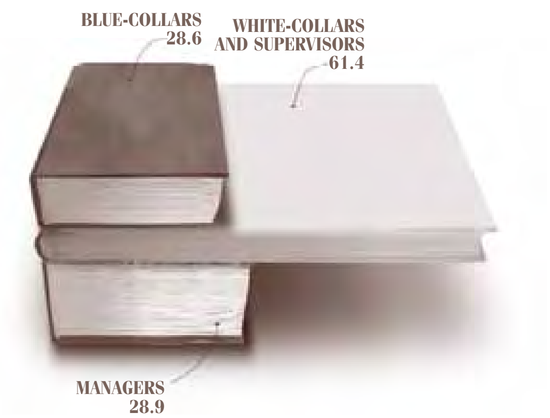
In Sabaf the professional growth of employees is underpinned by a permanent training process. The Human Resources Department, having consulted with the functional managers concerned, devises an annual training plan, based on which specific courses to be held during the year are scheduled.

	2008			2009		
	MEN	WOMEN	**TOTAL**	MEN	WOMEN	**TOTAL**
Training for new recruits, apprentices, initial employment contracts	11,560	4,970	16,530	3,684	2,077	5,761
Information systems	1,616	1,109	2,725	677	433	1,110
Technical training	1,300	804	2,104	1,208	102	1,310
Safety, environment and social responsibility	1,380	531	1,911	1,410	274	1,684
Administration & organisation	169	213	382	690	480	1,170
Foreign languages	95	74	168	156	49	205
Other	153	132	285	0	0	0
Total training hours received	***16,273***	***7,833***	***24,105***	***7,825***	***3,415***	***11,240***
Training hours provided by internal trainers	19,001	4,971	23,971	10,503	1,580	12,083
TOTAL	**35,273**	**12,803**	**48,076**	**18,328**	**4,995**	**23,323**

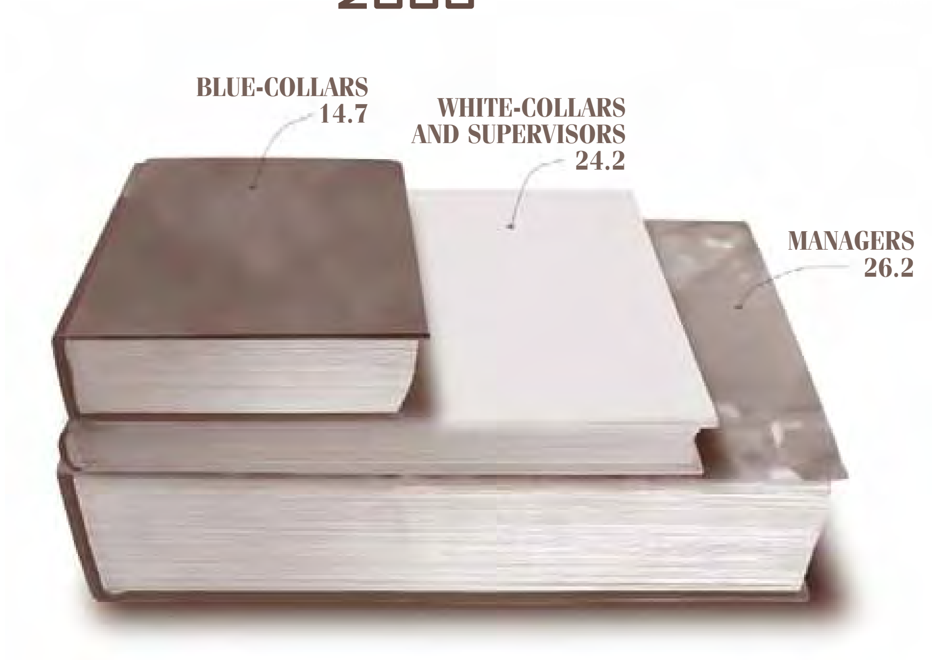
The reduction in training hours stemmed mainly from the low number of new hires as compared with 2008. Moreover, in 2008 special training had to be offered as part of implementation of the new SAP information system.
The training hours provided by in-house trainers also include the training given to temporary workers (8,860 hours in 2009).

HOURS OF TRAINING PRO-CAPITA RECEIVED BY JOB CATEGORY

2008



2009



In 2009 the total cost of training Group employees - excluding measurement of the hours provided by in-house trainers - was about 208,000 (about 645,000 in 2008).

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 addressing subjects of general interest. In 2009 the focus of activities was on management of the crisis and industrial relations during the crisis period.

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.

DIVERSITIES AND EQUAL OPPORTUNITIES

Sabaf is permanently committed to assuring equal opportunities for female staff, who today account for 35.8% of the workforce (36.3% in 2008).

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 2009 the Sabaf Group granted a total of 38 part-time contracts (to 4 female white-collars, 30 female blue-collars, 2 male blue-collars, and 2 male blue-collar apprentices) accounting for 5.5% of the total (compared with 36 contracts in 2008).

STAFF BREAKDOWN BY GENDER - %

	2008		2009		BENCHMARK [3]
	Number	%	Number	%	%
Men	444	63.7	432	64.2	**81.2**
Women	253	36.3	241	35.8	**18.8**
TOTAL	**697**	**100**	**673**	**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		**2008**	**2009**
BLUE-COLLAR AND SIMILAR	MEN	344	332
	WOMEN	202	200
WHITE-COLLARS AND SUPERVISORS	MEN	92	91
	WOMEN	50	41
MANAGERS	MEN	8	9
	WOMEN	1	0
TOTAL		**697**	**673**

WORKERS FROM OUTSIDE EU[4]

	2008	**2009**	**BENCHMARK [5]**
Non-EU workers	59	63	
% of total employees	9.35%	10.21%	2.82%

Eighteen disabled people work in the Sabaf Group, of whom six 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.

3 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Worker breakdown by gender (2007) (2007)], http://www.federmeccanica.it
4 - Figures refer to Italian companies only. Sabaf do Brasil is not included.
5 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Non-EU workers (2007) http://www.federmeccanica.it

COMPENSATION, INCENTIVE, AND ENHANCEMENT SYSTEMS

Sabaf S.p.A. are classified according to the National Collective Bargaining Agreement for the metal and mechanical industry, as amended by second level bargaining, which includes:

- 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 under training and contracts and apprenticeships

Employees are owed a specific bonus pursuant to their training or apprenticeship contract.

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), individual 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.

Ratio between minimum monthly salaries envisaged by national collective labour contracts and the minimum salary accorded by Group companies

The supplemental company agreement expired on 31 December 2007 at Sabaf S.p.A. In November 2009 an agreement between management and trade union representatives was signed, according to which employees were granted one-off compensation for 2008 and 2009.

6 - Gross salary of a blue-collar/Grade 3 white-collar
7 - These figures were determined as the ratio between the average gross annual pay of female workers and that of male workers for the individual companies of the Group. The Group indicator was determined by weighing the indicators of the individual companies by the number of employees in each.
8 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita overtime hours (2007).
http://www.federmeccanica.it
9 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita hours of absence from work (2007).
http://www.federmeccanica.it
10 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita hours of absence from work (2007).
http://www.federmeccanica.it
11 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita hours of absence from work (2007).
http://www.federmeccanica.ithttp://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[6]	Euro 1,385	Euro 1,413	+2.0%
Brazil	BRL 738	BRL 738	-

RATIO BETWEEN AVERAGE FEMALE STAFF PAY AND AVERAGE MALE STAFF PAY [7]

	2008	2009
White-collars and supervisors	60%	60%
Blue-collars	94%	93%

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.

OVERTIME WORK

	2008		2009		BENCHMARK[8]	
	White-Collars	Blue-collars	White-Collars	Blue-collars	White-Collars	Blue-collars
Average monthly number of workers who worked overtime	89	302	71	140		
Number of overtime hours	17,160	49,237	8,895	17,328		
Annual per-capita overtime hours	114	93	62	33	72	85

Overtime work requirements fell sharply in 2009, especially for production staff, due to the lower volumes of business.

HOURS OF ABSENCE

	2008	2009	BENCHMARK[9]
Total annual hours of absence	80,404	74,696	
Hours of absence as % of workable hours	6.0%	5.6%	
Average per capita hours of absence	117.6	111.3	139.1

SICK LEAVE HOURS

	2008	2009	BENCHMARK[10]
Total annual sick leave hours	40,591	37,485	
Sick leave hours as % of workable hours	3.0%	2.8%	
Average per capita sick leave hours	59.4	55.8	79.0

MATERNITY-LEAVE HOURS

	2008	2009	BENCHMARK[11]
Total maternity-leave hours	33,370	27,884	
Maternity-leave hours as % of workable hours	2.5%	2.1%	
Average per capita maternity-leave hours	48.8	41.5	18.1

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"]

	2008	2009
Number of hours of CIG	5,106	43,218
Annual per capita overtime hours	7.5	76.0

In response to the reduced level of business, principally between January and May 2009, the Group made recourse to the Government's Layoffs Benefits Fund for about 70 employees on average. Recourse to these layoff benefits made it possible to reduce personnel costs by about 800,000.

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

	2008	2009	BENCHMARK[12]
On-site accidents	27	30	
Off-site accidents in transit	4	0	
Average absence for on-site accidents (days)	25	18.2	
Average absence for off-site accidents (days)	70	0	
Total days of absence for accidents	7,648	3,637	
Average per capita hours of absence for accidents	11.19	5.43	8.8

ACCIDENT FREQUENCY INDEX

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

	2008	2009
Index	22.86	29.41

ACCIDENT GRAVITY INDEX

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

	2008	2009
Index	0.91	0.54

No serious accidents occurred in 2009. Training and instruction on the use of protection and safety devices continued. Systematic safety audits of all Sabaf S.p.A. machinery have been conducted since 2008.

In compliance with current law, Group companies have prepared and implement a health-monitoring programme for their employees, with medical check-ups focusing on the specific hazards associated with their occupational activities.
In 2009, 2,283 medical check-ups were performed (2,324 in 2008).

12 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita hours of absence from work (2007), http://www.federmeccanica.it

ASSESSMENT OF WORK RELATED STRESS RISKS

In accordance with its obligations under Legislative Decree 81/08, Sabaf S.p.A. carried out a preliminary assessment of work related stress risk in 2009. The main purposes of this assessment are to raise workers' and corporate management's awareness and comprehension of this risk and to detect any warning signs that might indicate work stress related problems.
The tool used for the analysis is the Multidimensional Organisational Health Questionnaire (MOHQ)[13], which targets all workers and is composed of 109 statements regarding conduct and conditions that are observable in the work environment, with each one of them being correlated to indicators of organisational health.
The results show that there is a substantially low risk from risk, and that this is under control. The reported aspects for improvement are limited, for which the Company will assess, in the ambit of its improvement plans, study of the phenomenon and implementation of possible technical or organisational measures.

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.

CURRENT EXPENDITURE FOR WORKER SAFETY

(Amounts in € '000)

	2008	2009
Plant, equipment, and materials	90	44
Personal protective equipment (PPE)	66	78
Outside training	1	2
Advisory services	10	14
Analyses of workplace environment	11	7
Medical check-ups (including pre-hire check-ups)	31	23
Software and database	1	1
TOTAL	**210**	**169**

INVESTMENTS FOR WORKER SAFETY

(Amounts € '000)

	2008	2009
Plant, equipment, and materials	104	65
TOTAL	**104**	**65**

LABOUR RELATIONS

Three trade unions are represented internally at Sabaf SpA: FIOM, FIM and UILM. As at December 2009, 124 employees were card-carrying members, i.e. 22.0% of total employees (in 2008, 150 employees were card-carrying members, 21.5% 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 31 meetings between top managers and internal trade-union representatives. The main matters addressed were:

- announcements regarding changes in permanent staff and temporary worker contracts, monitoring temporary work and training contracts and planning of hiring;
- definition of the company calendar and the government layoff benefits fund calendar;
- the platform for the supplemental company agreement.

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

PARTICIPATION IN TRADE UNION ACTIVITIES

	2008	2009	BENCHMARK[14]
UNION MEETING			
Number of hours	3,057	3,228	
As % of workable hours	0.23%	0.24%	
Average per capita hours	4.5	4.8	
UNION LEAVE OF ABSENCE			
Number of hours	1,385	2,033	
As % of workable hours	0.10%	0.15%	
Average per capita hours	2.0	3.0	
STRIKES			
Number of hours	3,812	6,191	
As % of workable hours	0.28%	0.47%	
Average per capita hours	5.6	9.2	8.0
TOTAL			
Number of hours	8,254	11,453	
As % of workable hours	0.62%	0.86%	
Average per capita hours	12.1	17.1	

13 - Created by Avallone et al., University of Rome-La Sapienza.
14 - FEDERMECCANICA, The metalworking industry in figures (June 2009) - Pro-capita hours of absence from work (2007), http://www.federmeccanica.it

STRIKE HOURS AT SABAF SPA

	DECLARED STRIKE HOURS	REASON	% PARTICIPATION
February	8	Labour-wage-pension-rights crisis	12.61%
May	2	Company contract and institutes for CIG	42.27%
June	1	Company contract and institutes for CIG	46.65%
June	1	Company contract and institutes for CIG	45.11%
June	1	Company contract and institutes for CIG	43.30%
June	1	Company contract and institutes for CIG	37.68%
June	1	Company contract and institutes for CIG	38.95%
September	4	Company Platform	48.26%
September	4	Company Platform	45.22%
September	1	Company Platform	35.27%
October	8	National Contract against layoffs	32.26%
November	4	Separate National Contract - from Fiom	23.12%
TOTAL	**36**		

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 2009, 55 employees had benefited from the agreement, for 50 mortgage loans and five consumer loans.

The Company leased 9 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-seven apartments had been sold to employees by the end of December 2009.

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 Euro 60,000 to the introduction of this service in 2009.

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

LITIGATION AND DISCIPLINARY MEASURES

During 2009, 91 disciplinary measures were taken vis-à-vis employees. They are broken down by type as follows:

- 1 verbal reprimand
- 11 written reprimands concerning use of personal protection equipment
- 38 written warnings
- 25 fines
- 13 suspensions
- 3 dismissals for cause or justified reasons

Aside from the reference to use of the DPI 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.

No lawsuits with staff were pending at 31 December 2009.

SABAF AND ITS SHAREHOLDERS

OUR COMMITMENTS 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 fairness, transparency and the company's best interests in executing transactions with related parties.
- To ensure the utmost transparency in relations with the independent auditors and with supervisory authorities.
- To adopt appropriate procedures for the handling of confidential information with special reference to price-sensitive information.

SHAREHOLDER BASE

As at 23 March 2010, 1,936 shareholders were listed in the shareholders' register. Of these:

- 1,815 owned up to 1,000 shares
- 81 owned from 1,001 to 5,000 shares
- 17 owned from 5,001 to 10,000 shares
- 23 owned over 10,000 shares.

Shareholders residing outside Italy owned 34.8% of the share capital.

Institutional investors are very strongly present in share capital (and account for more than 90% of outstanding stock).

RELATIONS WITH INVESTORS AND FINANCIAL ANALYSTS

Right from the time when it went public (1998) the company has considered financial communication to be 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 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: Banca Akros, Equita and Unicredit.

In 2009 the Company met with institutional investors at roadshows organised in Milan, London, Edinburgh and Paris.

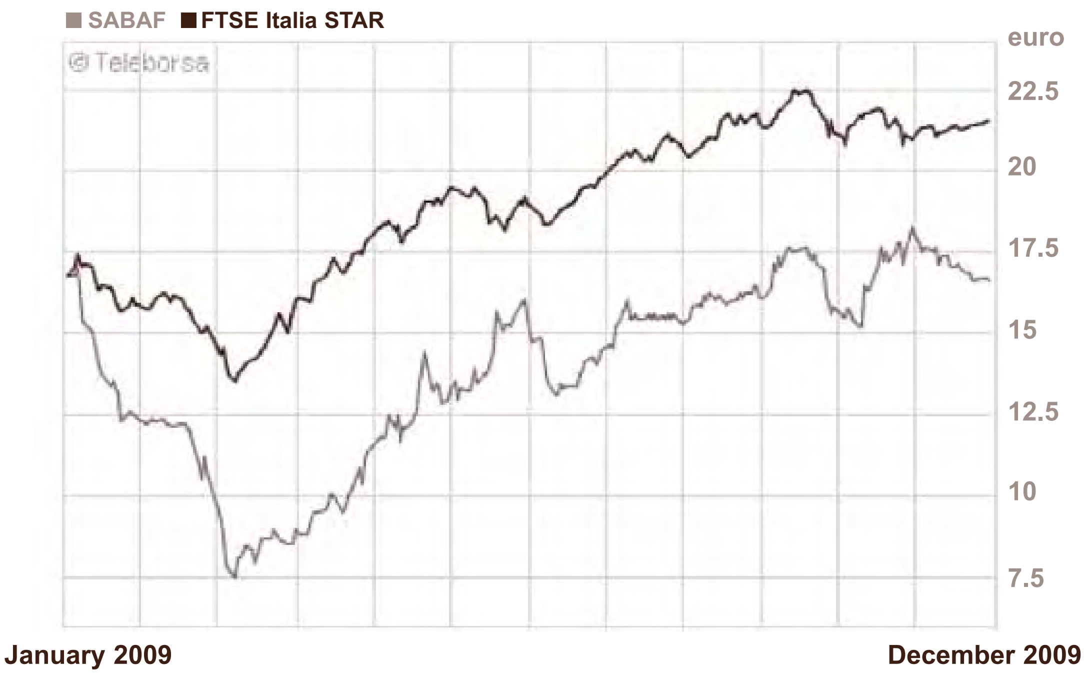
Further information on investor relations is provided in the 2009 Report on Corporate Governance and Ownership Structure.

SHAREHOLDER RETURN 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.

Years 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	0.70
2010 - proposed dividend	0.50

During 2009, Sabaf shares reached their highest official price on 1 December (Euro 17.714) and their lowest on 9 March (Euro 7.464). On 30 December, the official price was Euro 16.433. Average daily trading volume was 9,240 shares, equivalent to an average daily total value of Euro 125,000 (Euro 168,000 in 2008).



SOCIALLY RESPONSIBLE INVESTMENTS

Sabaf shareholders also include ethical funds, such as Kempen and Etica Sgr.

LITIGATION

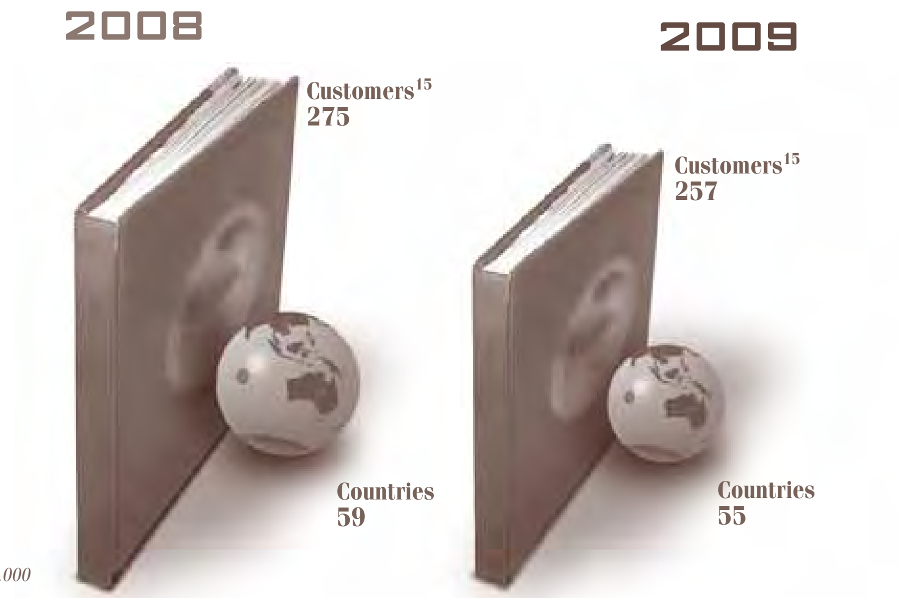
No lawsuits are pending with shareholders.

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.

SALES ANALYSES

COUNTRIES AND CUSTOMERS [CHART]



15 - With sales exceeding euro 1.000

DIALOGUE WITH CUSTOMERS

Sabaf carries out a biennial customer satisfaction survey, by using a structured questionnaire sent to its biggest customers. The results of the last survey, conducted at the beginning of 2009, are illustrated in the 2008 Annual Report.

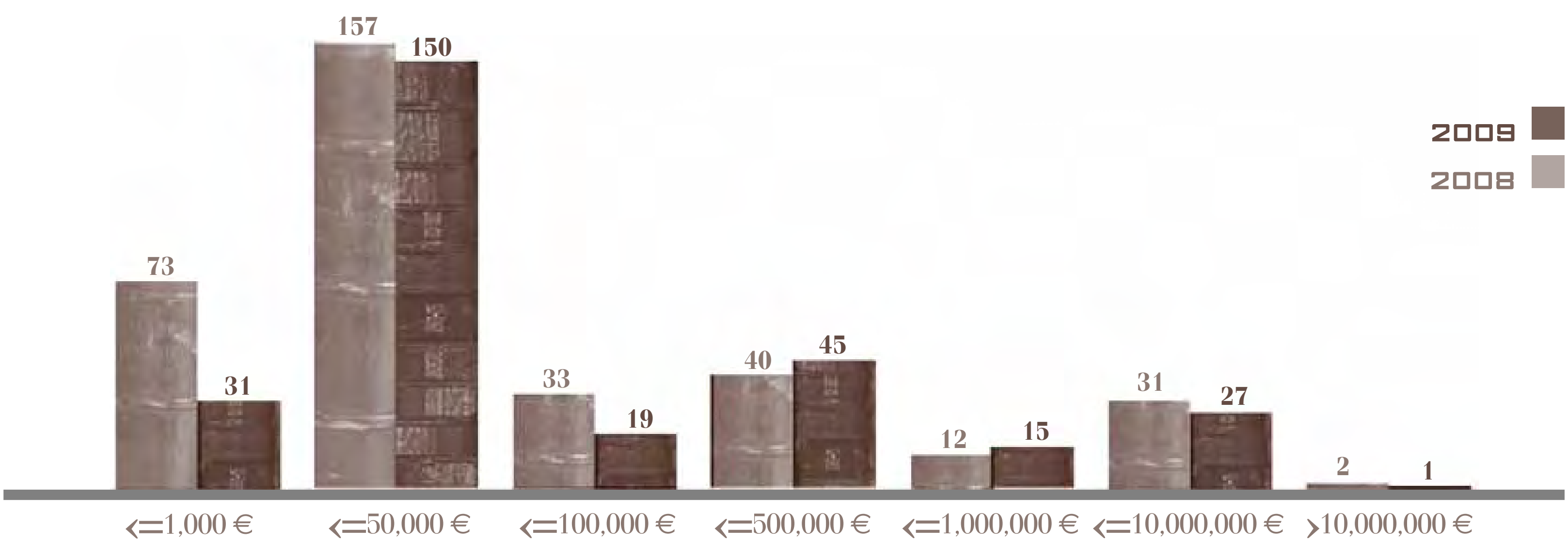
For detailed analysis of revenue breakdown by product family and geographical area, reference should be made to the Report on Operations.

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

During 2009 the Sabaf Group issued invoices (> Euro 1,000) to 38 new customers (49 in 2008), for a total of Euro 905,000 (Euro 1.7 mn in 2008), whilst 56 customers active in 2008 did not buy in 2009, for a total of about Euro 1.5 million (compared with 44 the previous year, for a total of Euro 1.1 mn).

Twenty-eight customers provide us with annual sales of over Euro 1 mn (33 in 2008). The breakdown by sales class was as follows:

CUSTOMER BREAKDOWN BY SALES CLASS



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-recycling at end of lifetime
- 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.

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 capacity and the linearity of delivery flows
- Customer's membership in 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 customer satisfaction by understanding and responding to customers' present and future needs
b. Continuously improve processes and products, with special attention to environmental protection and employee safety
c. Involve partners and suppliers in the 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)

	2008	2009
Product certification	28.1	48.8
Certification and management of quality system	1.8	5.4
Purchase of measuring instruments and equipment	78.3	18.1
Calibration of measuring instruments & equipment	49.2	38.6
Technical regulations, software, and magazines	5.6	3.7
Training	0	1
Trials and tests by independent laboratories	3.6	6
TOTAL	**166.6**	**121.6**

INVESTMENTS FOR QUALITY

(Amounts in € '000)

	2008	2009
Purchase of measuring instruments and equipment	169,3	26,0
TOTALE	**169,3**	**26,0**

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. The Faringosi Hinges Quality System has been ISO 9001 certified since 2001; in 2003 it was upgraded to the requirements of Vision 2000. Both systems were certified in 2009 in accordance with the 2008 edition of ISO 9001.

In May 2009, CSQ conducted its periodic audit of the Sabaf S.p.A. quality management system. This audit confirmed that the system is effectively applied. Three non-critical instances of non-compliance were found. The Faringosi Hinges quality management system was audited for renewal of certification in July 2009 by ICIM. The audit did not reveal any non-conformities.

Preparatory activities for application of ISO 9001 at Sabaf do Brasil were undertaken at the beginning of 2009. It is expected that the system will be certified by the end of 2010.

LITIGATION

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 SUPPLIERS

- To act with transparency, fairness, 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 SA 8000 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 accountability. Since 2003 supply contracts have included an ethics clause based on the SA 8000 standard. This clause obligates suppliers 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 SA 8000 standard leads to discontinuation of the supply relationship. In 2009, 23 audits (24 in 2008) were carried out at suppliers on quality, environmental and social-responsibility management, none of which revealed any critical instances of non-compliance. Suppliers were asked to take the appropriate measures to resolve their non-critical non-conformities.

SUPPLIER RELATIONS

As part of its activities to engage stakeholders, at the beginning of 2010 Sabaf retained an independent firm to conduct a survey of its suppliers, in order to record their opinion about Group operations, their expectations and the key areas needing improvement in the process of managing the supply chain.

A representative sample of five suppliers was defined for this purpose, selected according to the amount of their sales, their strategic significance and their degree of reliance on Sabaf. The suppliers were first asked to fill out an informational questionnaire, followed by more probing interviews.

The principal issues of social accountability that might influence the relationships established by the Group with suppliers were confronted during the meetings. The suppliers expressed substantially positive opinions about Sabaf Group operations, which were the result of continuous collaboration and constant exchange of views. The respondents mentioned in particular the values of fairness, fidelity and transparency in daily operations. The support given to suppliers was also especially appreciated, even at difficult times like the present.

The indicated areas for improvement include the request made by suppliers to dispose of a structured system of their performance and, in the spirit of Standard SA8000, the suggestion to continue supplier awareness-raising and ethical-social performance monitoring.

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 in Lombardy by the Group's Italian companies represent 60.2% of the total.
Most non-EU supplier sales come from Switzerland and concern the purchase of machinery and equipment. Of the remaining suppliers located outside the European Union, five are based in China. They supplied components for about Euro 945,000 in 2009 (Euro 714,000[16] in 2008). Chinese suppliers have signed a clause to comply with the principles set out in the SA 8000 standard.

GEOGRAPHICAL DISTRIBUTION OF SUPPLIERS[17]

(Amounts in € '000)

	2008		2009	
	Value	%	Value	%
Province of Brescia	56,170	50.2	29,649	44.7
Province of Milan	3,093	2.8	2,074	3.1
Rest of Lombardy region	14,621	13.1	8,231	12.4
Italy	24,329	21.7	15,486	23.3
Rest of EU	10,620	9.5	8,576	12.9
Non-EU countries	3,003	2.7	2,361	3.6
TOTAL	**111,836**	**100**	**66,376**	**100**

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

16 - The 2008 figure has been restated to include customers in Hong Kong.
17 - Excluding Sabaf do Brasil

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).

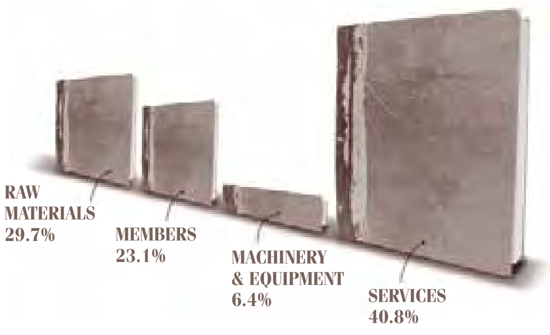
Sabaf requires its suppliers to be capable of renewing their technology over time, in order to be constantly able to offer the best value for money (price/quality ratio). It gives preference to suppliers who have obtained or are in the process of obtaining certification of their quality systems.sistemi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

RELATIONS WITH SUPPLIERS DURING THE CRISIS

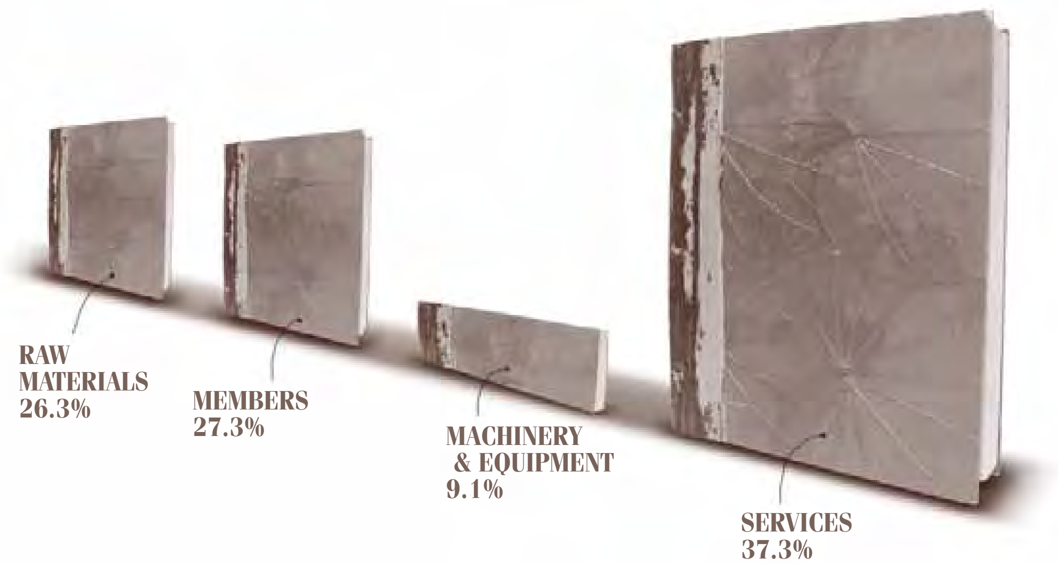
Purchases from outsourcers were cut back in 2009, especially during the first several months of the year, after product outback was drastically scaled back. During this period, the Group also decided to manufacture a larger proportion of extrusion components in-house, thereby protecting the job security of its own employees and shoring up efforts the balance operating costs through greater exploitation of its internal production capacity. Outsourcing of extrusion components recovered to traditional proportions in subsequent months.
The Group asked suppliers to postpone the delivery date of certain machinery that had been ordered in 2008, but it guaranteed advance payment of more than half the value of these capital goods.
On no occasion did the Sabaf Group delay payment after the agreed due dates, and it did not request negotiation of longer payment terms.
When possible, specific action was taken to support suppliers facing financial difficulty.

BREAKDOWN OF PURCHASES BY TYPE[18]

2008



2009



In 2009 sales to Sabaf Group by suppliers with certified quality systems accounted for 59.6% of the total (vs. 57.1% in 2008).

LITIGATION

There are no lawsuits pending with suppliers.

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

18 - Percentage of the total value of purchases

SABAF AND ITS LENDERS

OUR COMMITMENTS TO LENDERS

- 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 low debt ratio (net debt / shareholders' equity at 31 December 2009 equal to 0.18) and has ample unused short-term lines of credit.

At 31 December 2008 net debt was Euro 19.2 mn, compared with Euro 29.7 mn at 31 December 2008. In 2009 an unsecured 5-year loan for Euro 6 mn was obtained. This allows us to avoid recourse to short-term financing.

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

LITIGATION

No litigation is pending with lenders.

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.

SSabaf 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.

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)			•	

2007 AND 2008 PROFIT & LOSS HIGHLIGHTS OF PRINCIPAL SABAF COMPETITORS[19]

	2007			2008		
	SALES	OPERATING INCOME	NET INCOME	SALES	OPERATING INCOME	NET INCOME
CMI	25,623	1,110	142	26,364	911	131
DEFENDI GROUP[20]	36,653	1,419	524	39,426	2,167	(227)
LA MICROMECCANICA	10,697	1,305	763	9,724	(778)	(774)
NUOVA STAR	24,088	286	141	24,860	212	127
SOMIPRESS	26,683	1,991	1,045	24,256	2,102	1,276

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

LITIGATION

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

19 - Data compiled by Sabaf from the financial reports of the various companies. Latest available figures.
20 - 2007 figures obtained from annual report, 2008 figures obtained from consolidated financial statements.

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.

INCOME TAXES AND OTHER TAXES PAID

TAXES *(Amounts € '000))*

	2008	2009
Current income tax	8,017	4,635
Deferred income tax	(918)	(154)
Substitute tax, under Decree Law 185/08	-	1,072
Reversal of deferred taxes under Decree law 185/08	-	(2,526)
Substitute pursuant to Law 244/07	2,469	-
Reversal of deferred tax liabilities, under Law 244/07	(5,524)	-
Balance of previous FY	43	(62)
TOTAL INCOME TAXES	**4,087**	**2,965**
Other taxes	287	292
TOTAL	**4,374**	**3,257**

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.

TAX STATUS

In 2009 the Group recognised tax liabilities of Euro 3,257,000, which represent 2.5% of the generated economic value[21] (Euro 4.4 million in 2008, or 2.7% of the economic value). The tax rate (the ratio of income taxes to pre-tax income) was 20.4% (21% 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.

In 2009 the Sabaf Group benefited from about Euro 400,000 in tax savings against investments made during the second half of the year, pursuant to Decree Law 78/09 ("Tremonti-ter).

LITIGATION

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). The Company filed appeals against the notices of assessment in trial court and the court of appeal, obtaining partial reversal of the levied assessments.

21 - Determined in accordance with the GRI Guidelines.

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 2009 donations totalled some Euro 56,000 (Euro 46,000 in 2008) 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

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 environmental management system in place at the Ospitaletto plant has been ISO 14001 certified since 2003. By implementing ISO14001, Sabaf has also identified the principal environmental risks connected with its own production, which are systematically monitored and managed.

Sabaf Spa has 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. It is expected that this new generation of burners will first go on sale in 2010.

ENVIRONMENTAL IMPACT

MATERIALS USED AND PRODUCT RECYCLABILITY

Sabaf's main product lines - valves, thermostats and burners for domestic gas cooking appliances - feature high energy yields and 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 2003/95/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 Directive 2000/53/EC (ELV - end-of-life vehicles), i.e. their heavy-metal content (lead, mercury, cadmium, and chromium 6) is lower than the limits set by the directive.

Sabaf has also implemented sorted recycling of paper/cardboard, glass, cans and plastic in-house. In 2009 recycling made it possible to recover 81,740 Kg of paper and cardboard and plastic packaging.

MATERIALS USED	2008 consumption (t)	2009 consumption (t)
Brass	2,404	1,620
Aluminium alloys	8,080	6,326
Zamak	67	57
Steel	7,518	6,562

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	2008 consumption (MWh)	2009 consumption (MWh)
TOTAL	**28,244**	**16,820**

NATURAL GAS	2008 consumption (m^3 x 1000)	2009 consumption (m^3 x 1000)
TOTAL	**3,260**	**3,088**

Sabaf S.p.A. uses natural gas as its energy source for die-casting of aluminium and for firing enamelled lids. Faringosi production does not use natural gas an energy source.

WATER	2008 consumption (m^3)	2009 consumption (m^3)
Total mains water	17,752	18,809
Total well water	28,327	31,703
TOTAL	**46,079**	**50,512**

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)	2008	2009
Municipal-type waste	240	183
Non-hazardous (for disposal)	2,103	1,449
Non-hazardous (for recycling)	4,741	3,775
TOTAL NON-HAZARDOUS WASTE	**6,844**	**5,224**
Hazardous (for disposal)	1,356	1,925
Hazardous (for recycling)	831	627
TOTAL HAZARDOUS WASTE	**2,187**	**2,552**

No major spills occurred in 2009.

ATMOSPHERIC EMISSIONS

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

Sabaf SpA operates three production processes:

1- Production of burner components (injector-holder casings and flame spreaders) involves melting and subsequent pressure die-casting of aluminium alloy, sandblasting of pieces, a series of mechanical processes removing material, washing of some components, and assembly and testing. This production process involves the emission of insignificant amounts of oily and PERC (perchloroethylene) mists, as well as 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.

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

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

	2008		2009	
Origin of impact	**Target**	**Actual**	**Target**	**Actual**
Unit A: extractor for pressure die-casting islands	Remain 50% below legal limit and therefore maintain iE_En < 40	iE_E = 16.3	Remain 40% below legal limit and therefore maintain iE_E*n* < 40	iE_E =14.3
Unit A: extractor for smelting furnace	iE_En < 50	iE_E = 10.1	iE_En < 50	iE_E = 34
Unit A: sand blaster	iE_En < 40	iE_E = 19.8	iE_En < 40	iE_E = 37
Unit A: extractor for bar-processing lathes	iE_En < 30	iE_E = 8.4	iE_En < 30	iE_E = 0.4
Unit A: extractor for furnace scorification	iE_En < 30	iE_E = 5.7	iE_En < 30	iE_E = 22.1
Unit B: extractor for transfer machines/lathes	iE_En < 30	iE_E = 11.1	iE_En < 30	iE_E = 7.3
Unit B: metal parts washing machine	iE_En < 65	iE_E = 11.8	iE_En < 65	iE_E = 23.4
Unit B: electrical discharge machining eqpt.	iE_En < 40	iE_E = 2.2	iE_En < 40	iE_E = 2.7
Unit B: extractor for grinders	iE_En < 30	iE_E = 1.7	iE_En < 30	iE_E = 0.9
Unit C: sand blaster	iE_En < 40	iE_E = 26.9	iE_En < 40	iE_E = 15.4
Unit C: enamel application line and firing furnace	iE_En < 100	iE_E =45.0	iE_En < 100	iE_E = 55.8

Monitoring performed during 2008 and 2009 showed compliance of all emissions with legal limits.

CO_2 EMISSIONS[22] (tonnes)	2008	2009
Use of natural gas	6,377	6,119
Use of electricity	12,758	7,209
TOTAL CO_2 emissions	**19,135**	**13,328**

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 CO2 are emitted in Italy each year.

There are no emissions of the following greenhouse gases: CH4, N2O, HFCS and SF6. 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, which is used in compliance with applicable regulations.

CURRENT ENVIRONMENTAL SPENDING

(Amounts in € '000)

	2008	2009
Plant, equipment, and materials	56	47
Advisory services	10	13
Analyses of emissions	24	15
Waste disposal	476	467
Software and database	1	1
TOTAL	**567**	**543**

ENVIRONMENTAL INVESTMENTS

(Amounts in € '000)

	2008	2009
Plant, equipment, materials	399	0
TOTAL	**399**	**0**

LITIGATION

No lawsuits are currently pending in regard to environmental matters.

22 - Calculated according to the "Instructions for implementation of the European Commission's decision C(2004)130 of 29 January 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

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

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

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

Independent limited assurance report on the social report

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

1 We have reviewed the social report of the SABAF Group (the "Group") at 31 December 2009, 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"

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

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

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

- comparing the financial information and data presented in the "Generated and distributed economic value" paragraph of the "Introduction" to the social report to the corresponding information and data included in the Group's consolidated financial statements as at and for the year ended 31 December 2009, on which other auditors issued their report dated 31 March 2010 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 representatives of SABAF S.p.A. and personnel of Faringosi-Hinges S.r.l., to gather information on the IT, accounting and reporting systems used in preparing the social report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the social report;
    - sample-based analysis of documentation supporting the preparation of the social report to confirm the effectiveness of processes, their adequacy in relation to the objectives described, and that the internal control system correctly manages data and information;
- analysing the completeness of the qualitative information included in the social report and its overall consistency in relation to the guidelines referred to in paragraph 1, in particular with reference to the sustainability strategy and policies and the determination of material issues for each stakeholder category;
- analysing the stakeholder involvement process, in terms of methods used and completeness of persons involved, by reading the minutes of the meetings or any other information available about the salient features identified;
- obtaining the representation letter signed by the legal representative of SABAF S.p.A. on the compliance of the social report with the guidelines indicated in paragraph 1 and on the reliability and completeness of the information and data contained therein.

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

The social report includes the corresponding information and data of the prior year social report for comparative purposes, with respect to which reference should be made our report dated 9 April 2009.

3 Based on the procedures performed, nothing has come to our attention that causes us to believe that the social report of the SABAF Group at 31 December 2009 is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines issued in 2006 by GRI - Global Reporting Initiative, as set out in the "Methodology" paragraph.

Bergamo, 9 April 2010

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

INDEX ACCORDING TO GRI GUIDELINES

LEGEND **C**: Core **A**: Additional **CFS**: Consolidated Financial Statements **G**: Governance **RO**: Report on Operations

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4.03	Non-executive and independent directors	16, 33 G	
4.04	Mechanisms available to shareholders to make recommendations	30 G, 58	
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4.07	Directors' qualifications	33 G	
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4.14	List of stakeholders engaged	26	
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4.16	Stakeholder engagement activities	26, 59, 62, 65	
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EC3 - C	Coverage of defined benefit plan obligations	116 BC, 121 BC	
EC4 - C	Significant government funding received	65	
EC5 - A	Ratio between entry-level wage and local minimum wage	54	
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EN2 - C	Percentage of materials used that come from recycled materials	70	
EN3 - C	Direct energy consumption by source	71	
EN4 - C	Indirect energy consumption by source	71	
EN5 - A	Energy savings	70	
EN6 - A	Products and services for energy efficiency or based on renewable energy	70	
EN8 - C	Water consumption by source	71	
EN9 - A	Water sources significantly affected by water extractions	N/A group's activities do not require water withdrawals that could significantly affect the balance of the water sources	
EN10 - A	Percentage and total volume of water recycled and reused	71	
EN11 - C	Land leased or managed in protected areas of high biodiversity value	N/A Minimal environmental impact as production sites are located in industrial areas	
EN12 - C	Description of major impacts on biodiversity	N/A Minimal environmental impact as production sites are located in industrial areas	
EN16 - C	Greenhouse gas emissions	73	
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EN27 - C	Percentage of products sold and related recycled or reused packaging materials	N/A Not relevant for products sold by Sabaf	
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LA5 - C	Minimum period of notice for operational changes	46, in Italy the issue is regulated by the current legislation (legislative decree 18/2001 and law 223/1991)	
LA7 - C	Accidents at work and illnesses	55	
LA8 - C	Training programs on risk prevention and monitoring for staff in relation to serious ailments and illnesses	51	
LA10 - C	Staff training	52	
LA11 - A	Programs for skills development and career advancement	52	
LA13 - C	Breakdown of staff by gender and other indicators of diversity (such as disabilities)	53	
LA14 - C	Ratio between the basic salaries of men and women	54, Legislation provides for a single minimum wage for women and men.	

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Code GRI	PROFILE	Page	PRINCIPLE Global Compact
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DMA SO - C	**Information on management methods**	**26, 65, 66**	
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SO2 - C	Monitoring the risk of corruption	22, 38, 40	
SO3 - C	Staff trained in the prevention of corruption	40	
SO4 - C	Actions taken as a result of instances of corruption	N/A There were no instances of corruption	
SO5 - C	Positions on public policy and lobbying	65	
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Code GRI	PROFILE	Page	PRINCIPLE Global Compact
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5

REPORT ON OPERATIONS

GROUP BUSINESS AND FINANCIAL STATUS

The Sabaf Group recorded sales revenues of Euro 127.1 million in 2009, down 21.5% from the Euro 162 million earned in 2008. The crisis that began to emerge in late 2008 intensified dramatically in the early months of 2009, affecting all the group's markets. There has been a slow but steady recovery since May, with a more satisfactory level of business, but still quite far off the 2008 record levels.

(Amounts in € '000)

	2009	%	2008	%	Change 2009-2008	Change %
Sales revenue	127,088	100%	161,984	100%	(34,896)	-21.5%
EBITDA	28,518	22.4%	33,236	20.5%	(4,718)	-14.2%
EBIT	16,218	12.8%	21,191	13.1%	(4,973)	-23.5%
Pre-tax profit	14,548	11.4%	19,497	12.0%	(4,949)	-25.4%
Net profit	11,583	9.1%	15,410	9.5%	(3,827)	-24.8%
Earnings per share (€)	1.007		1.336		(0.329)	-24.6%
Diluted earnings per share (€)	1.007		1.336		(0.329)	-24.6%

Average sales prices were down slightly in 2009, partly due to reduced raw materials prices. Profitability was affected by the steep decline in revenue, but cost-cutting measures and improvements in efficiency in light alloy taps have kept the profit indices in 2009 from deviating significantly from 2008: EBITDA increased from 20.5% of sales to 22.4%, the EBIT decreased from 13.1% to 12.8%, EBT decreased from 12% to 11.4%, while net profits fell from 9.5% to 9.1%.

The breakdown of revenue by product line was as follows:

SALES BY PRODUCT LINE

(Amounts in € '000)

	2009	2008	Change	Change %
Brass taps	26,928	39,188	(12,260)	-31.3%
Light alloy taps	15,276	15,923	(647)	-4.1%
Thermostats	13,746	18,948	(5,202)	-27.5%
Standard burners	36,358	46,818	(10,460)	-22.3%
Special burners	17,173	18,255	(1,082)	-5.9%
Accessories and other revenues	9,089	12,435	(3,346)	-26.9%
Total gas components	*118,570*	*151,567*	*(32,997)*	*-21.8%*
Hinges	*8,518*	*10,417*	*(1,899)*	*-18.2%*
TOTAL	**127,088**	**161,984**	**(34,896)**	**-21.5%**

The decrease in sales was decidedly lower for the more innovative products (light alloy taps and special burners). The geographical breakdown of revenue was as follows:

SALES BY GEOGRAPHICAL AREA

(Amounts in € '000)

	2009	%	2008	%	Change%
Italy	52,654	41.4	68,750	42.4	-23.4%
Western Europe	10,233	8.1	13,443	8.3	-23.9%
Eastern Europe and Turkey	27,978	22.0	38,840	24.0	-28.0%
Asia	13,186	10.4	11,350	7.0	16.2%
South America	13,473	10.6	13,378	8.3	0.7%
Africa	6,107	4.8	12,390	7.6	-50.7%
US, Canada & Mexico	3,348	2.6	3,309	2.1	-1.2%
Oceania	109	0.1	524	0.3	-79.2%
TOTAL	**127,088**	**100.0**	**161,984**	**100.0**	**-21.5%**

In 2009, the only area that reported significant growth was Asia, due to the good contribution of the Iranian market. The South American market also reported good performance, while sales on the North American market remained steady and the other markets reported significant losses. Italy is still the leading market for the Sabaf Group: despite the crisis in the sector, only one small manufacturer entered receivership and payments from customers were received on time.

The actual cost of brass, aluminium alloys and steel was down by 30% on 2008, while the cost of other components did not change significantly.
Despite the use of subsidised temporary lay-off benefits as a result of the dramatic fall in production volumes, the impact of the cost of labour on sales has increased from 18.6% in 2008 to 20.8% in 2009.

The impact of net finance costs on sales has decreased to 1.1% (1.3% in 2008) for a lower use of debt and for the decreased interest rate.

Operating cash flow (net profit plus depreciation & amortisation) went from Euro 27.3 million to Euro 23.9 million, equivalent to 18.9% (vs. 16.9% in 2008).

The tax-rate in 2009 decreased from 21% to 20.4% due to the use of advantageous fiscal provisions. In 2009, in particular, the Group has benefited from the option to realign a number of accounting entries from the fiscal values to the financial statement values set according to international accounting standards. As described in the Explanatory Notes to the consolidated accounts, this option made it possible to report lower taxes for Euro 1,454,000.

BALANCE-SHEET AND FINANCIAL STATUS

Reclassification based on financial criteria is as shown below:

(Amounts in € '000)

	31/12/2009	31/12/2008
Non-current assets	*99,038*	*97,261*
Non-current assets held for sale	*0*	*758*
Short term assets	65,099	75,185
Short-term liabilities	(31,908)	(33,342)
Net working capital	*33,191*	*41,843*
Current financial asset	*0*	*0*
Provisions for risks, employee benefits, and deferred taxes	*(3,935)*	*(6,945)*
Net capital employed	**128,294**	**132,917**
Net short-term financial position	3,109	(7,067)
Net medium/long-term financial position	(22,270)	(22,589)
Net financial debt	**(19,161)**	**(29,656)**
SHAREHOLDERS' EQUITY	**109,133**	**103,261**

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

(Amounts in € '000)

	2009	2008
Net short-term financial position	***(7,067)***	***(10,503)***
Operating cash flow	29,552	15,903
Cash flow from investment activities	(11,864)	(12,556)
Cash flow from financing activities	(8,559)	2,121
Foreign exchange differences	1,047	(2,032)
Cash flow for the period	**10,176**	**3,436**
Net short-term financial position	***3,109***	***(7,067)***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 22 of the consolidated accounts, required by the CONSOB communication in 28 July 2006.

In FY2009, the Sabaf Group made capital investments of some Euro 11.9 million. The year's main investments consisted in the purchase or in-house construction of machinery for use in production of light alloy taps with and without safety devices for cookers and hobs.

Net working capital amounts to Euro 33.2 million against Euro 41.8 million a year earlier. It rose to 26.1% a percentage of sales versus the 25.8% in 2008 due to a reduction in sales, despite the decrease in inventories, commercial receivables, and other receivables.

Self-financing generated by operating cash flow totalled Euro 29.6 million (23.3% on sales) vs. Euro 15.9 million in FY2008.

Net financial debt is equal to Euro 19.2 million, against the Euro 29.7 million at 31 December 2008. The net medium to long-term financial position was negative by Euro 22.3 million (Euro 22.6 million at 31/12/2008) and consisted of Euro 5.4 million in mortgages, Euro 5.4 million in payables to leasing companies, and Euro 11.5 million in unsecured loans at 5 years incurred at a EURIBOR 3-month rate plus a spread of 1.10% and 1.40% in order to minimize short-term debt. The risk of exchange rate changes was partially hedged by entering into two interest rate swap contracts.

The short-term financial position was positive for Euro 3.1 million and consisted of cash and cash equivalents of Euro 9.2 million and short-term debts of Euro 6.1 million, made up of the current portion of medium to long-term borrowings.

Shareholders' equity amounted to Euro 109.1 million, against Euro 103.3 million at year-end 2008. The ratio of net financial debt to shareholders' equity is 0.18 against 0.29 in 2008.

ECONOMIC AND FINANCIAL INDICATORS

(Amounts in € '000)

	2009	2008
ROCE (return on capital employed)	12.3%	15.2%
Dividend per share (euro)	0.50*	0.70
Net debt/equity ratio	18%	29%
Market capitalisation (31/12)/equity ratio	1.74	1.62
Sales progress	-21.5%	+5.0%

**Proposed dividend*

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

RISK FACTORS RELATED TO THE SEGMENT IN WHICH THE GROUP OPERATES

RISKS RELATED TO THE GENERAL CONDITIONS OF THE ECONOMY

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, leading to a significant decline in demand on all the Group's key reference markets. In early 2009, the decline worsened and later improved in the second part of the year, pursuant to the stimulus efforts put in place by the central governments. The early months of 2010 have brought a slow recovery, which still shows characteristics of unevenness. If the situation of global weakness in the economy persists, Group activities, strategies and outlook could be negatively affected.

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 segment suffered a decline in late 2008 and a more marked contraction in Q1 2009. As from Q2 2009, the demand stabilised on volumes much lower than the same period a year earlier. The results of FY 2009 have been negatively affected; still, the Group was able to implement effective countermeasures - described in this Report - which have made it possible to maintain a solid economic, financial and cash balance. Management expects 2010 to bring a gradual improvement on 2009.
To cope with this situation of uncertainty, the Group aims to retain and reinforce its leadership position wherever possible through:

- launch of new products characterized by superior performance compared with market standards;
- expansion into highly profitable and low saturation appliance markets;
- maintenance of high quality and safety standards, which make it possible to differentiate the product through the use of resources and implementation of production processes that are not easily sustainable by competitors.

RISK CONNECTED WITH TRENDS IN PRICES OF COMMODITIES

The Group uses metals and alloys such as brass, aluminium alloys and steel in its production processes. The sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients changes in the prices of commodities that occur during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments.
At the date of this report, purchase prices were fixed for aluminium alloys for most of Sabaf's needs until December 2010 while brass is purchased on a need-only basis for the following month. As for steel, however, it is not currently possible to hedge the risk of price fluctuation.
Any further increase in the price of commodities not hedged could have negative effects on expected profits.
For more information on commodity risk management, see Note 35 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 executes transactions in other currencies, such as the US dollar and the Brazilian real.
Since sales in US dollars accounted for 8% of consolidated revenue, the gradual depreciation expected against the Euro and the Real in the coming months could lead to a loss in competitiveness on the markets where sales are made in that currency (e.g.: South and North America, South Korea).
At the date of this report, the Group has no derivative contracts to hedge the risk of the foreign exchange rate.
For more information on how this risk is managed, see Note 35 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. To reach an optimal mix of floating and fixed rates in the structure of the loans, the Group uses derivative financial instruments designating them to cash flow hedges. In FY2009, SABAF S.p.A. has entered into two IRS agreements each in the amount of Euro 10.99 million to convert two floating rate loans to fixed interest rates in 2010. Both loans fall due by the end of 2014.
For more information on how this risk is managed, see Note 35 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 Euro 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 high concentration of sales to a small number of

clients, under the previous point, generates a concentration of the respective commercial receivables, with a resulting increase in the negative impact on economic and financial results in the event of insolvency of one of them.
To minimize this risk, the Group tends to favour the larger brands in the segment, 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 appropriate. Even if the economic crisis is attenuated, it is still possible that new situations of financial difficulty and insolvency could arise.
For more information on how this risk is managed, see Note 35 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 41% on the Italian market, 8% in Western Europe, 22% in Eastern Europe and the remaining 29% 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 5% of direct Group sales in 2009, 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.

RISKS RELATED TO THE LOSS OF KEY STAFF
Group results depend in large part on the work of executive directors and management. The loss of a key staff member for the Group without an adequate replacement and the inability to attract new resources could have negative effects on the future of the group and on the quality of financial and economic results.

RESEARCH & DEVELOPMENT
In 2009, the Sabaf Group expanded its range of light alloy taps with safety devices for hobs, initiating a study of two new versions that aim to zero out the customers' costs in introducing aluminium taps in the existing product platform.

Also in the design phase was a new range of safety taps (in brass and in aluminium) with 90° ignition to meet the change in the regulatory standards that will impose stricter safety regulations starting in the Spring of 2010.

The Sabaf Group is studying a new line of burners that can be mounted on the pair already in production (3.3 and 3.8 kW) that meet the new regulatory standards.

In special burners, Sabaf is continuing a project initiated in 2008, 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 eight burners:
- Dual Europe 4 kW;
- Dual Europe 5 kW;
- Dual Europe 5.6 KW
- Dual China 4 kW (similar in design to the AEO family, it complies with Chinese law but can also be used for semi-professional applications);
- Dual China 5 kW (similar in design to the AEO family, it complies with Chinese law but can also be used for semi-professional applications);
- Dual China 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 3.5 kW (vortex burner with vertical flames).
- Dual Torche 4 kW (vortex burner with vertical flames).

The Group is also studying a new, economical platform for Dual burners (Europe and China version) that reaches powers of 4.2 kW and targets the Chinese market.

In 2009, a feasibility study was conducted for production of electrodes using highly automated systems.

In the hinges sector, the Group has developed a new shock-absorbing unit that, when combined with the standard internal cam hinge, makes it possible soften the door closure much more effectively than the previous version. Also, a new hinge for a dryer was designed for a major customer, made up of a part in die-cast aluminum and a part in stamped steel sheet.

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

Development costs are capitalised when all the conditions set forth by the international accounting standards are met; in other cases, they are charged to the income statement. Research costs are booked to the income statement.

SABAF STOCK PERFORMANCE AND FINANCIAL COMMUNICATION
Since the year it went public (1998), Sabaf has considered financial communication to be strategically important. Sabaf's financial communications policy is based on the principles of integrity, transparency and continuity, in the belief that this approach enables investors to assess the company properly. In this perspective, even during the hard economic times in early 2009, Sabaf has assured its complete openness to dialogue with financial analysts and institutional investors.
In 2009, Sabaf shares reached their highest official price of the year on 1 December (Euro 17.714) and their lowest on 9 March (Euro 7.464). On 30 December, the official price was Euro 16.433. Average daily trading volume was 9,240 shares, equivalent to an average daily total value of Euro 125,000 (Euro 168,000 in 2008).

OWN SHARES
The Company acquired 28,556 treasury shares at an average unit price of Euro 9.135. After these acquisitions, the Company holds 32,503 treasury shares, equal to 0.282% of the share capital.

SUSTAINABILITY
Since 2005, Sabaf has drawn up a single report on its economic performance and its social and environmental sustainability. The Annual Report integrates and harmonises the contents published in the consolidated and statutory social report, 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 not only a communications decision, it is also the result of a strategic consideration, which aims to highlight that social responsibility is incorporated into company policies: only the effect of the virtuous cycle that unites economic development with social and environmental sustainability is it possible to ensure the lasting growth of the Sabaf Group. The document preparation process strictly complies with the international generally accepted principles for preparing both sustainability and financial reports.

PERSONNEL / STAFF
At 31 December 2009, the Sabaf Group had 673 employees, down by 24 compared to year-end 2008. We report that the Sabaf Group suffered no on-the-job deaths of personnel for which the Group has been held responsible nor was blame regarding on-the-job illnesses of employees or former employees and causes of mobbing, for which the Group has been found responsible.
For more information, refer to the "Sabaf and employees" section of the Annual Report.

ENVIRONMENT
We report that in 2009, there have been no:
- environmental issues for which the Group has been found guilty;
- ines or penalties imposed on the Group for environ-

mental crimes or damages.

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

CORPORATE GOVERNANCE

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

INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

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

MODEL 231

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

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

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 granting 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. Exercise of the options was contingent on reaching certain parameters, such as: Consolidated EBITDA and EBIT at 31 December 2009; the price of the shares, at that date, and specific environmental and employment objectives. Consolidated EBITDA and EBIT objectives and the price of the shares at 31 December 2009 were not reached; therefore, the options could not be exercised and exhibited on that date.
See the information document per article 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 MANAGEMENT SYSTEM

The 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 by gathering of the various company departments' operating and information requirement and selecting the SAP management system. In 2007 the Administration and Finance application components were implemented while 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 was launched in January 2009. The rewarding and active involvement of personnel at all levels of the organisation has made it possible to start up the new system, while avoiding unproductive downtime and costly budget overruns.
In January 2010, the Group completed the roll-out of the SAP system at Sabaf Do Brasil, to cover the main operating processes of the company. Implementation was the objective of a number of joint activities between the staff of Sabaf Italia and Sabaf do Brasil, carried out starting in mid 2009. It began with this project to align the operating-management model of Sabaf S.p.A. on a Group level.
Faringosi Hinges (currently the only Group production company not yet included in the integrated management system) will implement SAP in 2011.

PERSONAL DATA PROTECTION

With regard to Legislative Decree no. 196 of 30 June 2003, in 2009 the Group continued its work to ensure compliance with current regulations.
The Official Security Plan (OSP) relating to the year 2010 was drawn up in compliance with the law.

DERIVATIVE FINANCIAL INSTRUMENTS

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

ATYPICAL 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.

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

INFRAGROUP AND RELATED-PARTY TRANSACTIONS

Transactions between group companies, including those with the ultimate parent company, are regulated at arm's length conditions, as are those with related parties as defined by IAS 24. Details of infragroup and related-party transactions are provided in Note 34 to the consolidated financial statements and in Note 33 of the 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 to the tax authorities or to its parent company at the expiration dates. Having made the offsets and adjustments necessary, the parent company will handle payment and be liable for any damages the subsidiary may incur for the former's failure to comply.

MAJOR EVENTS OCCURRING AFTER YEAR-END AND EXPECTED BUSINESS PROGRESS

No significant events took place subsequent to the end of the year that would be considered worthy of mention.
Although the visibility of the reference market is still poor, the performance of orders and sales in early 2010 confirms the gradual improvement which began in the second half of 2009. Management expect that 2010 will be characterized by an advantageous development in the product mix, also thanks to sales of new energy-efficient products. Furthermore, changes to European regulations, which enter into force in April, favour greater demand for safety taps.

SABAF S.P.A. BUSINESS AND FINANCIAL STATUS

(Amounts in € '000)

	2009	2008	Change 2009/2008	Change %
Sales revenue	112,699	149,564	(36,865)	-24.6%
EBITDA	22,539	28,862	(6,323)	-21.9%
EBIT	11,960	19,132	(7,172)	-37.5%
Pre-tax profit	10,903	17,940	(7,037)	-39.2%
Net profit	8,373	14,025	(5,652)	-40.3%

BALANCE-SHEET AND FINANCIAL STATUS

Reclassification based on financial criteria is as shown below:

(Amounts in € '000)

	31/12/2009	31/12/2008
Non-current assets	83,011	83,674
Short term assets	59,378	69,019
Short-term liabilities	(28,907)	(29,870)
Net working capital	*30,471*	*39,149*
Reserves for risks and contingencies and Post-employment benefit reserve	*(3,159)*	*(3,417)*
Deferred income tax	*(7)*	*(2,367)*
Net capital employed	**110,316**	**117,039**
Net short-term financial position	200	(8,192)
Net medium/long-term financial position	(11,463)	(9,955)
Net financial position	**(11,263)**	**(18,147)**
Shareholders' equity	**99,053**	**98,892**

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

(Amounts in € '000)

	2009	2008
Net short-term financial position	***(8,192)***	***(10,001)***
Operating cash flow	24,797	10,448
Cash flow from investment activities	(9,702)	(10,371)
Cash flow from financing activities	(6,703)	1,732
Cash flow for the period	**8,392**	**1,809**
Net short-term financial position	***200***	***(8,192)***

Net financial debt and the net short-term financial position shown in the tables above are defined in compliance with the net financial position detailed in Note 20 of the statutory accounts, required by the CONSOB communication in 28 July 2006.

Sabaf recorded sales revenues of Euro 112.7 million in 2009, down 24.6% due to the crisis that affected all the company's markets. The decrease in sales was decidedly lower for the more innovative products (light alloy taps and special burners). Average sale prices are on average lower than 2008 by 4%, also in consideration of the reduction of the prices of raw materials. Profit clearly was also affected by the steep fall in revenue. While the decrease in EBITDA was less than proportional (Euro 22.5 million against Euro 28.9 million in 2008, 21.9% lower) the decrease in EBIT was 37.5% (Euro 12 million against Euro 19.1 million in 2008) and net profit was 40.3% (Euro 8.4 million against Euro 14 million at 31 December 2008).

In terms of percentages, EBITDA increased from 19.3% to 20.0% of revenues, EBIT decreased from 12.8% to 10.6%, EBT decreased from 12% to 9.7% while net profit decreased from 9.4% to 7.4% with the tax rate increasing from 21.8% to 23.2%. In 2009, the Company took advantage of the option allowed by Law 185/08 (the "Stimulus Decree") to realign the fiscal values to the financial statement values set forth according to international accounting standards. In application of this option, deferred taxes were reduced by Euro 2,217,000. A substitute tax of Euro 953,000 was paid in the year. The Company also benefited from removing 50% of the amount of a number of investments made in the second half year from the IRES taxable income, pursuant to Law 78/09 ("Tremonti-ter"); the resulting tax savings amounted to Euro 392,000.

The actual cost of brass, aluminium alloys and steel was down by 30% on 2008, while the cost of other components did not change significantly.
Despite the use of subsidised temporary lay-off benefits in the first four months of 2009, necessitated by the drastic fall in production volumes, the impact of the cost of labour on sales has increased from 18.9% in 2008 to 21.1% in 2009.
Net finance expense as a percentage of sales increased to 0.98% (0.85 % in 2008) due solely to falling revenue, as the Company made less use of debt financing and interest rates were also lower.

Operating cash flow (net profit plus depreciation & amortisation) went from Euro 23.8 million to Euro 18.8 million, equivalent to 16.7% of sales (vs. 16.3% in 2008).

In 2009 SABAF S.p.A. invested about Euro 10 million in fixed assets. The main investments of the year were made for new product industrialization and creation of third line for coating burner lids. Furthermore, the Company made investments in maintenance and replacement to keep the assets up to date.

Net working capital amounted to Euro 30.5 million vs. Euro 39.1 million in FY2008: As a percentage of sales, it rose to 27% versus the 26.1% in 2008 due to decrease in revenue, despite the large reduction in inventories, commercial receivables, and other receivables.

Self-financing generated by operating cash flow totalled Euro 24.8 million (22% on sales) vs. Euro 10.4 million in FY2008.

Net finance debt is equal to Euro 11.3 million, against the Euro 18.1 million at 31 December 2008. The net medium- to long-term financial position was negative by Euro 11.5 million and consisted of unsecured loans at 5 years, incurred at a EURIBOR 3-month rate plus a spread of 1.10% and 1.40%. The risk in exchange rate changes was partially hedged by entering into two interest rate swap contracts.
The net short-term financial position was positive by Euro 200,000 and consisted of cash and cash equivalents of Euro 5.5 million and short-term debts of Euro 5.3 million, formed in turn by medium- and long-term loans of Euro 3.6 million and by a short-term loan granted by the subsidiary Faringosi Hinges S.r.l. for Euro 1.7 million.

Shareholders' equity amounted to Euro 99.1 million, against Euro 98.9 million at year-end 2008. The ratio of net financial debt to shareholders' equity is 0.11 against 0.18 in 2008.

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 2009 financial year and Group shareholders' equity at 31/12/2009 with similar values of the parent company, Sabaf S.p.A.:

Descrption	31.12.2009		31.12.2008	
	Net profit	Shareholders' equity	Net profit	Shareholders' nequity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	**8,373**	**99,053**	**14,025**	**98,892**
Shareholders' equity and net result of consolidated companies	3,152	37,593	1,334	31,941
Elimination of consolidated equity investments' carrying value	0	(34,185)	0	(34,185)
Consolidation difference	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	(0)	0	(0)	0
Other	58	70	51	11
Group net profit and shareholders' equity	**11,583**	**109,133**	**15,410**	**103,261**

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 held at1 January 2009	Number of shares acquired	Number of shares sold	Number of shares at 31 /12/2009
Giuseppe Saleri	Indirect, through the subsidiary Giuseppe Saleri S.a.p.A.	6,525,003	-	-	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	11,000	1,000	-	12,000
Alberto Bartoli	Direct	7,500	-	-	7,500
Executives with strategic resonsabilities*	Direct	10,660	-	-	10,660

(*) includes two executives

ROLES PLAYED BY THE DIRECTORS IN OTHER LARGE COMPANIES

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

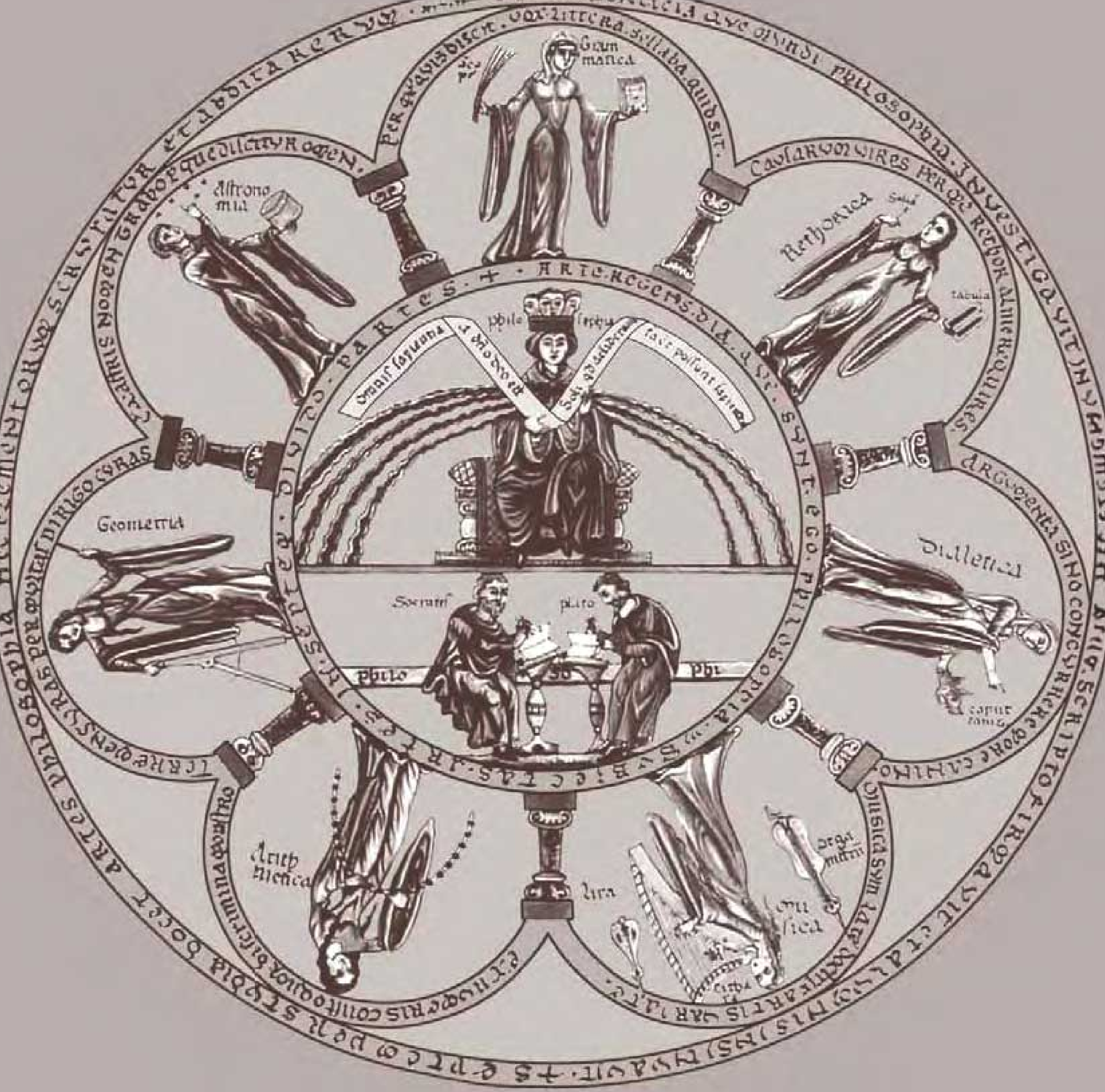
- Giuseppe Saleri is chairman of Giuseppe Saleri SapA, the financial company that controls Sabaf S.p.A.;
- Angelo Bettinzoli is an independent director of Gefran S.p.A.;
- Leonardo Cossu is chairman of the Board of Statutory Auditors of Guido Berlucchi & C. S.p.A. and Quifin S.p.A. and the auditor of Ambrosi S.p.A., Autostrada Brescia-Padova S.p.A, Bossini S.p.A., Brawo S.p.A. and Futurimpresa S.G.R. S.p.A.;
- Gregorio Gitti is chairman of Metalcam S.p.A., independent director of Edison S.p.A., member of the Board of Directors of Ansaldo STS S.p.A., member of the Board of Directors of Flos S.p.A., member of the Board of Directors of Librerie Feltrinelli s.r.l., member of the Board of Directors of Hopa S.p.A. and vice chairman of the Board of Directors of Tethys S.r.l.;
- Giuseppe Cavalli is managing director of Acciaierie di Sicilia (Gruppo Alfa Acciai);
- Salvatore Bragantini is chairman Pro Mac S.p.A. and Apei SGR and non-executive director of Interpump Group S.p.A.

ALLOCATION OF 2009 EARNINGS

First and foremost, we would like to thank our employees, the Statutory Auditors, the independent auditors and the control authorities for their invaluable cooperation. We recommend approving the financial statements for the year ended 31/12/2009 with the recommendation to allocate the year's profits of Euro 8,372,867 as follows:

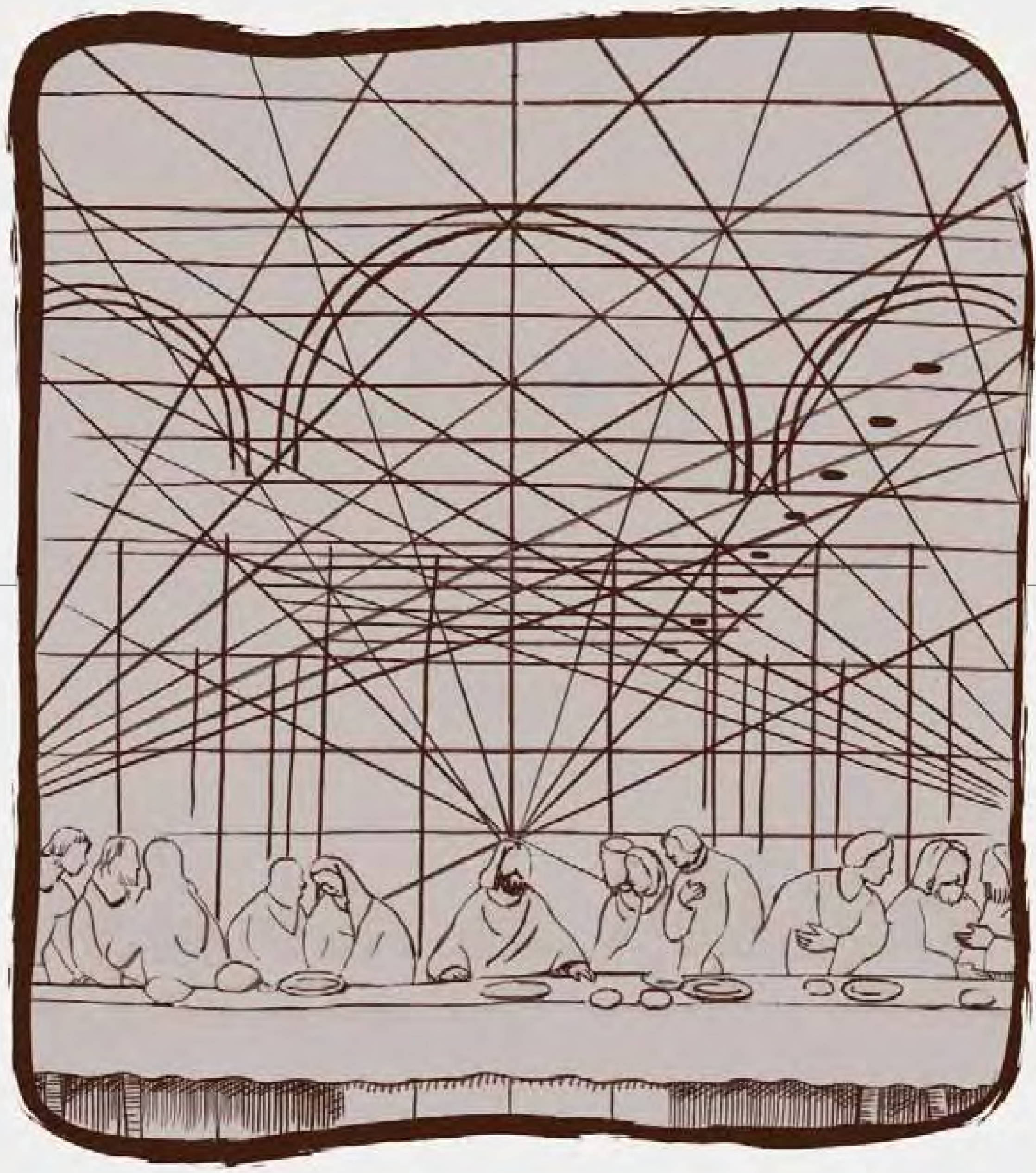
- to shareholders, a dividend of Euro 0.50 per share, paid as of 27/05/2010 (coupon date 24/05/2010). As regards own shares, we invite you to allocate the dividends on own shares held by the Company at the date the shares go ex-dividend, to the extraordinary reserve;
- the remainder to the extraordinary reserve.

Ospitaletto, 23 March 2010
The Board of Directors



Rethorica
Dialectica
Geometria
lira
tabula
caput canis
plato

6



CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2009

GROUP STRUCTURE AND CORPORATE BODIES

Direct parent company

SABAF S.p.A.

Subsidiaries and equity interest owned by the group

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

CORPORATE BODIES

Board of Directors

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

(*) independent directors

Board of Auditors

Chairman	Alessandro Busi
Statutory Auditor	Enrico Broli
Statutory Auditor	Renato Camodeca

Independent Auditor

Deloitte & Touche S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in € '000)

ASSETS	Notes	31.12.2009	31.12.2008	01.01.2008
NON-CURRENT ASSETS				
Property, plant and equipment	1	76,932	76,308	76,986
Investment property	2	8,734	8,505	9,529
Intangible assets	3	10,692	10,366	9,137
Equity investments	4	1,220	645	419
Non-current receivables	5	226	176	253
Deferred tax assets (prepaid taxes)	21	1,234	1,261	816
Total non-current assets		**99,038**	**97,261**	**97,140**
CURRENT ASSETS				
Inventories	6	21,447	27,893	27,935
Trade receivables	7	40,568	42,078	46,723
Tax receivables	8	2,485	2,530	1,520
Other current receivables	9	599	2,684	490
Cash and cash equivalents	10	9,154	11,229	7,262
Total current assets		**74,253**	**86,414**	**83,930**
Non current assets held for sale	11	**0**	**758**	**0**
TOTAL ASSETS		**173,291**	**184,433**	**181,070**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2009	31.12.2008	01.01.2008
SHAREHOLDERS' EQUITY				
Share capital	12	11,533	11,533	11,533
Retained earnings, other reserves		86,017	76,318	70,760
Net profit for period		11,583	15,410	15,828
Total equity attributable to the group parent company		*109,133*	*103,261*	*98,121*
Minority interest		0	0	0
Total shareholders' equity		**109,133**	**103,261**	**98,121**
NON-CURRENT LIABILITIES				
Loans	14	22,270	22,589	12,307
Staff severance fund and retirement reserves	16	2,916	3,007	3,581
General provisions	17	779	1,046	735
Deferred income tax	21	240	2,892	8,944
Total non current liabilities		**26,205**	**29,534**	**25,567**
CURRENT LIABILITIES				
Loans	14	6,041	18,120	17,765
Other financial liabilities	15	4	176	0
Trade payables	18	24,844	25,217	33,682
Tax payables	19	1,445	2,593	905
Other liabilities	20	5,619	5,532	5,030
Total current liabilities		**37,953**	**51,638**	**57,382**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**173,291**	**184,433**	**181,070**

CONSOLIDATED INCOME STATEMENT

(Amounts in € '000)

CONTINUING OPERATIONS	Note	31.12.2009	31.12.2008
OPERATING REVENUE AND INCOME			
Revenue	23	127,088	161,984
Other income	24	2,919	4,851
Total operating revenue and income		**130,007**	**166,835**
OPERATING COSTS			
Materials	25	(40,833)	(65,870)
Change in inventories		(6,852)	208
Services	26	(26,654)	(34,058)
Payroll costs	27	(26,438)	(30,094)
Other operating costs	28	(1,647)	(4,486)
Costs for capitalised in-house work		935	701
Total operating cost		**(101,489)**	**(133,599)**
OPERATING PROFIT BEFORE DEPRECIATION & AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)		**28,518**	**33,236**
Depreciation and amortisation		(12,195)	(11,937)
Capital gains/(losses) on disposal of non-current assets		(5)	56
Write-downs/write-backs of non-current assets		0	(164)
OPERATING PROFIT		**16,218**	**21,191**
Financial income		207	188
Financial expenses	29	(1,544)	(2,275)
Foreign exchange gains/losses	30	(333)	393
Profits and losses from equity investments		0	0
PRE-TAX PROFIT		**14,548**	**19,497**
Income tax	31	(2,965)	(4,087)
Minority interests		0	0
NET PROFIT FOR THE YEAR		**11,583**	**15,410**
EARNINGS PER SHARE (EPS)	32		
Base		**1.007 euro**	**1.336 euro**
Diluited		**1.007 euro**	**1.336 euro**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Amounts in € '000)

	Note	31.12.2009	31.12.2008
NET PROFIT FOR THE YEAR		**11,583**	**15,410**
Others profit/losses			
Forex differences from translation of items in currency		2,479	(2,032)
Gains/losses on cash flow hedges		121	(121)
Others		0	23
Total profit (losses) net of taxes		**2,600**	**(2,130)**
TOTAL PROFIT		**14,183**	**13,280**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(Amounts in € '000)

	Share capital	Share premium reserve	Legal reserve	Own shares	Conversion reserve	Cash flow hedge reserves	Other reserves	Net profit for period	Total Group shareholders' equity	Minority interest	Total shareholders' equity
Balance at 31 december 2007	**11,533**	**10,002**	**2,307**	**0**	**1,128**	**0**	**57,323**	**15,828**	**98,121**	**0**	**98,121**
Allocation of 2007 earnings											
- dividends paid								(8,073)	(8,073)		(8,073)
- to reserves							7,755	(7,755)	0		0
Acquisition own shares				(67)					(67)		(67)
Total profit at 31 Dec 2008					(2,032)	(121)	23	15,410	13,280		13,280
Balance at 31 december 2008	**11,533**	**10,002**	**2,307**	**(67)**	**(904)**	**(121)**	**65,101**	**15,410**	**103,261**	**0**	**103,261**
Allocation of 2008 earnings											
- dividends paid								(8,050)	(8,050)		(8,050)
- to reserves							7,360	(7,360)	0		0
Acquisition own shares				(261)					(261)		(261)
Total profit at 31 Dec 2009					2,479	121	0	11,583	14,183		14,183
Balance at 31 december 2009	**11,533**	**10,002**	**2,307**	**(328)**	**1,575**	**0**	**72,461**	**11,583**	**109,133**	**0**	**109,133**

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in € '000)

	31.12.2009	31.12.2008
A. OPENING NET SHORT-TERM FINANCIAL POSITION	***(7,067)***	***(10,503)***
B. CASH FLOW FROM OPERATIONS		
Net profit for the year before minority interests	11,583	15,410
Depreciation and amortisation	12,295	11,937
Change in deferred tax assets and liabilities	(2,625)	(6,497)
Capital (gains)/losses on asset disposal	5	(56)
(Write-up)/write-downs of non-current assets	0	164
Net change in post-employment benefit reserve	(91)	(574)
Net change in reserve for risks and contingencies	(267)	311
	20,900	***20,695***
Change in net working capital:		
Inventories	6,446	42
Trade receivables	1,510	4,645
Trade payables	(373)	(8,465)
Other receivables and payables	1,069	(1,014)
	8,652	**(4,792)**
Operating cash flow	**29,552**	**15,903**
C. CASH FLOW FROM INVESTMENT ACTIVITIES		
Investments in assets:		
Intangible	(1,118)	(1,745)
Tangible	(11,247)	(12,649)
Financial	(575)	(226)
Proceeds from disposal and disinvestment assets	1,076	2,064
TOTAL	**(11,864)**	**(12,556)**
D. CASH FLOW FROM FINANCING ACTIVITIES		
New loans (medium-/long-term portion)	6,464	14,269
Repayment of loans and transfer of current portion of medium-/long-term loans to current liabilities	(6,783)	(3,987)
Change in non-current financial receivables	(50)	77
Acquisition own shares	(261)	(67)
Other changes	121	(98)
Distribution of dividends	(8,050)	(8,073)
TOTAL	**(8,559)**	**2,121**
Foreign exchange differences	1,047	(2,032)
E. CASH FLOW DURING THE PERIOD (B+C+D)	***10,176***	***3,436***
F. CLOSING NET SHORT-TERM FINANCIAL POSITION (A+E)	***3,109***	***(7,067)***
NON-CURRENT FINANCIAL DEBT	***(22,270)***	***(22,589)***
NET FINANCIAL DEBT	***(19,161)***	***(29,656)***

ACCOUNTING STANDARDS

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

The Sabaf Group consolidated year-end accounts for the financial year 2009 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). They have been prepared in Euro, which is the currency used in the economies where the Group's principal operations are located. The amounts shown have been neared to the nearest thousand and are compared with the results for the consolidated financial statements of the previous financial year prepared in accordance with the same accounting standards. The report consists of the statement of financial position, the income statement, the comprehensive income statement, the statement of changes in equity, the cash flow statement, and these explanatory notes. The financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and is considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 24 and 25 of IAS 1) on the continuity of the company, including by virtue of its strong competitive position, high profitability and solid financial structure.

FINANCIAL STATEMENTS

The Group has adopted the following formats:

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

Use of these formats permits the most meaningful representation of the Group's financial position, income and cash flow.

With reference to Consob resolution 15519 of 27 July 2006, the income statement does not indicate separately proceeds and charges arising from non-recurring transactions or facts that are not frequently repeated in the usual course of the business. These entries are illustrated in Note 38, "Significant non-recurring transactions and events."

In compliance with paragraph 39 of Revised IAS 1 (2007) the statement of financial position shows the balances at 1 January 2008, including, for the initial values of the FY 2008, the reclassification described below.

CHANGES IN THE CLASSIFICATION OF ITEMS IN THE STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

For the best representation of the consolidated accounts, the Company reclassified the following entries on the comparative financial statements:

- On the statement of financial position at 31 December 2009, the book value of non-instrumental property was classified under Investment Properties; before 31 December 2008, these properties had been reported with Property, plant and equipment. In the statement of financial position at 31 December 2008, provided for comparison in these consolidated financial statements, non-instrumental property valued at Euro 8,505,000 was consequently reclassified with Investment property. In application of IAS 40, Investment property is valued at cost, in continuity with the assessment done previously.
- The consolidated income statement reports the sales of scrap materials generated by the production processes, amounting to Euro 2,388,000, in the item "Other income" of the income statement. Last year, on the other hand, they were reported with Revenue. In the income statement for FY 2008, provided for comparison in these financial statements, sales of scraps amounted to Euro 3,967,000 and were reclassified with "Other income".
- The consolidated income statement has classified the costs for pressing brass and for aluminium die casting executed by suppliers and amounting to Euro 4,613,000 under "Services". Last year, on the contrary, these costs were reported with Materials. In the FY 2008 income statement, provided for comparison in these consolidated financial statements, costs for outsourced pressing and die casting, amounting to Euro 6,358,000, were reclassified with Services.

The reclassifications described above have had no effect on the income statements, the interim results of the income statement, classification between current and non-current assets and liabilities, shareholders' equity and the net financial position of the Company.

SCOPE OF CONSOLIDATION

The scope of consolidation at 31 December 2009 did not undergo any changes compared with 31 December 2008 and included the direct parent company Sabaf S.p.A. and the following companies of which Sabaf S.p.A. possesses control:

- Faringosi Hinges S.r.l.
- Sabaf Immobiliare S.r.l.
- Sabaf do Brasil L.tda.

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

CONSOLIDATION POLICIES

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

The policies applied for consolidation are as follows:

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

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

c) Payable/receivable and cost/revenue items between consolidated companies and profits/losses arising from intercompany transactions are eliminated.

d) If minority shareholders exist, the portion of shareholders' equity and net profit for the period pertaining to them is posted in specific items of the consolidated statement of financial position and income statement.

TRANSLATION INTO EURO OF FINANCIAL STATEMENTS PREPARED SHOWING AMOUNTS IN FOREIGN CURRENCY

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 translated 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.

The exchange rates used for conversion into Euro of Sabaf do Brasil's annual report and accounts, prepared in Brazilian real, are shown in the following table:

Currency	Exchange rate at 31.12.09	Average exchange rate 2009	Exchange rate at 31.12.08	Average exchange 2008
Brazilian real	2.511	2.767	3.244	2.674

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

Description	31.12.2009		31.12.2008	
	Net profit	Shareholders' equity	Net profit	Shareholders' equity
Net profit and shareholders' equity of parent company Sabaf S.p.A.	8,373	99,053	14,025	98,892
Shareholders' equity and net result of consolidated companies	3,152	37,593	1,334	31,941
Elimination of consolidated equity investments' carrying value	0	(34,185)	0	(34,185)
Consolidation difference	0	6,602	0	6,602
Intercompany eliminations:				
Dividends	0	0	0	0
Other	58	70	51	11
Group net profit and shareholders' equity	**11,583**	**109,133**	**15,410**	**103,261**

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

ACCOUNTING POLICIES
The accounting standards and policies applied for preparation of consolidated financial statements as at 31 December 2009 are shown below:

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

Buildings	33
Light structures	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 asset value or useful working life are capitalised and depreciated according to the residual possibility of utilisation of the assets to which they refer.
Land is not depreciated.

LEASED ASSETS
Assets acquired via finance lease contracts are accounted for using the financial method and are reported with assets at their purchase value, less depreciation. Depreciation of such assets is reflected in the annual consolidated financial statements applying the same policy followed for own property, plant and equipment. Set against recognition of such assets, the amounts payable to the financial lessor are posted among short and 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 GAAP, net of amortisation recognised up to 31 December 2003 and any losses caused by impairment.
After the transition date, goodwill - as an intangible asset with an indefinite useful life - is not amortised but subjected annually to impairment testing to check for value loss, or more frequently if there are signs that the asset may have suffered impairment.

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

IMPAIRMENT LOSSES
At each reporting date, the Group reviews the carrying value of its tangible and intangible assets to see whether there are signs of impairment in the value of these assets. If such signs exist, the recoverable value is estimated in order to determine the amount of impairment. If it is not possible to estimate recoverable value individually, the Group estimates the recoverable value of the cash-generating unit (CGU) to which the asset belongs.
In particular, the recoverable value of the cash generating units (which generally coincide with the legal entity which the capitalized assets refer to) is verified by determining the value of use. The recoverable amount is the higher between the net selling price and

value in use. In measuring the value of use, future cash flows net of taxes, estimated on the basis of past experience, are discounted to their present value using a post-tax rate that reflects fair market valuations of the present cost of money and specific asset risk. The assumptions used for calculating value of use reflect the discount rate, growth rate, expected changes in selling prices and cost trends during the period used for calculation, during the period used in calculation. The rates of growth adopted are based on future market expectations for the industrial sector in which the Group operates. The changes in the sale prices are based on past experience and on the future expected changes in the market. The Group prepares operating cash flow forecasts based on the most recent budgets approved by the Board of Directors of consolidated companies, draws up forecasts for the next four years and determines the so-called "terminal" value (current value of perpetual income), based on a medium-long term growth rate for the specific sector.
If the recoverable amount of an asset (or CGU) is estimated to be lower than its carrying value, the asset's carrying value is reduced to the lower recoverable amount, recognising impairment of value in the income statement.
When there is no longer any reason for a write-down to be maintained, the carrying value of the asset (or CGU) is increased to the new value resulting from the estimate of its recoverable amount - but not beyond the net carrying value that the asset would have had if it had not been written down for impairment of value. Reversal of impairment loss is recognised as income in the income statement.

INVESTMENT PROPERTY
As allowed by IAS 40, non-operating buildings and property 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-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 they are collected, which is never prior 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 period-end. Provisions are recognised on the statement of financial position only when a legal or implicit 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 material, provisions are calculated by discounting estimated future cash flows at an estimated pre-tax discount rate such as to reflect fair market valuations of the present cost of money and specific risks associated with the liability.

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

SHARE-BASED PAYMENTS
The Group accords additional benefits to some executive directors and employees through equity participation plans (i.e. stock option plans). As established by IFRS 2 - Share-based Payment, these plans are a component of the 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 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 TRANSLATION OF FOREIGN CURRENCY ITEMS
Receivables and payables originally expressed in foreign currencies are translated into Euro at the exchange rates in effect on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are recognised in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on the transaction date.
At year-end, assets and liabilities expressed in

foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at year-end and related foreign exchange gains and losses are posted in the income statement. If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

The Group's business is exposed to financial risks relating to changes in exchange rates, commodity prices, and interest rates. The company uses derivative instruments (mainly forward contracts on currencies and commodity options) to hedge risks stemming from changes in foreign currencies relating to irrevocable commitments or to future transactions planned. The Group does not use derivatives for trading purposes.
Derivatives are initially recognised at cost and are then adjusted to their 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 recognised on 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.

FINANCIAL INCOME

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

FINANCIAL EXPENSES

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

INCOME TAXES FOR THE YEAR

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

DIVIDENDS

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

OWN SHARES

Treasury shares reduce 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.

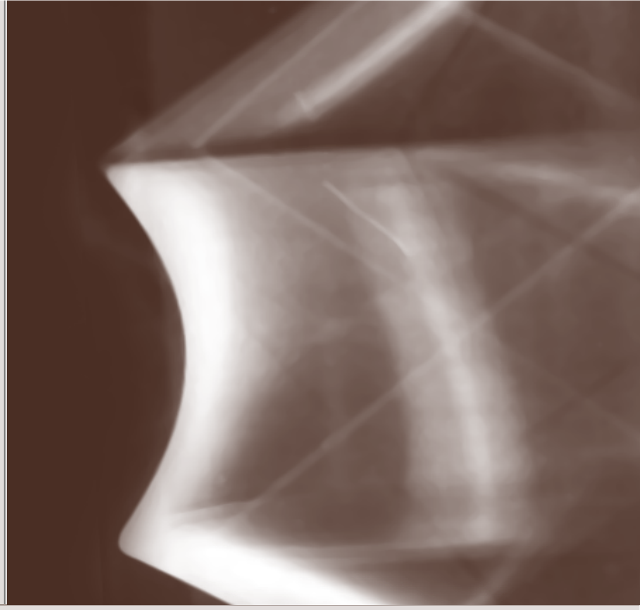
NEW ACCOUNTING STANDARDS

As of 1 January 2009, the following changes were made to the accounting policies, which were applied in these consolidated accounts.
Revised IAS 1 - Presentation of financial statements - The revised version of the standard introduced the obligation to present the components that make up the profit of the period and charges and income measured directly to shareholders' equity for transactions other than those made with shareholders. The transactions executed with shareholders, along with the results of the comprehensive income statement, are presented in the schedule of changes to shareholders' equity. With reference to the comprehensive income statement, the Group has opted to present this information in two separate schedules, incorporating the schedules presented with the schedule of profits and losses reported in shareholders' equity.
IAS 23 - Borrowing Costs - introduces the obligation to capitalise finance charges directly attributable to the acquisition, construction or production of qualify-

ing assets in which the Company has initiated the investment. This principle has already been adopted by the Group.
IFRS 2 - Share-based payments - The standard was revised to specify the definition of the conditions of accrual and lay down the accounting treatment of a plan cancelled pursuant to failure to achieve one of the necessary conditions. Adoption of this change has not had any impact on the financial position or on the performance of the Group.
IAS 38 - Intangible assets - The amendment states that promotional and advertising costs must be reported in the income statement. This amendment was applied by the Company retrospectively from 1 January 2009; however, its adoption has not led to any accounting effects because before application of the amendment these types of charges were reported in the income statement according to the methods set forth by the amendment.
IFRS 8 - Operating Segments - The new standard prin**ciple replaces IAS 14** - Segment Reporting and requires companies to base the information reported in segment disclosures on elements that management uses to make operating decisions. These consolidated financial statements contain segment disclosure broken down according to the operating segments of the Sabaf Group.
Amendment to IFRS 7 - Financial Instruments: Disclosures - The amendment, which must be applied as from 1 January 2009, requires disclosure on determining the fair value of financial instruments by hierarchical levels. Adoption of this standard has not had any impact on the assessment and reporting of accounting entries, but only on the type of disclosure presented in the notes.

The Group did not adopt the following amendments and interpretations not yet applicable in advance:
Amendment to IFRS 8 - Operating segments - The amendment must be applied as from 1 January 2010 and requires entities to disclose the total value of the assets for each segment subject to reporting, if the value given is periodically at the highest operating decision-making level. This information was previously required, including in the absence of this condition.
Amendment to IAS 36 - Impairment of assets - The amendment, which must be applied prospectively as from 1 January 2010 and requires that every CGU or group of CGU on which goodwill is allocated for impairment testing is not larger than an operating segment defined by paragraph 5 of the IFRS 8, before the aggregation allowed by paragraph 12 of the same IFRS based on similar economic characteristics or other similar features.

COMMENTS ON PRINCIPAL ACCOUNTS OF THE STATEMENT OF FINANCIAL POSITION



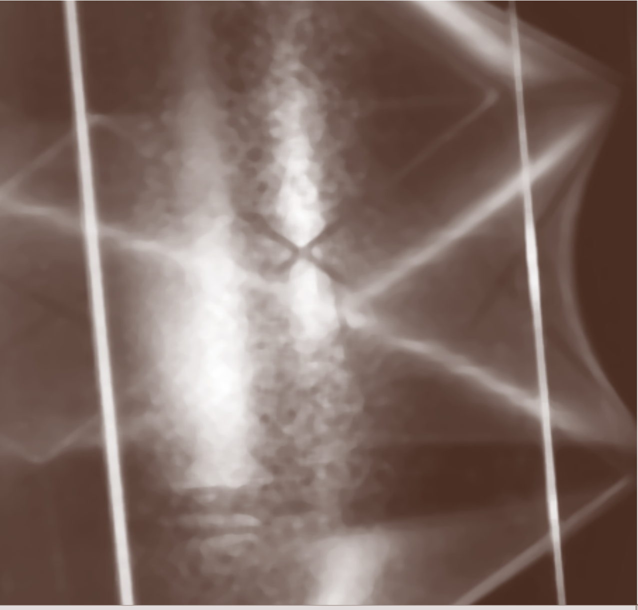
1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	TOTAL
COST					
At 31 December 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)
Reclassification of investment property	(8,014)	-	-	(4,190)	(12,204)
At 31 December 08	**37,668**	**131,363**	**22,900**	**7,299**	**199,230**
Increases	5,491	7,670	1,759	2,110	17,030
Disposals	(15)	(62)	(169)	-	(246)
Reclassification to another item	-	-	-	(6,404)	(6,404)
Forex differences	675	995	283	-	1,953
At 31 December 09	**43,819**	**139,966**	**24,773**	**3,005**	**211,563**
ACCUMULATED AMORTISATION					
At 31 December 07	**8,946**	**89,078**	**18,047**	**-**	**116,071**
Depreciation during the year	1,239	8,809	1,452	-	11,500
Eliminations for disposals	-	(438)	(102)	-	(540)
Forex differences	(27)	(270)	(113)	-	(410)
Reclassification of investment property	(3,699)	-	-	-	(3,699)
At 31 December 08	**6,459**	**97,179**	**19,284**	**-**	**122,922**
Depreciation during the year	1,074	8,652	1,539	-	11,265
Eliminations for disposals	-	(54)	(158)	-	(212)
Reclassification to another item	7	50	9	-	66
Forex differences	36	388	166	-	560
At 31 December 09	**7,576**	**106,215**	**20,840**	**-**	**134,631**
CARRYING VALUE					
At 31 December 09	**36,243**	**33,751**	**3,933**	**3,005**	**76,932**
At 31 December 08	**31,209**	**34,184**	**3,616**	**7,299**	**76,308**

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

	31.12.2009	31.12.2008	Change
Land	6,413	6,186	227
Industrial buildings	29,830	25,023	4,807
TOTAL	**36,243**	**31,209**	**5,034**

The carrying value of industrial property includes an amount of Euro 9,227,000 (Euro 8,315,000 in 2008) relating to industrial buildings and related land held under finance leases.
The principal investments made during the year were for industrialisation of new products, construction of the third die-casting island of the burners in Brazil and the third line for enamelling of burner covers. Furthermore, the Company made investments in maintenance and replacement to keep the assets up to date.
As of 31 December 2009, the Group found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not subject to impairment testing.



2. INVESTMENT PROPERTY

COST	
At 31 December 07	0
Reclassification from another item	12,204
At 31 December 08	**12,204**
Increasesi	758
Disposals	(289)
At 31 December 09	**6,675**
ACCUMULATED AMORTISATION	
At 31 December 07	**0**
Reclassification to another item	3,699
At 31 December 08	**3,699**
Depreciation during the year	240
At 31 December 09	**3,939**
CARRYING VALUE	
At 31 December 09	**8,734**
At 31 December 08	**8,505**

This account includes the Group's property not used for operating purposes (principally residential properties for lease or sale), which were classified until 31 December 2008 under property, plant and equipment. This account increased during the year for work to complete several apartments. At 31 December 2009, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of property, plant and equipment was not submitted to impairment testing.

3. INTANGIBLE ASSETS

	Goodwill	Patents, software and know-how	Development costs	Other intangible assets	Total
COST					
At 31 December 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**
Increases	-	541	21	657	1,219
Decreases/reclassification	-	(7)	-	(101)	(108)
At 31 December 2009	**9,008**	**4,881**	**1,548**	**1,490**	**16,927**
AMORTISATION					
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**
Quota 2009	-	626	153	13	792
Decreases	-	(7)	-	-	(7)
At 31 December 2009	**2,406**	**2,797**	**641**	**391**	**6,235**
CARRYING VALUE					
At 31 December 2009	**6,602**	**2,084**	**907**	**1,099**	**10,692**
At 31 December 2008	**6,602**	**2,169**	**1,039**	**556**	**10,366**

Goodwill recognised on the statement of financial position stems principally from acquisition of Faringosi Hinges S.r.l. and is allocated to the “Hinges” CGU (cash generating unit). The Group verifies the ability to recover goodwill at least once a year or more frequently if there may be value impairment. The recoverable value is determined by calculating the value of use, through the discounting of forecast cash flows. Expected operating cash flows arise from estimates in the 2010 budget and in the company business plan for the following four years, approved by the Board of Directors of the subsidiary and carefully reviewed by the Board of the parent company at a meeting prior to the meeting called to approve the draft financial statements. Estimates were determined by considering past experience and operating on prudent expectations of future progress in the reference sector; these are augmented by the so-called "terminal" value, which expresses the operating flows that the cash generating unit is expected to generate from the sixth year to infinity and determined on the basis of a perpetual annuity. The terminal value represents a significant portion of the value of use, calculated based on a discount rate of 7.5% and a growth rate of 1.75%.

The value of use determined according to the aforementioned assumptions and valuation techniques is consistent with the net book value of the assets allocated to the Hinges CGU, Euro 9.8 million. Therefore, it was not impaired.

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

	GROWTH RATE		
DISCOUNT RATE	**1.50%**	**1.75%**	**2.00%**
7.25%	9,825	10,181	10,571
7.50%	9,419	9,742	10,094
7.75%	9,045	9,339	9,659

The extreme sensitivity of value of use to changes in the discount rate or growth rate, in a context where revenue trends (as measured by volume and value) and production costs, and the discounting rate itself, depend on the evolution in macroeconomic variables that cannot be controlled by the Company, lead the Board of Directors to believe that it cannot rule out that future performance by these variables different from what may be reasonably foreseeable on the basis of current knowledge, and used for the assumptions underlying prospective data, might entail impairment of goodwill. In this context of uncertain forecasting of future events not tied to controllable variables, the Directors will systematically monitor final equity and income figures in deciding whether to adjust forecasts and promptly reflect any impairment.

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

The principal capital expenditures during the financial year were made on activities focused on implementing the SAP management system and research and development costs, which are recognised under other intangible assets for projects still underway at the end of the financial year.

4. EQUITY INVESTMENTS

	31.12.2009	31.12.2008	Change
Sabaf Mexico S.A. de c.v.	548	548	-
Sabaf U.S. Corp.	139	65	74
Sabaf Appliance Components (Kunshan) Co.	500	-	500
Other shareholdings	33	32	1
TOTAL	**1.220**	**645**	**575**

In the course of 2009, Sabaf U.S. paid Euro 74,000 as capital increase to finance the activities of the subsidiary company.
Sabaf Appliance Components (Kunshan) Co. Ltd was also incorporated. This Chinese company, 100% owned by Sabaf S.p.A., was not yet operational in 2009. Its share capital is Euro 500,000.
These equity investments were not consolidated since they were not yet operational or irrelevant for the purposes of consolidation.

5. NON-CURRENT RECEIVABLES

	31.12.2009	31.12.2008	Change
Tax receivables	203	86	117
Guarantee deposits	12	12	-
Others	11	78	(67)
TOTAL	**226**	**176**	**50**

6. INVENTORIES

	31.12.2009	31.12.2008	Change
Raw materials	6,813	8,952	(2,139)
Semi-processed goods	9,826	13,953	(4,127)
Finished products	6,531	5,791	740
Obsolescence provision	(1,723)	(803)	(920)
TOTAL	**21,447**	**27,893**	**(6,446)**

The lower value of final inventories at 31 December 2009 is a result of the decrease in volumes of business and the lower prices of key commodities. During the year, the level of inventories was constantly controlled to optimize the level of invested capital. The obsolescence provision amounted to Euro 427,000 for raw materials, Euro 533,000 for semi-processed goods, and Euro 763,000 for finished products (respectively Euro 197,000, Euro 203,000, and Euro 403,000 at 31 December 2008), increasing at year-end due to the higher quantities of stagnant material and at risk of obsolescence.
It should also be noted that the change in inventories booked in the 2009 income statement differs from the change in statement of financial position due to differences between the average and current exchange rate of the Sabaf do Brasil subsidiary.

7. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2009	31.12.2008	Change
Italy	22,093	23,579	(1,486)
Western Europe	4,202	2,792	1,410
Eastern Europe and Turkey	6,215	9,839	(3,624)
Asia	3,744	1,744	2,000
South America	2,692	2,018	674
Africa	2,742	2,067	675
US, Canada & Mexico	647	953	(306)
Oceania	56	273	(217)
Gross total	**42,391**	**43,265**	**(874)**
Provision for doubtful accounts	**(1,823)**	**(1,187)**	**(636)**
NET TOTAL	**40,568**	**42,078**	**(1,510)**

At 31 December 2009, the value of trade receivables did not change significantly compared with 31 December 2008 and reflected the performance of sales essentially comparable with the last quarter of the year. Average payment terms did not change significantly. At 31 December 2009, trade receivables included balances of some USD 3.9 million, posted at the EUR/USD exchange rate as at 31 December 2009, i.e. 1.4406. The amount of trade receivables recognised in accounts includes Euro 12.6 million of receivables assigned on a no-recourse basis to factoring companies (Euro 16.6 million at 31 December 2008). In view of the difficult market context and the resulting higher risk of insolvency by certain clients, the doubtful account provision at 31 December 2009 was adjusted to Euro 1,823,000.

The breakdown of trade receivables by age is as follows:

	31.12.2009	31.12.2008	Change
Current receivables (not past due)	38,753	39,064	(311)
Outstanding up to 30 days	1,957	2,743	(786)
Outstanding from 30 to 60 days	295	790	(495)
Outstanding from 60 to 90 days	136	12	124
Outstanding over 90 days	1,250	656	594
TOTAL	**42,391**	**43,265**	**(874)**

8. TAX RECEIVABLES

	31.12.2009	31.12.2008	Change
From Giuseppe Saleri SapA per IRES	1,334	1,334	-
From inland revenue for VAT	491	542	(51)
Other tax receivables	660	654	6
TOTAL	**2,485**	**2,530**	**(45)**

For three years beginning in FY 2004, the Group's Italian subsidiaries participated in the domestic tax consolidation programme pursuant to Articles 117 and 129 of the Consolidated Income Tax Act (TUIR). This option was renewed in 2007 for another three years. Under this scheme, the ultimate parent company Giuseppe Saleri S.a.p.A. acts as the consolidating company and the receivable reported in the financial statements at 31 December 2009 refer to the balance for income taxes transferred to the parent company.

9. OTHER CURRENT RECEIVABLES

	31.12.2009	31.12.2008	Change
Receivables from factoring companies	167	2,208	(2,041)
Receivables from suppliers	174	319	(145)
Other	258	157	101
TOTAL	**599**	**2,684**	**(2,085)**

Receivables from factoring companies refer to trade receivables assigned on a no-recourse basis and reported a decrease on last year further to payments received. Trade receivables refer to bonuses allowed from some suppliers and on returns on purchases.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to Euro 9,154,000 as at 31 December 2009 (Euro 11,229,000 at 31 December 2008) consisted of bank current account balances and on-demand cash investments. At 31 December 2009, cash and cash equivalents included positive bank current account balances of about USD 1.3 million, stemming from collection of trade receivables and posted at the current Euro/USD exchange rate, equal to 1.4406.

11. NON-CURRENT ASSETS HELD FOR SALE

	31.12.2009	31.12.2008	Change
Residential buildings	-	758	(758)
TOTAL	**0**	**758**	**(758)**

At 31 December 2008, this item refers to some residential units developed by the Group and sold during 2009.

12. SHARE CAPITAL

The parent company's share capital consisted of 11,533,450 shares with a par value of Euro 1.00 each. On 2 August 2007, the shareholders' meeting approved the increase in share capital from Euro 11,533,450 to Euro 12,133,450, through issue of up to 600,000 ordinary SABAF shares of the par value of Euro 1.00 each to service the stock option plan, described in Note 37.

13. TREASURY SHARES

In FY 2009, the parent company acquired 28,556 treasury shares at an average unit price of Euro 9.135. After these acquisitions, the Group holds 32,503 treasury shares at 31 December 2009, equal to 0.282% of the share capital.

14. LOANS

	31.12.2009		31.12.2008	
	Current	Non Current	Current	Non Current
Property leasing	1,380	5,425	1,201	6,386
Property mortgages	838	5,382	746	6,248
Unsecured loans	3,646	11,463	2,045	9,955
Overdrafts and other loans	177	-	14,128	-
TOTAL	**6,041**	**22,270**	**18,120**	**22,589**

All outstanding bank loans are denominated in Euro, at a floating rate linked to the Euribor. The Company incurred a new 5-year loan in the amount of Euro 6 million, a transaction that allows the Company to avoid short-term bank loans. As described in Note 35, the risk in exchange rate changes was partially hedged by entering into two interest rate swap contracts.
Property mortgage loans are secured by mortgages on Group properties. Finance lease payments are guaranteed to the lessor through rights on leased assets. These loans are not bound by contractual provisions (covenants). The fair value of loans approximates carrying value.

15. OTHER FINANCIAL LIABILITIES

	31.12.2009	31.12.2008	Change
Derivative instruments on currency	-	176	(176)
Derivative instruments on interest rates	4	-	4
TOTAL	**4**	**176**	**(172)**

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

16. STAFF SEVERANCE FUND [TFR] AND RETIREMENT RESERVES

	31.12.2009		31.12.2008	
	TFR	Retirement reserves	TFR	Retirement reserves
Liabilities at 1 January	**2,929**	**78**	**3,511**	**70**
Social security costs	21	10	-	8
Financial expenses	152	-	169	-
Amounts paid out	(196)	(78)	(751)	-
Liabilities at 31 December	**2,906**	**10**	**2,929**	**78**

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

FINANCIAL ASSUMPTIONS

	31.12.2009	31.12.2008
Discount rate	4.10%	5.90%
Inflation	2.00%	2.00%

DEMOGRAPHIC ASSUMPTIONS

	31.12.2009	31.12.2008
Mortality rate	ISTAT 2002 M/F	ISTAT 2002 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	variable from 3% to 6% per year according to company	6% per year on all ages
Advance pay outs	variable from 5% to 7% per year according to company	1% per year based on age/seniority
Retirement age	65 years for men and 60 for women, 40 years of employment	65 years for men and 60 fowomen, 40 years of employment

17. GENERAL PROVISIONS

	31.12.2008	Allocations	Forex differences	Uses	31.12.2009
Reserve for agents' indemnities	525	-	-	(66)	459
Product warranty reserve	47	60	-	(47)	60
Reserve for legal risks	393	130	29	(378)	174
Reserve for tax risks	81	5	-	-	86
TOTAL	**1,046**	**195**	**29**	**(491)**	**779**

The reserve for agents' indemnities covers amounts payable to agents if the group terminates the agency relationship.
The product warranty reserve covers the risk of returns or charges by customers for products already sold. It was utilised in full the year against returns from prior year sales and replenished at year end, leading to a provision on the basis of past experience.
The reserve for tax risks was provisioned to cover the contingent liability connected with an official tax audit of the parent company for the 2002 and 2003 tax periods, described in Note 31.
The legal risks reserve accrued for the contingent liabilities resulting from several labour lawsuits and a lawsuit with a former supplier was partially used in a lawsuit that was settled during the financial year, and remains on the books at 31 December 2009 to cover the remaining litigation.
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.

18. TRADE PAYABLES

The geographical breakdown of trade payables was as follows:

	31.12.2009	31.12.2008	Change
Italy	20,689	21,816	(1,127)
Western Europe	3,558	3,051	507
Eastern Europe and Turkey	224	115	109
Asia	25	28	(3)
South America	275	200	75
US, Canada & Mexico	73	7	66
TOTAL	**24,844**	**25,217**	**(373)**

At 31 December 2009, the value of trade payables did not change significantly from the balance a year earlier; the average payment terms were not subject to change. The amount of trade payables in currencies other than the euro was insignificant.

19. TAX PAYABLES

	31.12.2009	31.12.2008	Change
IRPEF withholdings	651	793	(142)
For substitute tax, pursuant to Law 244/07	768	1,750	(982)
Other tax payables	26	50	(24)
TOTAL	**1,445**	**2,593**	**(1,148)**

In 2008 Sabaf S.p.A. and Faringosi Hinges s.r.l. opted for substitute taxation of the previous, off-balance sheet deductions pursuant to Law 244/07. The payable recognised on 31 December 2009 is for the last instalment of the tax, due in June 2010.

20. OTHER CURRENT PAYABLES

	31.12.2009	31.12.2008	Change
Due to employees	3,148	3,113	35
Due to social security institutions	1,871	1,733	138
Due to agents	352	438	(86)
Advances from customers	84	20	64
Other current payables	164	228	(64)
TOTAL	**5,619**	**5,532**	**87**

21. DEFERRED TAX ASSETS AND LIABILITIES

	31,12,2009	31,12,2008
Deferred tax assets (prepaid taxes)	1,234	1,261
Deferred tax liabilities	(240)	(2,892)
Net position	**994**	**(1,631)**

Below are the key items of deferred tax liabilities and assets and their movements during FY 2009 and previous years.

	Amortisation, depreciation and leasing	Provisions and value adjustments	Deferred development costs	Fair value derivatives	Other	Total
At 31 December 2007	**(6,543)**	**316**	**(517)**	**0**	**(1,384)**	**(8,128)**
To the 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 shareholders' equity	-	-	-	55	-	55
At 31 December 2008	**(1,179)**	**718**	**(462)**	**55**	**(763)**	**(1,631)**
To the income statement	(68)	378	-	-	(156)	154
To the income statement for application of the substitute tax pursuant to Decree Law 185/08	1,129	-	462	-	935	2,526
To shareholders' equity	-	-	-	(55)	-	(55)
At 31 December 2009	**(118)**	**1,096**	**0**	**0**	**16**	**994**

At 31 December 2009 the liability for deferred tax liabilities fell by Euro 2,526,000 due to application of the option to realign the tax values of certain accounts to the values of the accounts prepared in accordance with IFRS through the imposition of a substitute tax, as described in Note 31 hereunder.

At the balance-sheet date, the Group had unused tax losses carried forward totalling about Euro 9 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.

22. 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:

		31.12.2009	31.12.2008	Change
A.	Cash	14	13	1
B.	Positive balances of unrestricted bank accounts	7,123	10,749	(3,626)
C.	Other liquidities	2,017	467	1,550
D.	**Cash and cash equivalents (A+B+C)**	**9,154**	**11,229**	**(2,075)**
E.	Current bank payables (Note 14)	177	14,128	(13,951)
F.	Current portion of non-current debt (Note 14)	5,864	3,992	1,872
G.	Other current financial payables (Note 15)	4	176	(172)
H.	**Current financial debt (E+F+G)**	**6,045**	**18,296**	**(12,251)**
I.	**Current net financial debt**	**(3,109)**	**7,067**	**(10,176)**
J.	Non-current bank payables	16,845	16,203	642
K.	Other non-current financial payables	5,425	6,386	(961)
L.	**Non-current financial debt**	**22,270**	**22,589**	**(319)**
M.	**Net financial debt**	**19,161**	**29,656**	**(10,495)**

The consolidated statement of cash flow shows the change in net current financial debt (letter I. of this statement).

COMMENTS ON PRINCIPAL INCOME STATEMENT ACCOUNTS

23. REVENUE

In FY 2009, sales revenues totalled Euro 127,088,000, down Euro 34,896,000 (-21.5%) from FY 2008.

REVENUE BY PRODUCT FAMILY

	2009	2008	Change	Change %
Brass valves	26,928	39,188	-12,260	-31.3%
Light alloy valves	15,276	15,923	-647	-4.1%
Thermostats	13,746	18,948	-5,202	-27.5%
Standard burners	36,358	46,818	-10,460	-22.3%
Special burners	17,173	18,255	-1,082	-5.9%
Accessories	9,089	12,435	-3,346	-26.9%
Total gas components	*118,570*	*151,567*	*-32,997*	*-21.8%*
Hinges	*8,518*	*10,417*	*-1,899*	*-18.2%*
TOTAL	**127,088**	**161,984**	**-34,896**	**-21.5%**

As described in detail in the Report on Operations, to which the reader is referred, the downturn in sales was caused by the crisis that hit all the principal markets on which the Group operates. The contraction in sales was extremely limited for the Group's most innovative products (light alloy valves and special burners). Average sale prices were about 4% lower on average than in FY 2008, considering the reduction in prices for key raw materials.

GEOGRAPHICAL BREAKDOWN OF REVENUE

	2009	%	2008	%	Change %
Italy	52,654	41.4%	68,750	42.4%	-23.4%
Western Europe	10,233	8.1%	13,443	8.3%	-23.9%
Eastern Europe and Turkey	27,978	22.0%	38,840	24.0%	-28.0%
Asia	13,186	10.4%	11,350	7.0%	16.2%
Central and South America	13,473	10.6%	13,378	8.3%	0.7%
Africa	6,107	4.8%	12,390	7.7%	-50.7%
US, Canada & Mexico	3,348	2.6%	3,309	2.0%	1.2%
Oceania	109	0.1%	524	0.3%	-79.2%
TOTAL	**127,088**	**100%**	**161,984**	**100%**	**-21.5%**

The downturn in sales in Europe reflects the fall in demand on all continental markets. Going against the trend on other leading markets, sales in Asia and Central and South America were up, due to the excellent results achieved on the Middle Eastern market and the Brazilian market. Sales in Africa were conditioned by the major cutback in inventories by leading customers.

24. OTHER INCOME

	31.12.2009	31.12.2008	Change
Sale of raw materials	2,388	3,967	(1,579)
Rental income	117	123	(6)
Use of provisions for risks and contingencies	103	96	7
Contingent income	75	198	(123)
Dedicated equipment	-	158	(158)
Royalties	-	141	(141)
Other income	236	168	68
TOTAL	**2,919**	**4,851**	**(1,932)**

The downturn in sales of scrap materials from production processes resulted from lower production volumes and lower raw material prices (and consequently the price of raw materials).

25. MATERIALS

	31.12.2009	31.12.2008	Change
Raw materials and purchases	37,777	61,222	(23,445)
Consumables	3,056	4,648	(1,592)
TOTAL	**40,833**	**65,870**	**(25,037)**

The actual costs for purchase of key raw materials (brass, aluminium and steel alloys) were about 30% lower on average than in 2008. Purchase costs for other components did not change significantly.

26. COSTS FOR SERVICES

	31.12.2009	31.12.2008	Change
Outsourced processing	11,264	15,140	(3,876)
Natural gas and power	3,038	4,648	(1,610)
Maintenance	3,501	4,610	(1,109)
Freight, carriage, transport	1,442	1,648	(206)
Commissions	1,022	1,331	(309)
Advisory services	1,027	724	303
Directors' remuneration	986	900	86
Temporary agency workers	294	549	(255)
Travel expenses and allowances	352	420	(68)
Canteen	353	449	(96)
Insurance	319	339	(20)
Other payroll costs	3,056	3,300	(244)
TOTAL	**26,654**	**34,058**	**(7,404)**

The decrease in service costs generally reflects the Group's lower business volumes. The reduction in outsourcing also includes the effect of greater recourse to in-sourcing for die-casting of burners in the first part of 2009, in view of better exploiting in-house production capacity during a period of severe downturn in production volumes.

27. PAYROLL COSTS

	31.12.2009	31.12.2008	Change
Salaries and wages	17,173	18,325	(1,152)
Social security costs	5,683	6,015	(332)
Temporary agency workers	2,148	4,504	(2,356)
Post-employment benefit reserve and other payroll costs	1,434	1,250	184
TOTAL	**26,438**	**30,094**	**(3,656)**

IAverage Group headcount in FY 2009 totalled 670 employees (518 blue-collars, 143 white-collars and supervisors, and 9 managers), as opposed to 638 in 2008 (530 blue-collars, 145 white-collars and supervisors, and 8 managers). Average temporary staff numbered 75 in 2009 (140 in 2008).

28. OTHER OPERATING COSTS

	31.12.2009	31.12.2008	Change
Losses on receivables	92	2,975	(2,883)
Write down of receivables	786	591	195
Other administration expenses	83	124	(41)
Other taxes	292	287	5
Contingent liabilities	234	72	162
Provisions for risks	160	390	(230)
Others provisions	-	47	(47)
TOTAL	**1,647**	**4,486**	**(2,839)**

The losses on receivables recognised in 2008 referred almost exclusively to elimination of the receivables from Antonio Merloni Group companies, which has been in receivership since October 2008. The write-down of receivables was recognised to adjust the associated reserve for the greater risk of insolvency on the part of certain customers, considering the difficult market context and existence of past-due accounts..

29. FINANCIAL EXPENSES

	31.12.2009	31.12.2008	Change
Interest paid to banks	860	1,413	(553)
Interest paid on finance lease contracts	132	321	(189)
Banking expenses	344	230	114
Other finance expense	208	311	(103)
TOTAL	**1,544**	**2,275**	**(731)**

The lower interest paid to banks was a consequence of lower interest rates and the lower level of average financial debt during FY 2009 compared with FY 2008.

30. FOREIGN EXCHANGE GAINS/LOSSES

During FY 2009, the Group realised net foreign exchange losses of Euro 333,000 (net gains of Euro 393,000 in 2008). This was mainly due to depreciation of the US dollar against the Euro and the Brazilian real.

31. INCOME TAX

	31.12.2009	31.12.2008	Change
Current income tax	4,635	8,017	(3,382)
Deferred income tax	(154)	(918)	764
Substitute tax, under Decree Law 185/08	1,072	-	1,072
Reversal of deferred taxes under Decree law 185/08	(2,526)	-	(2,526)
Substitute pursuant to Law 244/07	-	2,469	(2,469)
Reversal of deferred tax liabilities, under Law 244/07	-	(5,524)	5,524
Balance of previous FY	(62)	43	(105)
TOTAL	**2,965**	**4,087**	**(1,122)**

During 2009, Sabaf S.p.A. and Faringosi Hinges S.r.l. took advantage of the option, set forth by Decree Law 185/08 (also known as "Stimulus Law") to realign the tax values to the balance-sheet values for some financial-statement items according to international accounting standards. Upon application of this option, deferred taxes of Euro 2,526,000 were reversed. The substitute tax of Euro 1,072,000 was paid during the financial year.
Current income taxes include corporate income tax (IRES) of Euro 3,023,000 and Italian regional business tax (IRAP) of Euro 1,350,000 and Brazilian income tax of Euro 262,000 (respectively Euro 6,134,000, Euro 1,827,000 and Euro 56,000 in 2008).

TAX STATUS

During 2005 the direct parent company Sabaf SpA was the subject of an official tax audit by the Italian Inland Revenue authority concerning FY 2003 (subsequently partly extended also to FY 2002) and relating to corporate income tax, VAT, and Italian regional business tax (Italian acronym = IRAP). The Company filed appeals against the notices of assessment in trial court and the court of appeal, obtaining partial reversal of the levied assessments. A total of Euro 263,000 for taxes, penalties and interest was paid in FY 2009 and previous years in connection with this litigation. A risk reserve of Euro 86,000 was recognised at 31 December 2009 to cover the residual contingent liability, considering the possibility of another appeal to the court of last instance.

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

	31.12.2009	**31.12.2008**
Theoretical income tax	4,001	5,362
Tax effect on permanent differences	96	157
Taxes relating to previous years	(63)	174
Deferred tax liabilities not allocated	(5)	(142)
Tax effect resulting from different foreign rates	75	-
Use of tax losses	(624)	(120)
Effect of tax reduction on investments under Decree Law 78/09	(397)	-
Other differences	(42)	(29)
Income taxes recognised on financial statements, excluding IRAP and substitute taxes (current and deferred)	**3,041**	**5,402**
IRAP (current and deferred)	1,378	1,740
Substitute taxes	1,072	2,469
Reversal of deferred taxes for application of substitute	(2,526)	(5,524)
TOTAL	**2,965**	**4,087**

Theoretical taxes were calculated by applying the current corporate income tax (IRES) rate, i.e. 27.50% to the pre-tax result. As illustrated in the table, the Group benefited from exclusion of 50% of the amount of certain investments made in the second half from the IRES taxable basis in FY 2009, pursuant to Decree Law 78/09 (the "Tremonti-ter Decree"). 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 distorting effects.

32. EARNINGS PER SHARE

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

PROFIT

(Amounts in € '000)

	2009	**2008**
Net profit for period	11,583	15,410

NUMBER OF SHARES

	2009	**2008**
Weighted average number of ordinary shares for calculating basic EPS	11,507,348	11,533,450
Dilution effect arising from potential ordinary shares	---	---
Weighted average number of ordinary shares for calculating diluted EPS	11,507,348	11,533,450

The basic earnings per share were calculated on the average number of outstanding shares, by deducting the treasury shares in the portfolio, which totalled 26,152 in 2009.
The diluted earnings per share were calculated on the basis of shares resolved but not yet subscribed.

33. DIVIDENDS

On 28 May 2009, shareholders were paid a dividend of Euro 0.70 per share (total dividends of Euro 8,050,000), unchanged from 2008.
For the current year, directors have proposed payment of a dividend of Euro 0.50. This dividend is subject to approval of shareholders at the annual shareholders' meeting and was not included under liabilities.
The dividend proposed for 2009 is payable to all shareholders at 24 May 2010 and will available for payment on 27 May 2010. The total estimated dividend to be paid is Euro 5,750,000.

34. INFORMATION BY BUSINESS SEGMENT

The following information is provided by operating segment for FY 2009. The Group's head office reporting procedures changed effective 1 January 2009, the date on which the new management information system became operational. Therefore, no comparative information is available for 2008.

	Gas components	Hinges	Non-allocated entries	Total
Sales	118,661	8,427	-	127,088
Operating income (loss)	15,441	777	-	16,218
Total assets	138,351	13,109	21,831	173,291

35. INFORMATION ON FINANCIAL RISK

Categories of financial instruments
Pursuant to IFRS 7, the following table illustrates the breakdown of financial instruments into the categories envisaged by IAS 39.

	31.12.2009	31.12.2008
FINANCIAL ASSETS		
Amortised cost		
Cash and cash equivalents	9,154	11,229
Trade receivables and other receivables	41,167	44,762
Other financial assets	-	-
Income statement fair value		
Financial assets held for trading	-	-
Designated financial assets	-	-
Comprehensive income statement fair value		
Financial instruments	-	-
Equity investments	-	-
Cash flow hedges	-	-
FINANCIAL LIABILITIES		
Income statement fair value		
Liabilities held for trading	-	-
Comprehensive income statement fair value		
Cash flow hedges	4	176
Amortised cost		
Loans	28,311	40,709
Trade liabilities	24,844	25,217

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

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

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

CREDIT RISK MANAGEMENT

The Company has trade receivables with domestic appliance manufacturers, multinational groups and smaller manufacturers present on a few or individual markets. 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 30% of the maximum theoretical exposure) is transferred by assignment through no-recourse factoring transactions to primary financial institutions.
Credit risk relating to customers operating in emerging economies is generally offset by the use of collection through confirmed letters of credit.

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 dollars represented about 8% of all sales in FY 2009. Derivative contracts written in 2008 expired during 2009, consisting in forward sales of USD 6,000,000 at the rate of USD 1.4435/EUR, made to hedge a portion of the revenues in dollars expected during the financial year. There were no outstanding forex financial instruments existing at 31 December 2009.

Sensitivity analysis

In regard to financial assets and liabilities in U.S. dollars at 31 December 2009, a hypothetical and immediate revaluation of 10% of the Euro against the dollar would have caused a loss of about Euro 294,000.

INTEREST RATE RISK MANAGEMENT

The Group's financial debt is regulated at floating rates. In order to reach an optimal mix between floating rates and fixed rates in the structure of loans, the Group uses derivative financial instruments by designating them as cash flow hedges. During FY 2009 the Group wrote two interest rate swaps (IRS), in view of transforming (beginning in 2010) the interest rate of two loans for the same amount, repayable in instalments by 2014. The following table illustrates the key features of the IRS existing at 31 December 2009 (there were no derivative financial instruments on interest rates at 31 December 2008):

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

Sensitivity analysis

In regard to the financial assets and liabilities at floating rates existing at 31 December 2009 and 31 December 2008, a hypothetical increase (decrease) in interest rates by 100 basis points from the exact interest rates on the same date, when all other variables are held constant, would have the effects illustrated in the following table:

	31.12.2009		31.12.2008	
	Financial expenses	Cash flow hedge reserves	Financial expenses	Cash flow hedge reserves
Increase by 100 basis point	170	161	387	-
Decrease by 100 basis points	(143)	(167)	(336)	-

COMMODITY PRICE RISK MANAGEMENT

A significant portion of the company's acquisitions are represented by brass and aluminium alloys. Sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients any changes in the prices of commodities during the year. The Group protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months or, alternatively, with derivative financial instruments. In FY 2009 and 2008, the Group did not use derivative financial instruments on commodities. To stabilize the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, establishing prices with suppliers for immediate and deferred delivery.

LIQUIDITY RISK MANAGEMENT

The Group operates with a low debt ratio (net financial debt / shareholders' equity at 31 December 2009 equal to 0.18) and has unused short-term lines of credit of about Euro 16 million. To minimize the risk of liquidity, the Administration and Finance Department:

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

Following is an analysis by expiration date of the financial payables at 31 December 2009 and 31 December 2008:

31.12.2009	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	15,109	15,901	997	2,992	11,912	-
Property mortgages	6,219	6,684	-	955	3,819	1,910
Finance leases	6,806	7,787	382	1,179	3,842	2,384
On-demand lines of credit and overdrafts	177	177	177	-	-	-
Total financial debts	**28,311**	**30,549**	**1,556**	**5,126**	**19,573**	**4,294**
Trade liabilities	24,844	24,844	24,844	-	-	-
TOTAL	**53,155**	**55,393**	**26,400**	**5,126**	**19,573**	**4,294**

31.12.2008	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	12,000	12,908	384	2,077	10,457	-
Property mortgages	6,994	7,693	-	1,010	3,819	2,864
Finance leases	7,587	9,223	370	1,065	5,215	2,573
On-demand lines of credit and overdrafts	14,128	14,128	14,128	-	-	-
Total financial debts	**40,709**	**43,952**	**14,882**	**4,152**	**19,491**	**5,437**
Trade liabilities	25,217	25,217	25,217	-	-	-
TOTAL	**65,296**	**69,169**	**40,099**	**4,152**	**19,491**	**5,437**

The various due dates are based on the period between the balance sheet date and the contractual expiration date of the commitments, the values indicated in the chart correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at 31 December 2009 and increased by the spread set forth in each contract.

HIERARCHICAL LEVELS FOR FAIR VALUE MEASUREMENT

For the financial instruments recognised at their fair value on the statement of financial position, IFRS 7 requires that these values be classified on the basis of a hierarchy of levels that reflect the materiality of the inputs used to determine fair value. The following levels are defined:

- Level 1 - quotations measured on an active market for assets or liabilities that are measured;
- Level 2 - inputs other than the listed prices indicated at the preceding subindent and that are directly (prices) indirectly (derived from prices) on the market;
- Level 3 - inputs that are based on observable market data

The following table illustrates the assets and liabilities measured at their fair value at 31 December 2009, by hierarchical level of fair value measurement.

	Level 1	Level 2	Level 3	Total
Other financial liabilities (Derivatives on currency)	-	4	-	4
TOTAL LIABILITY	**0**	**4**	**0**	**4**

36. RELATED-PARTY TRANSACTIONS

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

Impact of related-party transactions on balance sheet accounts

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

	Total 2008	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Trade receivables	42,078	-	102	-	102	0.24%
Tax receivables	2,530	1,334	-	-	1,334	52.73%

Impact of related-party transactions on income statement accounts

	Total 2009	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Revenue	127,088	-	46	-	46	0.18%
Other income	2,919	60	-	-	60	6.79%
Materials	(40,833)	-	-	(7)	(7)	0.01%
Services	(26,654)	-	(139)	-	(139)	0.52%

	Total 2008	Parent company	Unconsolidated subsidiaries	Other related parties	Total related parties	Impact on the total
Revenue	161,984	-	297	-	297	0.18%
Other income	4,851	60	-	-	60	1.24%
Materials	(65,870)	-	-	(9)	(9)	0.01%

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.

Relations with the subsidiaries are strictly commercial.

Transactions with other related parties in FY 2009 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:

	31.12.2009	31.12.2008
Directors' remuneration	836	742
Directors' salaries	151	152
Non-cash benefits given to directors	-	-
Remuneration of statutory auditors	57	49
TOTAL	**1,044**	**943**

37. SHARE-BASED PAYMENTS

At the general meeting held on 2 August 2007, the shareholders of Sabaf S.p.A. approved a stock options plan for the Company's directors and employees. The plan involves granting 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 by the general meeting. The options may be exercised only 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 targets for consolidated EBITDA and EBIT and share price at 31 December 2009 were not met; therefore, the options were not exercisable and expired on that date.

No costs for the aforementioned stock options plan were recognised on the consolidated income statement for FY 2009 and FY 2008.

38. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

	Shareholders' equity		Net profit for period		Net financial debt	Cash flows	
Financial statement items (A)	**109,133**		**11,583**		**19,161**	**10,176**	
Temporary unemployment compensation	(804)	-0.7%	(804)	-6.9%	-	-	
Tax effects	221	0.2%	221	1.9%	-	-	
For substitute tax, pursuant to Law 185/08	(1,454)	-1.3%	(1,454)	-12.6%	-	1,072	10.5%
Total non-recurring transactions (B)	**(2,037)**	**-1.8%**	**(2,037)**	**-17.6%**	**0**	**1,072**	**10.5%**
Figurative financial statement value (A+B)	**107,096**		**9,546**		**19,161**	**11,248**	

In response to the reduced level of business between January and May, the Group made recourse to the Government's Layoffs Benefits Fund for about 70 employees on average. This institute allowed a Euro 804,000 reduction in employee costs, gross of the associated tax effect of Euro 221,000.

In addition, as detailed in Note 29, during in the year Sabaf S.p.A. and Faringosi Hinges s.r.l. took advantage of the option, set out in Article 15 of Decree Law 185/08 (also known as "Stimulus Law") to realign the tax values to the balance-sheet values for some financial statement items according to international accounting standards. In application of this option, deferred tax liabilities were reversed for Euro 2,562,000 and a substitute tax of Euro 1,072,000 was recognised. As a result, taxes recognised on the income statement of these financial statements were lower by Euro 1,454,000.

39. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to CONSOB memorandum of 28 July 2006, the Group declares that no atypical and/or unusual transactions as defined by the CONSOB memorandum were executed during 2009

40. COMMITMENTS

Guarantees issued

The Sabaf Group has issued suretyships to guarantee consumer and mortgage loans granted by Banco di Brescia to Group employees for a total of Euro 5,573,000 (Euro 5,021,000 at 31 December 2008).

41. CONSOLIDATION AREA AND SIGNIFICANT EQUITY INVESTMENTS

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

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

UNCONSOLIDATED COMPANIES

Company name	Registered office	Share capital	Shareholders	% Ownership
Sabaf Mexico S.A. de C.V.	San Luis Potosi (Messico)	MXN 8,247,580	Sabaf S.p.A.	100%
Sabaf US Corp.	Plainfield (USA)	USD 300,000	Sabaf S.p.A.	100%
Sabaf Appliance Components Ltd.	Kunshan (Cina)	EUR 500,000	Sabaf S.p.A.	100%

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE

42. GENERAL INFORMATION ON THE PARENT COMPANY

Registered and administrative office:
Via dei Carpini, 1 - 25035 Ospitaletto (Brescia)
Contacts:
Tel: +39 030 - 6843001 - Fax: +39 030 - 6848249
E-mail: info@sabaf.it
Sito web: http://www.sabaf.it

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

APPENDIX

INFORMATION AS REQUIRED BY ARTICLE 149-DUODECIES OF THE CONSOB ISSUERS REGULATION

The following table, prepared pursuant to Article 149-duodecies of the Consob Issuers' Regulation, shows fees relating to FY 2009 for independent auditing services and for services other than audits performed provided by the same firm. There were no services rendered by entities belonging to the firm's network.

(Amounts in € '000)

	Party that distributes the service	Recipient	Consideration for the year 2009
Audit	Deloitte & Touche S.p.A.	Direct parent company	53
	Deloitte & Touche S.p.A.	Italian subsidiaries	18
	Network Deloitte	Sabaf do Brasil	12
Other services	Deloitte & Touche S.p.A.	Direct parent company	12[23]
TOTAL			**95**

23 - Agreed audit procedures for interim operating reports

Certification of the Consolidated Annual Report and Accounts, pursuant to Article 154 bis of Legislative Decree 58/98

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

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

of the administrative and accounting principles for drafting the consolidated annual report and accounts in 2009.

They also certify that:

- the Consolidated Annual Report and Accounts:
    - were prepared in accordance with the international accounting policies recognized in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and Article 9 of Leg. Decree 38/2005;
    - correspond with the results of the accounting entries and ledgers;
    - provide a true and fair view of the financial position, income statement, balance sheet, and cash flow of the issuer and the companies included in the scope of consolidation;

- the interim report includes a credible analysis of the performance, operating result and financia position of 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, 23 March 2010

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

Deloitte.

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

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

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
SABAF S.p.A.

1. We have audited the consolidated financial statements of SABAF S.p.A. and subsidiaries (the "SABAF Group"), which comprise the consolidated statement of financial position as of December 31, 2009, and the consolidated income statement, consolidated comprehensive income statement, statement of changes in consolidated equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

   The consolidated financial statements present for comparative purposes prior year data and the statement of financial position as of January 1, 2008. As explained in the notes to the consolidated financial statements, the Directors have adjusted certain comparative data related to the prior year's consolidated financial statements and to the statement of financial position as of January 1, 2008 derived from the consolidated financial statements as of December 31, 2007 with respect to the figures previously reported and audited by other auditors, on which they issued their auditors' reports dated March 30, 2009 and March 31,2008, respectively. These modifications to comparative data and related disclosures included in the notes to the consolidated financial statements have been audited by us for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2009.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SABAF Group as of December 31, 2009, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of the SABAF Group as of December 31, 2009.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
March 31, 2010

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

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STATUTORY ANNUAL REPORT & ACCOUNTS AT 31 DECEMBER 2009

STATEMENT OF FINANCIAL POSITION

(Amounts in € '000)

ASSETS	Notes	31.12.2009	31.12.2008	01.01.2008
NON-CURRENT ASSETS				
Property, plant and equipment	1	39,285,152	40,770,874	41,895,528
Investment property	2	3,007,184	3,207,428	3,378,398
Intangible assets	3	4,219,112	3,804,636	2,593,870
Equity investments	4	35,404,032	34,829,949	34,103,948
Non-current receivables		9,708	9,689	45,377
Deferred tax assets (prepaid taxes)	19	1,085,591	1,051,092	622,545
Total non-current assets		**83,010,779**	**83,673,668**	**82,639,666**
CURRENT ASSETS				
Inventories	5	19,349,865	25,586,394	24,771,009
Trade receivables	6	37,501,763	38,433,563	42,243,325
Tax receivables	7	1,681,619	1,727,175	711,297
- of which from related parties		*1,270,195*	*1,223,376*	*176,885*
Other current receivables	8	844,297	3,271,116	357,864
Cash and cash equivalents	9	5,550,507	8,144,479	4,310,280
Total current assets		**64,928,051**	**77,162,727**	**72,393,775**
TOTAL ASSETS		**147,938,830**	**160,836,395**	**155,033,441**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2009	31.12.2008	31.12.2008
SHAREHOLDERS' EQUITY				
Share capital	10	11,533,450	11,533,450	11,533,450
Retained earnings, other reserves		79,146,219	73,332,970	65,907,761
Net profit for period		8,372,867	14,025,161	15,666,331
Total shareholders' equity		**99,052,536**	**98,891,581**	**93,107,542**
NON-CURRENT LIABILITIES				
Loans	12	11,463,084	9,954,692	16,591
Staff severance fund and retirement reserves	14	2,598,514	2,633,791	3,125,443
General provisions	15	560,380	783,246	621,882
Deferred income tax	19	6,573	2,367,399	8,018,539
Total non-current liabilities		**14,628,551**	**15,739,128**	**11,782,455**
CURRENT LIABILITIES				
Loans	12	5,345,594	16,190,025	14,311,424
- of which from related parties	33	1,700,000	0	0
Other financial liabilities	13	4,499	146,541	0
Trade payables	16	22,482,838	22,485,136	30,314,485
Tax payables	17	1,312,447	2,341,678	823,639
Other liabilities	18	5,112,365	5,042,306	4,693,896
Total current liabilities		**34,257,743**	**46,205,686**	**50,143,444**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**147,938,830**	**160,836,395**	**155,033,441**

INCOME STATEMENT

(Amounts in € '000)

CONTINUING OPERATIONS	Notes	31.12.2009	31.12.2008
OPERATING REVENUE AND INCOME			
Revenue	21	112,698,619	146,047,895
Other income	22	2,618,642	4,252,094
Total operating revenue and income		**115,317,261**	**150,299,989**
OPERATING COSTS			
Materials	23	(35,503,543)	(58,223,926)
Change in inventories		(6,236,529)	815,385
Services	24	(26,848,616)	(33,619,263)
- from related parties	33	(3,266,958)	(3,071,731)
Payroll costs	25	(23,833,944)	(27,535,616)
Other operating costs	26	(1,431,859)	(3,562,254)
Costs for capitalised in-house work		896,173	687,961
Total operating cost		**(92,958,318)**	**(121,437,713)**
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION, CAPITAL GAINS/LOSSES, WRITE-DOWNS/NON-CURRENT ASSETS		**22,358,943**	**28,862,276**
Depreciation and amortisation	1,2,3	(10,404,666)	(9,789,651)
Capital gains/(losses) on disposal of non-current assets		5,226	59,523
OPERATING PROFIT		**11,959,503**	**19,132,148**
Finance income		16,993	70,299
Finance expenses	27	(1,105,543)	(1,305,474)
Foreign-exchange gains/losses	28	31,608	42,553
PRE-TAX PROFIT		**10,902,561**	**17,939,526**
Income tax	30	(2,529,694)	(3,914,365)
NET PROFIT FOR THE YEAR		**8,372,867**	**14,025,161**

COMPREHENSIVE INCOME STATEMENT

(Amounts in € '000)	31.12.2009	31.12.2008
NET PROFIT FOR THE YEAR	**8,373**	**14,025**
Others profit/losses		
Cash flow hedges	100	(101)
TOTAL PROFITS	**8,473**	**13,924**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in € '000)

	Share Capital	Share Premium reserve	Legal Reserve	Own shares	Reserve Cash hedge flows	Other reserves	Profit of the year	Total Shareholders' equity
Balance at 31/12/2007	**11,533**	**10,002**	**2,307**	**0**	**0**	**53,600**	**15,666**	**93,108**
Allocation of 2007 earnings								
- Dividends paid							(8,073)	(8,073)
- to reserves						7,593	(7,593)	0
Acquisition own shares				(67)				(67)
Total profit at 31/12/2008					(101)	0	14,025	13,924
Balance at 31/12/2008	**11,533**	**10,002**	**2,307**	**(67)**	**(101)**	**61,193**	**14,025**	**98,892**
Allocation of 2008 earnings								
- Dividends paid							(8,051)	(8,051)
- to reserves						5,974	(5,974)	0
Acquisition own shares				(261)				(261)
Total profit at 31/12/2009					100	0	8,373	8,473
Balance at 31/12/2009	**11,533**	**10,002**	**2,307**	**(328)**	**(1)**	**67,167**	**8,373**	**99,053**

CASH FLOW STATEMENT

(Amounts in € '000)

		31.12.2009	31.12.2008
A.	***OPENING NET SHORT-TERM FINANCIAL POSITION***	***(8,192)***	***(10,001)***
B.	**CASH FLOW FROM OPERATIONS**		
	Net profit for period	8,373	14,025
	Depreciation and amortisation	10,404	9,790
	Change in deferred tax assets and liabilities	(2,395)	(6,079)
	(Write-up)/write-downs, capital gains/capital losses	(5)	(60)
	Net change in post-employment benefit reserve	(35)	(491)
	Net change in reserve for risks and contingencies	(223)	161
		16,119	***17,346***
	Change in net working capital:		
	Inventories	6,236	(815)
	Trade receivables	932	3,809
	Trade payables	(2)	(7,830)
	Other receivables and payables	1,512	(2,062)
		8,678	***(6,898)***
	Operating cash flow	**24,797**	**10,448**
C.	**CASH FLOW FROM INVESTMENT ACTIVITIES**		
	Investments in non-current assets:		
	Intangible	(1,213)	(1,725)
	Tangible	(7,925)	(9,660)
	Financial	(574)	(726)
	Proceedes from disposal and retirement of fixed assets	10	1,740
	TOTAL	**(9,702)**	**(10,371)**
D.	**CASH FLOW FROM FINANCING ACTIVITIES**		
	New loans (medium-/long-term portion)	6,000	12,000
	Repayment of loans and transfer of current portion of medium-/long-term loans to current liabilities	(4,492)	(2,062)
	Change in non-current financial receivables	0	35
	Change in treasury shares	(261)	(67)
	Distribution of dividends	(8,050)	(8,073)
	Other changes	100	(101)
	TOTAL	**(8,211)**	**(8,241)**
E.	**CASH FLOW DURING THE PERIOD (B+C+D+E)**	**8,392**	**1,809**
F.	**CLOSING NET SHORT-TERM FINANCIAL POSITION (A+E)**	***200***	***(8,192)***
	NON-CURRENT FINANCIAL DEBT	***(11,463)***	***(9,955)***
	NET FINANCIAL DEBT	***(11,263)***	***(18,147)***

EXPLANATORY NOTES

ACCOUNTING STANDARDS

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

Sabaf S.p.A. individual year-end accounts for the financial year 2009 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union. Reference to IFRS also includes all current International Accounting Standards (IAS).

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

The financial statements have been prepared on a historical-cost basis except for some revaluations of property, plant and equipment undertaken in previous years, and is considered a going concern. The Company found that, despite the difficult economic and business climate, there were no significant uncertainties (as defined by paragraphs 24 and 25 of IAS 1) on the continuity of the Company, including due to the strong competitive position, high profitability and solidity of the financial structure.

Sabaf S.p.A., as the parent company, also prepared the consolidated financial statements of the Sabaf Group at 31 December 2009.

FINANCIAL STATEMENTS

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

- current and non-current assets and current and non-current liabilities are stated separately in the statement of financial position;
- an income statement that expresses costs using a classification based on the nature of each item;

the cash flow statement presents financial flows originating from operating activity, using the indirect method.

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

With reference to CONSOB resolution 15519 of 27 July 2006, the income statement does not provide separate indication of income and charges arising from non-recurring transactions or facts that are not frequently repeated in the usual course of the business. These entries are noted in Note 34 under "Significant non-recurring transactions and events".

In compliance with paragraph 39 of the revised IAS 1 (2007), the statement of financial position shows the balances at 1 January 2008, including, for the initial values of the FY 2008, the reclassification described below.

CHANGES IN THE CLASSIFICATION OF ITEMS IN THE STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

For the best representation of the annual report and accounts, the Company reclassified the following entries in the comparatives schedules:

- In the statement of financial position at 31 December 2009, the book value of non-instrumental property was classified under Investment Property; before 31 December 2008, these properties had been reported with Property, plant and equipment. In the statement of financial position at 31 December 2008, provided for comparison in these statutory accounts, non-instrumental property valued at Euro 3,207,000 was consequently reclassified with Investment property. In application of IAS 40, Investment property is valued at cost, in continuity with the assessment done previously.
- These statutory accounts report the sales of scrap materials generated by the production processes, amounting to Euro 1,926,000, in the item "Other income" of the income statement. Last year, they were reported with Revenue. In the income statement for FY 2008, provided for comparison in these financial statements, sales of scraps amounted to Euro 3,516,000 and were reclassified with "Other income".
- In the income statement of these financial statements, costs for pressing brass and for aluminium die-casting executed by suppliers and amounting to Euro 4,613,000 have been classified under "Services". Last year, on the contrary, these costs were reported with Materials. In the FY 2008 income statement, provided for comparison in this annual report, costs for outsourced pressing and die-casting, amounting to Euro 6,358,000, were reclassified with Services.

The reclassifications described above have had no effect on the net result, the interim results of the income statement, the classification between current and non-current assets and liabilities, on shareholders' equity or on the net financial positions of the Company.

ACCOUNTING POLICIES

The accounting standards and policies applied for preparation of the financial statements as at 31 December 2009 are described below.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Land is not depreciated.

LEASED ASSETS

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

INVESTMENT PROPERTY

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

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

INTANGIBLE ASSETS

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

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

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

The SAP management system is amortised in five years.

IMPAIRMENT OF VALUE

At each balance-sheet date, Sabaf S.p.A. reviews the carrying value of its property, plant and equipment, intangible assets and equity investments to see

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

EQUITY INVESTMENTS AND NON-CURRENT RECEIVABLES
Equity investments not classified as held for sale are recognised in accounts at cost.
Non-current receivables are stated at their presumed realisable value.

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

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

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

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

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

SHARE-BASED PAYMENTS
The Company accords additional benefits to some executive directors and employees via 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 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 recognised at the face value. The portion of interest included in their face value and not yet payable at period-end is deferred to future periods.

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

POLICY FOR CONVERSION OF FOREIGN-CURRENCY ITEMS
Receivables and payables originally expressed in foreign currencies are converted into Euro at the exchange rates in force on the date of the transactions originating them. Forex differences realised upon collection of receivables and payment of payables in foreign currency are posted in the income statement. Income and costs relating to foreign-currency transactions are converted at the rate in force on transaction date.
At year-end, assets and liabilities expressed in foreign currencies, with the exception of non-current items, are posted at the spot exchange rate in force at year-end and related foreign exchange gains and losses are posted in the income statement.

If conversion generates a net gain, this value constitutes a non-distributable reserve until it is effectively realised.

DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

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

REVENUE RECOGNITION

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

FINANCE INCOME

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

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 earned against which they can be recovered. Current and deferred tax assets and liabilities are offset when income taxes are levied by the same tax authority and when there is a legal right to settle on a net basis. Deferred tax assets and liabilities are measured using the tax rates that are expected to be applicable in the years when temporary differences will be realised or settled.

DIVIDENDS

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

TREASURY SHARES

Treasury shares are booked 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 in accordance with IFRS requires management to make estimates and assumptions that affect the carrying values of assets and liabilities and the disclosures on contingent assets and liabilities as of the balance sheet date. Actual results could differ from these estimates. Estimates are used to measure tangible and intangible assets subject to impairment testing, as described earlier, as well as to measure the ability to recover prepaid tax assets, credit risks, inventory obsolescence, depreciation and amortisation, asset write-downs, employee benefits, taxes, and other provisions and reserves. Estimates and assumptions are regularly reviewed and the effects of each change immediately reflected in the income statement.

NEW ACCOUNTING STANDARDS

As of 1 January 2009, the following changes were made to the accounting policies, which were applied in these accounts.

Revised IAS 1 "Presentation of the financial statements" - The revised version of the standard introduced the obligation to present the components that make up the profit of the period and charges and income measured directly to shareholders' equity for transactions other than those made with shareholders. The transactions executed with shareholders, along with the results of the comprehensive income statement, are presented in the schedule of changes to shareholders' equity. With reference to the comprehensive income statement, the Company has opted to present this information in two separate schedules, incorporating the schedules presented with the schedule of profits and losses reported in shareholders' equity.

IAS 23 "Finance charges" - introduces the obligation to capitalize finance charges directly attributable to the acquisition, construction or production of qualifying assets in which the Company has initiated the investment. This principle has already been adopted by the Company.

IFRS 2 "Share based payments" - The principle was revised to specify the definition of the conditions of maturity and lay down the accounting treatment of a plan cancelled pursuant to failure to achieve one of the necessary conditions. Adoption of this change has not had any impact on the financial position or on the performance of the Company.

IAS 38 "Intangible assets" - The amendment states that promotional and advertising costs must be reported in the income statement. This amendment was applied by the Company retrospectively from 1 January 2009, however, its adoption has not led to any accounting effects because before application of the amendment these types of charges were reported in the income statement according to the methods set forth by the amendment.

IFRS 8 "Operating Segments" - The new principle replaces IAS 14 "Segment Reporting" and requires companies to base the information reported in segment report on elements that management uses to make operating decisions. Adoption of this principle has had no effect on the statutory financial statements; in the consolidated accounts, segment reporting distinguishes between the operating segments where the Sabaf Group operates.

Amendment to IFRS 7 - "Financial instruments: Supplementary information" - The amendment, which must be applied as from 1 January 2009, requires disclosure on determination of the fair value of financial instruments by hierarchical levels. Adoption of this principle has had no effect in terms of the assessment and reporting of accounting entries, but only on the type of disclosure presented in the notes.

The Company did not adopt following amendments and interpretations not yet applicable in advance :

Amendment to IFRS 8 - "Operating segments" - The amendment must be applied as from 1 January 2010 and requires companies to disclose the total value of the assets for each segment subject to reporting, if the value given is periodically at the highest operating decision-making level. This information was previously required, even in the absence of this condition.

Amendment to IAS 36 - "Impairment of assets" - The amendment must be applied prospectively as from 1 January 2010 and requires that every CGU or group of CGU on which goodwill is allocated for impairment testing is not larger than an operating segment defined by paragraph 5 of the IFRS 8, before the aggregation allowed by paragraph 12 of the same IFRS based on similar economic characteristics or other similar features.

COMMENT ON THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

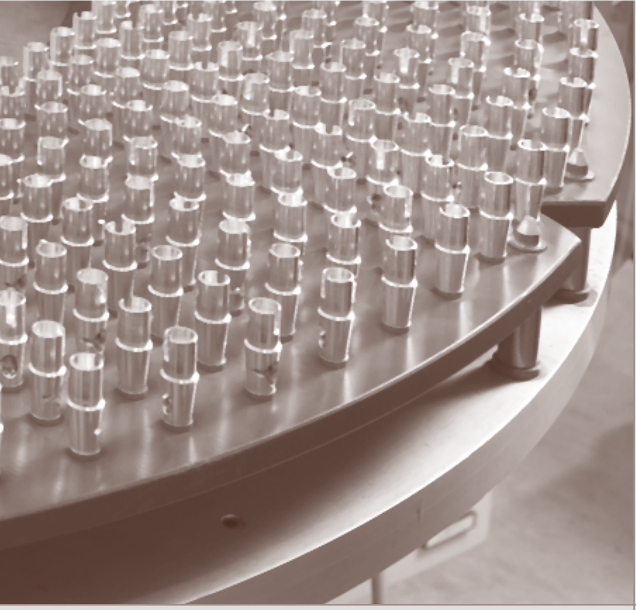
1. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and equipment	Other assets	Assets under construction	TOTAL
COST					
At 31/12/2007	**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	(6,675)	-	-	(6,500)	(13,175)
At 31/12/2008	**5,605**	**120,975**	**19,083**	**2,976**	**148,639**
Increases	94	6,654	1,526	1,806	10,080
Disposals	-	(39)	(128)	-	(167)
Reclassification to another item	-	-	-	(2,155)	(2,155)
At 31/12/2009	**5,699**	**127,590**	**20,481**	**2,627**	**156,397**
ACCOMULATED DEPRECIATION AND AMORTISATION					
At 31/12/2007	**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)
Reclassification to another item	(3,468)	-	-	-	(3,468)
At 31/12/2008	**1,542**	**90,001**	**16,325**	**-**	**107,868**
Depreciation of the year	155	7,967	1,284	-	9,406
Eliminations for disposals	-	(33)	(129)	-	(162)
At 31/12/2009	**1,697**	**97,935**	**17,480**	**-**	**117,112**
CARRYING VALUE					
At 31/12/2009	**4,002**	**29,655**	**3,001**	**2,627**	**39,285**
At 31/12/2008	**4,063**	**30,974**	**2,758**	**2,976**	**40,771**

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

	31.12.2009	31.12.2008	Change
Land	1,291	1,291	-
Industrial buildings	2,711	2,772	(61)
TOTAL	**4,002**	**4,063**	**(61)**

The main investments of the year were made for new product industrialization and creation of third line for coating burner lids. Furthermore, the Company made investments in maintenance and replacement to keep the assets up to date.
At 31 December 2009, the Company found no endogenous or exogenous indicators of impairment of its property, plant and equipment. As a result, the value of property, plant and equipment was not submitted to impairment testing.



2. INVESTMENT PROPERTY

This item includes non-instrumental property owned by the Company, which had been classified until 31 December 2008 with Property, plant and equipment. This item did not change during the year, except for depreciation charges pertaining to the period. At 31 December 2009, the Company found no endogenous or exogenous indicators of impairment of its investment property. As a result, the value of property, plant and equipment was not submitted to impairment testing.

Cost	
At 31/12/2007	**0**
Reclassification from another item	6,675
At 31/12/2008	**6,675**
Increases	-
Disposals	-
At 31/12/2009	**6,675**
Accumulated amortisation	
At 31/12/2007	**0**
Reclassification to another item	3,468
At 31/12/2008	**3,468**
Depreciation of the year	200
At 31/12/2009	**3,668**
Carrying value	
At 31/12/2009	**3,007**
At 31/12/2008	**3,207**

3. INTANGIBLE ASSETS

	Patents, know-how and software	Development costs	Other intangible assets	TOTAL
COST				
At 31/12/2007	**2,783**	**1,473**	**1,195**	**5,451**
Increases	1,495	54	176	1,725
Decreases	-	-	(101)	(101)
At 31/12/2008	**4,278**	**1,527**	**1,270**	**7,075**
Increases	529	21	765	1,315
Decreases	(7)	-	(102)	(109)
At 31/12/2009	**4,800**	**1,548**	**1,933**	**8,281**
AMORTISATION				
At 31/12/2007	**1,905**	**340**	**612**	**2,857**
Share 2008	229	148	59	436
Decreases	-	-	(23)	(23)
At 31/12/2008	**2,134**	**488**	**648**	**3,270**
Share 2009	600	153	46	799
Decreases	(7)	-	-	(7)
At 31/12/2009	**2,727**	**641**	**694**	**4,062**
CARRYING VALUE				
At 31/12/2009	**2,073**	**907**	**1,239**	**4,219**
At 31/12/2008	**2,144**	**1,039**	**622**	**3,805**

Intangible assets have a finite useful life and are consequently amortised based on this lifetime. The main investments made in the year, totalling Euro 371,000, related to the final implementation phase of the new SAP management system. At 31 December 2009, the Company found no endogenous or exogenous indicators of impairment of its intangible assets. As a result, the value of intangible assets was not submitted to impairment testing.

4. EQUITY INVESTMENTS

	31.12.2009	31.12.2008	Change
In subsidiary companies	35,372	34,798	574
Other shareholdings	32	32	-
Total	**35,404**	**34,830**	**574**

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

	Sabaf Immobiliare	Faringosi Hinges	Sabaf do Brasil	Sabaf Mexico	Sabaf U.S.	Sabaf appliance Components	Total
HISTORICAL COST							
At 31/12/2007	**13,475**	**10,329**	**10,734**	**387**	**0**	**0**	**34,925**
Capital increases	-	-	500	161	65	-	726
At 31/12/2008	**13,475**	**10,329**	**11,234**	**548**	**65**	**0**	**35,651**
Capital increases	-	-	-	-	74	500	574
At 31/12/2009	**13,475**	**10,329**	**11,234**	**548**	**139**	**500**	**36,225**
WRITE-DOWN RESERVE							
At 31/12/2007	**0**	**0**	**853**	**0**	**0**	**0**	**853**
Write-downs	-	-	-	-	-	-	-
At 31/12/2008	**0**	**0**	**853**	**0**	**0**	**0**	**853**
Write-downs	-	-	-	-	-	-	-
At 31/12/2009	**0**	**0**	**853**	**0**	**0**	**0**	**853**
CARRYING VALUE							
At 31/12/2009	**13,475**	**10,329**	**10,381**	**548**	**139**	**500**	**35,372**
At 31/12/2008	**13,475**	**10,329**	**10,381**	**548**	**65**	**0**	**34,798**
SHAREHOLDERS' EQUITY							
Al 31/12/2009	**15,334**	**6,732**	**11,588**	**291**	**78**	**458**	**34,481**
Al 31/12/2008	**14,475**	**6,144**	**8,209**	**296**	**8**	**0**	**29,132**
DIFFERENCE BETWEEN SHAREHOLDERS' EQUITY AND BOOK VALUE							
Al 31/12/2009	**1,859**	**(3,597)**	**1,207**	**(257)**	**(61)**	**(42)**	**(891)**
Al 31/12/2008	**1,000**	**(4,185)**	**(2,172)**	**(252)**	**(57)**	**0**	**(5,666)**

In 2009, Sabaf U.S. paid Euro 74,000 as a capital increase to finance the activities of the subsidiary company.
Also, the Group founded Sabaf Appliance Components (Kunshan) Co. Ltd., a 100% subsidiary under Chinese law, not yet operating in 2009. The share capital was Euro 500,000.

The book value of the equity investment in Faringosi Hinges is higher than shareholders' equity for Euro 3,597,000. At 31/12/2009, Sabaf S.p.A. determined the recoverable value of the equity investment, considered to be equal to its value of use, by time discounting the expected cash flow. Expected operating cash flows arise from estimates in the 2010 budget and in the company business plan for the following four years, approved by the board of directors of the subsidiary and carefully reviewed by the Board of the parent company in a meeting prior to the meeting called to approve the draft financial statements. Estimates were determined while considering past experience and by operating on prudent expectations on the future progress of the reference sector. This is augmented by the so-called "terminal" value, which expresses the operating flows that the cash generating unit is expected to generate from the sixth year to infinity. The terminal value represents a significant portion of the value of us, calculated based on a discount rate of 7.5% and a growth rate of 1.75%. The value of use determined based on the assumptions and assessment techniques cited above is greater than the accounting value of the equity investment, which was not written down. Use of discount rates and higher and lower growth rates would have determined a different value of use, as shown in the following table:

	GROWTH RATE		
DISCOUNT RATE	**1.50%**	**1.75%**	**2.00%**
7.25%	12,349	12,705	13,094
7.50%	11,943	12,266	12,618
7.75%	11,569	11,864	12,184

The book value of the Sabaf do Brasil investment was written down in previous years for impairment. At 31 December 2009, the favourable performance of exchange rates and positive economic results in the year led to a higher shareholders' equity of the investment. Management decided to verify the continuity of the positive economic results and opted not to restore the value of the equity investment.

5. INVENTORIES

	31.12.2009	31.12.2008	Change
Raw materials	6,117	8,439	(2,322)
Semi-processed goods	8,988	13,056	(4,068)
Finished products	5,745	4,741	1,004
Obsolescence provision	(1,500)	(650)	(850)
TOTAL	**19,350**	**25,586**	**(6,236)**

The lower value of final inventories at 31 December 2009 is a result of the decrease in volumes of business and the lower prices of key commodities. In the year, the level of inventories was constantly controlled to optimize the level of invested capital. The obsolescence provision amounted to Euro 410,000 for raw materials, Euro 500,000 for semi-processed goods, and Euro 590,000 for finished products (respectively Euro 180,000, Euro170,000, and Euro 300,000 at year-end 2008), increasing at year-end pursuant to the higher quantities of stagnant material and at risk of obsolescence.

6. TRADE RECEIVABLES

The geographical breakdown of trade receivables was as follows:

	31.12.2009	31.12.2008	Change
Italy	21,073	22,273	(1,200)
Western Europe	3,858	2,444	1,414
Eastern Europe and Turkey	6,027	9,538	(3,511)
Asia	3,744	1,744	2,000
South America	1,325	858	467
Africa	2,718	2,067	651
US, Canada & Mexico	359	240	119
Oceania	48	268	(220)
GROSS TOTAL	**39,152**	**39,432**	**(280)**
Provision for doubtful accounts	(1,650)	(998)	(652)
NET TOTAL	**37,502**	**38,434**	**(932)**

At 31 December 2009, the value of trade receivables did not change significantly compared with 31 December 2008 and reflected the performance of sales essentially comparable with the last quarter of the year. Average payment terms did not change significantly. At 31 December 2008, trade receivables included balances of some USD 1.7 million, posted at the /USD exchange rate as at 31 December 2008, i.e. 1.4406. The amount of trade receivables recognised in accounts includes Euro12.4 million of receivables assigned on a no-recourse basis (Euro 16.3 million at 31 December 2008). In view of the difficult market context and the resulting higher risk of insolvency by certain clients, the doubtful account provision at 31 December 2009 was adjusted to Euro1,650,000.

At 31/12/2009, trade receivables broken down by age are as follows:

	31.12.2009	31.12.2008	Change
Current receivables (not past due)	36,158	36,042	116
Outstanding up to 30 days	1,607	2,253	(646)
Outstanding from 30 to 60 days	206	623	(417)
Outstanding from 60 to 90 days	134	1	133
Outstanding over 90 days	1,047	513	534
TOTAL	**39,152**	**39,432**	**(280)**

7. TAX RECEIVABLES

	31.12.2009	31.12.2008	Change
From inland revenue for VAT	341	490	(149)
From inland revenue for IRAP	71	14	57
From Giuseppe Saleri SapA for IRES	1,270	1,223	47
TOTALE	**1,682**	**1,727**	**(45)**

Since the FY 2004 and for three years Sabaf S.p.A. was part of domestic tax consolidation pursuant to articles 117/129 of the Unified Income Tax Law. This option was renewed in 2007 for another three years. In this scheme, the ultimate parent company Giuseppe Saleri S.a.p.A. acts as the consolidating company and the receivable reported in the financial statements at 31 December 2009 refer to the balance for income taxes transferred to the parent company.

8. OTHER CURRENT RECEIVABLES

	31.12.2009	31.12.2008	Change
Receivables to the parent company for Group VAT	362	92	270
Receivables from suppliers	161	319	(158)
Receivables from factoring companies	158	1,818	(1,660)
Advances paid to subsidiaries	-	943	(943)
Others	163	99	64
TOTAL	**844**	**3,271**	**(2,427)**

Receivables from factoring companies refer to trade receivables assigned on a no-recourse basis and reported a decrease on last year further to payments received. Trade receivables refer to bonuses allowed from some suppliers and on returns on purchases. Advances to subsidiaries at 31 December 2008 refer to the partial payment made on rents to the subsidiary, Sabaf Immobiliare s.r.l.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, which amounted to Euro 5,551,000 as at 31 December 2009 (Euro 8,144,000 at 31 December 2008) consisted almost exclusively of bank current account balances. At 31/12/2009, cash and cash equivalents included positive bank account balances of USD 551,000, arising from collection of trade receivables and posted at the current euro/USD exchange rate of 1.4406.

10. SHARE CAPITAL

At 31/12/2009, the company's share capital consisted of 11,533,450 shares with a par value of Euro 1.00 each. Subscribed and paid-in share capital did not change during the year.
On 2 August 2007, the shareholders' meeting approved the increase in share capital from Euro 11,533,450 to Euro 12,133,450, through issue of up to 600,000 ordinary SABAF shares of the nominal value of Euro 1.00 each to service the stock option plan, described in Note 38.

11. TREASURY SHARES

The Company acquired 28,556 treasury shares at an average unit price of Euro 9.135. After these acquisitions, the Company holds 32,503 treasury shares, equal to 0.282% of the share capital.

12. LOANS

	31.12.2009		31.12.2008	
	Current	Non Current	Current	Non Current
Property leasing	-	-	17	-
Unsecured loans	3,646	11,463	2,045	9,955
Overdrafts and other bank loans	-	-	14,128	-
Loans from subsidiary companies	1,700	-	-	-
TOTAL	**5,346**	**11,463**	**16,190**	**9,955**

All outstanding bank loans are denominated in euro, at a floating rate linked to the Euribor. The Company incurred a new 5-year loan in the amount of Euro 6 million, a transaction that allows the Company to avoid short-term bank loans. As described in Note 32, the risk of exchange rate changes was partially hedged by entering into two interest rate swap contracts.

Loans from subsidiary companies are represented by short-term loans obtained from Faringosi-Hinges s.r.l., at a floating rate pegged to the Euribor rate with the objective of optimising the Group treasury.
These loans are not bound by contractual provisions (covenants).
The fair value of loans approximates carrying value.

13. OTHER FINANCIAL LIABILITIES

	31.12.2009	31.12.2008	Change
Derivative instruments on currency	-	147	(147)
Derivative instruments on interest rates	4	-	4
TOTAL	**4**	**147**	**(143)**

This item includes the negative fair value of the derivative financial instruments at year-end that hedge exchange rate and interest rate risks (Note 32).

14. POST-EMPLOYMENT BENEFITS

	31.12.2009	31.12.2008
Liabilities at 1 January	**2,634**	**3,125**
Finance expenses	122	160
Use of the TFR	(157)	(651)
Liabilities at 31 December	**2,599**	**2,634**

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

FINANCIAL ASSUMPTIONS

	31.12. 2009	31.12.2008
Discount rate	4.10%	5.90%
Inflation	2.00%	2.00%

DEMOGRAPHIC ASSUMPTIONS

	31.12. 2009	31.12.2008
Mortality rate	ISTAT 2002 M/F	ISTAT 2002 M/F
Disability rate	INPS 1998 M/F	INPS 1998 M/F
Staff turnover	6% per year on all ages	6% per year on all ages
Advance payouts	5% per year based on age/seniority	1% per year based on age/seniority
Retirement age	65 years for men and 60 for women. 40 years of employment	65 years for men and 60 for women. 40 years of employment

15. GENERAL PROVISIONS

	31.12.2008	Allocations	Uses	31.12.2009
Reserve for agents' indemnities	455	-	(65)	390
Product warranty reserve	47	60	(47)	60
Reserve for tax risks	81	5	-	86
Reserve for legal risks	200	100	(276)	24
TOTAL	**783**	**165**	**(388)**	**560**

The reserve for agents' indemnities covers amounts payable to agents if the company terminates the agency relationship.
The product warranty reserve covers the risk of returns or charges by customers for products already sold. It was utilised in full the year against returns from prior year sales and replenished at year end, leading to a provision on the basis of past experience.
The reserve for tax risks was provisioned to cover the contingent liability connected with an official tax audit of the 2002 and 2003 tax periods, described in Note 29.
The reserve for legal risks was allocated against disputes with personnel and was partly used to pay for a dispute which ended in the year. It still has funds at 31 December 2009, allocated to cover a potential dispute of a lower value.
The provisions booked to the reserve for risks and contingencies, which represent the estimate of future payments made based on historic experience, have not been time-discounted because the effect is considered negligible.

16. TRADE PAYABLES

The geographical breakdown of trade payables was as follows:

	31.12.2009	31.12.2008	Change
Italy	18,606	19,370	(764)
Western Europe	3,494	2,972	522
Eastern Europe and Turkey	219	111	108
Asia	24	28	(4)
US, Canada & Mexico	140	2	138
South America	-	2	(2)
TOTAL	**22,483**	**22,485**	**(2)**

At 31 December 2009, the value of trade payables did not change significantly from the balance a year earlier; the average payment terms were not subject to change. The amount of trade payables in currencies other than the euro was insignificant.

17. TAX PAYABLES

	31.12.2009	31.12.2008	Change
For substitute tax, pursuant to Law 244/07	716	1,630	(914)
For IRPEF withholdings	596	712	(116)
TOTAL	**1,312**	**2,342**	**(1,030)**

In 2008, the Company applied the option for substitute taxation of previous off-balance sheet deductions, set forth by Law 244/07; the payable reported in the accounts at 31 December 2009 refers to the last instalment of the tax, which falls due at June 2010.

18. OTHER CURRENT PAYABLES

	31.12.2009	31.12.2008	Change
Due to employees	2,944	2,921	23
Due to social security institutions	1,736	1,599	137
Due to agents	352	438	(86)
Payments to clients	32	13	19
Other current payables	48	71	(23)
TOTAL	**5,112**	**5,042**	**70**

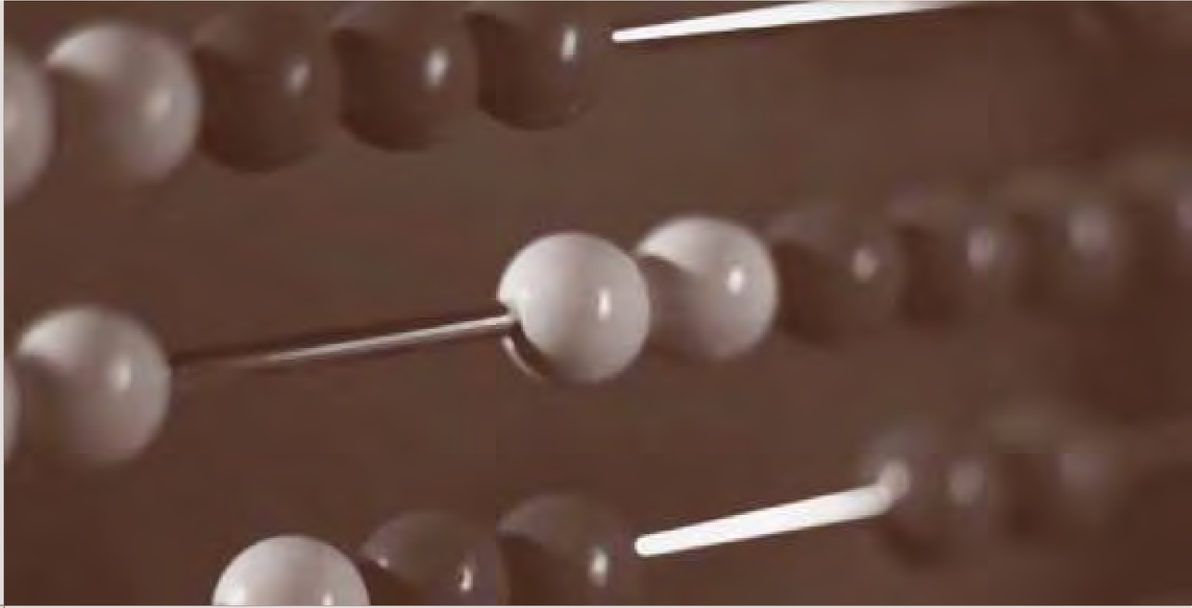
19. DEFERRED TAX ASSETS AND LIABILITIES

	31.12.2009	31.12.2008
Deferred tax assets (prepaid taxes)	1,086	1,051
Deferred tax liabilities	(7)	(2,367)
NET POSITION	**1,079**	**(1,316)**

Below are the key items of deferred tax liabilities and assets and their movements during FY2009 and previous years.

	Amortisation and leasing	Adjustments and provisions of value	Cost of deferred development costs	Fair value derivatives	Other	Total
At 31/12/2008	**(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 31/12/2009	**(801)**	**607**	**(462)**	**46**	**(706)**	**(1,316)**
To the income statement	3	391	-	-	(170)	224
To the income statement for application of the substitute tax pursuant to Law 185/08	840	-	462	-	915	2,217
To shareholders' equity	-	-	-	(46)	-	(46)
At 31/12/2009	**42**	**998**	**0**	**0**	**39**	**1,079**

At 31/12/2009, the payable for deferred tax liabilities fell by Euro 2,217,000 pursuant to application of the option to realign, for a number of accounting entries, the fiscal values to the accounting values set forth according to IAS by subjecting them to a substitute tax, as described in Note 29.



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:

		31.12.2009	31.12.2008	Change
A.	Cash	10	10	-
B.	Positive balances of unrestricted bank accounts	5,540	8,134	(2,594)
C.	Other liquidities	-	-	-
D.	**Cash and cash equivalents (A+B+C)**	**5,550**	**8,144**	**(2,594)**
E.	Current bank payables (Note 12)	-	14,127	(14,127)
F.	Current portion of non-current debt (Note 12)	3,646	2,062	1,584
G.	Other current financial payables (Notes 12, 13)	1,704	147	1,557
H.	**Current financial debt (E+F+G)**	**5,350**	**16,336**	**(10,986)**
I.	**Net financial position**	**(200)**	**8,192**	**(8,392)**
J.	Current bank payables (Note 12)	11,463	9,955	1,508
K.	Other non-current financial payables	-	-	-
L.	**Non-current financial debt**	**11,463**	**9,955**	**1,508**
M.	**Net financial debt**	**11,263**	**18,147**	**(6,884)**

The cash flow statement provides changes in the net financial position (letter I of these financial statements).

21. REVENUE

Sales revenue totalled Euro 112,699,000 in FY2009, down by Euro 33,349,000 (-22.8%) vs. 2008.

REVENUE BY PRODUCT FAMILY

	2009	2008	Change	Change %
Brass valves	26,928	39,188	(12,260)	-31.3%
Light alloy valves	15,276	15,923	(647)	-4.1%
Thermostats	13,746	18,948	(5,202)	-27.5%
Total valves and thermostats	*55,950*	*74,059*	*(18,109)*	*-24.5%*
Standard burners	30,106	40,661	(10,555)	-26.0%
Special burners	17,173	18,255	(1,082)	-5.9%
Burners	*47,279*	*58,916*	*(11,637)*	*-19.8%*
Accessories and other revenues	*9,470*	*13,073*	*(3,603)*	*-27.6%*
TOTAL	***112,699***	***146,048***	***(33,349)***	***-22.8%***

As widely described in the Report on Operations, the decrease in sales was determined by the crisis that has affected all the major markets where the Company operates. The decrease in sales was decidedly lower for the more innovative products (light alloy taps and special burners). Average sale prices are on average lower than 2008 by 4%, also in consideration of the reduction of the prices of raw materials.

GEOGRAPHICAL BREAKDOWN OF REVENUE

	2009	%	2008	%	Change %
Italy	50,181	*44.5%*	66,794	*45.7%*	*-24.9%*
Western Europe	7,415	*6.6%*	10,444	*7.1%*	*-29.0%*
Eastern Europe and Turkey	27,284	*24.2%*	37,778	*25.9%*	*-27.8%*
Asia	13,099	*11.6%*	11,246	*7.7%*	*16.5%*
Central and South America	7,021	*6.2%*	7,749	*5.3%*	*-9.4%*
Africa	6,060	*5.4%*	10,251	*7.0%*	*-40.9%*
US, Canada & Mexico	1,540	*1.4%*	1,272	*0.9%*	*21.1%*
Oceania	99	*0.1%*	514	*0.4%*	*-80.7%*
TOTALE	**112,699**	***100%***	**146,048**	***100%***	***-22.8%***

The decrease in sales in Europe reflects the decrease in demand on all the continental markets. Contrary to the trends, sales in Asia were higher, largely due to the excellent results in the Middle Eastern markets. The South American market has reported a less market decline, mainly owing to the positive progress of the Brazilian market (which Sabaf S.p.A. supplies only a limited range of products, since standard burners are made and sold by the subsidiary, Sabaf do Brasil Ltda). Sales in Africa were affected by the important effect of decreases in the inventory by the main customers.

22. OTHER INCOME

	31.12.2009	31.12.2008	Change
Sale of scraps	1,926	3,516	(1,590)
Rental income	117	123	(6)
Use of provisions for risks and contingencies	102	84	18
Services to subsidiary companies	80	131	(51)
Services to the parent companies	60	60	-
Contingent income	75	127	(52)
Others	259	211	48
TOTAL	**2,619**	**4,252**	**(1,633)**

The decrease in sales of production scraps was due to the lower volumes of production and the decrease in the price of commodities (and as a result, scraps).
Services to subsidiary companies and the parent company refer to administrative, commercial, and technical services provided in the Group.

23. PURCHASES

	31.12.2009	31.12.2008	Change
Raw materials and purchases	32,705	53,848	(21,143)
Consumables	2,799	4,376	(1,577)
TOTAL	**35,504**	**58,224**	**(22,720)**

The actual cost of brass, aluminium alloys and steel was down by 30% on 2008, while the cost of other components did not change significantly.

24. COSTS FOR SERVICES

	31.12.2009	31.12.2008	Change
Outsourced processing	10,658	14,440	(3,782)
Lease payments	3,277	3,094	183
Natural gas and power	2,634	4,254	(1,620)
Maintenance	2,336	3,610	(1,274)
Transport and export costs	1,094	1,212	(118)
Commision	813	1,119	(306)
Directors' remuneration	805	696	109
Advisory services	514	526	(12)
Waste disposal	410	473	(63)
Factoring commissions	400	245	155
Canteen	322	364	(42)
Travel expenses and allowances	298	381	(83)
Temporary agency workers	294	549	(255)
Insurance	292	298	(6)
Other payroll costs	2,702	2,358	344
TOTAL	**26,849**	**33,619**	**(6,770)**

The decrease in service costs generally reflects the Company's lower levels of business. The decrease in outsourcing includes the effect of greater internationalization, in early 2009, of burner die casting in order to take full advantage of the internal production capacity at a time of marked decrease in production volumes.

25. PAYROLL COSTS

	31.12.2009	31.12.2008	Change
Salaries and wages	15,431	16,689	(1,258)
Social security costs	5,081	5,388	(307)
Temporary agency workers	2,140	4,465	(2,325)
Post-employment benefits and other payroll costs	1,182	994	188
TOTAL	**23,834**	**27,536**	**(3,702)**

Average group headcount in 2009 totalled 560 employees (438 blue-collars, 115 white-collars and supervisors, and 7 managers) as opposed to 559 in 2008 (438 blue-collars, 115 white-collars and supervisors, and 6 managers). The average number of temporary staff was 75 in 2009 (138 in 2008).

26. OTHER OPERATING COSTS

	31.12.2009	31.12.2008	Change
Write down of receivables	700	502	198
Other administration expenses	243	216	27
Out of period losses	237	72	164
Provisions for risks	160	200	(40)
Losses on receivables	92	2,525	(2,433)
Others provisions	-	47	(47)
TOTAL	**1,432**	**3,562**	**(2,130)**

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 and the existence of past due accounts. The item “Other operating costs” consisted mainly of taxes other than income taxes (Euro148,000) and association fees for Euro 61,000. Provisions for liabilities refer to the allocations to the risk reserve described in Note 15.

27. FINANCE EXPENSES

	31.12.2009	31.12.2008	Change
Interest paid to banks	624	912	(288)
Banking expenses	327	209	118
Other finance expense	155	184	(29)
TOTALE	**1,106**	**1,305**	**(199)**

I minori interessi passivi verso banche sono conThe higher interest paid to banks was a consequence of the lower interest rates and the higher level of average financial debt during FY2009 compared with FY2008.

28. FOREIGN-EXCHANGE GAINS/LOSSES

In 2009, the Company reported net foreign exchange gains in the amount of Euro 32,000 (Euro 43,000 in 2008), primarily due to changes in the US dollar vs. euro exchange rate.

29. INCOME TAX

	31.12.2009	31.12.2008	Change
Current income tax	4,083	7,596	(3,513)
Deferred tax assets and liabilities	(224)	(951)	727
Substitute tax, under Law 185/08	953	-	953
Release of deferred tax liabilities, under Law 185/08	(2,217)	-	(2,217)
Law 244/07 substitute tax	-	2,300	(2,300)
Release of deferred tax liabilities, under Law 244/07	-	(5,082)	5,082
Balance of previous FY	(65)	51	(116)
TOTAL	**2,530**	**3,914**	**(1,384)**

Current taxes include IRES for Euro 2,863,000 and IRAP for Euro 1,220,000 (respectively Euro 5,904,000 and Euro 1,692,000 in 2008).
In 2009 the Company took advantage of the option allowed by Law 185/08 (the "Stimulus Law") to realign the fiscal values to the financial statement values set forth according to international accounting standards. In application of this option, deferred taxes were issued for Euro 2,217,000. A substitute tax of Euro 953,000 was paid in the year.

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.

	31.12.2009	31.12.2008
Theoretical income tax	2,998	4,934
Tax effect on permanent differences	89	42
Taxes relating to previous years	(65)	165
Effect of detaxing investments pursuant to Law 78/09	(392)	-
Other differences	(25)	(8)
IRES (current and deferred)	**2,605**	**5,133**
IRAP (current and deferred)	1,189	1,563
Substitute taxes	953	2,300
Release of deferred taxes for application of the substitute tax	(2,217)	(5,082)
TOTAL	**2,530**	**3,914**

Theoretical taxes were calculated applying the current corporate income tax (IRES) rate, i.e. 27.50%, to the pre-tax result. As shown in the table, in 2009, the Company benefited from removing from IRES taxable income 50% of the amount of a number of investments made in the second half year, pursuant to Law 78/09 ("Tremonti-ter).
For the purposes of reconciliation, IRAP is not considered because its taxable base is different to that of pre-tax profit and inclusion of the tax would generate distortionary effects.

TAX STATUS

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, VAT, and Italian regional business tax (Italian acronym = IRAP). The Company filed objections in the first and second instance against tax assessment notices and the courts granted partial approval of the instances presented. As a result of the dispute described above, the Company paid taxes, penalties and interest for a total of Euro 263,000 in 2009 and previous years. At 31 December 2009, Euro 86,000 was entered in the risk reserve to cover any possible future liability, in view of the petition at the final level.

30. DIVIDENDS

On 28/05/2009, shareholders were paid a dividend of Euro 0.70 per share (total dividends of Euro 8,050,000), unchanged on 2008.
Directors have recommended payment of a dividend of Euro 0.50 per share this year. This dividend is subject to approval of shareholders in the annual shareholders' meeting and was not included under liabilities.
The dividend proposed for 2009 is payable to all holders of shares at 24/05/2010 and is scheduled for payment as from 27/05/2010.

31. SEGMENT DISCLOSURE

Sabaf works exclusively in the gas components segment in the Sabaf Group. The consolidated financial statements provide the disclosure on the various segments in which the Group operates.

32. INFORMATION ON FINANCIAL RISK

CATEGORIES OF FINANCIAL INSTRUMENTS

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

	31.12.2009	31.12.2008
FINANCIAL ASSETS		
Amortised cost		
Cash and cash equivalents	5,551	8,144
Commercial receivables and other receivables	38,346	41,705
Other financial assets	-	-
Income statement fair value		
Financial assets held for trading	-	-
Designated financial assets	-	-
Comprehensive income statement fair value		
Securities	-	-
Equity investments	-	-
Derivative cash flow hedges	-	-
FINANCIAL LIABILITIES		
Income statement fair value		
Liabilities held for trading	-	-
Comprehensive income statement fair value		
Derivative cash flow hedges	4	147
Amortised cost		
Loans	16,809	26,145
Payables to suppliers	22,483	22,485

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

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

CREDIT RISK MANAGEMENT

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

FOREX RISK MANAGEMENT

The key currencies other than the euro which the Company is exposed to are the US dollar (chiefly on some Asian and North American markets). Sales in US dollars represented approximately 5% of total revenue in 2009. In 2009, has reached the derivative contract entered into in 2008 and consisting in 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 2009, there were no financial derivative instruments on currency.

Sensitivity analysis

With reference to financial liabilities and assets in US dollars at year-end, a hypothetical and immediate revaluation of 10% of the Euro against the dollar would have led to a loss of Euro 107,000.

INTEREST RATE RISK MANAGEMENT

The Company borrows money at a floating rate; to reach an optimal mix of floating and fixed rates in the structure of the loans, the Company uses derivative financial instruments designating them to cash flow hedges. In FY 2009, the Company entered into two IRS agreements to convert two loans of equal amount from a floating to fixed interest rate in 2010, both falling due by the end of 2014. The chart below shows the salient characteristics of the IRS in effect at 31 December 2009 (at 31 December 2008 there were no derivatives on interest rates):

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

Sensitivity analysis

With reference to financial assets and liabilities at floating rate at 31 December 2009 and 31 December 2008, a hypothetical increase (decrease) in the interest rate of 100 base points versus the interest rates in effect at the same date - all other variables being equal - would lead to the following effects:

	31.12.2009		31.12.2008	
	Financial charges	Cash flow hedge reserves	Financial charges	Cash flow hedge reserves
Increase of 100 base points	58	161	240	-
Decrease of 100 base points	(32)	(167)	(189)	-

COMMODITY PRICE RISK MANAGEMENT

A significant portion of the company's acquisitions are represented by brass, steel and aluminium alloys. The sale prices of products are generally renegotiated annually; as a result, the Group is unable to pass on to clients changes in the prices of commodities that occur during the year. The Company protects itself from the risk of changes in the price of brass and aluminium with supply contracts signed with suppliers for delivery up to twelve months in advance or, alternatively, with derivative financial instruments. In FY 2009 and 2008, the Company did not use financial derivatives on commodities. To stabilize the rising costs of commodities, Sabaf preferred to execute transactions on the physical market, establishing prices with suppliers for immediate and deferred delivery.

LIQUIDITY RISK MANAGEMENT

The Company operates with a low debt ratio (net debt / shareholders' equity at 31/12/2009 equal to 0.11) and has unused short-term lines of credit of Euro 16 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 2009 and 31 December 2008:

31.12.2009	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Unsecured loans	15,109	15,901	997	2,992	11,912	-
Loans from subsidiaries	1,700	1,700	1,700	-	-	-
Total financial payables	**16,813**	**17,601**	**2,697**	**2,992**	**11,912**	**0**
Payables to suppliers	22,483	22,483	22,483	-	-	-
TOTAL	**39,296**	**40,084**	**25,180**	**2,992**	**11,912**	**0**

31.12.2008	Carrying value	Contractual financial flows	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Short-term lines of credit and overdrafts	14,128	14,128	14,128	-	-	-
Unsecured loans	12,000	12,908	374	2,077	10,458	-
Finance leases	17	17	17	-	-	-
Total financial payables	**26,145**	**27,053**	**14,519**	**2,077**	**10,458**	**0**
Payables to suppliers	22,485	22,485	22,485	-	-	-
TOTAL	**48,619**	**49,538**	**37,004**	**2,077**	**10,458**	**0**

The various due dates are based on the period between the balance sheet date and the contractual expiration date of the commitments. The values indicated in the chart correspond to non-discounted cash flows. Cash flows include the shares of principal and interest; for floating rate liabilities, the shares of interest are determined based on the value of the reference parameter at 31 December 2009 and increased by the spread set forth in each contract.

HIERARCHICAL LEVELS OF THE FAIR VALUE ASSESSMENT

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

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

The following table shows the assets and liabilities that are valued at the fair value at 31 December 2009, by hierarchical level of fair value assessment.

	Level 1	Level 2	Lvel 3	Total
Other financial liabilities (derivative on currency)	-	4	-	4
TOTAL LIABILITIES	**0**	**4**	**0**	**4**

33. RELATED-PARTY TRANSACTIONS

Impact of related-party transactions or positions on items in the statement of financial position

	Total 2009	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Trade receivables	37,502	323	-	-	323	0.86%
Other current receivables	844	365	-	-	365	43.25%
Tax receivables	1,682	-	1,270	-	1,270	75.51%
Trade payable	22,483	39	-	5	44	0.20%

	Total 2008	Subsidiaries	Parent company	Other related parties	Total related totale	Impact on the total
Trade receivables	38,434	269	-	-	269	0.70%
Other current receivables	3,271	1,037	-	-	1,037	31.70%
Tax receivables	1,727	-	1,223	-	1,223	70.82%
Trade payable	22,485	40	-	6	46	0.20%

Impact of related-party transactions on income statement accounts

	Total 2009	Subsidiaries	Parent company	Other related parties	Total related parties	Impact on the total
Revenue	112,699	421	-	-	421	0.37%
Other income	2,619	90	60	-	150	5.73%
Materials	(35,504)	(204)	-	(7)	(211)	0.59%
Services	(26,849)	(3,267)	-	-	(3,267)	12.17%
Finance expenses	(1,106)	(7)	-	-	(7)	0.63%

	Total 2008	Subsidiaries	Parent company	Other related parties parties	Total related totale	Impact on the total
Revenue	146,048	475	-	-	475	0.33%
Other income	4,252	140	60	-	200	4.70%
Materials	(58,224)	(181)	-	(9)	(190)	0.33%
Services	(33,619)	(3,072)	-	-	(3,072)	9.14%
Capital gains/(losses) on disposal of non-current assets	60	5	-	-	5	8.33%

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:

- providing administrative services;
- transactions as part of the domestic tax consolidation scheme, which generated the payables and receivables shown in the tables.

Transactions with other related parties in FY2009 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 Communication dated 28 July 2006, below is a breakdown of the significant, non-recurring events, whose consequences are reflected in the income statement, statement of financial position, and cash flow of the Group:

	Shareholders' equity		Net profit for period		Net financial debt	Cash flow	
Financial statement items (A)	**99,053**		**8,373**		**30,033**	**11,263**	
Subsidised temporary lay-off benefits	(662)	-0.7%	(662)	-7.9%	-	-	
Tax effects	182	0.2%	182	2.2%	-	-	
For substitute tax, pursuant to Law 185/08	(1,264)	-1.3%	(1,264)	-15.1%	-	953	8.5%
Total non-recurring transactions (B)	**(1,744)**	**-1.8%**	**(1,744)**	**-20.8%**	**0**	**953**	**8.5%**
Figurative financial statement value (A+B)	**97,759**		**6,629**		**30,033**	**12,216**	

To cope with the decrease in business in January to April, the Company has used government subsidised temporary lay-off benefits for an average of 70 employees. This reserve allowed the Company to sustain payroll cost savings of Euro 662,000, gross of the related tax effect of Euro 182,000.

In addition, as detailed in Note 29, in 2009 Sabaf S.p.A. took advantage of the option set forth by Article 15 of the Decree Law 185/08 (also known as "Stimulus Law") to realign the tax values to the balance-sheet values for some financial statement items according to international accounting standards. In application of this option, deferred tax liabilities were issued for Euro 2.217 million and a substitute tax of Euro 953,000 was booked. As a result, taxes booked in the income statement of these financial statements were lower by Euro 1,264,000.

35. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to the CONSOB memorandum of 28 July 2006, the Company declares that during 2009 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 2009 was Euro 6,219,000 (Euro 6,994,000 as at 31/12/2008).
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 Euro 5,573,000 (Euro 5,021,000 as at 31/12/2008).

37. REMUNERATION 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	PERIOD OF OFFICE	OFFICE EXPIRATION DATE	EMOLUMENT FOR THE OFFICE	NON MONETARY BENEFITS	BONUS AND OTHER INCENTIVES	OTHER COMPENSATION
Saleri Giuseppe	Chairman	01.01.09 - 31.12.09	30.04.12	120			8
Saleri Gianbattista	Deputy Chairman	01.01.09 - 31.12.09	30.04.12	100			
Saleri Ettore	Deputy Chairman	01.01.09- 31.12.09	30.04.12	100			8
Bettinzoli Angelo	Managing Director	01.01.09 - 31.12.09	30.04.12	340			10
Bartoli Alberto	Director	01.01.09 - 31.12.09	30.04.12	18			156
Cossu Leonardo	Director	01.01.09 - 31.12.09	30.04.12	27			
Cavalli Alberto	Director	28.04.09 - 31.12.09	30.04.12	18			
Gitti Gregorio	Director	28.04.09 - 31.12.09	30.04.12	21			
Pasotti Flavio	Director	01.01.09 - 31.12.09	30.04.12	18			
Bragantini Salvator	Director	01.01.09 - 31.12.09	30.04.12	25			
Gardoni Fausto	Director	28.04.09 - 31.12.09	30.04.12	18			
Bellini Pierluigi	Chairman of the Board of Statutory Auditors	01.01.09 - 28.04.09	28.04.09	7			
Busi Alessandro	Chairman of the Board of Statutory Auditors	28.04.09 - 31.12.09	30.04.12	16			
Broli Enrico	Statutory Auditor	01.01.09 - 31.12.09	30.04.12	15			
Camodeca Renato	Statutory Auditor	01.01.09 - 31.12.09	30.04.12	15			4
Executives with strategic responsibilities (2)							214

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 granting 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. Exercise of the options was contingent on reaching certain parameters, such as, consolidated EBITDA and EBIT at 31 December 2009; the price of the shares, at that date; and specific environmental and employment objectives. Consolidated EBITDA and EBIT objectives and the price of the shares at 31 December 2009 were not met; therefore, the options could not be exercised and expired on that date.

No costs have been reported in FY2009 and 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 expiring 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 option	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	-	-	-
Bartoli Alberto	Director	45,000	27.64	02/12/2010	-	-	-	-	-	-	45,000	-	-	-
	Executives with strategic responsibilities	107,000	27.64	02/12/2010	-	-	-	-	-	-	107,000	-	-	-

LIST OF SHAREHOLDINGS IN SUBSIDIARIES AND OTHER SIGNIFICANT EQUITY INVESTMENTS

SUBSIDIARY COMPANIES

Company name	Registered office	Share capital at 31/12/2009	Shareholders	% Ownership	Shareholders' equity al 31/12/2009	Results of the year 2009
Faringosi Hinges s.r.l.	Ospitaletto (BS)	EUR 90,000	Sabaf S,p,A,	100%	EUR 6,732,073	EUR 693,061
Sabaf Immobiliare s,r,l,	Ospitaletto (BS)	EUR 25,000	Sabaf S,p,A,	100%	EUR 15,333,930	EUR 859,289
Sabaf do Brasil Ltda	Jundiaì (Brasile)	BRL 31,835,400	Sabaf S,p,A,	100%	BRL 29,099,926	BRL 2,473,579
Sabaf Mexico S,A, de C,V,	San Luis Potosì (Messico)	MXN 8,247,580	Sabaf S,p,A,	100%	MXN 5,497,300	MXN -186,187
Sabaf US Corp,	Plainfield (USA)	USD 100,000	Sabaf S,p,A,	100%	USD 9,991	USD -90,009
Sabaf Appliance Components (Kunshan) Co,, Ltd	Kunshan (Cina)	CNY 4,496,350	Sabaf S,p,A,	100%	CNY 4,502,450	---

OTHER SIGNIFICANT EQUITY INVESTMENTS: NONE

ORIGIN, POSSIBILITY OF USE, AND AVAILABILITY OF RESERVES

Description	Amount	Possibility of use	Quota available	Amount subject to taxation in the event iof distribuition
Capital reserves:				
Share premium reserve	10,002	A, B, C	10,002	-
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	65,203	A, B, C	65,203	0
TOTAL	**79,146**		**76,839**	**1,634**

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

STATEMENT OF REVALUATIONS OF ASSETS STILL HELD AT 31/12/2009

(Amounts in € '000)

		Gross value	Accumulated amortisation and depreciation	Net value
Land and buildings	Law 72/1983	137	(134)	3
	Merger 1989	516	(324)	192
	Law 413/1991	47	(25)	22
	Merger 1994	1,483	(686)	797
	Law 342/2000	2,870	(1,679)	1,191
		5,053	**(2,848)**	**2,205**
Plant and equipment	Law 576/75	205	(205)	-
	Law 72/1983	2,299	(2,299)	-
	Merger 1989	6,249	(6,249)	-
	Merger 1994	7,081	(7,081)	-
		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**	**(18,893)**	**2,205**

GENERAL INFORMATION

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

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
Sito web: http://www.sabaf.it
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 FY2009 for the independent auditor and for services other than independent auditing provided by the same auditing firm. There were no services rendered by entities belonging to the firm's network.

(Amonts in € '000)

	Party that distributes the service	Considerations for the year 2009
Audit	Deloitte & Touche S.p.A.	53
Other services	Deloitte & Touche S.p.A.	12[24]
TOTAL		**65**

24) Audit procedures relating to the interim Report on Operations

Certification of the Annual Report and Accounts, under article 154 bis of Leg. Decree 58/98

Angelo Bettinzoli, the Chief Executive Officer, and Alberto Bartoli, the Financial Reporting Officer of Sabaf S.p.A., have taken into account the requirements of Article 154-bis, paragraph 3 and 4, of Leg. Decree no. 58 of 24 February 1998 and can certify

- the adequacy for the characteristics of the company and
- the actual application

of the administrative and accounting principles for drafting the annual report and accounts in 2009.

They also certify that:

- the annual report and accounts
  - were prepared in accordance with the international accounting policies recognized in the European Community in accordance with EC regulation 1606/2002 of the European Parliament and Council of 19 July 2002 and Article 9 of Leg. Decree 38/2005;
  - correspond to the results of the accounting entries and ledgers;
  - provide a true and correct representation of the business, capital and financial situation of the issuer;

- the Report on Operations includes a credible analysis of the performance and results of opera tions, the situation at the issuer, and a description of the key risks and uncertainties to which it is exposed.

Ospitaletto, 23 March 2010

The Chief Executive Officer
Angelo Bettinzoli

The Financial Reporting Officer
Alberto Bartoli

Deloitte.

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

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

AUDITORS' REPORT ON THE STATUTORY FINANCIAL STATEMENTS

PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
SABAF S.p.A.

1. We have audited the financial statements of SABAF S.p.A., which comprise the statement of financial position as of December 31, 2009, and the income statement, comprehensive income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   The financial statements present for comparative purposes prior year data and the statement of financial position as of January 1, 2008. As explained in the notes to the financial statements, the Directors have adjusted certain comparative data related to the prior year's financial statements and to the statement of financial position as of January 1, 2008 derived from the financial statements as of December 31, 2007 with respect to the figures previously reported and audited by other auditors, on which they issued their auditors' reports dated March 30, 2009 and March 31, 2008, respectively. These modifications to comparative data and related disclosures included in the notes to the financial statements have been audited by us for the purpose of expressing our opinion on the financial statements as of December 31, 2009.

3. In our opinion, the financial statements give a true and fair view of the financial position of SABAF S.p.A. as of December 31, 2009, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The Directors of SABAF S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the report on corporate governance and ownership structure are consistent with the financial statements of SABAF S.p.A. as of December 31, 2009.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
March 31, 2010

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

BOARD OF STATUTORY AUDITORS' REPORT TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SABAF S.P.A. PURSUANT TO ARTICLE 153, ITALIAN LEGISLATIVE DECREE 58/1998

To the Shareholders

With this report - written pursuant to and for the intents and purposes of Article 153 of Italian Legislative Decree no. 58/1998 (the Italian Consolidated Finance Act - hereinafter "ICFA"), taking into account CONSOB (Italian securities & exchange commission) recommendations concerning companies with securities listed in regulated markets - the Board of Statutory Auditors of Sabaf S.p.A. (hereinafter "Sabaf" or "Company" or "Parent Company") reports to you on the supervisory activity performed, as well as on its outcome.

This report is structured in the following sections:

1) Supervisory activity performed in the financial year (FY) 2009
2) Most important transactions and events in economic, financial and capital terms
3) FY2009 performance and business and financial status
4) Organisational structure, administration & accounting system and internal control system
5) Corporate governance
6) Final assessments concerning the supervisory activity performed and financial statements as at 31 December 2009.

1. Supervisory activity performed in FY2009

During the FY that ended on 31 December 2009 the Board of Statutory Auditors performed legally required supervisory activities, also taking into account CONSOB recommendations concerning corporate controls, as well as the standards of conduct for boards of statutory auditors recommended by the relevant professional bodies.

As regards the activity, the Board of Statutory Auditors reports what follows:

- It held 6 meetings of the Board of Statutory Auditors, which were always attended by all members holding office
- It attended 8 meetings of the Board of Directors
- It attended 5 meetings of the Internal Control & Audit Committee
- It attended 2 meetings of the control bodies (Independent Auditors, Internal Control & Audit Committee and the Supervisory Committee) in the presence of the Financial Reporting Officer and of the Chief Internal Auditor.
- It attended the annual general meeting of shareholders on 28 April 2009
- It maintained a constant channel of information and held regular meetings with the independent auditors, for the purpose of timely exchange of data and information important for performance of our respective tasks
- It regularly met both the personnel of the company to which responsibility for the Internal Auditing function is outsourced and with the Chief Internal Auditor
- It gathered the documents and information deemed relevant from executive directors and from other company functions when considered necessary.

During the Board of Directors' meetings, directors informed the Board of Statutory Auditors on operating activities performed as well as on, if any, the most important transactions in economic, financial and capital terms executed by the Company or its subsidiaries during FY2009. As part of its activity, in 2009 the Board of Directors approved draft FY2008 financial statements, the half-yearly financial report as at 30 June 2009, as well as three interim management statements.

During our meetings and contacts with the independent auditors, appointed to perform accounting control and the legal audit of the Parent Company's statutory and consolidated accounts, no facts emerged that were censurable or merited reporting.
During the meetings with the independent auditors, we also perused the work plan adopted by them, also receiving the technical information requested concerning the accounting stan-

dards applied and their fine-tuning during FY2009, as well as the policies for accounting representation of the events most important in economic, financial and capital terms.

The Board of Statutory Auditors carefully examined the procedure used for the impairment test performed on the equity interest owned in the company Faringosi Hinges S.r.l., without finding - in this respect - any anomalies or criticisable facts in relation to the technical standards of reference.

Lastly, in relation to the supervisory activity performed, the Board of Statutory Auditors specifies the following:
- On 6 April 2010 an official complaint, pursuant to Article 2408 of the Italian Civil Code, was received in which a shareholder pointed out that the Company had not complied with the requirements laid down by Article 84, paragraph 2, of the Issuers' Regulation. As regards this, the Board of Statutory Auditors has taken the appropriate initiatives to ensure that a supplementary notice containing the information as per Article 84, paragraph 2 of the Issuers' Regulation is published in the "Il Sole 24 Ore" newspaper on 10 April 2010 and on the Company's website. The Board of Statutory Auditors has also immediately acknowledged the above official complaint, explaining the actions taken on the matter.
- No exposés were received from third parties or shareholders.

The Board of Statutory Auditors also informs you that, during FY2009, it issued a favourable opinion pursuant to law as regards appointment of the Financial Reporting Officer.

Sabaf S.p.A. directs and co-ordinates the following companies:
- Faringosi Hinges S.r.l.;
- Sabaf Immobiliare S.r.l.
All the companies mentioned above properly performed the compliance measures required by the Italian Civil Code as regards direction and co-ordination.

Sabaf S.p.A. is controlled by Giuseppe Saleri S.a.p.a., which, however, as indicated in the Report on Operations, does not direct or co-ordinate it.

2. Most important transactions and events in economic, financial and capital terms

As regards the most important transactions in economic, financial and capital terms executed by the Company and Group during the FY and, more generally, the most significant events occurring in the FY, the Board of Statutory Auditors highlights the following items:

- During FY2009, in order to handle the reduction of activity in the period from January to May, the Group made use of the Italian ordinary temporary subsidized lay-off system ("cassa integrazione guadagni ordinaria") for about 70 employees, thus reducing personnel costs by € 804,000 before the related tax effect of € 221,000.
- During FY2009 some Group companies availed themselves of the option, provided by Article 15 of Italian Decree Law 185/2008, of aligning the taxable value of some financially reported items with their reported value in IFRS-compliant financial statements, with recognition - in the consolidated income statement in 2009 accounts - of € 1,454,000 of lower taxes.

The above transactions and events, with their economic, financial and capital consequences, are appropriately described in the Explanatory Notes to the financial statements for the FY ended on 31 December 2009.

In general, the Board of Statutory Auditors believes that the law, Company Bylaws, and the principles of proper management have been observed.

The Board of Statutory Auditors did not find, nor did it receive news from the independent auditors or Chief Internal Auditor of, atypical and/or unusual transactions as defined by the

CONSOB memorandum of 6 April 2001, undertaken with third parties, related parties or within the Group.

In the Report on Operations and in the Explanatory Notes to statutory and consolidated financial statements the directors have reported on related-party transactions, analytically indicating the nature and entity of such transactions. More specifically, ordinary transactions executed by the Group with related parties generated Revenues and Other Income for an amount of € 106,000 and Costs for an amount of € 146,000, all illustrated in detail in the Explanatory Notes to consolidated financial statements.
Related-party transactions appeared consistent with the Group's overall business activity and appeared to be in the interest of the Company.
The information provided concerning related-party transactions appear appropriate, also taking into account their entity and that of the Group and Company.

As regards its sphere of responsibility, the Board of Statutory Auditors has found that the transactions implemented by directors were not manifestly imprudent or rash, potentially in conflict of interest, in contrast with shareholder meeting resolutions or in any case such as to jeopardise the integrity of corporate assets. Based on the information received, and as regards its own specific responsibility, the Board of Statutory Auditors has also found that such transactions were based on criteria of economic rationality, without this in any way being an opinion on directors' operating decisions.

Lastly, the Board of Statutory Auditors has found that, in the Report on Operations, directors report that Group companies did not undertake any atypical or unusual transactions during FY2009.

3. FY2009 performance and business and financial status

FY2009 ended with consolidated net profit of € 11.6 million. The Parent Company closed its accounts as at 31 December 2009 with a net profit of € 8.4 million.

As at 31 December 2009 the consolidated financial positions showed net financial debt of € -19.2 million, while the Parent Company closed its accounts as at 31 December 2009 with net financial debt of € -11.2 million.
As at 31 December 2009, consolidated accounts showed shareholders' equity of € 109 million, while the Parent Company's statutory accounts showed shareholders' equity of € 99 million.

Based on the above facts and having considered the more general situation of the Company and Group, together with directors' forecasts, the Board of Statutory Auditors does not see the presence of any events or circumstances able to cause doubts to arise concerning the prerequisite of continuation of the business as a going concern.

4. Organisational structure, administration & accounting system and internal control system

The Board of Statutory Auditors has watched over the existence of an organisational structure appropriate in relation to the size and structure of the business enterprise and to its objectives, as well as being able to permit compliance with current regulations.

More specifically, the Board of Statutory Auditors has found the presence of procedures consistent with achievement of the objectives mentioned above, as well as the presence of a system of delegated powers and powers of attorney consistent with the responsibilities assigned.

The organisational model adopted by the Company meets the requirements of Italian Legislative Decree 231/2001 and is updated periodically.

The Company has also adopted a code of business ethics and is committed on the health, safety and environmental front.

The Chief Internal Auditor works actively and constantly on monitoring of the internal control system and identification of any criticalities. For this function he reports hierarchically to the Chief Executive Officer and reports on the results of his activity frequently and regularly to the Internal Control & Audit Committee, to which he also presents his annual work programme.
The Board of Statutory Auditors, for matters within its sphere of responsibility, has maintained a constant dialogue with the Chief Internal Auditor, while also verifying the effectiveness of his work.

The report on corporate governance and ownership structure provides, as required by Article 123-bis of the ICFA, analytical disclosure concerning the characteristics of the risk and internal control management system in place as related to the financial reporting process.

The main risk factors to which the Group is exposed, together with the measures taken by the Company to address them, are appropriately classified and described in the Report on Operations.

As regards the administration & accounting system, the Company is in line with the requirements introduced by Italian Law 262/2005 and, based on the recommendation of the Internal Control & Audit Committee and with the Board of Statutory Auditors' favourable opinion, a Financial Reporting Officer has been appointed.

The overall administration & accounting system is complete, integrated also as regards information technology procedures, and is consistent with the entity and organisational structure of the Company and Group.

Lastly, specific administration & accounting procedures are applied for periodical closures of accounts, preparation of financial statements, and preparation of reporting packages by subsidiaries.

The Financial Reporting Officer evaluates the internal control system as regards the administration & accounting area. He has drawn on the testing independently performed by the Internal Audit function.

With reference to the obligations of ongoing disclosure indicated in Article 114, paragraph 1, of the ICFA, in its house regulation concerning privileged information the Company has given subsidiaries appropriate instructions to comply with the notification obligations established by Article 114, paragraph 2, of the ICFA.

All Group companies are subjected to legal auditing by the Deloitte auditing firm, appointed on the Board of Statutory Auditors' recommendation by shareholders at the AGM of 28 April 2009.

From the information received, it emerges that - during FY2009 - the Deloitte auditing firm was given assignments other than legal auditing. Details of these assignments, together with related costs, are shown in the following table (amounts in € '000, not inclusive of expenses):

(Amounts in € '000)

Description	Amounts
Legal auditing for Parent Company - fees established at time of appointment	48
Legal Auditing for Parent Company - fees for supplementary activities	5
Audit procedures for interim management statements 12	
Legal auditing for subsidiaries - fees established at time of appointment	30
TOTAL	**95**

We report these fees to you has legally required and we confirm that the Company has shown them in an appendix to the statutory financial statements pursuant to Article 149-duodecies of the Issuers' Regulation.

After having already officially acknowledged the auditing firm's requisites of independence at the time of appointment, the Board of Statutory Auditors confirms that, in the last FY and to date, no criticalities have emerged concerning the auditing firm's independence.

5. Corporate governance

In the annual report on corporate governance and ownership structure the directors have provided detailed information concerning the ways in which the corporate governance principles approved by Borsa Italiana and contained in the related Corporate Governance Code have been implemented.

The above-mentioned report is in line with the requirements of Article 123-bis of the ICFA. As regards the information referred to in paragraph 4 of the same article, the independent auditors have expressed an opinion of consistency as per Article 156, paragraph 4-bis, letter d), of the ICFA.

The Company has adhered to the Corporate Governance Code approved by the Italian Committee for the Corporate Governance of Listed Companies promoted by Borsa Italiana S.p.A.

6. Final assessments concerning the supervisory activity performed and financial statements as at 31 December 2009.

In its report pursuant to Article 156 of the ICFA, the independent auditors have an expressed an unreserved opinion on the 2009 statutory and consolidated financial statements.
As required by Article 156-bis of the ICFA, the certifications of the Financial Reporting Officer and Chief Executive Officer are attached to the statutory and consolidated financial statements.

The directors' proposal envisages distribution of a dividend of € 0.50 per share and appears consistent with the net profit achieved.

Based on its activity during FY2009, the Board of Statutory Auditors sees no reasons preventing approval of the financial statements as at 31 December 2009 and of the resolutions proposed by the Board of Directors.

Brescia, 8 April 2010

The Board of Statutory Auditors

TAND&M

This editions is also available on the website
www.sabaf.it

a printed copy can be obtained from:

SABAF SpA
Project Team for Corporate Social Responsibility

Via del Carpini, 1
25035 Ospitaletto (BS) - Italy
Tel. +39 030 6843001
Fax +39 030 6843250
E-mail: info@sabaf.it