

*INTERIM MANAGEMENT STATEMENT*

*AT 31 DECEMBER 2012*



**SABAF S.p.A.**

**Via dei Carpini 1 - OSPITALETTO (BS), ITALY**

**Share capital: €11,533,450 fully paid in**

**[www.sabaf.it](http://www.sabaf.it)**

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*Contents*

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Group structure and corporate officers	2
Consolidated statement of financial position	4
Consolidated income statement	5
Consolidated comprehensive income statement	6
Statement of changes in consolidated shareholders' equity	6
Consolidated cash flow statement	7
Consolidated net financial position	8
Explanatory notes	9
Statement of the Financial Reporting Officer	15

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## Group structure

### *Direct parent company*

SABAF S.p.A.

### *Subsidiaries and equity interest owned by the Group*

#### Wholly consolidated companies

Faringosi-Hinges S.r.l.	100%
Sabaf do Brasil L.tda.	100%
Sabaf Immobiliare S.r.l.	100%
Sabaf Beyaz Esya Parcalari Sanayi Ve Ticaret Limited Sirketi (Sabaf Turkey)	100%
Sabaf Appliance Components Trading (Kunshan) Co. Ltd	100%

#### Companies booked at net equity

Sabaf Appliance Components (Kunshan) Co. Ltd	100%
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#### Unconsolidated companies

Sabaf Mexico S.A. de c.v.	100%
Sabaf US Corp.	100%

## Board of Directors

<b>Chairman</b>	Giuseppe Saleri
<b>Deputy Chairman</b>	Cinzia Saleri
<b>Deputy Chairman</b>	Gianbattista Saleri
<b>Deputy Chairman</b>	Ettore Saleri
<b>Chief Executive Officer</b>	Alberto Bartoli
<b>Director</b>	Salvatore Bragantini (*)
<b>Director</b>	Renato Camodeca (*)
<b>Director</b>	Giuseppe Cavalli (*)
<b>Director</b>	Leonardo Cossu (*)
<b>Director</b>	Fausto Gardoni (*)
<b>Director</b>	Gregorio Gitti (*)
<b>Director</b>	Nicla Picchi (*)
<b>Director</b>	Riccardo Rizza

(\*) independent directors

## Board of Statutory Auditors

<b>Chairman</b>	Alessandro Busi
<b>Statutory Auditor</b>	Anna Domenighini
<b>Statutory Auditor</b>	Enrico Broli

## Consolidated statement of financial position

	31.12.2012	30.09.2012	31.12.2011
<i>(in thousands of euro)</i>			
<b>ASSETS</b>			
NON-CURRENT ASSETS			
Property, plant, and equipment	81,438	82,085	80,769
Investment property	7,393	7,452	7,626
Intangible assets	7,915	8,947	9,082
Equity investments	951	787	810
Non-current receivables	90	166	168
Deferred tax assets (prepaid taxes)	3,941	4,378	3,855
<b>Total non-current assets</b>	<b>101,728</b>	<b>103,815</b>	<b>102,310</b>
CURRENT ASSETS			
Inventories	24,036	26,090	26,883
Trade receivables	37,968	37,842	42,774
Tax receivables	3,627	1,827	2,512
Other current receivables	822	1,565	595
Cash and cash equivalents	6,137	5,439	14,208
<b>Total current assets</b>	<b>72,590</b>	<b>72,763</b>	<b>86,972</b>
<b>TOTAL ASSETS</b>	<b>174,318</b>	<b>176,578</b>	<b>189,282</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
SHAREHOLDERS' EQUITY			
Share capital	11,533	11,533	11,533
Retained earnings, other reserves	99,897	101,422	99,515
Net profit for period	4,196	3,635	10,775
<i>Total equity attributable to the Group parent company</i>	<i>115,626</i>	<i>116,590</i>	<i>121,823</i>
<i>Minority interest</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Total shareholders' equity</b>	<b>115,626</b>	<b>116,590</b>	<b>121,823</b>
NON-CURRENT LIABILITIES			
Loans	5,259	6,065	11,939
Post-employment benefit reserve (TFR) and retirement reserves	2,374	2,441	2,509
Provisions for risks and contingencies	632	665	731
Deferred tax	386	370	366
<b>Total non-current liabilities</b>	<b>8,651</b>	<b>9,541</b>	<b>15,545</b>
CURRENT LIABILITIES			
Loans	24,641	22,729	17,032
Other financial liabilities	33	46	33
Trade payables	18,544	19,930	27,808
Tax payables	806	923	803
Other liabilities	6,017	6,819	6,238
<b>Total current liabilities</b>	<b>50,041</b>	<b>50,447</b>	<b>51,914</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>174,318</b>	<b>176,578</b>	<b>189,282</b>

## Consolidated income statement

	Q4 2012		Q4 2011		12M 2012		12M 2011	
<i>(in thousands of euro)</i>								
<b>CONTINUING OPERATIONS</b>								
OPERATING REVENUE AND INCOME								
Revenue	30,833	100.0%	35,190	100.0%	130,733	100.0%	148,583	100.0%
Other income	871	2.8%	1,065	3.0%	3,661	2.8%	5,032	3.4%
<b>Total operating revenue and income</b>	<b>31,704</b>	<b>102.8%</b>	<b>36,255</b>	<b>103.0%</b>	<b>134,394</b>	<b>102.8%</b>	<b>153,615</b>	<b>103.4%</b>
OPERATING COSTS								
Materials	(10,370)	-33.6%	(13,393)	-38.1%	(47,748)	-36.5%	(59,103)	-39.8%
Change in inventories	(2,461)	-8.0%	(711)	-2.0%	(3,174)	-2.4%	910	0.6%
Services	(6,843)	-22.2%	(8,046)	-22.9%	(30,989)	-23.7%	(34,168)	-23.0%
Payroll costs	(6,969)	-22.6%	(7,633)	-21.7%	(29,302)	-22.4%	(30,740)	-20.7%
Other operating costs	(447)	-1.4%	(493)	-1.4%	(2,424)	-1.9%	(1,403)	-0.9%
Costs for capitalised in-house work	272	0.9%	241	0.7%	1,056	0.8%	981	0.7%
<b>Total operating cost</b>	<b>(26,818)</b>	<b>-87.0%</b>	<b>(30,035)</b>	<b>-85.4%</b>	<b>(112,581)</b>	<b>-86.1%</b>	<b>(123,523)</b>	<b>-83.1%</b>
<b>OPERATING PROFIT BEFORE DEPRECIATION &amp; AMORTISATION, CAPITAL GAINS/LOSSES, AND WRITE-DOWNS/WRITE-BACKS OF NON-CURRENT ASSETS (EBITDA)</b>								
	<b>4,886</b>	<b>15.8%</b>	<b>6,220</b>	<b>17.7%</b>	<b>21,813</b>	<b>16.7%</b>	<b>30,092</b>	<b>20.3%</b>
Depreciation and amortisation	(3,298)	-10.7%	(3,102)	-8.8%	(12,919)	-9.9%	(12,420)	-8.4%
Capital gains/(losses) on disposal of non-current assets	81	0.3%	19	0.1%	54	0.0%	23	0.0%
Write-downs/write-backs of non-current assets	(1,028)	-3.3%	(1,129)	-3.2%	(1,028)	-0.8%	(1,129)	-0.8%
<b>OPERATING PROFIT (EBIT)</b>								
	<b>641</b>	<b>2.1%</b>	<b>2,008</b>	<b>5.7%</b>	<b>7,920</b>	<b>6.1%</b>	<b>16,566</b>	<b>11.1%</b>
Financial income	48	0.2%	62	0.2%	219	0.2%	162	0.1%
Financial expenses	(235)	-0.8%	(313)	-0.9%	(1,162)	-0.9%	(1,308)	-0.9%
Foreign exchange gains/losses	(75)	-0.2%	170	0.5%	(293)	-0.2%	390	0.3%
Profits and losses from equity investments	(145)	-0.5%	(95)	-0.3%	(465)	-0.4%	(356)	-0.2%
<b>PRE-TAX PROFIT</b>								
	<b>234</b>	<b>0.8%</b>	<b>1,832</b>	<b>5.2%</b>	<b>6,219</b>	<b>4.8%</b>	<b>15,454</b>	<b>10.4%</b>
Income tax	327	1.1%	(198)	-0.6%	(2,023)	-1.5%	(4,679)	-3.1%
Minority interests	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>NET PROFIT FOR PERIOD</b>								
	<b>561</b>	<b>1.8%</b>	<b>1,634</b>	<b>4.6%</b>	<b>4,196</b>	<b>3.2%</b>	<b>10,775</b>	<b>7.3%</b>

## Consolidated comprehensive income statement

<i>(in thousands of euro)</i>	Q4 2012	Q4 2011	12M 2012	12M 2011
<b>NET PROFIT FOR PERIOD</b>	<b>561</b>	<b>1,634</b>	<b>4,196</b>	<b>10,775</b>
<i>Others profit/losses</i>				
Forex differences from translation of items in currency	(469)	469	(1,488)	(1,619)
Cash hedge flows	11	2	7	22
<b>Total profits/(losses) net of taxes</b>	<b>(458)</b>	<b>471</b>	<b>(1,481)</b>	<b>(1,597)</b>
<b>TOTAL PROFITS</b>	<b>103</b>	<b>2,105</b>	<b>2,715</b>	<b>9,178</b>

## Statement of changes in consolidated shareholders' equity

<i>(in thousands of euro)</i>	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
<b>Balance at 31.12.11</b>	<b>11,533</b>	<b>10,002</b>	<b>2,307</b>	<b>(328)</b>	<b>1,581</b>	<b>(7)</b>	<b>85,960</b>	<b>10,775</b>	<b>121,823</b>	<b>0</b>	<b>121,823</b>
Allocation of 2011 earnings											
- Dividends paid								(6,901)	(6,901)		(6,901)
- to reserves							3,874	(3,874)	0		0
Acquisition own shares				(2,011)					(2,011)		(2,011)
Total profit at 31.12.12					(1,488)	7	0	4,196	2,715		2,715
<b>Balance at 31.12.12</b>	<b>11,533</b>	<b>10,002</b>	<b>2,307</b>	<b>(2,339)</b>	<b>93</b>	<b>0</b>	<b>89,834</b>	<b>4,196</b>	<b>115,626</b>	<b>0</b>	<b>115,626</b>

## Consolidated cash flow statement

<i>(in thousands of euro)</i>	Q4 2012	Q4 2011	12M 2012	12M 2011
<b><i>Cash and cash equivalents at beginning of period</i></b>	<b>14,208</b>	<b>6,390</b>	<b>14,208</b>	<b>9,769</b>
Net profit/(loss) for period	561	1,634	4,196	10,775
Adjustments for:				
- Depreciation and amortisation for the period	3,298	3,102	12,919	12,420
- Realised gains/losses	(81)	(19)	(54)	(23)
	1,028	1,129	1,028	1,129
- Profits and losses from equity investments	145	95	465	356
- Financial income and expenses	187	311	943	1,146
- Income tax	(327)	198	2,023	4,679
Payment of post-employment benefit reserve	(103)	(131)	(243)	(223)
Change in general provisions	(33)	(30)	(99)	(36)
<i>Change in trade receivables</i>	(126)	2,101	4,806	981
<i>Change in inventories</i>	2,054	649	2,847	(801)
<i>Change in trade payables</i>	(1,386)	4,975	(9,264)	3,623
Change in net working capital	542	7,725	(1,611)	3,803
Change in other receivables and payables, deferred tax liabilities	124	189	(692)	(387)
Payment of taxes	(1,242)	(4,136)	(2,877)	(10,159)
Payment of financial expenses	(199)	(268)	(1,054)	(1,203)
Collection of financial income	48	62	219	162
<b>Cash flow from operations</b>	<b>3,948</b>	<b>9,861</b>	<b>15,163</b>	<b>22,439</b>
<b>Net investments</b>	<b>(2,869)</b>	<b>(4,071)</b>	<b>(14,316)</b>	<b>(14,455)</b>
Repayment of loans	(1,465)	(1,680)	(11,627)	(5,856)
New loans	2,558	3,518	12,556	12,546
Acquisition own shares	(1,067)	0	(2,011)	0
Payment of dividends	0	0	(6,900)	(9,201)
<b>Cash flow from operations</b>	<b>26</b>	<b>1,838</b>	<b>(7,982)</b>	<b>(2,511)</b>
Foreign exchange differences	(407)	190	(936)	(1,034)
<b>Net financial flows for the period</b>	<b>698</b>	<b>7,818</b>	<b>(8,071)</b>	<b>4,439</b>
<b><i>Cash and cash equivalents at end of period</i></b>	<b>6,137</b>	<b>14,208</b>	<b>6,137</b>	<b>14,208</b>
Current net financial debt	24,674	17,065	24,674	17,065
Non-current financial debt	5,259	11,939	5,259	11,939
<b>Net financial debt</b>	<b>23,796</b>	<b>14,796</b>	<b>23,796</b>	<b>14,796</b>

## Consolidated net financial position

<i>(in thousands of euro)</i>	31.12.2012	30.09.2012	31.12.2011
A. Cash	11	10	8
B. Positive balances of unrestricted bank accounts	2,972	2,084	11,868
C. Other liquidities	3,154	3,345	2,332
<b>D. Cash and cash equivalents (A+B+C)</b>	<b>6,137</b>	<b>5,439</b>	<b>14,208</b>
E. Current bank overdrafts	20,602	18,031	8,546
F. Current portion of non-current debt	4,039	4,698	8,486
G. Other current financial payables	33	46	33
<b>H. Current financial debt (E+F+G)</b>	<b>24,674</b>	<b>22,775</b>	<b>17,065</b>
<b>I. Current net financial debt (H-D)</b>	<b>18,537</b>	<b>17,336</b>	<b>2,857</b>
J. Non-current bank payables	3,087	3,860	9,051
K. Other non-current financial payables	2,172	2,205	2,888
<b>L. Non-current financial debt (J+K)</b>	<b>5,259</b>	<b>6,065</b>	<b>11,939</b>
<b>M. Net financial debt (L+I)</b>	<b>23,796</b>	<b>23,401</b>	<b>14,796</b>



## Explanatory notes

### Accounting standards and area of consolidation

The Interim Operating Report of the Sabaf Group as at 31 December 2012 has been prepared in accordance with the requirements of Article 154-ter of Italian Legislative Decree 58/1998 (Italian Consolidated Finance Act) introduced by Italian Legislative Decree 195 of 6 November 2007 (the "Transparency Decree"). As such, it does not contain the information required by IAS 34.

Accounting standards and policies are the same as those adopted for preparation of the consolidated financial statements at 31 December 2011, which should be consulted for reference. Amounts are shown in thousands of Euro.

We also draw attention to the following points:

- The Interim Operating Report was prepared according to the "separation-of-periods principle" whereby the quarter in question is treated as a separate financial period. This means that the quarterly income statement reflects the ordinary and non-recurring items pertaining to the period on an accruals basis;
- the financial statements used in the consolidation process are those prepared by the subsidiaries for the period ending 31 December 2012, adjusted to comply with group accounting policies, where necessary;
- the parent company, Sabaf S.p.A., and the subsidiaries Faringosi-Hinges S.r.l., Sabaf Immobiliare S.r.l., Sabaf do Brasil Ltda, Sabaf Turkey and Sabaf Appliance Components Trading (Kunshan) Co. Ltd have been consolidated on a 100% line-by-line basis;
- the subsidiary Sabaf Appliance Components (Kunshan) Co., Ltd., which has not initiated purchase, production and sales operations, is booked at equity;
- the subsidiaries Sabaf Mexico SA de C.V. and Sabaf US Corp. have not been consolidated as their contribution is considered immaterial for the purposes of consolidation;
- Sabaf Appliance Components Trading (Kunshan) Co., Ltd, a 100%-owned subsidiary of Sabaf S.p.A., was established in the fourth quarter of 2012. The company, which acts as the distributor on the Chinese market of Sabaf products made in Italy, was consolidated in this Interim Management Statement;
- the scope of consolidation has not otherwise changed with respect to 31 December 2011.

The Interim Management Statement at 31 December 2012 has not been independently audited.

*Sales breakdown by geographical area*

<i>in thousands of Euro</i>	<b>Q4 2012</b>	<b>Q4 2011</b>	<b>Change %</b>	<b>12M 2012</b>	<b>12M 2011</b>	<b>Change %</b>
Italy	10,958	12,861	-14.8%	45,597	56,321	-19.0%
Western Europe	1,723	2,778	-38.0%	7,337	11,215	-34.6%
Eastern Europe	8,417	8,109	3.8%	33,236	37,459	-11.3%
Asia and Oceania	2,686	3,618	-25.8%	12,306	13,328	-7.7%
South America	4,784	5,144	-7.0%	21,895	19,838	10.4%
Africa	1,560	1,624	-3.9%	6,950	6,524	6.5%
US, Canada & Mexico	705	1,056	-33.2%	3,412	3,898	-12.5%
<b>Total</b>	<b>30,833</b>	<b>35,190</b>	<b>-12.4%</b>	<b>130,733</b>	<b>148,583</b>	<b>-12.0%</b>

*Sales breakdown by product category*

<i>in thousands of Euro</i>	<b>Q4 2012</b>	<b>Q4 2011</b>	<b>Change %</b>	<b>12M 2012</b>	<b>12M 2011</b>	<b>Change %</b>
Brass valves	4,523	5,822	-22.3%	18,601	26,537	-29.9%
Light alloy valves	6,420	5,413	18.6%	23,524	23,265	1.1%
Thermostats	2,836	3,763	-24.6%	13,074	14,560	-10.2%
Standard burners	9,061	11,030	-17.9%	39,337	42,631	-7.7%
Special burners	4,307	5,408	-20.4%	18,850	22,210	-15.1%
Accessories	2,318	1,943	19.3%	11,226	10,598	5.9%
<i>Total gas components</i>	<i>29,465</i>	<i>33,379</i>	<i>-11.7%</i>	<i>124,612</i>	<i>139,801</i>	<i>-10.9%</i>
<i>Hinges</i>	<i>1,368</i>	<i>1,811</i>	<i>-24.5%</i>	<i>6,121</i>	<i>8,782</i>	<i>-30.3%</i>
<b>Total</b>	<b>30,833</b>	<b>35,190</b>	<b>-12.4%</b>	<b>130,733</b>	<b>148,583</b>	<b>-12.0%</b>

## Management Statement

### *Earnings*

In 4Q 2012, the Sabaf Group booked sales revenue of €30.8 million, a decrease of 12.4% compared with the figure of €35.2 million registered in 4Q 2011. The Italian and Western European markets, which have been marked by weakness for two years now, has yet to show any signs of a trend reversal, while sales in Eastern Europe picked up slightly. Markets outside Europe, which showed a positive trend in the first half of the year, also slowed during the fourth quarter. All product families posted a drop in revenues, with the exception of light allow valves, which recorded growth of 18.6%, thanks to the contribution of new models that expanded the range.

As in the previous quarters, the low levels of activity and the higher incidence of structural costs heavily affected profitability. In the fourth quarter, the Group allocated a further €0.2 million to the doubtful account provision, after already having set aside €1.4 million to the provision in the first nine months.

EBITDA for 4Q 2012 amounted to €4.9 million, with a 15.8% margin on sales, down by 21.4% vs. €6.2 million (17.7% margin on sales) in 4Q 2011.

At the end of the year, the goodwill of €5.2 million allocated to the "Hinges" cash generating unit was tested for impairment. To this end, the 2013 budget and the updated medium-/long-term forecasts, which take into account the decline on the reference market and growing competitive pressure on standard products, were considered. The valuation was conducted using a multi-scenario approach (best estimate, steady state and intermediate scenario). Among the various scenarios projected, for the purpose of assessing goodwill, the management decided to adopt the intermediate scenario, which considers only 75% of expected cash flows from new products, to take into account the execution risk of the new business plan. The execution risk was assessed based on the status of new projects and ongoing negotiations with the Group's main clients. The value in use calculated on the basis of the assumptions formulated by the Group led to a write-down of €1 million, which was booked in the income statement of 4Q 2012.

EBIT was €0.7 million, equivalent to 2.2% of sales, and 66.9% lower than the €2 million of the same quarter in 2011 (5.7% of sales). The pre-tax result was €0.3 million, down by 82.8% compared with the €1.8 million of 4Q 2011, and net profit for the period was €0.6 million, compared with €1.6 million in 4Q 2011 (-64.1%).

For full-year 2012, revenue came in at €130.7 million, down by 12% compared with 2011. EBITDA was €21.8 million (16.7% of sales, a decline of 27.5%), EBIT was €7.9 million (6.1% of sales, a decrease of 52.1%), and net profit totalled €4.2 million (-60.8% vs. FY 2011).

### *Equity and cash flow*

Quarter investments were €2.9 million, bringing total investments since the start of the year to €14.3 million (€14.5 million in 2011).

As part of the share buyback programme approved by the shareholders' meeting on 8 May 2012 and launched on 8 June 2012, in the fourth quarter of 2012 Sabaf S.p.A. purchased 125,088 own shares at an average price of €8,707 per share. At 31 December 2012, Sabaf S.p.A. held 267,250 own shares, equivalent to 2.32% of the share capital.

As at 31 December, net financial debt was €23.8 million (€23.4 million as at 30 September 2012), while shareholders' equity amounted to €115.6 million.

### *Significant non-recurring transactions*

In accordance with Legislative Decree 16 of 2 March 2012, in the fourth quarter of 2012, the Group booked the tax credit resulting from the non-deduction of IRAP for personnel costs and similar for the period 2007-2011. As a result, taxes booked in the income statement for 4Q 2012 were lower by €1,103,000.

### *Abnormal and unusual transactions*

During the fourth quarter of 2012 the Group engaged in no significant transactions qualifying as atypical and/or unusual, as envisaged by the CONSOB communication of 28 July 2006.

### *Significant events since the close of the quarter*

The installation of machinery and the launch of production at Sabaf Turkey were completed according to schedule. In January 2013, the subsidiary conducted its first sales of burners on the local market.

### *Business outlook*

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

These targets assume a macroeconomic scenario not affected by unpredictable events. If the economic situation were to change significantly, actual figures might diverge from forecasts.

## Statement of the Financial Reporting Officer pursuant to Article 154-bis (2) TUF

Pursuant to Article 154-bis, paragraph 2 of Legislative Decree 58/1998 (Testo Unico della Finanza - Consolidated Finance Act), the company's Financial Reporting Officer Gianluca Beschi herewith declares that the financial disclosure contained in Sabaf S.p.A.'s Interim Management Statement at 31 December 2012 corresponds to the company's records, books and accounting entries.

*Ospitaletto (BS), 12 February 2013*

Financial Reporting Officer  
Gianluca Beschi