

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS IN 2015

Shareholders,

in 2015 the Sogefi Group recorded revenues for Euro 1.5 billion, up by 11.1% (+9.1% exchange rates being equal) thanks to the positive contribution of all business units and all geographical areas, with the exception of Latin America.

With regard to the overall performance of the automotive markets in 2015, the production of cars and light commercial vehicles rose 1.4%, benefiting from the robust recovery of the European market (+7.1%) and from the expansion in North America (+2.7%). In 2015, production volumes experienced a 4.5% growth in Asia, where a sound fourth quarter performance (+9.9%) recovered the decline recorded in the third quarter. The recessionary phase continued in South America with production down by 20.5% during the year, with an acceleration of the negative trend by 29.2% in the fourth quarter.

In 2015, all business units achieved significant revenue growth compared to the previous year. Suspensions sales increased by 10.1% (+9.2 % exchange rates being equal), benefiting from the positive momentum of the passenger car business in Europe and an increased market share in South America.

The sales of the Filtration business unit increased by 13.2% (+10% exchange rates being equal) during 2015, driven by growth in North America and by the original equipment business in Europe.

The sales of the Air&Cooling business unit grew by 9.3% over 2014 (+7.5% exchange rates being equal), boosted by the increased market share in North America.

The table below shows the performance of the divisions:

(in millions of Euro)	2015		2014	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Suspensions	558.0	37.2	506.6	37.5
Filtration	536.4	35.8	473.7	35.2
Air&Cooling	409.3	27.3	374.3	27.7
Intercompany eliminations	(4.6)	(0.3)	(5.2)	(0.4)
TOTAL	1,499.1	100.0	1,349.4	100.0

The weight of non-European countries on total revenues rose to 37% in 2015 (35.4% in 2014), up 1.6 percentage points thanks to the good performance in North America and Asia, which more than compensated for the sluggish performance of South American markets.

Market recovery in Europe – Sogefi's largest market – propelled revenues by 8.2% in 2015, thanks to the positive performance of all business areas.

Sogefi recorded a performance better than the market in North America thanks to its positioning towards local auto makers.

In South America, revenues for the year dropped by 3.8% (+2.8% exchange rates being equal) in spite of a 20.5% downturn in the market, thanks to the positive contribution of

the Suspensions business.

In 2015, revenues in Asia increased by 34.4% (18.7% exchange rates being equal).

The table below shows a breakdown of sales by key markets.

(in millions of Euro)	2015		2014	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Europe	943.8	63.0	872.1	64.6
Mercosur	174.5	11.6	181.4	13.5
NAFTA	264.1	17.6	207.3	15.4
Asia	111.1	7.4	82.7	6.1
Rest of the world	5.6	0.4	5.9	0.4
TOTAL	1,499.1	100.0	1,349.4	100.0

Sogefi's key customers are Ford, FCA, Renault/Nissan, PSA, Daimler and GM, all of which yielded growing revenues in 2015.

(in millions of Euro)	2015		2014	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Group				
Ford	200.3	13.4	169.0	12.5
FCA/CNH Industrial	179.6	12.0	143.5	10.6
Renault/Nissan	175.3	11.7	165.7	12.3
PSA	166.4	11.1	154.4	11.4
Daimler	116.5	7.8	100.0	7.4
GM	116.2	7.8	111.9	8.3
Volkswagen/Audi	51.8	3.5	47.4	3.5
BMW	42.9	2.9	38.6	2.9
Toyota	33.3	2.2	28.6	2.1
Other (including the Aftermarket)	416.8	27.6	390.3	29.0
TOTAL	1,499.1	100.0	1,349.4	100.0

The following table provides comparative figures of the Income statement for 2015 and the previous year.

(in millions of Euro)	2015		2014	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Sales revenues	1,499.1	100.0	1,349.4	100.0
Variable cost of sales	1,079.1	72.0	960.0	71.1
CONTRIBUTION MARGIN	420.0	28.0	389.4	28.9
Manufacturing and R&D overheads	146.1	9.7	128.8	9.5
Depreciation and amortization	64.4	4.3	58.0	4.3
Distribution and sales fixed expenses	45.2	3.0	41.8	3.1
Administrative and general expenses	72.3	4.8	71.0	5.3
Restructuring costs	6.9	0.5	16.2	1.2
Losses (gains) on disposal	(1.6)	(0.1)	(0.1)	-
Exchange (gains) losses	3.6	0.2	0.6	-
Other non-operating expenses (income)	32.4	2.2	24.8	1.9
- of which non recurring expenses	16.1		10.3	
EBIT	50.7	3.4	48.3	3.6
Financial expenses (income), net	32.8	2.2	26.8	2.0
- of which fair value of the embedded derivative (convertible bond)	(1.5)		(14.0)	
- of which other net financial expenses (income)	34.3		40.8	
Losses (gains) from equity investments	-	-	-	-
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS	17.9	1.2	21.5	1.6
Income taxes	12.9	0.9	13.1	1.0
NET RESULT BEFORE NON-CONTROLLING INTERESTS	5.0	0.3	8.4	0.6
Loss (income) attributable to non-controlling interests	(3.9)	(0.2)	(4.8)	(0.3)
GROUP NET RESULT	1.1	0.1	3.6	0.3

2015 EBITDA rose by Euro 6 million to Euro 115.5 million (7.7% of revenues).

It is worth recalling that non-recurring expenses of € 21.5 million were recorded in 2015 of which € 11.8 million in the second quarter for the Air&Cooling provision for product warranties and € 7.3 million for restructuring costs.

Amortisation, depreciation and writedowns (included in “Other non-operating expenses (income)”) increased from Euro 59.9 million in 2014 to Euro 64.8 million in 2015. As a result, EBIT rose to Euro 50.7 million from Euro 48.3 million in 2014.

The net result was a positive € 1.1 million, down slightly from € 3.6 million in 2014 as an effect of higher financial expense, which in the previous year had benefited from positive non-recurring items.

At the end of 2015, the Sogefi Group's workforce was 6,702 (6,668 as at December 31,

2014). Breakdown by business sector is as follows:

	12.31.2015		12.31.2014	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Suspensions	2,663	39.7	2,582	38.7
Filtration	2,629	39.3	2,750	41.2
Air&Cooling	1,350	20.1	1,263	18.9
Other	60	0.9	73	1.1
TOTAL	6,702	100.0	6,668	100.0

and breakdown by category is provided below:

	12.31.2015		12.31.2014	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Managers	98	1.5	97	1.5
Clerical staff	1,866	27.8	1,824	27.4
Blue collar workers	4,738	70.7	4,747	71.1
TOTAL	6,702	100.0	6,668	100.0

Net financial debt stood at Euro 322.3 million at December 31, 2015 compared to Euro 304.3 million at December 31, 2014. The change during the year included non-recurring items of approximately Euro 20 million which referred to product quality guarantee charges.

The following table provides a breakdown of indebtedness as of December 31, 2015:

(in millions of Euro)	12.31.2015	12.31.2014
Cash, banks, financial receivables and securities held for trading	128.2	133.5
Medium/long-term financial receivables	13.2	0.2
Short-term financial debts (*)	(92.6)	(78.3)
Medium/long-term financial debts	(371.1)	(359.7)
NET FINANCIAL POSITION	(322.3)	(304.3)

(*) Including current portions of medium and long-term financial debts.

The table below shows changes in cash flows during the year:

(in millions of Euro)	Note(*)	2015	2014
SELF-FINANCING	(f)	53.4	67.6
Change in net working capital		(4.2)	20.4
Other medium/long-term assets/liabilities	(g)	4.8	(2.1)
CASH FLOW GENERATED BY OPERATIONS		54.0	85.9
Sale of equity investments	(h)	-	-
Net decrease from sale of fixed assets	(i)	1.0	3.8
TOTAL SOURCES		55.0	89.7
Increase in intangible assets		30.4	42.1
Purchase of tangible assets		51.3	42.3
TOTAL APPLICATION OF FUNDS		81.7	84.4
Exchange differences on assets/liabilities and equity	(l)	1.9	(1.5)
FREE CASH FLOW		(24.8)	3.8
Holding Company increases in capital		0.1	2.5
Increases in share capital of consolidated subsidiaries		0.1	-
Dividends paid by the Holding Company to shareholders		-	-
Dividends paid by subsidiaries to non-controlling interests		(4.3)	(2.6)
Change in fair value derivative instruments		10.9	(3.4)
CHANGES IN SHAREHOLDERS' EQUITY		6.8	(3.5)
Change in net financial position	(m)	(18.0)	0.3
Opening net financial position	(m)	(304.3)	(304.6)
CLOSING NET FINANCIAL POSITION	(m)	(322.3)	(304.3)

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

As of December 31, 2015, shareholders' equity, not including non-controlling interests, was Euro 170.8 million (vs. Euro 161.2 million as of December 31, 2014), as illustrated in the table below.

(in millions of Euro)	Note(*)	12.31.2015		12.31.2014	
		Amount	%	Amount	%
Short-term operating assets	(a)	341.8		325.3	
Short-term operating liabilities	(b)	(341.2)		(323.2)	
Net working capital		0.6	0.1	2.1	0.4
Equity investments	(c)	0.4	0.1	0.4	0.1
Intangible, tangible fixed assets and other medium and long-term assets	(d)	636.4	124.1	632.8	130.5
CAPITAL INVESTED		637.4	124.3	635.3	131.0
Other medium and long-term liabilities	(e)	(124.7)	(24.3)	(150.2)	(31.0)
NET CAPITAL INVESTED		512.7	100.0	485.1	100.0
Net financial indebtedness		322.3	62.9	304.3	62.7
Non-controlling interests		19.6	3.8	19.6	4.0
Consolidated equity of the Group		170.8	33.3	161.2	33.3
TOTAL		512.7	100.0	485.1	100.0

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

Outlined below are a few indicators as at 2015 year end:

- **gearing** (net financial position/total equity ratio) stood at 1.69 at the end of 2015 (1.68 at the end of 2014);
- **ROI** (Return on Investment, calculated as the ratio of EBIT to average net capital invested) increased from 9.9% in 2014 to 10.2% in 2015;
- **ROE** (Return on Equity) was 0.7% at the end of 2015 (2.2% in 2014).

INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investment in tangible fixed assets grew from Euro 42.3 million in 2014 to Euro 51.3 million in 2015 and were mainly aimed at enhancing production capacity, engineering of new products, improving industrial processes and increasing productivity.

Research and development expenses amounted to Euro 35.5 million, were stable compared to 2014, and mostly focused on product innovation.