

## MANAGEMENT OF THE MAIN BUSINESS RISKS

The following section looks at the main risks and uncertainties that the Group is potentially exposed to in the achievement of its business objectives/operations, together with a description of the ways in which said risks are managed.

To facilitate comprehension, risk factors have been grouped on the basis of their origin into homogeneous risk categories, with distinction between those that arise outside the Group (**external risks**) and those associated with the characteristics and structure of the organisation itself (**internal risks**).

In terms of **external risks**, first of all, the Group adopts a centralised management approach to **financial risk** (which includes **risks of changes in interest rates and exchange rates, risks of changes in raw materials prices, credit risk and liquidity risk**), described in further detail in the *Explanatory and Supplementary Notes to the Consolidated Financial Statements* which should be referred to<sup>1</sup>.

With regard to **risks relating to competitors**, the Group is one of the leading players in both the Suspension Components and Engine Systems sectors at a worldwide level, and benefits from the competitive scenario with relatively few global players operating in these sectors. The market has been evolving along different lines over the last few years. Manufacturers with a cost advantage based in North African countries, Turkey and East Europe have been approaching the European original equipment market. On the other hand, an increasing number of OE customers have developed global platforms and component manufacturers are now required to have the capacity to supply any given product in different world areas (for instance, Europa, China and Brazil).

The Sogefi Group is responding to these challenges by focusing on its world-wide presence and pursuing its strategy of growth in non-European markets, alongside its continued policy of investing in product innovation to support and strengthen Sogefi's leading technology position.

On the independent aftermarket, pressure from low-cost manufacturers continues to be an issue.

The Group's competitiveness remains high thanks to its products exhaustive offering and premium positioning in the independent aftermarket, and the Group is working to expand coverage of the segments in which it operates.

As regards the **risks associated with customer management**, as well as the management of **credit risk** already mentioned within **financial risk**, the Group manages the risk of the concentration of demand by appropriately diversifying its customer portfolio, both from a geographic perspective and in terms of distribution channel (the major world manufacturers of cars and industrial vehicles in the original equipment market and leading international customers in the spare parts market).

**Credit risk** has significantly diminished in the independent aftermarket (IAM) thanks to the recent reorganisation of the sector, whereas the overall upturn in sales volumes on global markets has helped reduce the actually limited risk exposure with original

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<sup>1</sup> For a detailed description of the centralised management of financial risk adopted by the Group, please see the "Explanatory and Supplementary Notes to the Consolidated Financial Statements", Chap. E, Note no. 39.

equipment (OE) and original equipment spares (OES) customers.

As regards the **risks associated with supplier management**, mostly managed centrally by the Group, increased focus on multi-sourcing, especially from non-European suppliers and the ongoing search for alternate suppliers helps to reduce the **risk of being excessively dependent on key suppliers/single suppliers**.

It should be noted that this multi-sourcing approach, i.e. sourcing each raw material from multiple suppliers based in different world countries helps to reduce the **risk of changes in raw materials prices** mentioned earlier when discussing the management of **financial risk**.

The Group places particular attention on the management of **country risk**, given the considerable geographic diversification of its business activities at world level.

In terms of the **risks associated with technological innovation**, the Group constantly seeks to innovate products and production processes.

Specifically, the Group's *pipeline* includes certain product/process innovations that are not available to key competitors, such as new elastic suspension components made from composite materials, a new oil cooling technology that uses *aluminium foam* and an innovative particulate emission control system.

With regard to the **risks related to health, safety and the environment**, each subsidiary has its own internal function that manages HSE in accordance with local laws and in accordance with Sogefi Group's guidelines. More specifically, the Holding Company Sogefi S.p.A. has approved an Environmental Policy for Health and Safety, which sets out the principles that all operations of subsidiaries should observe for the organisation of the HSE management system. Special emphasis is placed on monitoring the risk of accidents, which is a pillar of the plant operating approach "Kaizen Way" adopted at all production sites across the world and coordinated by a dedicated central management team at Group level.

In correlation with the environmental policy, 16 plants in the Engine Systems business unit and 13 in the Suspension Components business unit are currently certified as complying with the international standard ISO 14001. Within the Engine Systems business unit, two companies have had their health and safety systems certified to the OHSAS 18001 standard. The activities carried out in the plants are audited by both experienced internal auditors and external auditors. Particular attention is paid to personnel training in order to consolidate and disseminate a safety culture.

As regards **internal risks**, namely risks mostly connected with internal activities and with the characteristics of the organisation itself, one of the major risks identified, monitored and actively managed by the Group is the **risk of product quality/complaints due to non conformity**: in this regard, it is worth drawing attention to the fact that the Sogefi Group considers ongoing quality improvement as a fundamental objective to meet customers' needs. In this regard, a central organisation was set up at Group level with the specific task of monitoring product quality and preventing non-conformities on an on-going basis through local plant units that operate under its supervision. The same focus on quality is placed on the supplier selection and approval process, as well as in the on-going quality control of supplies used in the manufacturing process (raw materials, semi-finished products, etc.), in order to prevent

non-conformities in Group products partly or totally due to defective supplies. In correlation with the Group's quality policy, 18 plants in the Engine Systems Business Unit and 14 in the Suspension Components Business Unit are currently certified as complying with the international standard ISO TS 16949. Some plants' systems are certified according to business specifications. Unforeseeable risk is adequately covered by insurance, as regards both third party product liability and the potential launch of product recall campaigns.

With regard to the **risks associated with adequacy of managerial support (e.g. the effectiveness/efficiency of Group monitoring and reporting, of internal information flows etc.)**, information can be found in the "Annual Report on Corporate Governance".

In terms of the set of **risks associated with human resource management**, the Group acknowledges the key role played by its human resources and the importance of maintaining clear relationships based on mutual loyalty and trust, as well as on the observance of conduct dictated by its Code of Ethics.

Working relationships are managed and coordinated in full respect of workers' right and in full acknowledgement of their contribution, with a view to encouraging development and professional growth. Established selection processes, career paths, and incentive schemes are the tools used to make the most of human resources. The Group also uses a system of annual performance appraisals based on a clear definition of shared objectives, which can be measured in numerical, economic, financial, qualitative and individual terms. A variable bonus is paid depending on the degree to which said objectives are achieved. As regards medium-long term incentive schemes, again in 2013 a stock grant plan has been allocated to top management positions.

Lastly, with regard to the **risks associated to the management of Information Systems**, the Group manages the risks linked to the potential incompleteness/inadequacy of IT infrastructure and the risks related to the physical and logical safety of systems in terms of the protection of confidential data and information by means of specific units at group level. A key project focus aimed at improving the quality standard of corporate IT systems provides for the implementation of the "SAP" ERP system at all operations across the world, which is currently under way.