REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS IN 2013

Shareholders,

for the 2013 year, Sogefi Group revenues rose to over Euro 1.3 billion, and such growth was accompanied by rising margin despite negative exchange rates and an intensified restructuring effort.
More specifically, while speeding up action to improve structural efficiency by rationalising manufacturing capacity in France – which pushed restructuring costs to Euro 19.2 million (24% up from 2012), Euro 17.3 million alone in the fourth quarter – the Group still managed to rack up 9% EBIT growth, with an impact on revenues up to 5.2% from 4.8% in 2012.

This was achieved thanks to an improved product mix and a strategy of focusing on non-European countries, especially on the North American market and Asia, but was also aided by the European market becoming more stable, especially during the second half of the year.

With regard to the overall performance of automotive markets during 2013, the significant increase in new registrations observed in the USA (+7.5% compared to 2012) and China (+17%) coupled with more moderate growth in Mercosur (+1.6%) compensated for the decline in Europe (-1.7%).

Sogefi closed the year with consolidated **sales revenues** of Euro 1,335 million, slightly up from the Euro 1,319.2 million figure recorded in 2012 (+1.2%, +5.5% on a constant currency basis). The key in achieving this was the good performance on non-European markets, especially North America and Asia, where revenues grew by 24.5% (Euro 187.4 million) and 27.1% (Euro 59.2 million), respectively compared to 2012 and the positive trend in the fourth quarter, with consolidated revenues standing at Euro 324.4 million, up 3.3% (+8.6% on a constant currency basis) from the previous year.

In 2013, the Engine Systems business unit realised revenues for Euro 818.6 million, 3.3% up from 2012 (+7.4% on a constant currency basis).
The Suspension Components business unit ended 2013 with revenues of Euro 518.6 million (Euro 528.6 million in 2012), recording a drop of 1.9% (+2.6% on a constant currency basis).

The table below shows the performance of the business units:

(in millions of Euro)	2013		2012	
	Amount	*%*	*Amount*	*%*
Engine systems	818.6	61.4	792.6	60.1
Suspension components	518.6	38.8	528.6	40.1
Intercompany eliminations	(2.2)	(0.2)	(2.0)	(0.2)
TOTAL	1,335.0	100.0	1,319.2	100.0

Non-European countries account for 36% of the total revenues of the Sogefi Group, up two percentage points from 2012 (38% net of exchange differences). The Group performed well in South America, where revenue growth would have been higher than in the reference market – net of exchange differences – thanks to the good competitive position of Sogefi. In Europe the Group reported revenues of Euro 859.3 million, down 2.0%, which however are in line with the reference market.

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

(in millions of Euro)	2013		2012	
	Amount	*%*	*Amount*	*%*
Europe	859.3	64.4	877.0	66.5
Mercosur	224.4	16.8	231.4	17.5
NAFTA	187.4	14.0	150.6	11.4
Asia	59.2	4.4	46.6	3.5
Rest of the world	4.7	0.4	13.6	1.1
TOTAL	1,335.0	100.0	1,319.2	100.0

The breakdown of revenues by customers shows the effects of the expansion in areas outside Europe and of the European market decline. More precisely, Ford is now the Group's top customer, accounting for 12.4% of revenues (11.9% in 2012) and the Fiat/Chrysler Group is the fourth largest customer at 9.1% (6.5% in 2012). French manufacturers PSA and Renault/Nissan now rank second and third among the Group's customers, with PSA accounting for 12.4% of revenues (down from 12.9%) and 10.7% (down from 11.3%) of revenues, respectively.

(in millions of Euro)	2013		2012	
Group	*Amount*	*%*	*Amount*	*%*
Ford	166.2	12.4	156.3	11.9
PSA	165.1	12.4	169.9	12.9
Renault/Nissan	142.3	10.7	149.3	11.3
FCA/CNH Industrial	122.0	9.1	85.5	6.5
GM	120.2	9.0	124.8	9.5
Daimler	101.3	7.6	95.9	7.3
Volkswagen/Audi	56.3	4.2	65.0	4.9
BMW	34.6	2.6	41.7	3.2
DAF/Paccar	30.8	2.3	28.7	2.2
Volvo	29.0	2.2	30.3	2.3
Toyota	26.5	2.0	26.6	2.0
Man	22.8	1.7	20.8	1.6
Honda	6.1	0.5	6.2	0.5
Caterpillar	6.0	0.4	9.0	0.7
Other	305.8	22.9	309.2	23.2
TOTAL	1,335.00	100.0	1,319.2	100.0

The following table provides comparative figures of the income statement for 2013 and the previous year.

(in millions of Euro)	2013		2012 (*)	
	Amount	*%*	*Amount*	*%*
Sales revenues	1,335.0	100.0	1,319.2	100.0
Variable cost of sales	932.4	69.8	927.4	70.3
CONTRIBUTION MARGIN	402.6	30.2	391.8	29.7
Manufacturing and R&D overheads	130.8	9.8	132.8	10.2
Depreciation and amortization	57.3	4.3	58.4	4.4
Distribution and sales fixed expenses	39.6	3.0	39.3	3.0
Administrative and general expenses	67.1	5.0	68.9	5.1
OPERATING RESULT	107.8	8.1	92.4	7.0
Restructuring costs	17.8	1.3	12.2	0.9
Losses (gains) on disposal	(1.6)	(0.1)	(7.7)	(0.6)
Exchange (gains) losses	4.1	0.3	0.7	-
Other non-operating expenses (income)	18.4	1.4	23.9	1.9
EBIT	69.1	5.2	63.4	4.8
Financial expenses (income), net	28.4	2.1	18.5	1.4
Losses (gains) from equity investments	0.3	-	-	-
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS	40.4	3.1	44.9	3.4
Income taxes	15.7	1.2	13.4	1.1
NET RESULT BEFORE NON-CONTROLLING INTERESTS	24.7	1.9	31.5	2.3
Loss (income) attributable to non-controlling interests	(3.6)	(0.3)	(3.2)	(0.2)
GROUP NET RESULT	21.1	1.6	28.2	2.1

(*) Certain values as at December 31, 2012 were redetermined after the application of the amendment to IAS 19 - Employee Benefits.

Consolidated operating result amounted to Euro 107.8 million, 16.6% up from the previous year, improving by 1.1 percentage points up to 8.1% of revenues.

During 2013, the Group intensified its efforts to improve efficiency in the face of the continued slump in Europe, with an aim to adjust production to declining demand. With regard to the Engine Systems business unit, the Group started negotiations to shut down the Saint Père plant and relocate production from the Argentan plant to Vire. As a result, restructuring costs are higher than in the previous year at Euro 19.2 million, of which Euro 17.8 million incurred in rationalising manufacturing capacity and Euro 1.4 million account for the depreciation of assets affected by the restructuring process (Euro 12.2 million and Euro 3.2 million, respectively in 2012).

Consolidated EBITDA amounted to Euro 129.5 million, up 2.3% compared to 2012 (Euro 126.7 million). Consolidated EBITDA before restructuring costs was Euro 147.3 million, 6.1% up from the previous year, accounting for 11% of revenues (10.5% in 2012).

Consolidated EBIT amounted to Euro 69.1 million, up 9% from Euro 63.4 million in 2012, and its impact on revenues increased from 4.8% in 2012 to 5.2%. Pre-restructuring EBIT for 2013 grew by 12% to Euro 88.3 million from the previous year's figure of Euro 78.8 million.

Consolidated result before taxes and non-controlling interests for 2013 was Euro 40.5 million compared to Euro 44.9 million in the previous year. In addition to the increased restructuring costs, the result was impacted by higher interest costs incurred after debt was recently refinanced with new credit lines at current market prices which replaced the existing credit lines obtained before 2009.

Consolidated net result for 2013 was positive at Euro 21.1 million (Euro 28.2 million in 2012).

At the end of 2013, the Sogefi Group's workforce was 6,834, compared to 6,735 as at December 31, 2012. New hirings in Asia, NAFTA countries and Mercosur were for the most part offset by downsizing in Europe.
Breakdown by business sectors is as follows:

	12.31.2013		12.31.2012	
	Number	*%*	*Number*	*%*
Engine systems	4,047	59.2	4,090	60.7
Suspension components	2,714	39.7	2,571	38.2
Other	73	1.1	74	1.1
TOTAL	6,834	100.0	6,735	100.0

and breakdown by category is provided below:

	12.31.2013		12.31.2012	
	Number	*%*	*Number*	*%*
Managers	108	1.6	111	1.6
Clerical staff	1,847	27.0	1,821	27.0
Blue collar workers	4,879	71.4	4,803	71.4
TOTAL	6,834	100.0	6,735	100.0

Net financial indebtedness as at December 31, 2013 was Euro 304.6 million (compared to Euro 339 million as at September 30, 2013 and Euro 295.8 million as at December 31, 2012). The result for the quarter can be traced back to good operating performance and a seasonal optimisation of working capital. Because most restructuring operations took place during the fourth quarter, most of the resulting cash outflows will occur during 2014.

The following table provides a breakdown of indebtedness as of December 31, 2013:

(in millions of Euro)	12.31.2013	12.31.2012
Cash, banks, financial receivables and securities held for trading	132.8	93.4
Medium/long-term financial receivables	-	-
Short-term financial debts (*)	(83.7)	(99.0)
Medium/long-term financial debts	(353.7)	(290.2)
NET FINANCIAL POSITION	(304.6)	(295.8)

(*) 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(*)	2013	2012
SELF-FINANCING	(f)	87.9	89.2
Change in net working capital		6.7	22.1
Other medium/long-term assets/liabilities	(g)	(1.3)	(1.2)
CASH FLOW GENERATED BY OPERATIONS		**93.3**	**110.1**
Sale of equity investments	(h)	0.1	-
Net decrease from sale of fixed assets	(i)	1.9	3.4
TOTAL SOURCES		95.3	113.5
Increase in intangible assets		47.8	39.2
Purchase of tangible assets		36.0	45.2
TOTAL APPLICATION OF FUNDS		83.8	84.4
Exchange differences on assets/liabilities and equity	(l)	(1.5)	(1.4)
FREE CASH FLOW		**10.0**	**27.7**
Holding Company increases in capital		0.8	0.1
Net purchase of treasury share		-	(1.4)
subsidiaries		-	0.2
Dividends paid by the Holding Company to shareholders		(14.7)	(14.7)
Dividends paid by subsidiaries to non-controlling interests		(2.6)	(2.5)
Change in fair value derivative instruments		(2.3)	(5.4)
CHANGES IN SHAREHOLDERS' EQUITY		(18.8)	(23.7)
Change in net financial position	(m)	**(8.8)**	**4.0**
Opening net financial position	(m)	**(295.8)**	**(299.8)**
CLOSING NET FINANCIAL POSITION	(m)	**(304.6)**	**(295.8)**

(*) 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, 2013, **consolidated equity**, including non-controlling interests, was Euro 188.9 million (Euro 200.2 million as of December 31, 2012), as illustrated in the table below.

(in millions of Euro)	Note(*)	12.31.2013		12.31.2012 (**)	
		Amount	*%*	*Amount*	*%*
Short-term operating assets	(a)	321.0		338.2	
Short-term operating liabilities	(b)	(298.0)		(303.0)	
Net working capital		23.0	4.7	35.2	7.1
Equity investments	(c)	0.4	0.1	0.8	0.2
Intangible, tangible fixed assets and other medium and long-term assets	(d)	590.3	119.7	582.2	117.4
CAPITAL INVESTED		613.7	124.5	618.2	124.7
Other medium and long-term liabilities	(e)	(120.2)	(24.5)	(122.2)	(24.7)
NET CAPITAL INVESTED		493.5	100.0	496.0	100.0
Net financial indebtedness		304.6	61.7	295.8	59.6
Non-controlling interests		20.4	4.1	19.8	4.0
Consolidated equity of the Group		168.5	34.2	180.4	36.4
TOTAL		493.5	100.0	496.0	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.

(**) Certain values at December 31, 2012 were redetermined after the application of the amendment to IAS 19 - Employee Benefits.

Outlined below are a few indicators as at 2013 year end:

- **gearing** (net financial position/total equity ratio) stood at 1.61 at the end of 2013 (1.48 at the end of 2012);
- **net financial position/normalised EBITDA** (excluding costs and revenues from non-ordinary operations) **ratio** remained stable at 2.09 compared to the end of 2012;
- **ROI** (Return on Investment, calculated as the ratio of EBIT before restructuring costs and non-recurring non-operating expenses incurred in restructuring to average net capital invested) increased from 15.8% in 2012 to 17.8% in 2013;
- **ROE** (Return on Equity) passed from 15.5% in 2012 to 12.1% at the end of 2013.

During the year, the following projects were implemented in line with Sogefi's strategy of expanding its presence in non-European markets: construction of two new plants to manufacture suspension components and engine systems commenced in Wujiang (China), a plant for the manufacture of engine systems was inaugurated in Pune (India) and the capacity of the Monterrey plant (Mexico) was expanded.
As a result, investment in tangible fixed assets during the year amounted to Euro 36 million (Euro 45.2 million in 2012).

Intangible investments amounted to Euro 47.8 million (Euro 39.2 million in 2012) and were aimed at upgrading Group information systems and a partial capitalisation of R&D assets.
Research and development expenses amounted to Euro 35 million (Euro 35.9 million in 2012) and mostly focused on product innovation.