

REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS IN 2014

Shareholders,

for the year 2014, Sogefi Group realised revenues for Euro 1.3 billion despite negative exchange rates and an intensified restructuring effort.

In this scenario, Sogefi's revenues slightly increased to Euro 1.3 billion (+1.1%, +4.7% exchange rates being equal) in 2014 as the growth recorded in North America and Asia and in the aftermarket business compensated for the downtrend in South America.

Margins were negatively affected not only by the performance of South American markets, but also by restructuring under way – in Europe for the most part – and the resulting – temporary – productive inefficiency.

With regard to the overall performance of automotive markets in 2014, the production of cars and light commercial vehicles grew by 3.1% world-wide over 2013, although performance was different in the various geographical areas.

More specifically, automobile markets in North America and Asia did well, as production volumes rose by 5% and 6.5%, respectively compared to 2013. South America – especially Brazil and Argentina – witnessed a continued market slowdown compared to 2013, as the production of passenger and light commercial vehicles dropped by 16.5% during the year. Europe witnessed an upswing in the sales of light commercial vehicles (+13%) and recovered from the low volumes recorded the previous year, leading to a market growth of 5.7% in 2014.

Sogefi closed the year with **consolidated revenues** of Euro 1,349.4 million, slightly up from the Euro 1,335 million figure recorded in 2013 (+1.1%, +4.7% exchange rates being equal).

The key in achieving this was the good performance on non-European markets. Especially noteworthy was the performance in North America and Asia, where revenues grew by 10.6% (Euro 207.3 million, +16.1% exchange rates being equal) and 39.5% (Euro 82.7 million, +41.8% exchange rates being equal), respectively compared to 2013, compensating for the significant decline in South America (down 19.2% to Euro 181.4 million, -1.6% exchange rates being equal). Revenues in Europe showed a slight increase (+1.5% at Euro 872.1 million).

In 2014, the Engine Systems business unit realised revenues for Euro 844.9 million, 3.2% up from 2013 (+6.3% exchange rates being equal).

The Suspension Components business unit ended 2014 with revenues of Euro 506.6 million (Euro 518.6 million in 2013), down 2.3% over 2013 (however, revenues would have been up 2.1% exchange rates being equal).

The table below shows the performance of the divisions:

(in millions of Euro)	2014		2013	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Engine systems	844.9	62.7	818.6	61.4
Suspension components	506.6	37.5	518.6	38.8
Intercompany eliminations	(2.1)	(0.2)	(2.2)	(0.2)
TOTAL	1,349.4	100.0	1,335.0	100.0

Despite the unfavourable effect of exchange rates, contribution to the total revenues of the Sogefi Group from non-European countries remained basically stable at 35.4% in 2014 (35.6% in 2013).

North America (NAFTA countries) delivered a good performance with contribution to Group revenues increasing from 14% in 2013 to 15.4% in 2014. The share of revenues contributed by Asian markets grew as well, namely to 6.1% from 4.4% in 2013.

Conversely, low market volumes and exchange rates drove down the revenues contributed by the South American (Mercosur) area, namely from 16.8% of total Group revenues in 2013 to 13.5% in 2014. Net of exchange differences, the Mercosur area would have accounted for 16% of total revenues.

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

(in millions of Euro)	2014		2013	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Europe	872.1	64.6	859.3	64.4
Mercosur	181.4	13.5	224.4	16.8
NAFTA	207.3	15.4	187.4	14.0
Asia	82.7	6.1	59.2	4.4
Rest of the world	5.9	0.4	4.7	0.4
TOTAL	1,349.4	100.0	1,335.0	100.0

A breakdown of revenues by customers shows the effects of the expansion in areas outside Europe noted above. Ford is still the Group's top customer, accounting for 12.5% of revenues (essentially stable compared to 2013), with Renault/Nissan following shortly behind (12.3% compared to 10.7% in 2013). The FCA Group also grew and now accounts for 10.6% of total revenues compared to 9.1% in 2013, whereas revenues from the PSA Group fell from 12.4% to 11.4% of the total.

(in millions of Euro)	2014		2013	
	Amount	%	Amount	%
Group				
Ford	169.0	12.5	166.2	12.4
Renault/Nissan	165.7	12.3	142.3	10.7
PSA	154.4	11.4	165.5	12.4
FCA/CNH Industrial	143.5	10.6	121.6	9.1
GM	111.9	8.3	120.2	9.0
Daimler	100.0	7.4	101.3	7.6
Volkswagen/Audi	47.4	3.5	56.3	4.2
BMW	38.6	2.9	34.6	2.6
Volvo	29.1	2.2	29.0	2.2
Toyota	28.6	2.1	26.5	2.0
DAF/Paccar	22.0	1.6	30.8	2.3
Man	17.6	1.3	22.8	1.7
Caterpillar	6.1	0.5	6.0	0.4
Honda	6.1	0.5	6.1	0.5
Other	309.4	22.9	305.8	22.9
TOTAL	1,349.4	100.0	1,335.0	100.0

The following table provides comparative figures of the Income Statement for 2014 and the previous year.

(in millions of Euro)	2014		2013	
	Amount	%	Amount	%
Sales revenues	1,349.4	100.0	1,335.0	100.0
Variable cost of sales	967.2	71.7	932.4	69.8
CONTRIBUTION MARGIN	382.2	28.3	402.6	30.2
Manufacturing and R&D overheads	127.4	9.4	130.8	9.8
Depreciation and amortization	58.0	4.3	57.3	4.3
Distribution and sales fixed expenses	41.4	3.1	39.6	3.0
Administrative and general expenses	71.0	5.3	67.1	5.0
Restructuring costs	16.2	1.2	17.8	1.3
Losses (gains) on disposal	(0.1)	-	(1.6)	(0.1)
Exchange (gains) losses	0.6	-	4.1	0.3
Other non-operating expenses (income)	19.4	1.4	18.4	1.4
EBIT	48.3	3.6	69.1	5.2
Financial expenses (income), net	26.8	2.0	28.4	2.1
- of which fair value of the embedded derivative (convertible bond)	(14.0)		-	
- of which other net financial expenses (income)	40.8		28.4	
Losses (gains) from equity investments	-	-	0.3	-
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS	21.5	1.6	40.4	3.1
Income taxes	13.1	1.0	15.7	1.2
NET RESULT BEFORE NON-CONTROLLING INTERESTS	8.4	0.6	24.7	1.9
Loss (income) attributable to non-controlling interests	(4.8)	(0.3)	(3.6)	(0.3)
GROUP NET RESULT	3.6	0.3	21.1	1.6

2014 **EBITDA** amounts to Euro 109.5 million, down 15.5% from Euro 129.5 million in 2013. This drop is mainly traced back to lower contribution from countries outside the Euro area, a slowdown in South American markets, the unfavourable effect of exchange rates and the temporary inefficiency of European operations due to restructuring under way, especially in the third quarter. It was thought it better prudentially to increase the provision of the Engine Systems business unit for charges relating to supplies made in prior periods from Euro 12.6 million to Euro 18 million.

Pre-restructuring EBITDA amounts to Euro 129.3 million (Euro 147.3 million in 2013; -12.2%), and its impact on revenues fell from 11% in 2013 to 9.6%.

Consolidated **EBIT** totalled Euro 48.3 million (Euro 69.1 million in 2013). Pre-restructuring EBIT amounts to Euro 69.4 million (Euro 88.3 million in 2013; -21.4%), and its impact on revenues fell from 6.6% in 2013 to 5.1%.

During 2014, the Group continued its efforts to improve efficiency in the face of the continued weakness in Europe, and by the need to adjust production to declining demand. Restructuring costs recorded in 2014 amount to Euro 21.1 million, of which Euro 16.2 million refer to costs for rationalising production capacity and Euro 4.9 million refer to write-down of assets and sundry charges relating to the restructuring (included in “Other non-operating expenses (income)”).

Net financial expense during the year came to Euro 26.8 million in 2014 (Euro 28.4 million in 2013). This item also includes: charges of Euro 3.9 million from the fair value measurement of interest rate hedging transactions; charges of Euro 5.3 million due to refinancing transactions with the liquidity coming from the issue of the convertible bond; non-recurring gains of Euro 14 million from the periodic mark-to-market of the derivative embedded in the convertible bond, mark-to-market carried out as per accounting standards in the presence of an option which gives the company the cash settlement right the exercise of the conversion right. It should be noted that on January 19, 2015 the Board of Directors approved the renouncement of this option, whose formalization took place on January 28, 2015.

Consequently, **result before taxes and non-controlling interests** was positive at Euro 21.5 million (Euro 40.4 million in 2013).

Consolidated net result was positive at Euro 3.6 million (Euro 21.1 million in 2013).

At the end of 2014, the Sogefi Group's employees were 6,668 (6,834 as of December 31, 2013). Breakdown by business sectors is as follows:

	12.31.2014		12.31.2013	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Engine systems	4,013	60.2	4,047	59.2
Suspension components	2,582	38.7	2,714	39.7
Other	73	1.1	73	1.1
TOTAL	6,668	100.0	6,834	100.0

and breakdown by category is provided below:

	12.31.2014		12.31.2013	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Managers	97	1.5	108	1.6
Clerical staff	1,824	27.4	1,847	27.0
Blue collar workers	4,747	71.1	4,879	71.4
TOTAL	6,668	100.0	6,834	100.0

Net financial indebtedness as of December 31, 2014 was Euro 304.3 million, in line with the figure at year-end 2013 (Euro 304.6 million) and showing an improvement compared to the figure at September 30, 2014 (Euro 348.5 million). The positive change in the quarter was due to the seasonal improvement in working capital combined with the benefit resulting from the mark-to-market of the derivative embedded in the convertible bond mentioned above.

The following table provides a breakdown of indebtedness as of December 31, 2014:

(in millions of Euro)	12.31.2014	12.31.2013
Cash, banks, financial receivables and securities held for trading	133.5	132.8
Medium/long-term financial receivables	0.2	-
Short-term financial debts (*)	(78.3)	(83.7)
Medium/long-term financial debts	(359.7)	(353.7)
NET FINANCIAL POSITION	(304.3)	(304.6)

(*) 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(*)	2014	2013
SELF-FINANCING	(f)	67.6	87.9
Change in net working capital		20.4	6.7
Other medium/long-term assets/liabilities	(g)	(2.1)	(1.3)
CASH FLOW GENERATED BY OPERATIONS		85.9	93.3
Sale of equity investments	(h)	-	0.1
Net decrease from sale of fixed assets	(i)	3.8	1.9
TOTAL SOURCES		89.7	95.3
Increase in intangible assets		42.1	47.8
Purchase of tangible assets		42.3	36.0
TOTAL APPLICATION OF FUNDS		84.4	83.8
Exchange differences on assets/liabilities and equity	(l)	(1.5)	(1.5)
FREE CASH FLOW		3.8	10.0
Holding Company increases in capital		2.5	0.8
Dividends paid by the Holding Company to shareholders		-	(14.7)
Dividends paid by subsidiaries to non-controlling interests		(2.6)	(2.6)
Change in fair value derivative instruments		(3.4)	(2.3)
CHANGES IN SHAREHOLDERS' EQUITY		(3.5)	(18.8)
Change in net financial position	(m)	0.3	(8.8)
Opening net financial position	(m)	(304.6)	(295.8)
CLOSING NET FINANCIAL POSITION	(m)	(304.3)	(304.6)

(*) 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, 2014, **total equity** was Euro 180.8 million (vs. Euro 188.9 million as of December 31, 2013), as illustrated in the table below.

(in millions of Euro)	Note(*)	12.31.2014		12.31.2013	
		Amount	%	Amount	%
Short-term operating assets	(a)	325.3		321.0	
Short-term operating liabilities	(b)	(323.2)		(298.0)	
Net working capital		2.1	0.4	23.0	4.7
Equity investments	(c)	0.4	0.1	0.4	0.1
Intangible, tangible fixed assets and other medium and long-term assets	(d)	632.8	130.5	590.3	119.7
CAPITAL INVESTED		635.3	131.0	613.7	124.5
Other medium and long-term liabilities	(e)	(150.2)	(31.0)	(120.2)	(24.5)
NET CAPITAL INVESTED		485.1	100.0	493.5	100.0
Net financial indebtedness		304.3	62.7	304.6	61.7
Non-controlling interests		19.6	4.0	20.4	4.1
Consolidated equity of the Group		161.2	33.3	168.5	34.2
TOTAL		485.1	100.0	493.5	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 2014 year end:

- **gearing** (net financial position/total equity ratio) stood at 1.68 at the end of 2014 (1.61 at the end of 2013);
- **net financial position/pre-restructuring EBITDA** (excluding costs and revenues from non-ordinary operations) **ratio** was 2.35 in 2014 (2.07 in 2013);
- **normalised 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) decreased from 17.8% in 2013 to 14.2% in 2014;
- **ROE** (Return on Equity) was 2.2% at the end of 2014 (12.1% in 2013).

INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investments during 2014 were substantially stable at Euro 84.4 million when compared with Euro 83.9 million recorded in the previous year. Such investments were mostly aimed at increasing production capacity in the fastest growing markets, as well as developing new products, especially in North America. Other investments were aimed at improving industrial processes, as well as innovating and upgrading Group information systems and a partial capitalisation of R&D assets.

In particular, tangible investments totalled Euro 42.3 million (36 million in 2013), and intangible investments amounted to Euro 42.1 million (47.8 million in 2013).

Research and development expenses amounted to Euro 35.3 million (2.6% of sales revenues), and mostly focused on product innovation.