

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 ¹.*

*With regard to **risks relating to competitors**, the Group is one of the leading players in both the suspension components and filter sectors at a worldwide level, and benefits from a progressive consolidation of the market and the resulting gradual reduction in the number of competitors. In this scenario, the Group plays a major role in promoting market consolidation, as is evidenced by the recent acquisition of Systèmes Moteurs S.A.S. in air intake and engine cooling systems business, which permitted a strategic expansion of the Group's product line, ensured further penetration of the North American, Chinese and Indian markets and strengthened the Group's presence among European manufacturers.*

With regard to the suspension components sector, the Group benefits from objective barriers to the entry of new competitors, as this sector is structurally capital intensive and a wide technological and qualitative gap puts manufacturers in low-cost countries at a disadvantage.

Similarly, the technological and qualitative gap represents a barrier to the entry of new competitors in the original equipment filter sector as well, while in the spare filter sector, important barriers to entry are represented by the Group's exhaustive product range and by the lack of notoriety of the brands of manufacturers in low-cost countries.

*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 to reduce the actually limited risk exposure with original equipment (OE) and original equipment spares (OES) customers. In addition, the Group makes increasing use of assignment of trade receivables without recourse.*

*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.*

¹ 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.

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 this regard, the Group constantly monitors the evolution of risks associated with the countries in which it operates. New investments are mainly located in countries with a lower risk. Furthermore, if certain plants are found to be operating under capacity in particular situations, production may be consolidated in other plants of the Group.

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

Specifically, the Group has implemented or is in the process of implementing certain product innovations that will enable it to retain its leading market and technology leading position, such as new elastic suspension components made from composite materials, a new oil cooling technology that uses aluminium foam, an innovative particulate emission control system and lubrication filters for drivetrain systems.

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 the Holding Company.

In correlation with the environmental policy, 16 plants in the Engine Systems Division and 13 in the Suspension Components Division are currently certified as complying with the international standard ISO 14001. Within the Engine Systems Division, 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. Lastly, "Loss Prevention" plans are put into place in collaboration with current Group insurers on a yearly basis to control "property" risk exposure, through specific plant audits and action plans aimed at increasing the efficiency and effectiveness of safety devices.

As regards internal risks, namely risks associated 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 two divisions of the Sogefi Group consider ongoing quality improvement as a fundamental objective to meet their customers' needs. Both divisions have therefore set up their own central organisations which continuously monitor quality, while each plant has local teams that work as complying with the principles of the quality policy of their respective division. In correlation with the quality policy, 18 plants in the Engine Systems Division and 17 in the Suspension Components Division 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.

One of the Group's future goals is to further enhance the quality monitoring system for supplied system components so as to further reduce non-conformities. More specifically, such goal is pursued through the ongoing improvement

of organisational structures and procedures to enhance product and process control, coupled with the ongoing improvement of supplier quality evaluation systems.

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, a strategic partner, 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. In particular, the Group has been placing increasing emphasis on recruiting, training and developing human resources, with special focus on identifying/developing talents, providing specific training, defining and promoting career paths and setting up incentive plans.

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 2012 a stock option 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.