

**REPORT OF THE BOARD OF DIRECTORS  
ON OPERATIONS IN 2012**

Shareholders,

*in the year 2012, the Sogefi Group recorded a further increase in revenues and profitability in the face of an automotive market that stalled yet again in the European continent where Sogefi presence is stronger – after the crisis experienced in the period 2008-2009 – in spite of the overall growth observed at a world-wide level.*

*The depressed European economies, especially in those countries that have pursued recessive policies, pushed new car sales down 7.8% compared to 2011. At as little as twelve million units, new car sales plummeted to their lowest level in the past seventeen years, with new registrations dropping back to the same level seen in 1995.*

*The positive results of the Group were made possible by the consolidation of Systèmes Moteurs S.A.S.- which was acquired in July 2011 and consolidated in December 2011 for a period of five months only - and by the continued pursuit of the strategy implemented over the past five years that focuses on expanding business in the more dynamic and profitable non-European markets.*

*As a matter of fact, vehicle production grew in all markets in which Sogefi has a presence except Europe, with the North American market making a brilliant recovery (+17.4%) and a confirmed positive trend in the Chinese (+5.8%), Indian (+5.3%) and Brazilian markets (+0.8%).*

*In this scenario, the Group achieved sales revenues of Euro 1,319.2 million in 2012, up 13.9% compared to 2011, and a consolidated net result of Euro 29.3 million (+22% over the previous year). On a like-for-like basis, revenues would have been Euro 979.4 million, down 4.2% from 2011.*

*Business growth was mainly achieved by the results of the Engine Systems Division (+29.6%), whereas the Suspension Components Division ended the year with a 3.5% decline in revenues, which were impacted by dropping sales in the industrial vehicle segment (-9.6%). The table below shows the performance of the divisions:*

<i>(in millions of Euro)</i>	2012		2011	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Engine systems</i>	792.6	60.1	611.5	52.8
<i>Suspension components</i>	528.6	40.1	547.7	47.3
<i>Intercompany eliminations</i>	(2.0)	(0.2)	(0.8)	(0.1)
<b>TOTAL</b>	<b>1,319.2</b>	<b>100.0</b>	<b>1,158.4</b>	<b>100.0</b>

The original equipment business grew further during the period, accounting for 76.8% of consolidated revenues, whereas the spare parts sector – a business handled by the Engine Systems Division alone – was basically stable (-1%).

<i>(in millions of Euro)</i>	2012		2011	
	Amount	%	Amount	%
Original Equipment (O.E.)	1,012.7	76.8	848.9	73.3
Spare parts I.A.M. + O.E.S.	306.5	23.2	309.5	26.7
<b>TOTAL</b>	<b>1,319.2</b>	<b>100.0</b>	<b>1,158.4</b>	<b>100.0</b>

In 2012, the Group managed to improve the percentage of revenues in non-European markets up to 33.5% (30.5% in the previous period), thanks to notable growth in North America (+107.6%) and Asia (+35.4%), despite a drop of 3.8% in Mercosur after a slowdown of Brazilian vehicle production in the central months of the year, which persisted until the end of 2012 in the industrial vehicle sector.

The table below shows the evolution of 2011 and 2012 sales by key markets.

<i>(in millions of Euro)</i>	2012		2011	
	Amount	%	Amount	%
Europe	877.0	66.5	804.9	69.5
Mercosur	231.4	17.5	240.5	20.8
NAFTA	150.6	11.4	72.5	6.3
Asia	46.6	3.5	34.4	3.0
Rest of the world	13.6	1.1	6.1	0.4
<b>TOTAL</b>	<b>1,319.2</b>	<b>100.0</b>	<b>1,158.4</b>	<b>100.0</b>

A breakdown of revenues by customer confirms a non-positive trend in sales for European generalist manufacturers, with Fiat and Renault recording the most significant business drop, whereas German auto makers and US car manufacturers GM, Ford and Chrysler are on the uptrend.

<i>(in millions of Euro)</i>	2012		2011	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Group</i>				
<i>PSA</i>	169.9	12.9	154.3	13.3
<i>Ford</i>	156.3	11.9	114.0	9.8
<i>Renault/Nissan</i>	149.3	11.3	131.0	11.3
<i>GM</i>	124.8	9.5	73.8	6.4
<i>Daimler</i>	95.9	7.3	85.1	7.3
<i>Fiat/Iveco/Chrysler</i>	85.5	6.5	85.3	7.4
<i>Volkswagen/Audi</i>	65.0	4.9	65.2	5.6
<i>BMW</i>	41.7	3.2	18.9	1.6
<i>Volvo</i>	30.3	2.3	32.1	2.8
<i>DAF/Paccar</i>	28.7	2.2	31.5	2.7
<i>Toyota</i>	26.6	2.0	17.7	1.5
<i>Man</i>	20.8	1.6	27.2	2.3
<i>Caterpillar</i>	9.0	0.7	9.6	0.8
<i>Honda</i>	6.2	0.5	5.9	0.5
<i>Altri</i>	309.2	23.2	306.8	26.7
<b>TOTAL</b>	<b>1,319.2</b>	<b>100.0</b>	<b>1,158.4</b>	<b>100.0</b>

Full year consolidation of Systèmes Moteurs S.A.S. was also key in determining the positive trend in Group results, as can be seen from the comparative breakdown below.

<i>(in millions of Euro)</i>	2012		2011 (*)	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Sales revenues</i>	1,319.2	100.0	1,158.4	100.0
<i>Variable cost of sales</i>	927.3	70.3	805.9	69.6
<b>CONTRIBUTION MARGIN</b>	<b>391.9</b>	<b>29.7</b>	<b>352.5</b>	<b>30.4</b>
<i>Manufacturing and R&amp;D overheads</i>	129.7	9.9	115.0	9.9
<i>Depreciation and amortization</i>	58.4	4.4	49.8	4.3
<i>Distribution and sales fixed expenses</i>	39.2	3.0	35.3	3.0
<i>Administrative and general expenses</i>	71.9	5.4	64.4	5.6
<b>OPERATING RESULT</b>	<b>92.7</b>	<b>7.0</b>	<b>88.0</b>	<b>7.6</b>
<i>Restructuring costs</i>	12.2	0.9	8.7	0.8
<i>Losses (gains) on disposal</i>	(7.7)	(0.6)	0.1	-
<i>Exchange (gains) losses</i>	0.7	-	0.9	0.1
<i>Other non-operating expenses (income)</i>	24.7	1.9	19.8	1.7
<b>EBIT</b>	<b>62.8</b>	<b>4.8</b>	<b>58.5</b>	<b>5.0</b>
<i>Financial expenses (income), net</i>	16.5	1.3	12.7	1.1
<i>Losses (gains) from equity investments</i>	-	-	-	-
<b>RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS</b>	<b>46.3</b>	<b>3.5</b>	<b>45.8</b>	<b>3.9</b>
<i>Income taxes</i>	13.8	1.1	18.6	1.5
<b>NET RESULT BEFORE NON-CONTROLLING INTERESTS</b>	<b>32.5</b>	<b>2.4</b>	<b>27.2</b>	<b>2.4</b>
<i>Loss (income) attributable to non-controlling interests</i>	(3.2)	(0.2)	(3.2)	(0.3)
<b>GROUP NET RESULT</b>	<b>29.3</b>	<b>2.2</b>	<b>24.0</b>	<b>2.1</b>

(\*) Certain values as at December 31, 2011 were redetermined after the completion of the Purchase Price Allocation process in connection with the Systèmes Moteurs S.A.S. acquisition.

The stable trend of profitability on sales was characterised by the following factors: the impact of the cost of materials on revenues grew from 49.8% (previous year) to 52% mainly because of the changed product mix; production efficiency remained stable; the impact of labour cost remained unchanged at 22.9%. Employees (including temporary workers and excluding employees under labour flexibility schemes) increased from 6,954 people at the end of 2011 to 7,179 people at the end of 2012.

As of December 31, 2012, the Group employed a workforce of 6,735 compared to 6,708 at the end of the previous year. Breakdown by business sectors is as follows:

	12.31.2012		12.31.2011	
	Number	%	Number	%
Engine systems	4,090	60.7	4,136	61.7
Suspension components	2,571	38.2	2,508	37.4
Other	74	1.1	64	0.9
<b>TOTAL</b>	<b>6,735</b>	<b>100.0</b>	<b>6,708</b>	<b>100.0</b>

and breakdown by category is provided below:

	12.31.2012		12.31.2011	
	Number	%	Number	%
Managers	111	1.6	108	1.6
Clerical staff	1,821	27.0	1,774	26.4
Blue collar workes	4,803	71.4	4,826	72.0
<b>TOTAL</b>	<b>6,735</b>	<b>100.0</b>	<b>6,708</b>	<b>100.0</b>

**Consolidated contribution margin** was Euro 391.9 million (29.7% of sales) compared to 352.5 million (30.4% of revenues) in the previous year.

**Consolidated operating result** amounts to Euro 92.7 million (7% of sales), 5.3% up from the 88 million (7.6% of sales) in 2011.

A continued effort to bring fixed costs under control led to an increase in both **EBITDA** (Earnings Before Interest, Tax, Depreciation and Amortization) and **EBIT** (Earnings Before Interest and Tax).

Consolidated EBITDA rose to Euro 126 million (9.6% of revenues) from 111.9 million (9.7% of revenues).

Consolidated EBIT grew to Euro 62.8 million (4.8% of revenues) from 58.5 million (5% of revenues) in 2011.

Restructuring costs as part of the reorganisation of manufacturing facilities amounted to Euro 12.2 million in 2012 compared to 8.7 million in 2011 and are mostly traced back to the final shutdown of the Llantrisant engine filter manufacturing plant in Wales.

Result for the year was also affected by non-operating expenses for the amount of Euro 2.1 million mainly due to the shutdown of the Prichard stabilizer bars manufacturing plant (USA) and for Euro 2.2 million to consulting services aimed at the international expansion of the Group.

*Consolidated result before taxes and non-controlling interests stood at Euro 46.3 million, compared to 45.8 million in 2011.*

*The year benefited of a lower tax impact compared to 2011, with deferred tax assets for the amount of Euro 7.3 million.*

*Consolidated net result amounts to Euro 29.3 million, up 22% from Euro 24 million in the previous year.*

*The measures taken to keep working capital under control, a cash inflow of Euro 7.4 million from the sale of a Brazilian plant and a dividend payout for the amount of Euro 17.2 million during the year, helped to keep the Group's net financial indebtedness as of December 31, 2012 at Euro 295.8 million, in line with the 2011 year-end figure of 299.8 million.*

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

<i>(in millions of Euro)</i>	12.31.2012	12.31.2011
<i>Cash, banks, financial receivables and securities held for trading</i>	93.4	104.4
<i>Medium/long-term financial receivables</i>	-	-
<i>Short-term financial debts (*)</i>	(99.0)	(57.4)
<i>Medium/long-term financial debts</i>	(290.2)	(346.8)
<b>NET FINANCIAL POSITION</b>	<b>(295.8)</b>	<b>(299.8)</b>

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

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

<i>(in millions of Euro)</i>	<i>Note(*)</i>	<i>2012</i>	<i>2011 (**)</i>
<b>SELF-FINANCING</b>	<b>(f)</b>	<b>89.8</b>	<b>71.4</b>
<i>Change in net working capital</i>		<i>19.8</i>	<i>14.2</i>
<i>Other medium/long-term assets/liabilities</i>	<b>(g)</b>	<i>(5.1)</i>	<i>(5.5)</i>
<b>CASH FLOW GENERATED BY OPERATIONS</b>		<b>104.5</b>	<b>80.1</b>
<i>Sale of equity investments</i>	<b>(h)</b>	<i>-</i>	<i>-</i>
<i>Net decrease from sale of fixed assets</i>	<b>(i)</b>	<i>3.4</i>	<i>0.3</i>
<b>TOTAL SOURCES</b>		<b>107.9</b>	<b>80.4</b>
<i>Increase in intangible assets</i>		<i>39.2</i>	<i>20.5</i>
<i>Purchase of tangible assets</i>		<i>45.2</i>	<i>36.3</i>
<i>Purchase of equity investments (***)</i>		<i>-</i>	<i>146.5</i>
<b>TOTAL APPLICATION OF FUNDS</b>		<b>84.4</b>	<b>203.3</b>
<i>Net financial position of subsidiaries purchased/sold during the year (***)</i>		<i>-</i>	<i>8.3</i>
<i>Exchange differences on assets/liabilities and equity</i>	<b>(l)</b>	<i>(1.2)</i>	<i>(1.8)</i>
<b>FREE CASH FLOW</b>		<b>22.3</b>	<b>(116.4)</b>
<i>Holding Company increases in capital</i>		<i>0.1</i>	<i>0.3</i>
<i>Net purchase of treasury share</i>		<i>(1.4)</i>	<i>(2.7)</i>
<i>Increases in share capital of consolidated subsidiaries</i>		<i>0.2</i>	<i>-</i>
<i>Dividends paid by the Holding Company to shareholders</i>		<i>(14.7)</i>	<i>(14.9)</i>
<i>Dividends paid by subsidiaries to non-controlling interests</i>		<i>(2.5)</i>	<i>(1.2)</i>
<b>CHANGES IN SHAREHOLDERS' EQUITY</b>		<b>(18.3)</b>	<b>(18.5)</b>
<i>Change in net financial position</i>	<b>(m)</b>	<i>4.0</i>	<i>(134.9)</i>
<i>Opening net financial position</i>	<b>(m)</b>	<i>(299.8)</i>	<i>(164.9)</i>
<b>CLOSING NET FINANCIAL POSITION</b>	<b>(m)</b>	<b>(295.8)</b>	<b>(299.8)</b>

(\*) 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 as at December 31, 2011 were redetermined after the completion of the Purchase Price Allocation process in connection with the Systèmes Moteurs S.A.S. acquisition.

(\*\*\*) Total Euro 138.2 million: consolidated net cash outflow for the purchase of Systèmes Moteurs S.A.S..

As of December 31, 2012 consolidated capital structure reflects consolidated equity for the amount of Euro 195.5 million compared with 195.2 million as of December 31, 2011, as shown in the table below.

(in millions of Euro)	Note(*)	12.31.2012		12.31.2011 (**)	
		Amount	%	Amount	%
Short-term operating assets	(a)	361.6		385.7	
Short-term operating liabilities	(b)	(329.0)		(330.8)	
Net working capital		32.6	6.4	54.9	10.7
Equity investments	(c)	0.8	0.2	0.8	0.2
Intangible, tangible fixed assets and other medium and long-term assets	(d)	566.5	110.8	545.3	106.0
CAPITAL INVESTED		599.9	117.4	601.0	116.9
Other medium and long-term liabilities	(e)	(88.8)	(17.4)	(87.0)	(16.9)
NET CAPITAL INVESTED		511.1	100.0	514.0	100.0
Net financial indebtedness		295.8	57.9	299.8	58.3
Non-controlling interests		19.8	3.9	19.0	3.7
Consolidated equity of the Group		195.5	38.2	195.2	38.0
TOTAL		511.1	100.0	514.0	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 as at December 31, 2011 were redetermined after the completion of the Purchase Price Allocation process in connection with the Systèmes Moteurs S.A.S. acquisition.

Other indicators are as follows:

- **gearing** (net financial position/total equity ratio) stood at 1.37 at the end of 2012, basically in line with the previous year-end ratio (1.40);
- **net financial position/normalised EBITDA** (excluding costs and revenues from non-ordinary operations) ratio dropped from 2.14 at the end of 2011 to 2.10;
- **ROI** (Return on Investment) decreased from 13.1% in 2011 to 12.2% in 2012;
- **ROE** (Return on Equity) increased from 12.3% in 2011 to 15% at the end of 2012.

New technical investments during the year amounted to Euro 45.2 million (36.3 million in 2011) and were aimed at bringing production processes up-to-date and setting up production equipment at non-European facilities. Intangible investments for the amount of Euro 39.2 million were also made to upgrade the Group's IT systems and for the partial capitalisation of research and development activities.

Research and development expenses amounted to Euro 35.9 million (26.1 million in 2011), and mostly focused on product innovation.