

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE BOARD OF DIRECTORS

2019



JOINT-STOCK COMPANY - SHARE CAPITAL EURO 62,461,355.84
COMPANY REGISTER OF MILAN MONZA-BRIANZA LODI AND TAX CODE 00607460201
COMPANY SUBJECT TO MANAGEMENT AND COORDINATION BY CIR S.p.A.
REGISTERED OFFICE: 20121 MILAN (ITALY), VIA CIOVASSINO, 1/A - PHONE 02.467501
OFFICES: 78286 GUYANCOURT (FRANCE), PARC ARIANE IV- 7 AVENUE DU 8 MAI 1945 PHONE 0033 01 61374300
WEBSITE: WWW.SOGEFIGROUP.COM

CONTENTS

| | | |
|---|------|-----|
| CORPORATE BODIES | page | 3 |
| OVERVIEW OF GROUP RESULTS | page | 4 |
| STOCK PERFORMANCE | page | 4 |
| REPORT OF THE BOARD OF DIRECTORS ON PERFORMANCE IN 2019 | page | 5 |
| SOGEFI GROUP STRUCTURE | page | 36 |
| CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019 | | |
| - Consolidated Financial Statements | page | 37 |
| - Explanatory and supplementary notes | page | 43 |
| - List of equity investments | page | 150 |
| NOTICE PURSUANT TO ART. 81- <i>TER</i> OF CONSOB REGULATION NO. 11971/99 | page | 155 |
| BOARD OF AUDITORS' REPORT | page | 156 |
| REPORT OF THE INDEPENDENT AUDITORS | page | 162 |

BOARD OF DIRECTORS

Honorary Chairman CARLO DE BENEDETTI

Chairman MONICA MONDARDINI (1)

Managing Director MAURO FENZI (1)

Directors PATRIZIA CANZIANI (3)
RODOLFO DE BENEDETTI
ROBERTA DI VIETO (3)
MAURO MELIS (2) - (3) - (4)
ERVINO RICCOBON (2)
CHRISTIAN STREIFF (2)

Secretary to the Board NICCOLO' MORESCHINI

BOARD OF STATUTORY AUDITORS

Chairman SONIA PERON

Acting Auditors RICCARDO ZINGALES
GIUSEPPE LEONI

Alternate Auditors ANNA MARIA ALLIEVI
MAURO GIRELLI
DAVIDE BARBIERI

INDEPENDENT AUDITORS

KPMG S.p.A.

Disclosure under Consob Recommendation no. 97001574 of 20 February 1997:

- (1) Powers as per Corporate Governance. Effective on 1st January 2020, Mauro Fenzi will also be filling the position of Chief Executive Officer.
- (2) Members of the Appointment and Remuneration Committee.
- (3) Members of the Control and Risk Committee and of the Committee for Related Party Transactions.
- (4) *Lead independent director.*

OVERVIEW OF GROUP RESULTS

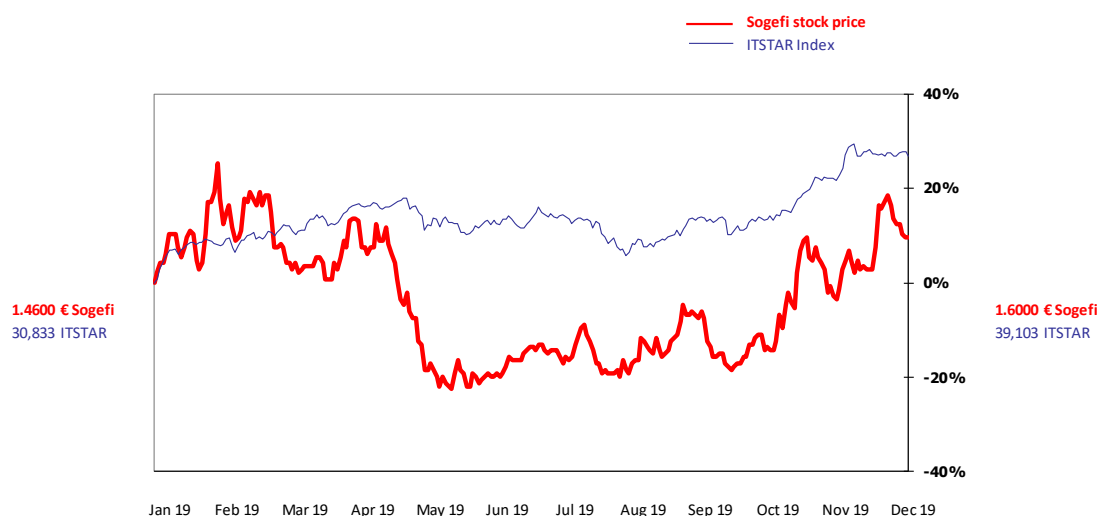
| (in millions of Euro) | 2016 | | 2017 | | 2018 (**) | | 2019 | |
|---|---------|--------|---------|--------|-----------|--------|---------|--------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Sales revenues | 1,574.1 | 100.0% | 1,647.8 | 100.0% | 1,570.7 | 100.0% | 1,519.2 | 100.0% |
| EBITDA | 152.7 | 9.7% | 206.9 | 12.6% | 176.1 | 11.2% | 174.3 | 11.5% |
| Ebit | 74.5 | 4.7% | 85.8 | 5.2% | 60.1 | 3.8% | 39.6 | 2.6% |
| Result before taxes and non-controlling interests | 46.6 | 3.0% | 54.1 | 3.3% | 36.2 | 2.3% | 15.9 | 1.0% |
| Net result | 9.3 | 0.6% | 26.6 | 1.7% | 14.0 | 0.9% | 3.2 | 0.2% |
| Self-financing | 109.1 | | 165.8 | | 134.4 | | 145.3 | |
| Free cash flow | 31.2 | | 34.4 | | 2.9 | | 8.4 | |
| Net financial position | (299.0) | | (264.0) | | (260.5) | | (318.9) | |
| Total shareholders' equity | 189.0 | | 195.1 | | 213.9 | | 207.8 | |
| GEARING | 1.58 | | 1.35 | | 1.22 | | 1.53 | |
| ROI | 14.9% | | 37.4% | | 12.7% | | 7.9% | |
| ROE | 5.4% | | 30.0% | | 7.6% | | 1.7% | |
| Number of employees at December 31 | 6,801 | | 6,947 | | 6,967 | | 6,818 | |
| Dividends per share (Euro) | - | | - | | - | | - | (*) |
| EPS (Euro) | 0.081 | | 0.228 | | 0.119 | | 0.027 | |
| Average annual price per share | 1.7004 | | 4.0293 | | 1.5754 | | 1.4058 | |

(*) as proposed to the Meeting by the Board of Directors

(**) The values for the 2018 financial year, relating to "Assets held for sale", have been reclassified following the application of IFRS 5 "Non-current assets held for sale and discontinued operations" to the line "Profit (loss) from discontinued operations, net of tax effects".

STOCK PERFORMANCE

The graph below shows the performance of Sogefi stock and of the ITSTAR index in 2019.



REPORT OF THE BOARD OF DIRECTORS ON PERFORMANCE IN 2019

Dear Shareholders,

In 2019, the world's automotive market saw a 5.8% fall in production compared to 2018: -4.7% in Europe, -3.9% in North America, -8.9% in Asia and -4.0% in South America. In the fourth quarter, the decline was 5.4%, with very weak performance from Europe and NAFTA (-6.3% and -8.9%, respectively).

Before presenting the results of Sogefi for the year 2019, it is worth mentioning that the figures for 2018 have been restated because of the adoption of IFRS 5 ("Non-current assets held for sale and discontinued operations") to the activities of the Fraize plant, the sale of which was completed in April 2019.

As from 1 January 2019, IFRS 16 "Leases" was also adopted, which provides a new definition of lease and introduces a criterion based on the right of use of an asset to distinguish lease contracts from contracts for the provision of services.

Sogefi recorded **revenues** for Euro 1,519.2 million, down by 3.3% at historical exchange rates and by 2.2% at constant exchange rates compared to 2018. Revenues at constant exchange rates fell by 1.7% in Europe, 6.3% in North America and 8.2% in Asia, as opposed to an 8.1% growth in South America. Overall, the decline is more moderate than that recorded by the market (-5.8%) thanks to sales in Europe performing better than the market (-1.7%, compared to -4.7% of the market).

Sogefi also recorded a better sales performance than the market also in the last quarter of the year (-3.5% at current exchange rates and 2.2% at constant exchange rates, compared to -5.4% in the market), with Europe at -1.8% and growth in China and India.

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

| (in millions of Euro) | 2019 | | 2018 | | var. '19 vs '18 | var. '19 vs '18 constant exchange rate |
|---------------------------|----------------|--------------|----------------|--------------|-----------------|---|
| | Amount | % | Amount | % | | |
| Europe | 928.7 | 61.1 | 944.5 | 60.1 | -1.7% | -1.7% |
| Sud America | 160.6 | 10.6 | 182.0 | 11.6 | -11.8% | 8.1% |
| Nord America | 288.7 | 19.0 | 294.7 | 18.8 | -2.1% | -6.3% |
| Asia | 149.9 | 9.9 | 160.9 | 10.2 | -6.8% | -8.2% |
| Intercompany eliminations | (8.7) | (0.6) | (11.4) | (0.7) | | |
| TOTAL | 1,519.2 | 100.0 | 1,570.7 | 100.0 | -3.3% | -2.2% |

By business sector, Filtration, with a growth of 2.7% (+1.7% at current exchange rates) bucks the market trend, Air & Cooling recorded a more moderate decline than the market (-3.5% at constant exchange rates and -1.7% at current exchange rates), while Suspensions sales fell by 5.6% (-8.8% at current exchange rates).

The table below shows a breakdown of the sales of the Group's three product divisions.

| (in millions of Euro) | 2019 | | 2018 | | var. '19 vs '18 | var. '19 vs '18 constant exchange rate |
|---------------------------|---------|-------|---------|-------|-----------------|---|
| | Amount | % | Amount | % | | |
| Suspensions | 549.7 | 36.2 | 602.6 | 38.4 | -8.8% | -5.6% |
| Filtration | 546.4 | 36.0 | 537.2 | 34.2 | 1.7% | 2.7% |
| Air&Cooling | 426.1 | 28.0 | 433.5 | 27.6 | -1.7% | -3.5% |
| Intercompany eliminations | (3.0) | (0.2) | (2.6) | (0.2) | | |
| TOTAL | 1,519.2 | 100.0 | 1,570.7 | 100.0 | -3.3% | -2.2% |

Sogefi has a balanced customer portfolio, and its composition remained unchanged during 2019. The main customers of Sogefi are Renault/Nissan, PSA, Ford, FCA, GM and Daimler, which together represent 59.3% of revenues (61% in 2018).

The table below shows a breakdown of sales by customers.

| (in millions of Euro) | 2019 | | 2018 | |
|------------------------------------|---------|-------|---------|-------|
| | Amount | % | Amount | % |
| Group | | | | |
| Renault/Nissan | 177.0 | 11.7 | 175.0 | 11.1 |
| PSA | 169.4 | 11.2 | 168.6 | 10.7 |
| FCA/CNH Industrial | 162.0 | 10.7 | 171.5 | 10.9 |
| Ford | 152.9 | 10.1 | 175.7 | 11.2 |
| Daimler | 123.5 | 8.1 | 134.3 | 8.6 |
| GM | 115.6 | 7.6 | 132.4 | 8.4 |
| Volkswagen/Audi | 76.2 | 5.0 | 80.7 | 5.1 |
| Toyota | 49.0 | 3.2 | 52.0 | 3.3 |
| BMW | 46.3 | 3.0 | 46.2 | 2.9 |
| Others (including the Aftermarket) | 447.3 | 29.4 | 434.3 | 27.8 |
| TOTAL | 1,519.2 | 100.0 | 1,570.7 | 100.0 |

Comparative figures of the Income Statement for the period under consideration and the corresponding period of the previous year are provided below.

| (in millions of Euro) | 2019 | | 2018 | |
|---|---------------|----------|---------------|----------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Sales revenues | 1,519.2 | 100.0 | 1,570.7 | 100.0 |
| Variable cost of sales | 1,063.4 | 70.0 | 1,101.4 | 70.1 |
| CONTRIBUTION MARGIN | 455.8 | 30.0 | 469.3 | 29.9 |
| Manufacturing and R&D overheads | 142.7 | 9.4 | 153.6 | 9.7 |
| Depreciation and amortization | 124.0 | 8.2 | 110.6 | 7.0 |
| Distribution and sales fixed expenses | 40.7 | 2.7 | 41.6 | 2.7 |
| Administrative and general expenses | 80.7 | 5.3 | 85.7 | 5.5 |
| Restructuring costs | 9.8 | 0.6 | 9.1 | 0.6 |
| Losses (gains) on disposal | 0.1 | - | 0.1 | - |
| Exchange (gains) losses | 3.9 | 0.3 | 5.5 | 0.4 |
| Other non-operating expenses (income) | 14.3 | 0.9 | 3.0 | 0.2 |
| EBIT | 39.6 | 2.6 | 60.1 | 3.8 |
| Financial expenses (income), net | 23.7 | 1.6 | 23.9 | 1.5 |
| RESULT BEFORE TAXES | 15.9 | 1.0 | 36.2 | 2.3 |
| Income taxes | 13.7 | 0.9 | 20.0 | 1.3 |
| NET INCOME (LOSS) OF OPERATING ACTIVITIES | 2.2 | 0.1 | 16.2 | 1.0 |
| Net income (loss) from discontinued operations | 4.0 | 0.3 | 1.1 | 0.1 |
| NET RESULT BEFORE NON-CONTROLLING INTERESTS | 6.2 | 0.4 | 17.3 | 1.1 |
| Loss (income) attributable to non-controlling interests | (3.0) | (0.2) | (3.3) | (0.2) |
| GROUP NET RESULT | 3.2 | 0.2 | 14.0 | 0.9 |

EBITDA¹ in 2019 amounted to Euro 174.3 million (of which Euro 12.4 million reflect the application of IFRS 16), and profitability (EBITDA / Revenues %), despite falling volumes, was 11.5%, in line with the value of the previous year on a like-for-like basis and excluding Euro 6.6 million of non-recurring income in 2018, which were included in item "Other non-operating expenses (income)", associated with the settlement of the quality claims against Systèmes Moteurs S.A.S..

In the fourth quarter, profitability (11.8%) is in line with that of the third quarter of the year, giving evidence of the recovery experienced during the year (10.6% and 11.6% in the first and second quarters, respectively). Profitability in the fourth quarter is also higher than the value recorded in the fourth quarter of 2018, 9.7% on a like-for-like basis.

EBIT was Euro 39.6 million, as against Euro 60.1 million in 2018 (Euro 53.5 million excluding Euro 6.6 million of non-recurring income as mentioned above); profitability

¹ EBITDA is calculated by adding "EBIT", the item "Depreciation and amortization" and the amount of writedowns of tangible and intangible assets posted in "Other non-operating expenses (income)" for Euro 10.7 million at 31 December 2019 (Euro 5.3 million in the corresponding period last year).

(EBIT / Revenues %) was 2.6%, compared to 3.4% in 2018. The reduction in EBIT is partly due to the decrease in EBITDA in terms of absolute value, due to falling turnover, partly to the start-up costs of the plants in Morocco and Romania and finally to asset write-offs for Euro 10.7 million.

The operating result showed good growth in Europe, thanks to the measures taken during the period, whereas some economic factors affecting the Group's North American operations, as well as the unfavourable trends of the Chinese and South American markets, had a negative impact.

Profit before tax amounted to Euro 15.9 million (Euro 36.2 million in 2018) after financial expense of Euro 23.7 million (Euro 19.5 million pre-IFRS16 treatment), compared to Euro 23.9 million in 2018.

Net profit amounted to Euro 3.2 million as against Euro 14.0 million in 2018, after tax expense of Euro 13.7 million compared to Euro 20.0 million in the previous year. The increase in the impact of taxes reflects the mixed results in the various territories, with some gaining significant profits and others for which it was decided not to recognise any deferred tax assets, in view of the losses linked to the start-up of the business or to continuing critical situations. The net result includes a profit of Euro 4.0 million from the sale of the Fraize plant (reported under "Discontinued operations"), which compares with a profit of Euro 1.1 million from the same business in 2018.

In 2019, **Free Cash Flow** was positive at Euro 8.4 million compared to Euro 2.9 million in 2018, which included the cash outflow for the purchase of the non-controlling interests in the Indian company (Euro 16.7 million).

| (in millions of Euro) | Note(*) | 2019 | 2018 |
|---|---------|----------------|----------------|
| SELF-FINANCING | (f) | 145.3 | 134.4 |
| Change in net working capital | | (2.1) | (9.1) |
| Other medium/long-term assets/liabilities | (g) | (0.9) | 8.6 |
| CASH FLOW GENERATED BY OPERATIONS | | 142.3 | 133.9 |
| Net decrease from sale of fixed assets | (h) | 4.3 | 2.6 |
| TOTAL SOURCES | | 146.6 | 136.5 |
| Increase in intangible assets | | 32.2 | 35.5 |
| Purchase of tangible assets | | 60.2 | 58.1 |
| Purchase of Tooling | | 35.3 | 39.2 |
| Increase in intangible assets for right of use | | 9.5 | - |
| TOTAL APPLICATION OF FUNDS | | 137.2 | 132.8 |
| Exchange differences on assets/liabilities and equity | (i) | (1.0) | (0.8) |
| FREE CASH FLOW | | 8.4 | 2.9 |
| Holding Company increases in capital | | - | 0.3 |
| Increases in share capital of consolidated subsidiaries | | - | 0.1 |
| Dividends paid by the Holding Company to shareholders | | (5.0) | - |
| Change in fair value derivative instruments | | - | 0.2 |
| CHANGES IN SHAREHOLDERS' EQUITY | | (5.0) | 0.6 |
| Change in net financial position | (l) | 3.4 | 3.5 |
| Opening net financial position | (l) | (260.5) | (264.0) |
| Financial debts for right of use at January 1 ^o , 2019 | | (61.8) | - |
| CLOSING NET FINANCIAL POSITION | (l) | (318.9) | (260.5) |

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

As at 31 December 2019, **equity**, not including non-controlling interests, was Euro 188.7 million (vs. Euro 192.9 million as at 31 December 2018), as illustrated in the table below.

| (in millions of Euro) | Note(*) | 12.31.2019 | | 12.31.2018 | |
|---|---------|--------------|--------------|--------------|--------------|
| | | Amount | % | Amount | % |
| Short-term operating assets | (a) | 286.4 | - | 304.0 | - |
| Short-term operating liabilities | (b) | (390.5) | - | (403.9) | - |
| Net working capital | | (104.1) | (19.8) | (99.9) | (21.1) |
| Equity investments | (c) | - | - | - | - |
| Intangible, tangible fixed assets and other medium and long-term assets | (d) | 804.1 | 152.7 | 741.0 | 156.2 |
| CAPITAL INVESTED | | 700.0 | 132.9 | 641.1 | 135.1 |
| Other medium and long-term liabilities | (e) | (173.4) | (33.0) | (166.7) | (35.1) |
| NET CAPITAL INVESTED | | 526.6 | 99.9 | 474.4 | 100.0 |
| Net financial indebtedness | | 318.9 | 60.6 | 260.5 | 54.9 |
| Non-controlling interests | | 19.0 | 3.6 | 21.0 | 4.4 |
| Consolidated equity of the Group | | 188.7 | 35.8 | 192.9 | 40.7 |
| TOTAL | | 526.6 | 100.0 | 474.4 | 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.

Pre-IFRS 16 **net financial position** as at 31 December 2019 was Euro 256.2 million, slightly down from the Euro 260.5 million as at year end 2018. When the amount of Euro 62.7 million is included as a result of the adoption of IFRS 16, net financial position as at 31 December 2019 amounts to Euro 318.9 million.

| (in millions of Euro) | 12.31.2019 | 12.31.2018 |
|--|----------------|----------------|
| Cash, banks, financial receivables and securities held for trading | 168.5 | 92.9 |
| Medium/long-term financial receivables | 6.8 | 5.1 |
| Short-term financial debts (*) | (95.8) | (62.3) |
| Medium/long-term financial debts | (398.4) | (296.2) |
| NET FINANCIAL POSITION | (318.9) | (260.5) |

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

As at 31 December 2019, the Sogefi Group's **workforce** was 6,818, compared to 6,967 as at 31 December 2018. The reduction is due, in addition to the decline in business, to the sale of the Fraize plant (127 employees at 31 December 2018) in 2019.

| | 12.31.2019 | | 12.31.2018 | |
|--------------|---------------|--------------|---------------|--------------|
| | <i>Number</i> | <i>%</i> | <i>Number</i> | <i>%</i> |
| Suspensions | 2,400 | 35.2 | 2,541 | 36.5 |
| Filtration | 3,015 | 44.2 | 2,889 | 41.5 |
| Air&Cooling | 1,348 | 19.8 | 1,471 | 21.1 |
| Other | 55 | 0.8 | 66 | 0.9 |
| TOTAL | 6,818 | 100.0 | 6,967 | 100.0 |

A breakdown by category is provided below.

| | 12.31.2019 | | 12.31.2018 | |
|---------------------|---------------|--------------|---------------|--------------|
| | <i>Number</i> | <i>%</i> | <i>Number</i> | <i>%</i> |
| Managers | 91 | 1.3 | 107 | 1.5 |
| Clerical staff | 1,830 | 26.8 | 1,950 | 28.0 |
| Blue collar workers | 4,897 | 71.9 | 4,910 | 70.5 |
| TOTAL | 6,818 | 100.0 | 6,967 | 100.0 |

INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investments totalled Euro 137.2 million in 2019 (Euro 132.8 million in the previous year).

In detail, investment in tangible fixed assets amounted to Euro 105 million in 2019 (Euro 97.3 million in 2018) and include capitalised tooling (IFRS 15) for Euro 35.3 million (Euro 39.2 million in 2018) and recognised rights of use (IFRS 16) for Euro 9.5 million (not present in 2018). The investments in tangible fixed assets (excluding IFRS 15/16 effects) totalled Euro 60.2 million (Euro 58.1 million in 2018). Investment in intangible fixed assets amounted to Euro 32.2 million (Euro 35.5 million in 2018).

As for investments in tangible fixed assets, these were mainly geared to increasing production capacity, industrialisation of new products, improvement of industrial processes and productivity growth.

RECONCILIATION BETWEEN THE PARENT COMPANY'S STATUTORY FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the Group's net result and equity at the end of the year with the equivalent figures for the Parent Company:

| (in millions of Euro) | 2019 | 2018 |
|---|------------|-------------|
| Net result per Sogefi S.p.A. financial statements | 7.7 | (13.7) |
| Group share of results of subsidiary companies included in the consolidated financial statements | 17.4 | 39.5 |
| Writedowns/Gains of equity investments in Sogefi S.p.A. | 32.6 | 36.0 |
| Elimination of Sogefi S.p.A. dividends | (54.2) | (39.0) |
| Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation | (0.3) | (8.8) |
| NET RESULT PER CONSOLIDATED FINANCIAL STATEMENTS | 3.2 | 14.0 |

| (in millions of Euro) | 12.31.2019 | 12.31.2018 |
|---|--------------|--------------|
| Shareholders' equity per Sogefi S.p.A. financial statements | 211.7 | 203.2 |
| Group share of higher/lower equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. | (31.9) | (19.7) |
| Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation | 8.9 | 9.4 |
| SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS | 188.7 | 192.9 |

PERFORMANCE OF THE PARENT COMPANY SOGEFI S.p.A.

Net profit in 2019 amounted to Euro 7.7 million compared to a net loss of Euro 13.7 million in the corresponding period of the previous year. The increase was primarily attributable to the increased flow of dividends from subsidiaries and lower financial expense.

It is worth noting that in 2019 the Company booked a write-down of Euro 32.6 million as a result of an impairment test as at 31 December 2019 mainly related to the value of the French subsidiary Sogefi Filtration S.A. (the value of the same subsidiary was written down by Euro 36 million in 2018).

The decrease in "Non-operating expenses" is mainly due to lower expenses incurred in 2019 in adjusting the fair value of certain investment properties of the Company to reflect experts' valuation.

| (in millions of Euro) | 2019 | 2018 |
|---|--------|--------|
| Financial income/expenses and dividends | 45.3 | 27.2 |
| Adjustments to financial assets | (32.6) | (36.0) |
| Other operating revenues | 8.3 | 12.5 |
| Operating costs | (11.3) | (15.5) |
| Other non-operating income (expenses) | (2.1) | (3.9) |
| RESULT BEFORE TAXES | 7.6 | (15.7) |
| Income taxes | (0.1) | (2.0) |
| NET RESULT | 7.7 | (13.7) |

As regards the **statement of financial position**, the table below shows the main items as at 31 December 2019, compared to the figures recorded at the end of the previous year:

| (in millions of Euro) | Note(*) | 12.31.2019 | 12.31.2018 |
|--|---------|------------|------------|
| Short-term assets | (m) | 6.1 | 8.3 |
| Short-term liabilities | (n) | (3.6) | (4.4) |
| Net working capital | | 2.5 | 3.9 |
| Equity investments | (o) | 348.4 | 380.9 |
| Other fixed assets | (p) | 41.0 | 44.6 |
| CAPITAL INVESTED | | 391.9 | 429.4 |
| Other medium and long-term liabilities | (q) | (2.5) | (0.5) |
| NET CAPITAL INVESTED | | 389.4 | 428.9 |
| Net financial indebtedness | | 177.7 | 225.7 |
| Shareholders' equity | | 211.7 | 203.2 |
| TOTAL | | 389.4 | 428.9 |

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

“Shareholders' equity” as at 31 December 2019 amounts to Euro 211.7 million, up from 31 December 2018 (Euro 203.2 million), mainly thanks to the positive result for the year 2019.

Net **financial indebtedness** as at 31 December 2019 was Euro 177.7 million, showing a year-over-year improvement of Euro 48 million compared to 31 December 2018.

| (in millions of Euro) | 12.31.2019 | 12.31.2018 |
|---|----------------|----------------|
| Short-term cash investments | 89.5 | 25.2 |
| Short/medium-term financial receivables to third and subsidiaries | 202.0 | 160.8 |
| Short-term financial debts (*) | (127.2) | (123.6) |
| Medium/long-term financial debts | (342.0) | (288.1) |
| NET FINANCIAL POSITION | (177.7) | (225.7) |

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

The table below illustrates the **cash flow statement** of Sogefi S.p.A.:

| (in millions of Euro) | Note(*) | 2019 | 2018 |
|--|---------|----------------|----------------|
| SELF-FINANCING | (r) | 46.5 | 28.0 |
| Change in net working capital | (s) | 1.4 | 3.1 |
| Other medium/long term assets/liabilities | (t) | 0.9 | 2.0 |
| CASH FLOW GENERATED BY OPERATIONS | | 48.8 | 33.1 |
| Sale of equity investments | (u) | - | - |
| Net decrease from sale of intangible assets | | - | - |
| TOTAL SOURCES | | 48.8 | 33.1 |
| Increase in intangible assets | | 0.2 | 0.3 |
| Purchase of tangible assets | | - | - |
| Purchase of equity investments | | 0.1 | 1.2 |
| TOTAL APPLICATION OF FUNDS | | 0.3 | 1.5 |
| FREE CASH FLOW | | 48.5 | 31.6 |
| Holding Company increases in capital | | - | 0.3 |
| Change in fair value derivative instruments | | - | 0.2 |
| Dividends paid by the Holding Company | | - | - |
| CHANGES IN SHAREHOLDERS' EQUITY | | - | 0.5 |
| Change in net financial position | (v) | 48.5 | 32.1 |
| Opening net financial position | (v) | (225.7) | (257.8) |
| Financial debts for right of use at January 1°, 2019 | | (0.5) | - |
| CLOSING NET FINANCIAL POSITION | (v) | (177.7) | (225.7) |

(*) See the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

Free cash flow increased by Euro 48.5 million thanks for the most part to improved self-financing in 2019 and lower capital increases granted to subsidiaries compared to the previous year.

PERFORMANCE BY BUSINESS DIVISION

SUSPENSION BUSINESS UNIT

The following tables show the key results and economic indicators for the year 2019 and the three previous years recorded by the Suspensions business unit.

KEY ECONOMIC DATA

| (in millions of Euro) | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|----------------------------|-------------|-------------|-------------|-------------|-------------------|
| Sales revenues | 562.8 | 609.4 | 602.6 | 549.7 | -8.8% |
| EBIT | 35.6 | 39.1 | 12.7 | 5.0 | -60.9% |
| <i>% on sales revenues</i> | <i>6.3%</i> | <i>6.4%</i> | <i>2.1%</i> | <i>0.9%</i> | |

OTHER INDICATORS

| | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 2,625 | 2,623 | 2,541 | 2,400 | -5.5% |

In 2019, the Suspensions business unit reported revenues of Euro 549.7 million, down by 5.6% (-8.8% at current exchange rates), with Europe recording a 6.5% drop and unfavourable performance in South America and China.

EBIT amounted to Euro 5.0 million, compared to Euro 12.7 million in 2018, with impact on sales revenues down to 0.9% from 2.1% in the previous year. Business in Europe shows significant improvement, whereas it dropped markedly in Mercosur and China, in line with the negative trends in those markets. In particular, in Mercosur the business was affected by the situation in Argentina, characterised by a sharp drop in production and by monetary factors that had a negative impact on the cost of raw materials, while in China the customers served by Sogefi recorded reductions in production that were more than proportional to the market; in the absence of extraordinary exogenous factors, sales revenues are expected to recover as early as 2020, as the production of new contracts begins during the second half of 2019. 2019 EBIT was also affected by Euro 5.0 million of project write-downs (compared to Euro 2.5 million in 2018).

Employees of the business unit at 31 December 2019 were 2,400 (2,541 at 31 December 2018).

FILTRATION BUSINESS UNIT

The following tables show the key results and economic indicators for the year 2019 and the three previous years recorded by the Filtration business unit.

KEY ECONOMIC DATA

| (in millions of Euro) | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|----------------------------|-------------|-------------|-------------|-------------|-------------------|
| Sales revenues | 535.1 | 546.4 | 537.2 | 546.4 | 1.7% |
| EBIT | 25.1 | 24.4 | 23.4 | 16.0 | -31.6% |
| <i>% on sales revenues</i> | <i>4.7%</i> | <i>4.5%</i> | <i>4.4%</i> | <i>2.9%</i> | |

OTHER INDICATORS

| | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 2,735 | 2,831 | 2,889 | 3,015 | 4.4% |

During 2019, the Filtration business unit reported revenues of Euro 546.4 million, up by 1.7% at current exchange rates compared to 2018, and by 2.7% at constant exchange rates. Business recorded growth at constant exchange rates in all main areas except North America.

EBIT amounted to Euro 16.0 million, compared to Euro 23.4 million in 2018, with impact on sales revenues down to 2.9%, from 4.4% in the previous year. The operating result in Europe grew slightly, while the result in North America fell, although it remained largely positive. The division's EBIT was also affected by the continuing critical situation in Mercosur and the start-up costs for the new plant in Morocco.

Employees of the business unit at 31 December 2019 were 3,015 (2,889 at 31 December 2018). The increase is mainly due to the start of production at the plant in Morocco and business in Slovenia and India.

AIR&COOLING BUSINESS UNIT

The following tables show the key results and economic indicators for the year 2019 and the three previous years recorded by the Air&Cooling business unit.

KEY ECONOMIC DATA

| (in millions of Euro) | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|----------------------------|-------------|-------------|-------------|-------------|-------------------|
| Sales revenues | 480.2 | 496.2 | 433.5 | 426.1 | -1.7% |
| EBIT | 23.3 | 27.4 | 21.7 | 24.2 | 11.5% |
| <i>% on sales revenues</i> | <i>4.8%</i> | <i>5.5%</i> | <i>5.0%</i> | <i>5.7%</i> | |

OTHER INDICATORS

| | 2016 | 2017 | 2018 | 2019 | Change '19 vs '18 |
|---------------------|-------|-------|-------|-------|-------------------|
| Number of employees | 1,381 | 1,431 | 1,471 | 1,348 | -8.4% |

In 2019, the revenues of the Air&Cooling business unit dropped by 1.7% (-3.5% at constant exchange rates) compared to the previous year, to Euro 426.1 million. Business recorded a positive trend in Europe (+4.9%); in North America, revenues were down by 2.5%, due to the negative impact – for about Euro 6 million – of the strike and consequent stoppage of production at the General Motor plants during the last quarter; finally, in China, revenues were down by 21.5% during the year, and recovered in the fourth quarter (+10.1% compared to the fourth quarter of 2018) as the production of new programs began.

EBIT amounted to Euro 24.2 million, up from 2018 (Euro 21.7 million), and its impact on sales improved, growing from 5.0% in 2018 to 5.7% in 2019. EBIT grew significantly in Europe, whereas it fell in China, due to declining volumes, and in North America, due to a less favourable product mix as well as the General Motor strike mentioned above.

Employees of the business unit at 31 December 2019 were 1,348 (1,471 at 31 December 2018). The reduction is mainly due to the sale of the Fraize plant (127 employees at 31 December 2018) in 2019.

OUTLOOK FOR OPERATIONS

Industry sources predict a slight decline in global car production in 2020, with Europe at -1.4%; a significant downtrend is expected for the first quarter of 2020, mainly in China, with a recovery in the following quarters. That said, it is worth noting that market outlook remains highly uncertain and visibility is low.

Given its portfolio of contracts, Sogefi expects revenues to perform substantially in line with 2019 and slightly above the market.

Profitability is expected to remain steady in Europe, thanks to the measures adopted mainly in the Suspensions business, and to profitability improving in North America as a result of the new contracts secured in the Air&Cooling business.

This year will be key to the development activities of the new Suspensions plant in Romania, which will help consolidating business in EMEA from 2022 onwards.

These forecasts do not incorporate the effects of the Coronavirus epidemic; given Sogefi's relatively low exposure to the Chinese market, the main risk is the impact on the world economy and car production worldwide.

MANAGEMENT OF THE MAIN BUSINESS RISKS

In a context increasingly characterised by market instability and a rapid evolution of business dynamics and regulations, careful and effective risk and opportunity management is essential to support an informed decision-making process consistent with strategic and business goals and ensure corporate sustainability and value creation in the medium-to-long term.

In this regard, as part of this Internal Control and Risk Management System and as required by the Corporate Governance Code of Borsa Italiana adopted by the Group as well as by national and international best practices acknowledged in the market, Sogefi adopted and implemented a structured and formalised ERM (Enterprise Risk Management) process as of 2012. The purpose of this ERM process is to identify, assess, manage and systematically monitor the main risks that could hinder the achievement of the Group's strategic and business goals, as well as define appropriate information flows to ensure greater transparency and dissemination of information within the organisation.

In addition, in line with best practices on corporate governance and risk management, the Group deemed it appropriate to set up a dedicated Risk Management department headed by a new Group Chief Risk Officer effective as of January 2019. This new department is separate from the Internal Audit department which has been responsible for risk management activities until the end of 2018. This decision reaffirms the Group's growing commitment to the effective implementation of the integrated internal control and risk management system.

On this occasion, the Sogefi Group started to work on the evolution of the traditional risk assessment process, by designing and implementing a more structured risk management system in line with the latest industry best practices. The ERM framework was updated in order to strengthen and further customise it to suit the needs of a growing Group, while maintaining continuity with the activities carried out in the past.

The result was laid down in the ERM Group Policy, approved by the Board of Directors, which outlines the approach and reference principles underlying the design of the framework: the governance model of the risk management system that assigns roles and responsibilities to each player involved, and the operating model that includes the analysis and reporting activities to be performed periodically and the tools and methods to support them.

The ERM process is directed and supervised by the Board of Directors which, in addition to defining the main guidelines, also identified the main players:

- the Control and Risk Committee, whose members are appointed among Directors to assist the Board with decisions concerning the risk management process and in assessing their adequacy;
- The Chief Executive Officer, as director in charge of the Internal Control and Risk Management System, is responsible for implementing and maintaining an effective risk management process;
- The Group Chief Risk Officer coordinates the risk management process, facilitating the identification, assessment, management and monitoring of major

corporate risks and provides methodological support. They are also responsible for preparing periodic reports on risk management activities;

- The Group's top and senior management is actively involved throughout the process of risk identification, analysis and management in a top-down approach and as the main risk owner.

According to this approach, risks are identified based on the key strategic and economic-financial medium and long-term drivers of the Group. These drivers are assessed to provide the Board of Directors with a better understanding of the risk scenarios that could hinder the achievement of set goals and enable it to determine which actions should be taken to prevent, mitigate or manage the main exposures and their order of priority, taking in account risk appetite.

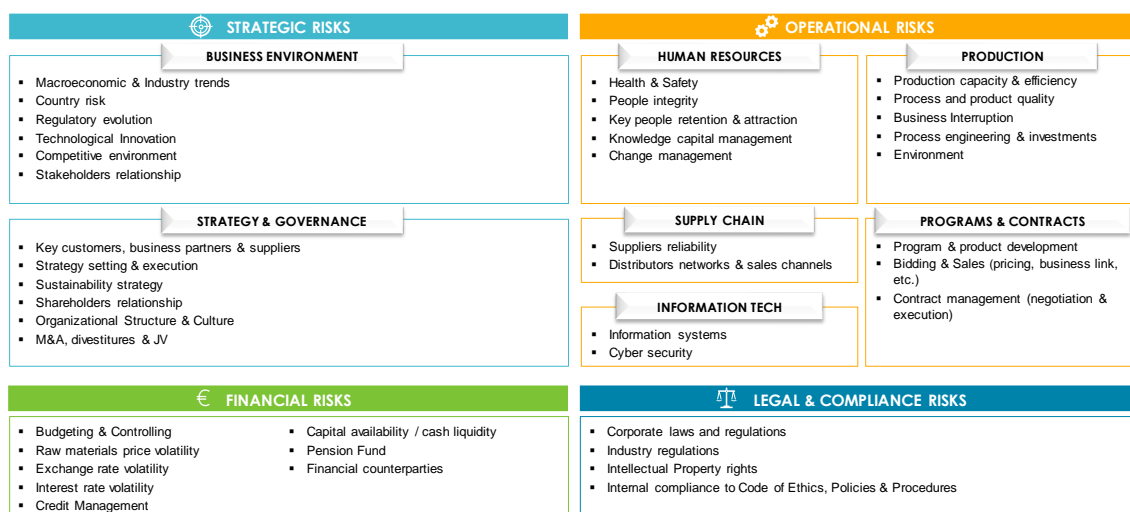
In this context, an active role of management is key in the risk management process. For this reason, the Group has set up an internal Risk Management Committee - with members from the top management and from Internal Audit - that is coordinated by the CRO and meets periodically. The Committee assists the Chief Executive Officer in carrying out evaluations and making decisions concerning the ERM system, promoting a structured process of risk identification and analysis, discussing risk management strategies and monitoring their implementation and effectiveness.

In this context, the ERM framework aims to analyse and evaluate a wide portfolio of risks, which vary in nature and type, including all risks associated with sustainability issues.

The risks potentially applicable to the Group's business model are represented in the so-called Risk Model, whose updated version includes four categories:

- **Strategic Risks**, relating to the external and business environment or governance strategies and decisions that can significantly affect the Group's performance and/or the achievement of the defined strategic objectives;
- **Operational Risks**, which can affect the effectiveness/efficiency of business processes, jeopardising the creation of value;
- **Financial Risks**, connected with the management, for example, of exchange rates, interest rates, liquidity, etc.
- **Legal and Compliance Risks**, relating to non-compliance with applicable laws and regulations, as well as internal Codes, Policies and Procedures that may lead to legal disputes, financial losses and potential adverse effects on the Group's reputation.

Further areas of main risk events to which the Group could potentially be exposed are identified within these risk categories as outlined below:



The ERMoperating model requires that risk assessment activities be carried out on an annual basis with the primary goal of identifying and analysing priority risks for the Group, and possibly carrying out in-depth vertical analyses on further specific risk issues. Priority risks are managed by defining *ad hoc* action plans, and their evolution is periodically monitored.

Lastly, the results of the ERM process are used by the Internal Audit department to prepare its annual Audit Plan, in a risk-based approach that is in line with best practices, so that resources can be allotted to those areas that are considered to be most critical and/or risky.

For more details on the characteristics and operation of the internal control and risk management system, please read the Annual Report on Corporate Governance available on the Company's website.

Outlined below are the main risks of the Group in 2019 as identified by the ERM process, with details of the main management strategies aimed at reducing potential exposures assessed with the aid of Top and Senior Management.

STRATEGIC RISKS

Risks associated with technological innovation

The automotive component industry in which the Sogefi Group operates is characterised by unrelenting technological evolution in electronics, automation and connection technologies, material research, as well as in power, fuel, engine and timing systems.

In this context, the Group is exposed to the risk of failing to promptly recognise technological innovation trends and the resulting business opportunities both in mature and in emerging markets and the consequent inability to update, acquire and adequately develop the technologies and assets needed to improve its operating performance and renew its product portfolio.

Therefore, in order to maintain its competitive position and growth in the medium-to-long term, Sogefi Group believes that it is essential to invest significant resources in Research and Development, focusing on the development of advanced technologies that minimise environmental and social impact and at the same time enhance operating performance and provide innovative and competitive products. In particular, the Group is committed to developing new products designed to equip the new generation of "Hybrid & Electrical Vehicles" in the filtration, air and cooling and suspension sectors. The world market in which the Sogefi Group operates is characterised by components sectors.

Risks relating to competitors

The world market in which the Sogefi Group operates is characterised by a high level of competition, fuelled by a strong drive towards technological innovation, an ongoing research into the quality of products and accessories, as well as the efficiency of its plant development and production system.

In addition, the business environment is becoming increasingly competitive due to the growing vertical integration of the production processes of key players and their extensive global presence. As a result, production and logistical costs drop, leading to ever-increasing price pressure. This pressure is further enhanced by many competitor players from low-cost countries entering the market.

On the other hand, the background and reliability of the Group partly mitigate the potential exacerbation of the reference competitive environment of the Sogefi Group, which can count on its solid brand reputation, as well as a wide and varied product range.

Risks associated with customer management and related pricing policies

The Group's business is strongly oriented to the decisions of a few large customers who enjoy high negotiating power, which often translates into strong pressure on prices and contractual clauses. The risk is particularly significant considering the increasing concentration of car makers, who gain more and more negotiating power.

For this reason, the Group may run the risk of not being able to negotiate significantly favourable contractual conditions and pricing policies. In particular, the possible acceptance of contractual specifications that are unfavourable for Sogefi or not consistent with the Group's risk attitude could affect the outcome of the project and the Group's performance, and impact its reputation.

For this reason, Sogefi put in place a process that, from the drafting of the offer to the signing of the contract, includes predefined gate reviews aimed at assessing whether the financial targets of the projects are compatible with the profitability targets, as well as the soundness of contractual terms and conditions. In this context, during 2019 the Group initiated an in-depth analysis of the risks associated with the Contract Management process, aimed at strengthening and consolidating the process.

Finally, the Sogefi Group has been trying to address the possible consequences of , a risk of demand concentration through an appropriate geographical diversification of its customer portfolio, where customers are the world leading manufacturers of cars and

industrial vehicles for the original equipment market, and the differentiation of its distribution channels in terms of international aftermarket customers.

Country risk

The Sogefi Group is present in 23 countries in Europe, Asia, America and Africa with its subsidiaries. In some of these countries (e.g. Argentina, Brazil, China, the United States, etc.) a certain instability is observed in the political, economic and social framework that could lead to macroeconomic crises due to depreciation of the local currency, increased inflation, social unrest, increased fiscal pressure, protests or strikes and other forms of civil unrest. These consequences could negatively affect current market dynamics and jeopardise the Group's results.

In order to deal with these risks, the Group has started specific analysis activities aimed at identifying and assessing the main critical issues in the countries that are deemed to pose a greater risk. During 2019, the risk profile of those countries considered to be more at risk (i.e. Argentina, Brazil, China) was monitored in order to promptly evaluate whether appropriate mitigation measures should be initiated in case of significant developments.

This framework also includes the risk connected with the uncertainty generated by the Brexit terms, which could have both economic-financial effects (such as exchange rate fluctuations) and fiscal effects (such as the introduction of customs duties), both in terms of operational delays in the supply of raw materials and/or in the supply of products, and in terms of new regulations leading to possible critical issues, for example in the product certification process.

During 2019, the Group conducted an analysis in order to identify the main critical operational and economic issues in the event of a *Hard Brexit* and appointed a dedicated team tasked with implementing specific mitigation actions and periodically monitoring the evolution of the risk profile. This monitoring action, after the parties failed to reach an agreement in January 2020 (i.e. *hard brexit*), will continue until the European context is fully adjusted to the new situation.

Risks related to sustainability issues

Given the growing attention to environmental, social and human rights sustainability issues on the part of international institutions (e.g. UN, G7, etc.), governments and investors, in recent years Sogefi has undertaken efforts to gradually incorporate these issues into its business strategy, with the aim of controlling and improving the impacts of its various activities and products on local territories and the communities.

With this in mind, the Sogefi Group is committed to understanding and adapting its business model to the ongoing social and environmental challenges and increasingly stringent regulations, with special regard to safety and environmental regulations (such as, for example, the restrictions connected with pollution in main urban centres, waste production, etc.), as well as promoting and disseminating sustainability principles throughout the supply chain.

In order to ensure transparency on its social and environmental performance, Sogefi publishes the Consolidated statement for the disclosure of non-financial information

every year to disclose the most significant plans and initiatives undertaken. In addition, it adheres to such initiatives as, for example, the Carbon Disclosure Project to measure and report environmental data on a voluntary basis and adopted the *Ecovadis* platform for supplier sustainability rating.

OPERATIONAL RISKS

Risks related to possible interruptions or delays in production cycles

The production processes of the Sogefi Group, in line with the automotive industry, are structured based on an approach that minimises the delivery times of products to customers and therefore inventories. Any unexpected slowdown or interruption in production, caused - for example - by plant breakdowns, difficulties or delays in procuring raw materials, prolonged rationing in the supply of electricity, as well as fires or natural disasters, etc., could affect the entire supply chain, leading to negative effects on the Group's ability to operate, its economic and financial situation and its reputation.

In particular, if production cycles were to slow down or stop for a significant period of time, there could be delays or shortcomings in production, leading to breach of contract and, consequently, additional costs arising from obligations to pay penalties or compensation requested by customers.

In order to manage this risk, the Group has implemented a Business Continuity plan that provides for preventative action aimed at eliminating / reducing and monitoring major causes of operational disruption, to enable the timely initiation of mitigation measures.

Emblematic is the onset of the Coronavirus case at the end of 2019, which led to a slowdown in local business due to the temporary closure of factories ordered by the Chinese government, however without significant impact on the supply chain. In view of the evolution and extent of the virus spread, the risk context is being closely monitored by management in order to assess and promptly take the necessary actions.

It should also be noted that the Sogefi Group has an international plan in place that provides insurance coverage against any damage to the Group's assets and arising from business interruption that mitigates the potential economic and financial effects of any of the events described above to a sufficient extent.

Risks relating to the quality of products and processes

The Sogefi Group is constantly committed to guaranteeing a high standard of quality for its products and therefore believes that it is essential to manage the risk associated with the production and marketing of products that may not comply with industry quality standards or customer expectations. As a matter of fact, this risk could result in product recall campaigns that could hurt the Group's reputation and threaten the stability of its relationships with its customers.

Over the years, various measures have been implemented that enabled the Group to gradually strengthen control of the processes involved through periodic gate reviews both in the development and production phases, aimed at preventing the onset of potential critical issues. In order to further strengthen processes and mitigation

measures, given how important this issue is to the Sogefi Group, this type of risk was included among the main ERM priorities in 2019.

Again, with a view to minimising risk, the Sogefi Group adopts a quality management system in line with mainstream international best practices, the so-called Sogefi Excellence System (S.E.S.) aimed at improving industrial performance, with special focus on the so-called "Quality Basics" (i.e. Customer, Supplier and Production Rejects). In addition, specific performance indicators were adopted across the Group to monitor and ensure compliance with production process standards on a daily basis. The IATF 16949:2016 certification forms an integral part of S.E.S. This entails ongoing quality controls over the entire production process, including the supply chain (e.g. raw materials, semi-finished products, etc.), aimed at preventing any non-conformities due to defective products or quality issues. In 2019, 98%² of the Group's production facilities were IATF 16949:2016 certified.

Lastly, the Group has an international insurance plan in place to cover any product liability damages for defects or malfunctions.

Supply chain risks

The production process needs an efficient supply chain to operate properly. A sudden interruption of the chain, maybe caused by natural disasters or strong international demand, if prolonged, could lead to the depletion of in-house stock, putting the continuity of production process at risk and potentially delaying the delivery of orders to customers. Moreover, any defective products and/or products with lower quality standards than expected supplied could have a significant impact on the sustainability of relationships with customers, affecting the Group's brand reputation.

In order to mitigate the risk, the Sogefi Group has continued to strengthen the supplier selection process so as to ensure a careful assessment of both financial soundness and adherence to adequate quality standards, and has identified, where possible, alternative suppliers for the most critical raw materials/components to reduce any risk of dependence.

In addition, as part of the Risk Management activity started in 2019 to strengthen the Contract Management process, the Sogefi Group has analysed in depth the critical issues connected with the contracts with suppliers and, where possible, has strengthened or included adequate back-to-back clauses.

Health and Safety Risks

The Sogefi Group believes that it is essential to guarantee working conditions that allow its employees to protect their health and safety. In this regard, Sogefi periodically implements training plans to promote and disseminate a health and safety culture aimed at increasing the awareness of possible risks, especially in production plants, and promoting virtuous behaviour among all employees and collaborators. In addition, Sogefi is actively engaged in ensuring the ongoing improvement of internal control systems and professional infrastructure and equipment, so as to ensure the prevention of

² The calculation includes 41 production sites, excluding the Fraize site (sold in April 2019) and the Saint-Soupplets site (mainly dedicated to the production of prototypes). In addition, the Bangalore site is treated as two different units.

accidents, occupational accidents and the onset of occupational diseases as far as possible.

In particular, the Sogefi Group has a structured and certified Safety Management System according to OHSAS 18001:2007 Standards. This certification allows health and safety best practices to be adopted through an effective structured management system. As at December 2019, 18% of its sites had obtained the certification.

An Occupational Health and Safety Policy that sets out the core principles concerning health and safety has been in force since 2016, and all subsidiaries are required to adopt and observe it. In addition, the so-called *Sogefi Excellence System* (S.E.S.) is used by the Health and Safety departments of each business unit to periodically monitor a set of KPIs to ensure full compliance with Group standards in terms of health and safety.

Environmental Risks

Attention to the environment, along with respect for its employees, customers and local communities, are shared, essential values of the Group that help guide its strategic and operational choices.

In particular, the nature of the reference business is such that Sogefi could be exposed to risks associated with excessive use of energy from non-renewable sources, the release of polluting gases into the atmosphere, inadequate management of the disposal of waste and hazardous substances affecting the soil and subsoil, as well as inappropriate management of water resources and compliance with current environmental standards and regulations.

To make a formal commitment to this issue, Sogefi S.p.A. has had an Environmental Policy in place which sets out the guiding principles that all subsidiaries must adopt and observe since 2016. Under this policy, the Group pursues clear strategic goals, taking into account available resources and technologies, in order to progressively improve its environmental performance.

Sogefi also adopted international standard ISO 14001:2015 as a guideline to define an environmental management system aimed at controlling possible environmental risks and their consequences. As at December 2019, 93%³ of the Group's sites were ISO 14001 certified.

The Group also implemented the following mitigation actions:

- Reduction of greenhouse gas emissions in the production process;
- Energy intensity was reduced at all production sites in order to achieve a significant reduction in energy consumption and improve efficiency;
- Increased consumption of electricity from renewable sources;
- Increased use of reused and recycled materials in order to reduce the volume of waste generated by production;

³ The calculation includes 41 production sites, excluding the Fraize site (sold in April 2019) and the Saint-Soupplets site (mainly dedicated to the production of prototypes). In addition, the Bangalore site is treated as two different units.

- Improvement of wastewater treatment systems in production plants before it is released into the environment and into public sewage systems;
- Support to the reduction of environmental impacts arising from logistic processes (e.g. by reducing exceptional transport operations to a minimum, using more reusable containers where possible, standardising packaging and pallets to minimise potential waste and stock levels, etc.).

Further details can be found in the section of the Sustainability Report dedicated to environmental impact.

Cyber Security Risks

The Group manages risks associated with unauthorised and fraudulent access to its IT systems by third parties, with potential loss and violation of sensitive and confidential data that could lead to financial losses and reputation damage. In 2019 the main IT security event for the Group involved phishing incidents: thanks to the timely identification by the Security Team there were no consequences.

In order to reduce these risks to a minimum, technical and operational measures have been implemented and/or updated under the supervision of the Chief Information Officer (CIO) in order to ensure high security levels for the Group's IT infrastructure. In line with the Cyber Security Program launched in 2018 and with an aim to strengthen the cyber security system, during 2019 the Sogefi Group:

- appointed a Group Security Officer, who reports to the Group CIO and is responsible for managing daily security activities and putting in place security tools. In addition, the IT team was expanded as two new positions with focus on system and network security were created in 2019;
- adopted several policies and procedures based on the international standard ISO/IEC 27001-27002, concerning the setup of the IT security organisation and in particular the definition of key roles and responsibilities, the main rules for the use of the Internet and IT equipment, access control, etc. In addition, a set of performance indicators – such as malware protection, user registration, back-up process and network services – has been defined in order to assess the effectiveness of the policies and procedures adopted;
- monitored suspect activities on a daily basis, with over one hundred actions taken. In addition, a number of attacks were blocked after adopting Office 365;
- launched a periodic communication campaign aimed at raising awareness on security issues by sharing best practices with all users to avoid a cyber attack.

FINANCIAL RISKS

Foreign exchange risk

The Sogefi Group, operating internationally through numerous foreign subsidiaries in various markets where the reference currency is different from that of the individual subsidiaries or from the Group's consolidation currency (EUR), is exposed to the risk of potential significant fluctuations in exchange rates.

The risks associated with changes in exchange rates (in particular of the EUR to the USD and to emerging market currencies) include:

- The translation exchange risk arising from the fact that Sogefi prepares its financial statements in Euro, yet holds controlling interests in companies that prepare their financial statements in currencies other than the Euro – as a result, any fluctuations in the exchange rates at which the financial statements of subsidiaries originally expressed in foreign currencies are converted could significantly affect both the Group's economic result and its consolidated shareholders' equity;
- The transaction exchange risk arising from the fact that the Group carries out frequent direct/indirect purchase and sale transactions in currencies other than the functional currency, could affect – in the event of any exchange rate fluctuations – the actual cash outflows/earnings of the Company, limited to the portion that is not offset between purchases and sales.

To mitigate the risk, Sogefi monitors its exposure continuously, trying to offset same-currency sales and purchases and, for the remainder, it uses financial instruments available on the market to hedge its exposure whenever possible.

Risks associated with fluctuations in raw material prices

The Sogefi Group's activities are associated with the procurement of raw materials, primarily steel, plastics and aluminium, and/or components and semi-finished products containing them, which are essential for production at its plants.

The price of these raw materials accounts for a significant part of production cost, and is subject to – sometimes significant – fluctuations, which depend on a wide variety of factors, largely beyond Sogefi's control and hardly predictable, such as, for example, changes in demand levels, the introduction of new laws or regulations, changing exchange rates and price levels.

When the price of raw materials increases, the procurement activities of Group companies may become more expensive or complex, with dire effects on the Group's economic and financial position and equity.

In order to mitigate this risk, the Sogefi Group seeks to periodically review the contractual conditions agreed upon with its customers, in order to find solutions for indexing sales prices to fluctuations in the prices of raw materials, so as to transfer any cost variations to the final price.

LEGAL AND COMPLIANCE RISKS

Risks of Violation of Anti-Corruption Law

The fight against corruption is an issue that enjoys strong attention from national governments, as is evidenced by the many acts and regulations passed on the subject (e.g. the Sapin II regulation in France, Legislative Decree no. 231/2001 and the Anti-Corruption Act no. 190/2012 in Italy, the US Foreign Corrupt Practices Act, the UK Bribery Act, etc.).

Sogefi operates in 23 countries through a large number of local counterparties, and some of these countries have a critical Corruption Perception Index (CPI)⁴. Looking at its structure and business model, the Group could theoretically become involved in events of corruption.

The Group is aware of the possible consequences that could impact its business and reputation should it become involved in events of corruption. In its Code of Ethics, that is adopted by all Group companies, it states that it is committed “to prevent any form of corruption or extortion and to oppose any acts of bribery. Group companies shall not, directly or indirectly, offer, promise, give or demand cash or any other improper advantage to, from, or on behalf of a Public Official, any supplier, customer, competitor or other third parties, with the intention of corruption. Furthermore, each individual shall not accept or offer gifts, meals, or entertainment if such behaviour could create the impression of improperly influencing the respective business relationship”.

In addition, employees receive periodic training to strengthen the Group's culture and awareness of the principles set out in the Code of Ethics, as well as to provide instructions on how to identify and report any event potentially related to a corrupt practice internally. In this regard, a corporate whistleblowing procedure has been approved and adopted at Group level to define operating instructions for reporting any violation or suspected violation of the Code of Ethics or any other internal company procedures or standards anonymously.

In compliance with Italian Legislative Decree No. 231/2001, that lists bribery between public and private parties as a potential crime risk, the Board of Directors of Sogefi S.p.A. approved the “Organisational, Management and Control Model as per Legislative Decree No. 231 of 8 June 2001” (i.e. Organisational Model) which establishes the rules for a correct and transparent business conduct. This Model is reviewed periodically to ensure it is adequate and up-to-date with any amendments or integrations to the decree.

Finally, in line with the Group's focus on the management and prevention of potential corruption risks, in 2019 Sogefi initiated a Compliance Project aimed at revising and strengthening the anti-corruption elements of the Group's organisational model. The project is ongoing and ensures that the Group complies with the requirements of current law, including Italian Legislative Decree No. 254/2016, Legislative Decree No. 231/2001 and French act Sapin II. Further details can be found in the Consolidated statement for the disclosure of non-financial information.

⁴ The Corruption Perception Index is published annually by Transparency International and ranks countries according to their perceived levels of corruption as determined by expert assessments and specific surveys.

OTHER INFORMATION

RELATED PARTY TRANSACTIONS

Information on the most important economic transactions and balances with related parties is provided in the explanatory and supplementary notes to the consolidated financial statements, in the section entitled “Related Party Transactions”, as well as in the explanatory and supplementary notes to the statutory financial statements.

Dealings between Group companies are conducted at arm’s length, taking into account the quality and type of services rendered.

We point out that no transactions have been carried out with related parties or with entities or individuals other than related parties that, according to the definition used by Consob, are atypical or unusual, do not relate to the normal business activity or have a significant impact on the Group's results, balance and financial position.

In 2010, in accordance with Consob Resolution no. 17221 of 12 March 2010 as subsequently amended, the Company’s Board of Directors appointed the Related Party Transactions Committee, establishing that the members are to be the same as those of the Control and Risks Committee and approved the Procedure on related party transactions, which had previously received a favourable opinion of the Control and Risks Committee. The purpose of this Procedure is to establish the principles of conduct that the Company is bound to observe to guarantee the correct management of related-party transactions. This Procedure is available on the Company's website at www.sogefigroup.com, in the “Investor – Corporate Governance” section.

In accordance with Art. 2497-bis of Italian Civil Code, we point out that Sogefi S.p.A. is subject to management and coordination by its parent company CIR S.p.A. In this regard, it is worth mentioning that the merger by incorporation of CIR S.p.A. into COFIDE S.p.A. became effective on 19 February 2020. (as a result of which COFIDE was renamed "CIR S.p.A. - Compagnie Industriali Riunite") became effective and the statement of the entity that exerts direction and coordination pursuant to art. 2497 -bis of the Italian Civil Code was amended accordingly.

CORPORATE GOVERNANCE

Note that the “Annual Report on Corporate Governance” for 2019 was approved at the meeting of the Board of Directors that was called to approve the draft financial statements for the year ended 31 December 2019 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website at www.sogefigroup.com, in the “Investor – Corporate Governance” section.

The Report also contains the information prescribed by Art. 123-bis of Italian Financial Consolidated Law, including information on ownership structures and compliance with the codes of conduct that the Company has adopted. Generally speaking, the Company's Corporate Governance is in line with the recommendations and rules contained in the Code of Conduct.

As regards Italian Legislative Decree no. 231/2001, which brings domestic regulations on administrative liability of legal entities into line with the international conventions signed by Italy, in February 2003 the Board of Directors adopted a Code of Ethics for the Sogefi Group (as subsequently amended and integrated). The Code clearly defines the values that the Group believes in as the basis on which to achieve its objectives. It lays down rules of conduct which are binding on directors, employees and others who have ongoing relations with the Group.

On 26 February 2004 the Company also adopted an "Organization, Management and Control Model as per Italian Legislative Decree no. 231 of 8 June 2001" following the guidelines of the decree, with a view to ensuring conditions of fairness and transparency in the carrying on of the company's affairs and business activities.

A Supervisory Body was also set up with the task of monitoring the functioning, effectiveness and observance of the Model, as laid down in the decree.

CONSOLIDATED STATEMENT FOR THE DISCLOSURE OF NON-FINANCIAL INFORMATION (UNDER ITALIAN LEGISLATIVE DECREE NO. 254/2016)

Legislative Decree no. 254/2016 (which implemented Directive 2014/95/EU) introduced the obligation for large listed companies to add to the annual report on operations a Statement for the disclosure of non-financial information containing information about environmental, social, and employment matters, as well as details related to human rights, anti-corruption, and bribery issues. The information must include a description of the company's business model, the policies pursued, the main risks to which the Group may be exposed (ref. art.3.1(c)) consistently with its business model and to the extent necessary for an understanding of the company's performance, results, situation and impact of its activities (art. 3.1). The aforementioned decree provided that the Statement must be presented in a separate Report from the Report on operations and must identify materiality criteria.

Sogefi is included in the Consolidated statement for the disclosure of non-financial information of CIR S.p.A., the Group's financial holding company that manages and coordinates the Issuer. However, it chose not to make use of the exemption provided for in art. 6, par. 2, letter a) of Legislative Decree No. 254/2016 and prepared its own Consolidated statement for the disclosure of non-financial information in compliance with the Decree, so as to guarantee the utmost transparency for the market and its stakeholders.

Accordingly, the Sogefi Group document "Consolidated statement for the disclosure of non-financial information" has been prepared in accordance with articles 3 and 4 of Legislative Decree 254/2016 and in compliance with the GRI Standards issued by Global Reporting Initiative in 2016 and subsequent amendments. This document is consistent with the approach of the annual Sustainability Report that the Company had been publishing since 2015, reporting on the Group's performance for sustainability matters and providing stakeholders with complete and transparent information on the Group's strategy and progress in integrating sustainability into corporate processes.

The "Consolidated statement for the disclosure of non-financial information" for the fiscal year 2019 was approved at the meeting of the Board of Directors that was called to approve the draft financial statements for the year ended 31 December 2019 and is made available to Shareholders as provided for by the law. The Statement will also be

available on the Company's website www.sogefigroup.com in the “Group – Sustainability” section.

TREASURY SHARES

As at 31 December 2019, the Parent Company has 2,259,760 treasury shares in its portfolio (having a nominal value of Euro 0.52), corresponding to 1.88% of share capital. In 2019, treasury shares decreased after they were assigned to beneficiaries of stock-based compensation plans.

DECLARATIONS PURSUANT TO ARTICLES 15 AND 16 OF MARKET REGULATION (ADOPTED WITH CONSOB REGULATION NO. 20249 OF 28 DECEMBER 2017)

In accordance with the obligations set forth in article 2.6.2. of the Regulations of Borsa Italiana [Italian Stock Exchange], and with reference to the requirements referred to in articles 15 and 16 of Consob Resolution no. 20249 of 28 December 2017, it is hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as: Sogefi S.p.A. (the “Company”) has obtained the articles of association and the composition and powers of the related control bodies from foreign subsidiaries based in countries that are not part of the European Union and are of material significance to the Company; the same foreign subsidiaries provide the Company’s auditor with information necessary to perform annual and interim audits of Sogefi and use an administrative/accounting system appropriate for regular reporting to the Management and to the auditors of the Company of the income statement, balance and financial data necessary for the preparation of the consolidated financial statements.

Sogefi S.p.A. will also publish the financial statements of foreign subsidiaries (based in non-European countries and with material significance to the Company), prepared for the purpose of the consolidated financial statements as at 31 December 2019, in accordance with the procedures indicated in the Consob regulation.

In consideration of the fact that Sogefi is subject to policy guidance and coordination by its parent company CIR – Compagnie Industriali Riunite S.p.A., it is also hereby stated that there are no circumstances such as to prevent the listing of Sogefi stock on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. insofar as the Company has fulfilled its publication obligations pursuant to article 2497-*bis* of the Italian Civil Code; in this regard, it is worth mentioning that the merger by incorporation of CIR S.p.A. into COFIDE S.p.A. became effective on 19 February 2020. (as a result of which COFIDE was renamed “CIR S.p.A. - Compagnie Industriali Riunite”) became effective and the statement of the entity that exerts direction and coordination pursuant to art. 2497 -*bis* of the Italian Civil Code was amended accordingly.

Sogefi has independent decision-making powers in relations with customers and suppliers; does not hold a cash pooling system with CIR. The Company has a cash pooling system with subsidiaries that satisfies the interest of the company. This situation enables the Group’s finances to be centralised, thus reducing the need to utilise funding from banks, and therefore minimising financial expense.

On 18 April 2000, the Company set up a Control and Risks Committee and an Appointments and Remuneration Committee that at present are fully made up by independent administrators.

Lastly, it is hereby stated that as at 31 December 2019, the Company's Board of Directors comprised 8 members, 5 of which meet the independence criteria, and therefore a sufficient number to guarantee that their contribution has an adequate weight when taking board decisions.

EXEMPTION FROM THE OBLIGATION TO PUBLISH INFORMATION DOCUMENTS UNDER ARTICLE 70, PARAGRAPH 8 AND ARTICLE 71, PARAGRAPH 1-BIS OF THE RULES FOR ISSUERS

In relation to art. 70, paragraph 8 and art. 71, paragraph 1-bis of Consob Regulation no. 11971/99, the Board of Directors resolved to make use of the exemption from the obligation to publish the information documents required for significant transactions consisting in mergers, spin-offs, capital increases by means of the conferral of assets in kind, takeovers and transfers.

OTHER

SOGEFI S.p.A. has its registered office at Via Ciovassino 1/A, Milan (Italy) and its offices at Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange since 1986 and has been traded on the STAR segment since January 2004.

This report, which relates to the period 1 January to 31 December 2019, was approved by the Board of Directors on 24 February 2020.

MAJOR EVENTS OCCURRED AFTER YEAR-END

The first two months of 2020 have witnessed a growing COVID-19 (aka "Coronavirus") health emergency. This emergency started in the People's Republic of China at the end of 2019 and has recently spread to Italy as well.

Sogefi has started an analysis, which is a work in progress given the ongoing development of the outbreak, to determine the possible effects of the COVID-19 ("Coronavirus") health emergency, with special focus on the relationships between European customers and Chinese suppliers.

Sogefi immediately defined procedures to ensure maximum health protection and the safety of its employees, as trips to and from China were cancelled and European personnel abroad was repatriated.

In addition, Sogefi has put in place procedures to enable Chinese and Italian employees to work from home and ensure business continuity.

At present, based on available information, the COVID-19 health emergency has been classified as a "Non Adjusting" event (IAS 10) in line with the application of international accounting standards. The nature of the event has been described in this paragraph and, given the context of general uncertainty, there are no elements to quantify its impact which – depending among other things on how the emergency will develop – could have unforeseeable and potentially significant effects on future production and business activities and consequently on the Group's income statement and financial position.

PROPOSED ALLOCATION OF NET PROFIT FOR THE YEAR

Sogefi S.p.A. financial statements as at 31 December 2019 that we submit for your approval show a net profit of Euro 7,739,741.29. We propose not to pay dividends for the year 2019 and to allocate the profit for the year to the retained earnings reserve, as the legal reserve already reached 20% of the share capital.

Milan, 24 February 2020

For THE BOARD OF DIRECTORS
The Managing Director
Mauro Fenzi

ANNEX: NOTES RECONCILING THE FINANCIAL STATEMENTS SHOWN IN THE REPORT ON OPERATIONS AND THE FINANCIAL STATEMENTS CONTAINED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY'S STATUTORY FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS/IFRS

Notes relating to the Consolidated Financial Statements

- (a) the heading agrees with the sum of the line items "Inventories", "Trade receivables", "Other receivables", "Tax receivables", "Other assets" and "Assets held for sale" in the Consolidated Statement Of Financial Position;
- (b) the heading agrees with the sum of the line items "Trade and other payables", "Current tax liabilities", "Other current liabilities" and "Liabilities related to assets held for sale" in the Consolidated Statement Of Financial Position;
- (c) the heading agrees with the line item "Other financial assets" in the Consolidated Statement Of Financial Position;
- (d) the heading agrees with the sum of the line items "Land", "Property, plant and equipment", "Other tangible fixed assets", "Rights of use", "Intangible assets", "Other receivables" and "Deferred tax assets" in the Consolidated Statement Of Financial Position;
- (e) the heading agrees with the sum of the line items "Long-term provisions", "Other payables" and "Deferred tax liabilities" in the Consolidated Statement Of Financial Position;
- (f) the heading agrees with the sum of the line items "Net result", "Non-controlling interests", "Depreciation, amortization and writedowns", "Accrued costs for stock-based incentive plans", "Provisions for risks and for restructuring" and "Post-retirement and other employee benefits" in the Consolidated Cash Flow Statement with the exception of the financial component relating to pension funds and the deferred taxes included in the item "Income taxes";
- (g) the heading is included in line item "Other medium/long-term assets/liabilities" in the Consolidated Cash Flow Statement;
- (h) the heading agrees with the sum of the line items "Losses/(gains) on disposal of fixed assets and non-current assets held for sale", "Cash receipts from the sale of property, plant and equipment and disposal of fixed assets and non-current assets held for sale" and "Cash receipts from the sale of intangible assets" in the Consolidated Cash Flow Statement;
- (i) the heading agrees with the line items "Exchange differences" in the Consolidated Cash Flow Statement, excluding exchange differences on medium/long-term financial receivables and payables;
- (l) these headings differ from those shown in the Consolidated Cash Flow Statement as they refer to the total net financial position and not just to cash and cash equivalents.

Notes relating to the Parent Company's Statutory Financial Statements

- (m) the heading agrees with sum of the lines "Trade receivables" ("Crediti commerciali"), "Other receivables" ("Altri crediti"), "Tax credits" ("Crediti per imposte") and "Other assets" ("Altre attività") of the Parent Company's Balance Sheet and Financial Position "Total working capital" ("Totale attivo circolante operativo") in the Parent Company's statutory Statement Of Financial Position;
- (n) the heading agrees with the sum of the line items "Trade and other payables" ("Debiti commerciali e altri debiti"), "Tax payables" ("Debiti per imposte") and "Other current liabilities" ("Altre passività correnti") in the Parent Company's statutory Statement Of Financial Position;
- (o) the heading agrees with the sum of the line items "Equity investments in subsidiaries" ("Partecipazioni in società controllate"), "Equity investments in associates" ("Partecipazioni in società collegate") and "Other financial assets available for sale" ("Altre attività finanziarie disponibili per la vendita") in the Parent Company's statutory Statement Of Financial Position;
- (p) the heading agrees with the sum of the line items "Total fixed assets" ("Totale immobilizzazioni"), "Other receivables" ("Altri crediti") and "Deferred tax assets" ("Imposte anticipate") in the Parent Company's statutory Statement Of Financial Position;
- (q) the heading agrees with the line item "Total other long-term liabilities" ("Totale altre passività a lungo termine") in the Parent Company's statutory Statement Of Financial Position;
- (r) the heading is included in line items "Net profit" ("Utile netto d'esercizio"), "Income taxes" ("Imposte sul reddito"), "Dividends" ("Dividendi"), "Net financial expenses" ("Oneri finanziari netti"), "Waiver of receivables from subsidiaries" ("Rinuncia crediti commerciali verso società controllate"), "Writedown of equity investments in subsidiaries" ("Svalutazione partecipazioni in società controllate"), "Difference from passive investments conferred" ("Differenza passiva da conferimento partecipazioni"), "Depreciation and amortization" ("Ammortamenti immobilizzazioni materiali e immateriali"), "Change in fair value of investment properties" ("Variazione fair value investimenti immobiliari"), "Accrual to Income Statement for fair value of cash flow hedging instruments" ("Stanziamento a Conto Economico fair value derivati cash flow hedge"), "Accrued costs for stock-based incentive plans" ("Accantonamenti costi per piani di incentivazione basati su azioni"), "Exchange differences on private placement" ("Differenze cambio su private placement"), "Exchange differences on cross-currency swaps" ("Differenze cambio su Cross currency swap"), "Net change in provision for employment termination indemnities" ("Variazione netta fondo trattamento di fine rapporto"), "Current income taxes collected/(paid)" ("Imposte correnti sul reddito incassate/(pagate)", "Dividends collected" ("Dividendi incassati") and "Net financial expenses paid" ("Oneri finanziari netti pagati") of the Parent Company's statutory Cash Flow Statement;
- (s) the heading is included in line items "Change in net working capital" ("Variazione del capitale circolante netto"), "Change in tax receivables/payables" ("Variazione dei crediti/debiti per imposte") and "Current income taxes collected/(paid)" ("Imposte correnti sul reddito incassate/(pagate)") of the Parent Company's statutory Cash Flow Statement;
- (t) the heading is included in the line item "Other medium/long-term assets/liabilities" ("Altre attività/passività a medio lungo termine") in the Parent Company's Statutory Cash Flow Statement, excluding movements relating to financial receivables/payables;
- (u) the heading agrees with the line "Capital distributions from direct subsidiaries" ("Rimborsi di capitale da società controllate dirette") of the Parent Company's statutory Cash Flow Statement;
- (v) these headings differ from those shown in the Parent Company's statutory cash flow statement as they refer to the total net financial position and not just to cash and cash equivalents.

DEFINITION OF THE PERFORMANCE INDICATORS

In accordance with recommendation CESR/05-178b published on 3 November 2005, the criteria used for constructing the main performance indicators deemed by the management to be useful for the purpose of monitoring Group performance are provided below.

EBITDA: EBITDA is calculated as the sum of "EBIT", "Depreciation and Amortization" and the impairment losses of tangible and intangible fixed assets included in the item "Other non-operating expenses (income)".

"Other non-operating expenses (income)" include amounts that do not relate to ordinary business activities such as:

- writedowns of tangible and intangible fixed assets
- imputed cost of stock option and stock grant plans
- accruals to provisions for legal disputes with employees and third parties
- product warranty costs
- strategic consulting services

Normalised EBITDA (used to calculate covenants): it is calculated by summing "EBITDA" and the following expenses and revenues arising from non-ordinary operations: "Restructuring costs" and "Losses (gains) on disposal".

"Restructuring costs" include voluntary redundancy incentives for all employee categories (managers, clerical staff, blue collar workers) and costs relating to the shutdown of a plant or the discontinuation of individual business lines (personnel costs and related costs associated with shutdown).

"Losses (gains) on disposal" include the difference between the net book value of sold assets and selling price.

Please note that as at 31 December 2019 there were no non-recurring expenses as defined in Consob Communication DEM/6064293 of 28 July 2006.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)

| ASSETS | Note | 12.31.2019 | 12.31.2018 (*) |
|---|-----------|------------------|------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 165,173 | 91,735 |
| Other financial assets | 6 | 3,306 | 1,206 |
| Inventories | 7 | 115,464 | 115,682 |
| Trade receivables | 8 | 130,416 | 141,290 |
| Other receivables | 8 | 9,814 | 8,489 |
| Tax receivables | 8 | 28,600 | 23,064 |
| Other assets | 8 | 2,113 | 2,082 |
| ASSETS HELD FOR SALE | <i>14</i> | - | 13,599 |
| CURRENT ASSETS | | 454,886 | 397,147 |
| NON-CURRENT ASSETS | | | |
| Land | 9 | 13,005 | 13,259 |
| Property, plant and equipment | 9 | 382,107 | 368,482 |
| Other tangible fixed assets | 9 | 4,646 | 4,346 |
| Right of use | 9 | 61,260 | 4,721 |
| Intangible assets | 10 | 272,563 | 278,989 |
| Other financial assets available for sale | 11 | 46 | 46 |
| Financial receivables | 12 | 6,803 | 5,115 |
| Other receivables | 12 | 33,532 | 34,284 |
| Deferred tax assets | 13-19 | 36,988 | 36,597 |
| TOTAL NON-CURRENT ASSETS | | 810,950 | 745,839 |
| TOTAL ASSETS | | 1,265,836 | 1,142,986 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data. The 2018 amounts relating to financial leases under IAS 17 have been reclassified from "Property, plant and equipment" to "Rights of use" in accordance with the classification under the new standard.

| LIABILITIES | Note | 12.31.2019 | 12.31.2018 (*) |
|---|------|------------|----------------|
| CURRENT LIABILITIES | | | |
| Bank overdrafts and short-term loans | 15 | 1,942 | 2,064 |
| Current portion of medium/long-term financial debts and other loans | 15 | 78,760 | 57,875 |
| Short-term financial debts for right of use | 15 | 15,044 | 1,592 |
| Other short-term liabilities for derivative financial instruments | 15 | 21 | 796 |
| Trade and other payables | 16 | 342,340 | 345,529 |
| Tax payables | 17 | 9,213 | 10,029 |
| Other current liabilities | 14 | 38,987 | 38,893 |
| LIABILITIES RELATED TO ASSETS HELD FOR SALE | 14 | - | 9,364 |
| TOTAL CURRENT LIABILITIES | | 486,307 | 466,142 |
| NON-CURRENT LIABILITIES | | | |
| Financial debts to bank | 15 | 131,932 | 117,785 |
| Other medium/long-term financial debts | 15 | 213,638 | 173,405 |
| Medium/long-term financial debts for right of use | 15 | 52,806 | 5,048 |
| Other medium/long-term financial liabilities for derivative financial instruments | 15 | - | - |
| Long-term provisions | 18 | 76,298 | 67,249 |
| Other payables | 18 | 59,503 | 62,867 |
| Deferred tax liabilities | 19 | 37,602 | 36,622 |
| TOTAL NON-CURRENT LIABILITIES | | 571,779 | 462,976 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 20 | 62,461 | 62,461 |
| Reserves and retained earnings (accumulated losses) | 20 | 123,070 | 116,390 |
| Group net result for the year | 20 | 3,202 | 14,005 |
| TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY | | 188,733 | 192,856 |
| Non-controlling interests | 20 | 19,017 | 21,012 |
| TOTAL SHAREHOLDERS' EQUITY | | 207,750 | 213,868 |
| TOTAL LIABILITIES AND EQUITY | | 1,265,836 | 1,142,986 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

The amounts for 2018 relating to financial leases under IAS 17 have been reclassified from the item "Current portion of medium/long-term loans and other loans" to the item "Current financial payables for rights of use" and from the item "Non-current portion of medium/long-term financial debts and other loans" to the item "Medium/long-term financial payables for rights of use" in accordance with the classification under the new standard.

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

| | Note | 2019 | | 2018 | |
|---|------|-----------|-------|-----------|-------|
| | | Amount | % | Amount | % |
| Sales revenues | 22 | 1,519,246 | 100.0 | 1,570,709 | 100.0 |
| Variable cost of sales | 23 | 1,063,405 | 70.0 | 1,101,373 | 70.1 |
| CONTRIBUTION MARGIN | | 455,841 | 30.0 | 469,336 | 29.9 |
| Manufacturing and R&D overheads | 24 | 142,721 | 9.4 | 153,568 | 9.7 |
| Depreciation and amortization | 25 | 124,028 | 8.2 | 110,604 | 7.0 |
| Distribution and sales fixed expenses | 26 | 40,728 | 2.7 | 41,640 | 2.7 |
| Administrative and general expenses | 27 | 80,687 | 5.3 | 85,659 | 5.5 |
| Restructuring costs | 29 | 9,767 | 0.6 | 9,094 | 0.6 |
| Losses (gains) on disposal | 30 | 136 | - | 60 | - |
| Exchange losses (gains) | 31 | 3,926 | 0.3 | 5,500 | 0.4 |
| Other non-operating expenses (income) | 32 | 14,205 | 0.9 | 3,078 | 0.2 |
| EBIT | | 39,643 | 2.6 | 60,133 | 3.8 |
| Financial expenses (income), net | 33 | 23,770 | 1.6 | 23,921 | 1.5 |
| Losses (gains) from equity investments | 34 | - | - | - | - |
| RESULT BEFORE TAXES | | 15,873 | 1.0 | 36,212 | 2.3 |
| Income taxes | 35 | 13,688 | 0.9 | 20,045 | 1.3 |
| NET INCOME (LOSS) OF OPERATING ACTIVITIES | | 2,185 | 0.1 | 16,167 | 1.0 |
| Net income (loss) from discontinued operations | 36 | 4,017 | 0.3 | 1,120 | 0.1 |
| NET RESULT BEFORE NON-CONTROLLING INTERESTS | | 6,202 | 0.4 | 17,287 | 1.1 |
| Loss (income) attributable to non-controlling interests | | (3,000) | (0.2) | (3,282) | (0.2) |
| GROUP NET RESULT | | 3,202 | 0.2 | 14,005 | 0.9 |
| Earnings per share (EPS) (Euro): | 38 | | | | |
| Basic | | 0.027 | | 0.119 | |
| Diluted | | 0.027 | | 0.119 | |

(*) The values for the 2018 financial year, relating to "Assets held for sale", have been reclassified following the application of IFRS 5 "Non-current assets held for sale and discontinued operations" to the line "Profit (loss) from discontinued operations, net of tax effects".

The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of Euro)

| | Note | 2019 | 2018 (*) |
|--|------|----------------|----------------|
| Net result before non-controlling interests | | 6,202 | 17,287 |
| <i>Other Comprehensive Income</i> | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| - Actuarial gain (loss) | 20 | (5,063) | 793 |
| - Tax on items that will not be reclassified to profit or loss | 20 | 1,054 | (224) |
| <i>Total items that will not be reclassified to profit or loss</i> | | <i>(4,009)</i> | <i>569</i> |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| - Profit (loss) booked to cash flow hedging reserve | 20 | 728 | 1,851 |
| - Tax on items that may be reclassified to profit or loss | 20 | (175) | (444) |
| - Profit (loss) booked to translation reserve | 20 | (3,829) | (10,534) |
| <i>Total items that may be reclassified to profit or loss</i> | | <i>(3,276)</i> | <i>(9,127)</i> |
| <i>Other Comprehensive Income</i> | | <i>(7,285)</i> | <i>(8,558)</i> |
| Total comprehensive result for the period | | (1,083) | 8,729 |
| Attributable to: | | | |
| - Shareholders of the Holding Company | | (4,100) | 5,494 |
| - Non-controlling interests | | 3,017 | 3,235 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)

| | 2019 | 2018 (*) |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Net result | 3,202 | 14,005 |
| Adjustments: | - | - |
| - non-controlling interests | 3,000 | 3,282 |
| - depreciation, amortization and writedowns | 136,513 | 128,088 |
| - expenses recognised for share-based incentive plans | 178 | 775 |
| - exchange rate differences on private placement | (660) | 2,134 |
| - provision in income statement of fair value derivatives in cash flow hedge | 660 | (2,134) |
| - losses/(gains) on disposal of fixed assets and non-current assets held for sale | 136 | 60 |
| - provisions for risks, restructuring and deferred taxes | 1,621 | (11,576) |
| - post-retirement and other employee benefits | (3,327) | (2,413) |
| - Net financial expenses | 23,770 | 23,920 |
| - income tax | 13,688 | 20,045 |
| - change in net working capital | 596 | (10,419) |
| - other medium/long-term assets/liabilities | (1,791) | 5,869 |
| CASH FLOWS FROM OPERATING ACTIVITIES | 177,586 | 171,636 |
| Interest paid | (16,735) | (20,723) |
| Income tax paid | (13,404) | (17,129) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 147,447 | 133,784 |
| INVESTING ACTIVITIES | | |
| Interest received | 935 | 1,227 |
| Purchase of property, plant and equipment | (95,544) | (97,277) |
| Purchase of intangible assets | (32,204) | (35,463) |
| Sale of property, plant and equipment and business held for sale | 4,051 | 2,532 |
| Sale of intangible assets | - | - |
| Dividends collected | - | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | (122,762) | (128,981) |
| FINANCING ACTIVITIES | | |
| Capital increase in subsidiaries from third parties | - | 102 |
| Net change in capital | - | 253 |
| Dividends paid to Holding Company shareholders and non-controlling interests | (5,012) | (9) |
| New (repayment of) bonds | 62,026 | (12,584) |
| New (repayment of) long-term loans | 6,115 | 9,903 |
| New (repayment of) finance leases | (1,614) | (1,703) |
| New (repayment of) finance leases IFRS16 | (12,825) | - |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 48,690 | (4,038) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | 73,375 | 765 |
| Balance at the beginning of the period | 89,671 | 89,720 |
| (Decrease) increase in cash and cash equivalents | 73,375 | 765 |
| Exchange differences | 185 | (814) |
| BALANCE AT THE END OF THE PERIOD | 163,231 | 89,671 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

Note: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7. The cash flow statement included in the Report of the board of directors on operations shows the various operational components of cash flow, thereby explaining all of the changes in the overall net financial position.

(**) This item is the sum of "Cash and cash equivalents" under current assets and "Bank overdrafts and other short-term loans" under current liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (in thousands of Euro) | Attributable to the shareholders of the parent company | | | | | | | | | | | | | Third | Total | |
|--|--|-----------------------|-----------------------------|-----------------|---------------|-------------------------------------|---------------------|---------------------------|-----------------------------|---|----------------|-------------------|---------------------------|----------|---------|----------|
| | Share capital | Share premium reserve | Reserve for treasury shares | Treasury shares | Legal reserve | Share-based incentive plans reserve | Translation reserve | Cash flow hedging reserve | Actuarial gain/loss reserve | Tax on items booked in Other Comprehensive Income | Other reserves | Retained earnings | Net result for the period | | | Total |
| Balance at December 31, 2017 | 62,394 | 17,542 | 6,161 | (6,161) | 12,640 | 2,528 | (49,273) | (5,301) | (38,908) | 13,312 | 12,201 | 123,684 | 26,600 | 177,419 | 17,724 | 195,143 |
| Paid share capital increase | 67 | 186 | - | - | - | - | - | - | - | - | - | - | - | 253 | 102 | 355 |
| Allocation of 2017 net profit: | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (9) | (9) |
| Retained earnings | - | - | - | - | - | - | - | - | - | - | - | 26,600 | (26,600) | - | - | - |
| Recognition of share-based incentive plans | - | - | - | - | - | 775 | - | - | - | - | - | - | - | 775 | - | 775 |
| Other changes | - | 484 | (484) | 484 | - | (914) | - | - | - | - | - | 9,345 | - | 8,915 | (40) | 8,875 |
| <i>Comprehensive result for the period</i> | | | | | | | | | | | | | | | | |
| Fair value measurement of cash flow hedging instruments | - | - | - | - | - | - | - | 1,851 | - | - | - | - | - | 1,851 | - | 1,851 |
| Actuarial gain/loss | - | - | - | - | - | - | - | - | 793 | - | - | - | - | 793 | - | 793 |
| Tax on items booked in Other Comprehensive Income | - | - | - | - | - | - | - | - | - | (668) | - | - | - | (668) | - | (668) |
| Currency translation differences | - | - | - | - | - | - | (10,487) | - | - | - | - | - | - | (10,487) | (47) | (10,534) |
| Net result for the period | - | - | - | - | - | - | - | - | - | - | - | - | 14,005 | 14,005 | 3,282 | 17,287 |
| <i>Total of the period</i> | - | - | - | - | - | - | (10,487) | 1,851 | 793 | (668) | - | - | 14,005 | 5,494 | 3,235 | 8,729 |
| Balance at December 31, 2018 | 62,461 | 18,212 | 5,677 | (5,677) | 12,640 | 2,389 | (59,760) | (3,450) | (38,115) | 12,644 | 12,201 | 159,629 | 14,005 | 192,856 | 21,012 | 213,868 |
| Adjustment to the date of initial application of IFRS 16 (*) | - | - | - | - | - | - | - | - | - | 1,195 | - | (7,674) | - | (6,479) | - | (6,479) |
| Balance at January 1 ^o , 2019 | 62,461 | 18,212 | 5,677 | (5,677) | 12,640 | 2,389 | (59,760) | (3,450) | (38,115) | 13,839 | 12,201 | 151,955 | 14,005 | 186,377 | 21,012 | 207,389 |
| Allocation of 2018 net profit: | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,012) | (5,012) |
| Retained earnings | - | - | - | - | - | - | - | - | - | - | - | 14,005 | (14,005) | - | - | - |
| Recognition of share-based incentive plans | - | - | - | - | - | 178 | - | - | - | - | - | - | - | 178 | - | 178 |
| Other changes | - | 516 | (516) | 516 | - | (789) | - | 232 | - | (67) | - | 6,386 | - | 6,278 | - | 6,278 |
| <i>Comprehensive result for the period</i> | | | | | | | | | | | | | | | | |
| Fair value cash flow hedging instruments | - | - | - | - | - | - | - | 728 | - | - | - | - | - | 728 | - | 728 |
| Actuarial gain (loss) | - | - | - | - | - | - | - | - | (5,063) | - | - | - | - | (5,063) | - | (5,063) |
| Tax on items booked in Other Comprehensive Income | - | - | - | - | - | - | - | - | - | 879 | - | - | - | 879 | - | 879 |
| Currency translation differences | - | - | - | - | - | - | (3,846) | - | - | - | - | - | - | (3,846) | 17 | (3,829) |
| <i>Total comprehensive result for the period</i> | - | - | - | - | - | - | - | - | - | - | - | - | 3,202 | 3,202 | 3,000 | 6,202 |
| <i>Comprehensive result for the period</i> | - | - | - | - | - | - | (3,846) | 728 | (5,063) | 879 | - | - | 3,202 | (4,100) | 3,017 | (1,083) |
| Balance at December 31, 2019 | 62,461 | 18,728 | 5,161 | (5,161) | 12,640 | 1,778 | (63,606) | (2,490) | (43,178) | 14,651 | 12,201 | 172,346 | 3,202 | 188,733 | 19,017 | 207,750 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

EXPLANATORY AND SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CONTENTS

| Chapter | Note no. | DESCRIPTION |
|-----------|----------|---|
| <i>A</i> | | <i>GENERAL ASPECTS</i> |
| | 1 | Content and format of the consolidated financial statements |
| | 2 | Consolidation principles and accounting policies |
| | 3 | Financial assets |
| <i>B</i> | | <i>SEGMENT INFORMATION</i> |
| | 4 | Operating segments |
| <i>C</i> | | <i>NOTES ON THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION</i> |
| <i>C1</i> | | <i>ASSETS</i> |
| | 5 | Cash and cash equivalents |
| | 6 | Other financial assets |
| | 7 | Inventories |
| | 8 | Trade and other receivables |
| | 9 | Tangible fixed assets |
| | 10 | Intangible assets |
| | 11 | Other financial assets |
| | 12 | Financial receivables and other non-current receivables |
| | 13 | Deferred tax assets |
| | 14 | Assets held for sale and liabilities directly related to assets held for sale |
| <i>C2</i> | | <i>LIABILITIES</i> |
| | 15 | Financial debts to banks and other financing creditors |
| | 16 | Trade and other current payables |
| | 17 | Other current liabilities |
| | 18 | Long-term provisions and other payables |
| | 19 | Deferred tax assets and liabilities |
| | 20 | Share capital and reserves |
| | 21 | Analysis of the net financial position |
| <i>D</i> | | <i>NOTES ON THE MAIN INCOME STATEMENT ITEMS</i> |
| | 22 | Sales revenues |
| | 23 | Variable cost of sales |
| | 24 | Manufacturing and R&D overheads |
| | 25 | Depreciation and amortization |
| | 26 | Distribution and sales fixed expenses |
| | 27 | Administrative and general expenses |
| | 28 | Personnel costs |
| | 29 | Restructuring costs |
| | 30 | Losses (gains) on disposal |
| | 31 | Exchange (gains) losses |
| | 32 | Other non-operating expenses (income) |
| | 33 | Financial expenses (income), net |
| | 34 | Losses (gains) from equity investments |
| | 35 | Income taxes |
| | 36 | Profit (loss) from discontinued operation, net of tax effects |
| | 37 | Dividends paid |
| | 38 | Earnings per share (EPS) |
| <i>E</i> | 39 | <i>FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT</i> |
| <i>F</i> | 40 | <i>RELATED PARTY TRANSACTIONS</i> |
| <i>G</i> | | <i>COMMITMENTS AND RISKS</i> |
| | 41 | Investment commitments |
| | 42 | Guarantees given |
| | 43 | Other risks |
| | 44 | Contingent assets/liabilities |
| | 45 | Atypical or unusual transactions |
| | 46 | Other information |
| | 47 | Subsequent events |
| <i>H</i> | | <i>GROUP COMPANIES</i> |
| | 48 | List of Group companies |

A) GENERAL ASPECTS

SOGEFI is an Italian Group that is market leader in the field of components for motor vehicles, specializing in engine and cabin filtration systems, air intake and engine cooling systems, and suspension components.

SOGEFI is present in 4 continents and 20 countries, with 54 locations, of which 40 are production sites. It is a multinational group and a *partner* of the world's largest motor vehicle manufacturers.

The Parent Company Sogefi S.p.A. has its registered offices at Via Ciovassino no. 1/A, Milan (Italy) and at Parc Ariane IV- 7, Avenue du 8 May 1945, Guyancourt (France).

The Sogefi stock has been listed on the Milan Stock Exchange, organised and managed by Borsa Italiana S.p.A. since 1986 and has been traded on the STAR segment since January 2004.

The Parent Company, Sogefi S.p.A., is subject to management and coordination of its parent company CIR – Compagnie Industriali Riunite S.p.A.

1. CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements as at 31 December 2019 have been prepared in accordance with art. 154 ter of Legislative Decree 58/1998 and with the international accounting standards recognized in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as well as the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005.

These financial statements have been prepared in accordance with Consob resolution no. 11971/1999 as subsequently amended, in particular by resolutions no. 14990 of 14 April 2005 and no. 15519 of 27 July 2006, and include the consolidated accounting schedules and explanatory and supplementary notes of the Group, prepared according to the IFRS international accounting standards issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. IFRS means all the “International Financial Reporting Standards” (IFRS), all the “International Accounting Standards” (IAS) and all the interpretations of the “International Financial Reporting Interpretations Committee” (IFRS IC, formerly IFRIC), previously named the “Standing Interpretations Committee” (SIC).

It is specifically reported that the IFRS have been applied in a consistent manner to all the periods presented in this document with the specifications indicated below for the new application principles.

The financial statements have been prepared on the basis of the conventional historical cost principle, except for the measurement of certain financial assets and liabilities, including derivatives instruments, where the application of the *fair value* principle is mandatory.

The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Said financial statements have been reclassified and adjusted to comply with International Financial Reporting Standards (IAS/IFRS), and Group accounting policies.

The Consolidated Financial Statements as at 31 December 2019 were approved by the Board of Directors of the Parent Company Sogefi S.p.A. on 24 February 2020.

1.1 Format of the consolidated financial statements

As regards to the format of the consolidated financial statements, the Company has opted to present the following types of accounting statements:

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is presented in two sections, showing assets on one side and liabilities and equity on the other.

Assets and liabilities are in turn shown in the consolidated financial statements on the basis of their classification as current or non-current.

An asset/liability is classified as current when it satisfies one of the following criteria:

- it is expected to be realised/settled or it is expected to be sold or consumed in the normal cycle of operations, or
- it is held primarily for the purpose of trading, or
- it is expected to be realised/settled within twelve months after the reporting period.

If none of the above conditions are met, the assets/liabilities are classified as non-current.

Finally, liabilities are classified as current when the entity does not have unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Consolidated Income Statement

Costs shown in the Consolidated Income Statement are aggregated by function, while also making a distinction between fixed and variable costs.

The Income Statement also provides the following intermediate aggregates in order to give a clearer understanding of the typical results of normal manufacturing activities, the financial side of the business and the impact of taxation:

- Contribution margin;
- EBIT (earnings before interest and tax);
- Result before taxes;
- Profit (loss) from operations;
- Net result before non-controlling interests;
- Profit (loss) of the Group

Consolidated Statement of Other Comprehensive Income

The Consolidated Statement of Other Comprehensive Income includes all the changes occurring in Other comprehensive income of the year, generated by transactions other than those conducted with shareholders and in compliance with specific IAS/IFRS

accounting principles. The Group has chosen to present these changes in a separate table to the Consolidated Income Statement.

The changes in Other comprehensive income are shown before the related tax effect with the aggregate amount of the income taxes on said variations being recognised in a single item. Those components that may or may not be reclassified to Consolidated Income Statement at a later time are listed separately in the table.

Consolidated Cash Flow Statement

A Consolidated Cash Flow Statement split by area of formation of the various types of cash flow as indicated in international accounting standards is included.

The Consolidated Cash Flow Statement has been prepared using the indirect method.

Please note that in this cash flow statement, the change in working capital may not coincide with the difference between the opening and closing statement of financial position figures because of exchange differences: in fact, cash flows generated are converted using the average exchange rate for the year, while the difference between the opening and closing consolidated statement of financial position figures in Euro may be influenced by changes in exchange rates at the beginning and end of the year, which have little to do with the generation or absorption of cash flow within working capital. The exchange differences generated by opening and closing statements of financial position are booked to “Exchange differences”.

Consolidated Statement of Changes in Equity

A Consolidated Statement of Changes in Equity is included as required by international accounting standards, showing separately the net result for the period and any change that was not charged through the Income Statement, but directly to the consolidated Other comprehensive income on the basis of specific IAS/IFRS, as well as transactions with shareholders in their role as shareholders.

1.2 Content of the consolidated financial statements

The Consolidated Financial Statements as at 31 December 2019 include the Parent Company Sogefi S.p.A. and the directly or indirectly controlled subsidiaries.

Section H of these notes gives a list of the companies included in the scope of consolidation and the percentages held.

These financial statements are presented in Euro and all figures are rounded up or down to the nearest thousand Euro, unless otherwise indicated.

The consolidated financial statements (prepared on a line-by-line basis) include the financial statements of Sogefi S.p.A., the Parent Company, and of all the Italian and foreign companies under its direct or indirect control, which is normally identified as control over the majority of the voting rights.

Scope of consolidation changed as follows during the reporting period: the subsidiary Sogefi Engine Systems Hong Kong Ltd transferred its stake in subsidiary MARK IV Asset (Shanghai) Auto Parts to the member of JV (Shanghai Asset Industrial). This change did not have a significant impact on the consolidated financial statements at 31 December 2019.

Other than the sale of the Fraize production site in April 2019, there were no further changes in the scope of consolidation during the period.

1.3 Group composition

As required by IFRS 12, Group composition as at 31 December 2019 and 31 December 2018 was as follows:

| <i>Business Unit</i> | <i>Region</i> | <i>Wholly-owned subsidiaries</i> | | |
|-----------------------|---------------|----------------------------------|-------------------|---|
| | | December 31, 2019 | December 31, 2018 | |
| Air&Cooling | Canada | 1 | 1 | |
| | France | 1 | 1 | |
| | Mexico (*) | 1 | 1 | |
| | Romania | 1 | 1 | |
| | China (**) | 2 | 2 | |
| | Luxembourg | 1 | 1 | |
| | USA | 1 | 1 | |
| | Hong Kong | 1 | 1 | |
| Filtration | Italy (***) | 1 | 1 | |
| | France | 1 | 1 | |
| | Great Britain | 1 | 1 | |
| | Spain | 1 | 1 | |
| | Slovenia | 1 | 1 | |
| | USA (***) | 1 | 1 | |
| | Brazil | 1 | 1 | |
| | Argentina | 1 | 1 | |
| | India (***) | 1 | 1 | |
| | Russia | 1 | 1 | |
| | Morocco | 1 | 1 | |
| | Suspensions | France | 2 | 2 |
| | | Italy | 2 | 2 |
| Great Britain | | 2 | 2 | |
| Germany | | 2 | 2 | |
| The Netherlands | | 1 | 1 | |
| Romania | | 1 | 1 | |
| Brazil | | 1 | 1 | |
| Argentina | | 1 | 1 | |
| Sofegi Gestion S.A.S. | France | 1 | 1 | |
| TOTAL | | 33 | 33 | |

(*) This subsidiary works also for Suspensions business unit.

(**) These subsidiaries work also for Filtration and Suspensions business units.

(***) This subsidiary works also for Air&Cooling business unit.

| <i>Business Unit</i> | <i>Region</i> | <i>Non-wholly-owned subsidiaries</i> | |
|----------------------|---------------|--------------------------------------|-------------------|
| | | December 31, 2019 | December 31, 2018 |
| Air&Cooling | China | - | 1 |
| Suspensions | France | 1 | 1 |
| | Spain | 1 | 1 |
| | China | 1 | 1 |
| | India | 1 | 1 |
| TOTAL | | 4 | 5 |

2. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

The main accounting principles and standards applied in preparation of the consolidated financial statements and of the Group aggregate financial disclosures are set forth below.

These Consolidated Financial Statements have been prepared in accordance to the going concern assumption, as the Directors have verified the non-existence of financial, performance or other indicators that could give rise to doubts as to the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relating to the business are described in the dedicated sections in the Report on Operations. A description of how the Group manages financial risks, including liquidity and capital risk, is provided in note 39 "Financial instruments and financial risk management".

These are the first annual financial statements in which the Group applies IFRS 16 – Leases. Changes to significant accounting principles are outlined at paragraph 2.4

2.1 Consolidation principles

The financial statements as at 31 December 2019 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IFRS, have been used for consolidation purposes.

The scope of consolidation includes subsidiaries, joint ventures and associates.

All the companies over which the Group has the direct or indirect power to determine the relevant activities (i.e., the financial and operating policies) – in other words, those companies that determine the highest exposure to variable returns – are considered subsidiaries. Specifically, 50% owned company Iberica de Suspensiones S.L. is treated as a subsidiary because the Group controls the majority of votes of the Board of Directors, which is the corporate body tasked with deciding on the entity's relevant activities.

The assets, liabilities, costs and revenues of the individual consolidated companies are fully consolidated on a line-by-line basis, regardless of the percentage owned, while the carrying value of consolidated investments held by the Parent Company and other consolidated companies is eliminated against the related share of equity.

All intercompany balances and transactions, including unrealised profits deriving from transactions between consolidated companies, are eliminated. Unrealised losses are eliminated, except when a loss represents an impairment indicator to be recognised in the Income Statement.

The financial statements of the subsidiaries are drawn up using the currency of the primary economic environment in which they operate ("functional currency"). The consolidated financial statements are presented in Euro, the functional currency of the Parent Company and hence the currency of presentation of the consolidated financial statements of the Sogefi Group.

The procedures for translation of the financial statements expressed in foreign currency other than the Euro are the following:

- the items of the Consolidated Statement of Financial Position are translated into Euro at the year-end exchange rates;
- the Income Statement items are translated into Euro using the year's average exchange rates;
- differences arising from the translation of equity's opening balance with year-end exchange rates are recorded in the translation reserve account, together with any difference between the net result of income statement and statement of financial position;
- whenever a subsidiary with a different functional currency from Euro is disposed of, any exchange difference included in line item Other comprehensive income is reclassified to the Income Statement;
- dividends paid by companies that use functional currencies other than the Euro are converted at the average exchange rate of the previous year for the company that pays the dividend and at the current exchange rate for the company that receives the dividend; exchange differences between the two amounts are recorded to the translation reserve account.

The following exchange rates have been used for translation purposes:

| | 2019 | | 2018 | |
|------------------|----------------|--------------|----------------|--------------|
| | <i>Average</i> | <i>12.31</i> | <i>Average</i> | <i>12.31</i> |
| US dollar | 1.1196 | 1.1234 | 1.1815 | 1.1450 |
| Pound sterling | 0.8773 | 0.8508 | 0.8847 | 0.8945 |
| Brazilian real | 4.4135 | 4.5157 | 4.3087 | 4.4440 |
| Argentine peso | 53.7924 | 67.2749 | 32.9056 | 43.1593 |
| Chinese renminbi | 7.7340 | 7.8205 | 7.8076 | 7.8751 |
| Indian rupee | 78.8644 | 80.1870 | 80.7103 | 79.7298 |
| New romanian Leu | 4.7456 | 4.7830 | 4.6540 | 4.6635 |
| Canadian dollar | 1.4858 | 1.4598 | 1.5302 | 1.5605 |
| Mexican peso | 21.5564 | 21.2202 | 22.7169 | 22.4921 |
| Moroccan dirham | 10.7666 | 10.7810 | 11.0840 | 10.9390 |
| Hong Kong dollar | 8.7727 | 8.7473 | 9.2601 | 8.9675 |

A joint venture is an entity for which strategic financial and operating decisions concerning the relevant activities of the company are made with the unanimous approval of the controlling parties.

An associate company is an entity in which the Group is able to exert a significant influence, but without being able to control its relevant activities.

Investments in joint ventures and associates are consolidated applying the equity method, which means that the results of operations of associates and any changes in line item Other comprehensive income of the joint ventures and associates are reflected in the consolidated Income Statement and in Consolidated Statement of Other Comprehensive Income. If the carrying value exceeds the recoverable amount, the carrying value of the investment in the joint venture or in the associate company is adjusted by booking the related loss to the Income Statement.

Company AFICO FILTERS S.A.E. (Egypt) owned at 17.77% as at 31 December 2019 (unchanged compared to previous fiscal year) was not classified as associate due to the

significant lack of Group's members in the management bodies of the company (which means the Group does not exert significant influence on the company).

2.2 Business combinations

Business combinations are recognised under the acquisition method. According to this method, the consideration transferred to a business combination is measured at fair value calculated as the aggregate of the acquisition-date fair value of the assets transferred and liabilities assumed by the Company and of the equity instruments issued in exchange for the control of the acquired entity.

On the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair value; the following items represent exception to the above and are valued according to their reference principle:

- deferred tax assets and liabilities;
- assets and liabilities relating to employee benefits;
- liabilities or equity instruments relating to share-based payments of the acquired entity or share-based payments relating to the Group, issued as a replacement of contracts of the acquired entity;
- assets held for sale and discontinued assets and liabilities.

Goodwill is measured as the surplus between the sum of the consideration transferred to the business combination, the value of non-controlling interests and the fair value of previously-held equity interest in the acquiree with respect to the fair value of the net assets transferred and liabilities assumed as at the acquisition-date. If the fair value of the net assets transferred and liabilities assumed as at the acquisition-date exceeds the sum of the consideration transferred, the value of non-controlling interests and the fair value of the previously-held equity interest in the acquiree, said surplus is immediately booked to the Income Statement as gain resulting from said transaction.

The share of non-controlling interests as at the acquisition-date may be measured at fair value or as a proportion of the fair value of net assets in the acquiree. The measurement method adopted is decided on a transaction-by-transaction basis.

2.3 Accounting policies

The following accounting policies have been applied in the consolidated financial statements as at 31 December 2019.

Cash and cash equivalents

Cash and cash equivalents are those held to meet short-term cash needs, rather than for investment or other purposes. For an investment to be considered as cash or cash equivalent, it must be able to be readily converted into a known amount of cash and must be subject to an insignificant risk of change in value.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost, determined on a weighted average cost basis, and realisable value based on market trends, net of variable selling costs.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses. Financial expenses are excluded. Obsolete and slow-moving inventories are written down according to their realisable value.

Receivables included in current assets

Receivables are initially recognised at fair value of the consideration to be received, which usually corresponds to the nominal value shown on the invoice, adjusted (if necessary) to their estimated realisable value by making provision for doubtful accounts. Subsequently, receivables are measured at amortised cost, which generally corresponds to their nominal value.

Receivables assigned through without-recourse *factoring* transactions after which the related risks and benefits are definitively transferred to the assignee are derecognised from the statement of financial position at the time of transfer. Receivables assigned through recourse *factoring* transactions are not derecognised.

Tangible fixed assets

Tangible fixed assets mainly relate to industrial sites. Assets are shown at historical cost, net of accumulated depreciation and accumulated impairment losses.

Cost includes related charges, together with the portion of direct and indirect expenses reasonably attributable to individual assets.

Tangible fixed assets are depreciated each month on a straight-line basis using rates that reflect the technical and economic remaining lives of the related assets.

The depreciable value is the cost of an asset less its residual value, where the residual value of an asset is the estimated value that the entity could receive currently from its disposal, if the asset was already in the condition expected at the end of its useful life net of estimated disposal costs.

Depreciation is calculated from the month that the asset becomes available for use, or when it is potentially able to provide the economic benefits expected of it.

The annual average depreciation/amortisation rates applied are as follows:

| | % |
|--|----------|
| Land | n.a. |
| Industrial buildings and light constructions | 2.5-12.5 |
| Plant and machinery | 7-14 |
| Industrial and commercial equipment | 10-25 |
| Other assets | 10-33.3 |
| Tooling | 25 |
| Assets under construction | n.a. |

Land, assets under construction and payments on account are not depreciated.

Ordinary maintenance costs are charged to the Income Statement.

Maintenance costs that increase the value, functions or useful life of fixed assets are recorded directly as the increase in the value of the assets to which they refer and depreciated over their residual useful lives.

Gains or losses on the disposal of assets are calculated as the difference between the sales proceeds and the net book value of the asset and are charged to the Income Statement for the period.

Grants are shown in the Statement of Financial Position as an adjustment of the book value of the asset concerned. Grants are then recognised as income over the useful life of the asset by effectively reducing the depreciation charge each year.

Rights of use arising from lease agreements

The Group applied IFRS 16 using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and evaluating lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in assets and counterbalanced by a financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 months as leases.

The Group recognises right of use assets that do not meet the definition of investment property under item "rights of use" and lease liabilities are booked to item "financial payables for rights of use" in the statement of financial position.

On the effective date of the lease agreement, the Group recognises the right of use asset and the lease liability. The right of use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, and adjusted to reflect the revaluation of the lease liability.

The Group measures the lease liability at the present value of payments due for lease agreements not paid on the effective date, discounted at the marginal borrowing rate. The lease liability is subsequently adjusted by adding accrued interest and subtracting the lease payments made, and is revalued in the event of changes in future lease payments due to a changing index or rate, in the event the amount that the Group expects to pay as a guarantee on the residual value changes, or when the Group changes its valuation for the reporting period or in the event of a call, extension or termination option.

Intangible assets

An intangible asset is only recognised if it is identifiable and verifiable, it is probable that it will generate economic benefits in the future and its cost can be measured reliably.

Intangible assets with a finite life are valued at purchase or production cost, net of amortization and accumulated impairment losses.

The annual average depreciation/amortisation rates applied are as follows:

| | % |
|--|---------|
| Development costs | 20-33.3 |
| Industrial patents and intellectual property rights, concessions, licences, trademarks | 10-33.3 |
| Customer relation | 5 |
| Trade name | 5 |
| Software | 20-50 |
| Other | 20-33.3 |
| Goodwill | n.a. |
| Assets under construction | n.a. |

Amortization is based on the asset's estimated useful life and begins when it is available for use.

Research and development expenses

Research expenses are charged to the income statement as incurred in accordance with IAS 38.

Development expenses relating to specific projects are capitalised when their future benefit is considered reasonably certain by virtue of a customer's commitment; they are then amortised over the entire period of future profits expected to be earned by the project in question.

Costs incurred in developing the range of after-market products are capitalised from the time a certain product is recognised to be missing from the product portfolio. Its future benefit is considered reasonably certain because the new product will be added to the product catalogue and made available to customers.

The capitalised value of the various projects is reviewed annually - or more frequently if there are particular reasons for doing so - analysing its recoverable amount to assess if there have been any impairment losses.

Trademarks and licences

Trademarks and licences are valued at cost, less amortization and accumulated impairment losses. The cost is amortised over the shorter of the contract term and the finite useful life of the asset.

Customer Relations

Customer relations represent the value of the Systèmes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

Brand name

Brand name represents the value of the "Systèmes Moteurs" brand name at the acquisition date as determined during the Purchase Price Allocation process.

Software

The costs of software licences, including related charges, are capitalised and shown in the financial statements net of amortization and any accumulated impairment losses.

It should be pointed out that a multi-year project was launched in 2011 to implement a new integrated IT system across the Group. Relating costs are capitalised by Parent Company Sogefi S.p.A., that will licence the intellectual property rights on the IT system for use by the subsidiaries involved in the implementation process receiving the payment of royalty fees. The useful life of the fixed asset is estimated at 10 years and amortization begins when implementation at each individual company is completed.

Goodwill

Goodwill resulting from business combinations is initially recognised at cost as at the acquisition-date, as detailed in the paragraph above entitled “Business combinations”. Goodwill is not amortised but is tested annually for impairment, or more frequently if specific events or changed circumstances indicate a potential loss in value. Unlike other intangible assets, reversal of an impairment loss is not allowed for goodwill.

For impairment test purposes, goodwill was allocated to each of the Cash Generating Units (CGU) due to benefit from the acquisition.

The Sogefi Group currently encompasses five CGUs: Filtration (previously named “Engine Systems – Fluid Filters”), Air Intake&Cooling (previously named “Engine Systems – Air Intake and Cooling”), Car Suspension, Industrial Vehicles Suspension and Precision Springs.

The goodwill currently on the books only concerns the CGUs Filtration, Air Intake&Cooling and Car Suspension.

Intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortised, but are tested annually for impairment, or more frequently if there is an indication that the asset may have suffered a loss in value. As at 31 December 2019, the Group has no intangible assets with an indefinite useful life.

Impairment losses of tangible and intangible fixed assets

If there are indications of possible losses in value, tangible and intangible fixed assets are subjected to impairment test, estimating the asset's recoverable amount and comparing it with its net book value. If the recoverable amount is less than the book value, the latter is reduced accordingly. This reduction constitutes an impairment loss, which is booked to the income statement.

For goodwill and any other intangible fixed assets with indefinite useful life, an impairment test is carried out at least once a year.

With the exception of goodwill, if a previous writedown is no longer justified, a new recoverable amount is estimated, providing it is not higher than what the carrying value would have been if the writedown had never been made. This reversal is also booked to the Income Statement.

Equity investments in other companies and other securities

Equity investments in entities other than subsidiaries, joint ventures and associates are classified as financial assets available for sale which are measured at fair value, except in situations where the market price or fair value cannot be reliably determined. In this case the cost method is used.

Gains and losses deriving from fair value adjustments are booked to a specific item in Other comprehensive income. In the case of objective evidence that an asset suffered an impairment loss or it is sold, the gains and losses previously recognised under Other Comprehensive Income are reclassified to the Income Statement.

For a more complete discussion of the principles regarding financial assets, reference should be made to the note specifically prepared on this matter (paragraph 3 "Financial assets").

Non-current assets held for sale

Non-current assets or disposal groups consisting of assets and liabilities are classified as held for sale when it is highly probable that their book value will be recovered mainly through a sale transaction rather than through their continued use.

The assets or the disposal group are usually stated at the lower of book value and fair value net of selling costs. Any impairment loss of a disposal group is allocated first to goodwill and then proportionally to the remaining assets and liabilities, with the exception of inventories, financial assets, deferred tax assets, employee benefits, investment property and biological assets, which continue to be valued in accordance with other Group accounting policies. Impairment losses arising from the initial classification of an asset as held for sale or distribution and subsequent valuation differences are recognised in the profit or loss for the period.

Once classified as held for sale, intangible assets and property, plant and equipment cease to be amortised and equity investments recognised using the equity method are no longer recorded using that method.

Loans

Loans are initially recognised at cost, represented by the fair value received, net of related loan origination charges.

After initial recognition, loans are measured at amortised cost by applying the effective interest rate method.

The amortised cost is calculated taking account of issuing costs and any discount or premium envisaged at the time of settlement.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to exchange and interest rate risks. Embedded derivatives are separated from their host contracts and accounted for separately when the related host contract is not a financial asset and when certain criteria are met.

Derivative financial instruments are initially measured at fair value. After initial recognition, derivatives are measured at fair value and any changes are usually recognised in the profit or loss for the year.

The Group designates certain derivatives as hedging instruments to hedge variability in cash flows arising from highly probable forecast transactions connected with fluctuating exchange and interest rates, and certain derivatives and non-derivative financial liabilities as hedges of the exchange risk for a net investment in a foreign operation.

At the beginning of the designated hedging relationship, the Group documents its risk management objectives and hedging strategy, as well as the economic relationship between hedged item and hedging instrument and whether it is expected that changes in the cash flows of the hedged item and hedging instrument will offset each other.

Cash flow hedging

When a derivative financial instrument is designated as a hedge of the exposure to the variability of cash flows, the effective portion of the changes in the fair value of the derivative is reported as a component of Other Comprehensive Income and presented in the cash flow hedging reserve. The effective portion of the changes in the fair value of the derivative that is recognised in Other Comprehensive Income is limited to the change in fair value of the hedged item (at present value) accumulated since the beginning of the hedge. The ineffective portion of the changes in the fair value of the derivative is taken immediately to profit or loss for the year.

In a hedging relationship, the Group designates only the fair value change of the spot element of the forward contract as a hedging instrument in a cash flow hedging relationship. The fair value change of the forward element of the forward foreign exchange contract (swap points) is accounted for separately as costs of hedging and recognised in Shareholders' equity, in the costs of hedging reserve.

If a planned hedged transaction entails the subsequent recognition of a non-financial asset or liability, such as inventories, the amount accrued in the cash flow hedging and costs of hedging reserves is included directly in the initial cost of the asset or liability at recognition.

For all other hedged planned transactions, the amount must be reclassified from the cash flow hedging and costs of hedging reserves to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss for the period.

If the hedge no longer meets the eligibility criteria, upon reaching maturity date or if the hedge is sold or exercised, hedge accounting is discontinued prospectively. When hedge accounting is discontinued for cash flow hedges, the amount accrued in the cash flow hedging reserve is left in Shareholders' equity until (a) if the hedge is for a transaction that entails the recognition of a non-financial asset or liability, it is included in the cost of the non-financial asset or liability at initial recognition, or (b) for other cash flow hedges, it is reclassified to profit or loss for the period in the same period or periods during which the hedged expected future cash flows affect the profit or loss for the period.

If no hedged cash flows are expected, the amount must be reclassified immediately from the cash flow hedging and costs for hedging reserves to profit or loss for the year.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as hedge to hedge a net investment in a foreign operation, the effective portion of the fair value change of derivatives or the foreign exchange gains or losses of non-derivatives are recognised as components of Other Comprehensive Income and posted in Shareholders' equity in the translation reserve. The non-effective portion is taken immediately to profit or loss for the year. The amount recorded as a component of Other Comprehensive Income is reclassified to profit or loss for the year as a reclassification adjustment upon disposal of the foreign operation.

Trade and other payables

Payables are initially recognised at fair value of the consideration to be paid and subsequently at amortised cost, which generally corresponds to their nominal value.

Provisions for risks and charges

Provisions for risks and charges are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

On the other hand, no provision is made in the case of risks for which there is only a possibility that a liability may arise. In this case, the risk is disclosed in the notes on commitments and risks without making any provision.

Provisions relating to corporate reorganizations are only set aside once they have been approved and raised a valid expectation to the parties involved.

Post-retirement and similar employee benefits

Group employees have defined-benefit and/or defined-contribution pension plans, depending on the conditions and local practices of the countries in which the group operates.

The Group's responsibility is to finance the pension funds for the defined-benefit plans (including the employment termination indemnities currently applicable in Italy) and the annual cost recognised in the Income Statement are calculated on the basis of actuarial valuations that use the projected unit credit method.

The liability relating to benefits to be recognised on termination of employment recorded in the Consolidated Statement of Financial Position represents the present value of the defined-benefit obligation, less the fair value of the plan assets. Any net assets determined are recognised at the lowest of their value and the present value of available repayments and reductions of future contribution to the plan.

Pursuant to the amendment to IAS 19 "Employee Benefits" effective as from 1 January 2013, the Group recognises actuarial gains and losses and books them to "Other comprehensive income" immediately, so that the full net amount of the provisions for the defined benefits (net of plan assets) is recognised in the Consolidated Statement of Financial Position. The amendment further requires any changes in the defined benefit provision and plan assets over the previous period to be subdivided into three

components: the cost components of work performed during the reporting period must be recognised in the Income Statement as service costs; net interest costs calculated by applying the appropriate discount rate to the opening balance of defined benefit provision net of assets must be booked to Income Statement as net financial expenses and the actuarial gains and losses resulting from the remeasurement of assets and liabilities must be booked to “Other comprehensive income”. In addition, the return on assets included in net financial expenses must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The difference between actual return on plan assets and the return calculated as described above is booked to “Other comprehensive income”.

In the event of an amendment to the plan that changes the benefits relating to past service or in the event of the application of a new plan relating to past service, the costs relating to past service are booked to the Income Statement (under service costs). In the event of an amendment to the plan that significantly reduces the number of employees involved in the plan or that changes the clauses of the plan in such a way that a significant part of future service due to employees will no longer accrue the same benefits or will accrue them but to a lesser extent, the profit or loss relating to said reduction is immediately booked to the Income Statement (under service costs).

All of the costs and income resulting from the measurement of funds for pension plans are booked to the Income Statement by functional area of destination, with the exception of the financial component relating to non-financed defined-benefit plans, which is included in Financial expenses.

The costs relating to defined-contribution plans are booked to the Income Statement when incurred.

Other long-term benefits

Other long-term employee benefits relate to the French subsidiaries and include “Jubilee or other long-service benefits” that are not expected to be paid fully within the twelve months following the end of the reporting period during which the employee has rendered service for those benefits.

The valuation of other long-term benefits usually does not present the same degree of uncertainty as post-employment benefits. This is why IAS 19 requires a simplified method of accounting for such benefits. Unlike the accounting method required for post-employment benefits, this method (which requires actuarial valuation) does not require discounting effects to be taken to Other comprehensive income.

Stock-based incentive plans

With regard to “Stock-based incentive plans” (Stock options and Stock grants), as envisaged by IFRS 2, the Group calculates the fair value of the option at the granting date, booking it to the Income Statement as a cost over the vesting period of the benefit. The *ad hoc* equity reserve in the Consolidated Statement of Financial Position has been increased. This imputed cost is measured by specialists with the help of suitable economic and actuarial models.

Deferred taxation

Deferred taxes are calculated on the taxable/deductible temporary differences between the book value of assets and liabilities and their tax bases and classified under non-current assets and liabilities.

Deferred tax assets are accounted for only to the extent that it is probable that sufficient taxable profits will be available in the future against which they can be utilised.

The carrying amount of the deferred tax assets shown in the financial statements is subject to an annual review.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply in the period when the differences reverse under the law of the countries in which the Group operates, considering current rates and those enacted or substantially enacted at the end of the reporting period.

Deferred tax liabilities are calculated on taxable temporary differences relating to equity investments in subsidiaries, associates and joint ventures, except where the Company can control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Current and deferred taxes are recognised in the income statement, except for those relating to items directly charged or credited to Other comprehensive income or other equity items, in which case tax effect is recognised directly under Other comprehensive income or equity.

Participation in CIR's group tax filing system (applicable to Italian companies)

In the year 2019, the Parent Company Sogefi S.p.A. and its subsidiary Sogefi Filtration Italy S.p.A. renewed their participation in the CIR Group tax filing system for the three-year period 2019-2021. In 2017, the newly incorporated Sogefi Suspensions Heavy Duty Italy S.r.l. and Sogefi Suspensions Passenger Car Italy S.r.l. adhered to CIR Group tax filing system for the three-year period 2017-2019.

Each company joining to the group Italian tax filing system transfers its tax profit or loss to the parent company. The parent company recognises a credit corresponding to the IRES (Italian tax on company income) that companies have to pay (debit for the transferor company). On the contrary, for companies that booked tax losses, the parent company recognises a debt corresponding to the IRES for the part of loss actually offset at group level (credit for the transferee company). In connection with the Group tax filing system, those companies that record non-deductible net financial expenses may use the excess tax benefits available for offset of other Group companies (thus making such expenses deductible) for a consideration. Such consideration, in an amount proportionate to the resulting tax benefit and applicable to excess tax benefits arising in Italy only, has been paid to the parent company CIR and is treated as expense for those companies that obtain the excess tax benefit and as revenue for those that transfer it.

Treasury shares

Treasury shares are deducted from equity. The original cost of treasury shares and the profit/loss resulting from their subsequent sales are recognised as changes in equity.

Revenues recognition

IFRS 15 entered into force on 1 January 2018 and provides for a new revenue recognition model, which is applicable to all agreements made with customers, with the exception of those falling under the scope of application of other IAS/IFRS standards, such as leases, insurance contracts and financial instruments.

The main steps for revenue recognition according to the new model are:

- identifying the agreement in place with the customer;
- identifying the performance obligations under the agreement;
- defining the transaction price;
- price allocation to the performance obligations under the agreement;
- revenue recognition criteria when the entity satisfies each performance obligation.

Supply of “tooling” and "prototypes" does not meet the requirements to be identified as a separate performance obligation, so related revenues will be recognised on the same duration as the performance obligation identified by the supply of goods.

Revenues from services rendered are recognised at the time the services are provided.

Income Statement Overview

Variable cost of sales

This represents the cost of goods sold. It includes the cost of raw and ancillary materials and goods for resale, as well as variable manufacturing and distribution costs, including the direct labour cost of production.

Manufacturing and R&D overheads

This category includes manufacturing overheads such as indirect labour cost of production, maintenance costs, consumable materials, building rents, and industrial equipment involved in production.

Also included are all R&D overheads, net of any development costs that are capitalised because of their future benefits and excluding amortization which is booked to a separate item in the Consolidated Income Statement.

Distribution and sales fixed expenses

These are costs that are essentially insensitive to changes in sales volumes, relating to personnel, promotion and advertising, external warehousing, rentals and other sales and distribution activities. This category, therefore, includes all fixed costs identified as being incurred after finished products have been stocked in the warehouse and directly related to their sale and distribution.

Administrative and general expenses

This category includes fixed labour costs, telephone expenses, legal and tax consulting fees, rents and rentals, cleaning, security and other general expenses.

Restructuring costs and other non-operating expenses/income

These are figures that do not relate to the Group's normal business activities or refer to non-ordinary activities and are expressly disclosed in the notes if they are of a significant amount.

Operating grants

These are credited to the Consolidated Income Statement when there is a reasonable certainty that the company will meet the conditions for obtaining the grant and that the grants will therefore be received.

Dividends

Dividend income is recorded when the right to receive it arises. This is normally at the time of the shareholders' resolution that approves distribution of the dividends.

Dividends to be distributed are recognised as a payable to shareholders immediately after they have been approved.

Current taxes

Current taxes are booked on the basis of a realistic estimate of taxable income calculated according to current tax legislation in the country concerned, taking account of any exemptions and tax credits that may be due.

Earnings per share (EPS)

Basic EPS is calculated by dividing net result for the period attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, net of treasury shares.

Diluted EPS is obtained by adjusting the weighted average number of shares outstanding to take account of all potential ordinary shares that could have a dilutive effect.

Translation of foreign currency items

Functional currency

The functional currency of the Parent Company is the Euro and this is the presentation currency in which the consolidated financial statements are prepared and published.

Accounting for foreign currency transactions

Foreign currency transactions are initially translated at the exchange rate ruling on the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in foreign currency are retranslated at the period-end exchange rate.

Non-monetary foreign currency items valued at historical cost are translated at the exchange rate ruling on the transaction date.

Non-monetary items carried at fair value are translated at the exchange rate ruling on the date this value was determined.

IAS 29 - Financial reporting in hyperinflationary economies

The financial statements of the consolidated Argentine companies were prepared at 31 December 2019 in the functional currency taking into account the effects of the application of IAS 29 "Financial Reporting in Hyperinflationary Economies", so as to present the operating result and the statement of financial position reflecting purchasing power at the end of the period under consideration.

IAS 29 adoption was required starting with periods ending after 30 June 2018.

This standard does not establish an absolute inflation rate above which hyperinflation is deemed to occur. Under the IFRS, the need to restate the financial statements must be evaluated. Conditions that may indicate hyperinflation exists include:

- a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Local currency held is immediately invested to maintain purchasing power;
- b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- d) interest rates, wages and prices are linked to a price index; and
- e) the cumulative inflation rate over three years approaches or exceeds 100%.

Accordingly, the financial statements of the consolidated Argentine companies for the period ending 30 June 2018 and subsequent periods were prepared by applying IAS 29 because the cumulative inflation rate in Argentina over the last three years amounts to approximately 120%.

Non-monetary amounts in the statement of financial position are restated by applying the change in the general price index occurred from the date of recognition in the financial statements to the end of the period. Monetary amounts are not restated because they are expressed in the unit of measurement current at the end of the period. All items in the Income Statement are expressed in terms of the unit of measurement current at the end of the period, applying the change in the general price index occurred since revenue and expense were initially recognised in the financial statements.

The following items of the income statement and non-monetary items were restated as a result of the application of this standard: "Tangible fixed assets", "Intangible fixed assets", "Inventories", "Deferred tax liabilities", "Tooling contract liabilities" (liabilities recognised as a result of adopting IFRS 15).

Critical estimates and assumptions

Various estimates and assumptions regarding the future have to be made when preparing financial statements. They are the best estimates possible at the end of the reporting period. Given their nature, they could lead to a material difference in statement of financial position items in future years. The main items affected by these estimates are as follows:

- goodwill (Euro 126.6 million) – impairment test: for the purpose of determining the value in use of the Cash Generating Units, the Group took into account the trends expected for 2020 as determined based on the budget and the forecasts included in the 2021-2024 multi-year plan for the following years (adjusted to eliminate any estimated benefits from future projects and reorganisations). The budget and the multi-year plan were approved by the Board of Directors on 27 January 2020 and 24 February 2020. The impairment test, based on such forecasts, does not indicate a need for devaluation;
- tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda (Euro 11.4 million, including rights of use) - impairment test: at the end of the fiscal year 2019, tangible and intangible fixed assets of the subsidiary were tested for impairment due to its negative economic and financial results and the sluggish performance of the Brazilian car market. To this end, the expected cash flows for 2020 as determined based on the budget and for the following 5 years (i.e. the estimated remaining useful life of the assets) approved by the Advisory Board of the subsidiary on 21 February 2020 were taken into account. The impairment test, based on such forecasts, lead to a writedown of Euro 1.4 million;
- pension plans (Euro 53.2 million): actuarial consultants who offer their consulting services to the Group use different statistic assumptions in order to anticipate future events for the purpose of estimating pension plan expenses, liabilities and assets. Such assumptions concern discount rate, future wage inflation rates, mortality and turnover rates;
- recoverability of deferred tax assets on tax losses (Euro 4.9 million compared to Euro 6.4 million in the previous year): as at 31 December 2019, deferred tax assets on tax losses incurred during the current and previous years were accounted for to the extent that it is probable that taxable income will be available in the future against which they can be utilised. Such probability is also determined based on the fact that such losses have originated mainly under extraordinary circumstances that are unlikely to occur again in the future and that the same could be recovered throughout an unlimited or long-term time frame;
- derivatives (Euro 6.8 million in assets): the fair value of derivatives (relating to interest and exchange rates) was estimated with the aid of external consultants based on valuation models commonly used in the industry, in line with the requirements of IFRS 13 (calculation of DVA - debit valuation adjustment);

2.4 Adoption of new accounting standards

IFRS accounting standards, amendments and interpretations applicable since 1 January 2019

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2019:

Application of new accounting standard IFRS 16 – Leases

The IFRS 16 "Leases" replaces IAS 17 – Leases, as well as IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases—Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to differentiate between lease and service agreements according to: asset identification, right to replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

The standard introduces a single lessee accounting model for recognising and evaluating lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognised in assets and counterbalanced by a financial liability. Lessees may elect to not recognise agreements for low-value assets or with a term of up to 12 months as leases. No significant changes are introduced for lessor accounting.

As a lessee, the Group previously classified leases as operating or financial leases, assessing whether the lease transferred substantially all risks and benefits of ownership of the underlying asset. According to IFRS 16, the Group recognises the assets from the right of use and the liabilities from the lease in the statement of financial position for the majority of the leases.

The Group recognises right of use assets that do not meet the definition of investment property under item "rights of use" and lease liabilities are booked to item "financial payables for rights of use" in the statement of financial position.

The right of use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, and adjusted to reflect the revaluation of the lease liability.

The Group measures the lease liability at the present value of payments due for lease agreements not paid on the effective date, discounted at the marginal borrowing rate. The lease liability is subsequently adjusted by adding accrued interest and subtracting the lease payments made, and is revalued in the event of changes in future lease payments due to a changing index or rate, in the event the amount that the Group expects to pay as a guarantee on the residual value changes, or when the Group changes its valuation for the reporting period or in the event of a call, extension or termination option.

On the date of first adoption, in the case of leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the residual lease payments due discounted at Group's marginal borrowing rate in force at 1 January 2019.

Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any advance or accumulated payments due for the lease.

The main assumptions regarding the determination of the incremental borrowing rate at the date of first adoption of the new standard were as follows:

- Average expiry dates of rental agreements (1,3,5,7,10 years and over) were defined;
- Different IBRs have been defined for each country in which the lease agreements were entered into, based on the expiries mentioned in the previous paragraph;
- IBR was defined using a country's risk-free rate (at 1,3,5,7 and 10 years) and adding a spread, which also varied according to expiry date, determined based on the spreads applied on the loans taken out by Sogefi Group.

The Group applied IFRS 16 using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

The Group used the following practical expedients to apply IFRS 16 to leases previously classified as operating leases under IAS 17:

- it applied the exemption that allows to not recognise right of use assets and lease liabilities for lease agreements with a duration of less than 12 months
- it applied the exemption that allows to not recognise right of use assets and lease liabilities for lease agreements of small value (below Euro 5,000), including IT equipment
- it excluded the initial direct costs from the valuation of right of use assets at the date of initial application because they were considered irrelevant.
- it used its experience gained in determining the duration of the lease agreement containing extension or termination options.

As at 1 January 2019, the adoption of the new standard had the following effects: Shareholders' equity decreased by Euro 6.5 million (net of tax effects), additional right of use assets and lease liabilities amounted to Euro 58.6 million and Euro 61.8 million, respectively, and Euro 4.6 million were set aside to provision for restoration of rights of use. The differences have been recognised in retained earnings.

As at 31 December 2018, the company brought to account future lease instalments for the amount of Euro 87.9 million in relation to operating leases. The difference compared to the right of use liabilities recognised at 1 January 2019 is mainly due to the discounting effect, renewals included upon first adoption of IFRS 16, lease agreements with a duration of less than 12 months and lease agreements with small unit value.

For further details please refer to note 8 “Tangible fixed assets”, note 15 “Financial debts to banks and other financing creditors”, note 20 “Shareholders' equity” and note 18 “Long-term provisions”.

Other standards

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2019:

- IFRIC 23 “*Uncertainty over income taxes treatments*” (issued on 7 June 2017). The interpretation clarifies the application of recognition and measurement requirements in IAS 12 “*Income Taxes*” when there is uncertainty about tax treatment. These amendments are to be applied for financial periods beginning on 1 January 2019. The new provisions as at 31 December 2019 did not have any impact on the Sogefi Group's consolidated financial statements.
- Amendment to IFRS 9 “*Prepayment features with Negative Compensation*” (issued on 12 October 2017 and endorsed by the European Commission in March 2018). The amendment proposes that the financial assets which could result in a negative compensation would be eligible to be measured at amortised cost or fair value through other comprehensive income as a result of a prepayment feature (depending on a company's business model). These amendments are to be applied for financial periods beginning on 1 January 2019. The new provisions as at 31 December 2019 did not have any impact on the Sogefi Group's consolidated financial statements.
- Amendment to IAS 28 “*Long-term Interests in Associates and Joint Ventures*” (issued on 12 October 2017). The amendment clarifies that a company applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment also requires IFRS 9 to be applied to these assets before the application of IAS 28, so that the entity does not take into account any adjustments to long-term interests arising from the application of this IAS. These amendments are to be applied for financial periods beginning on 1 January 2019. The new provisions as at 31 December 2019 did not have any impact on the Sogefi Group's consolidated financial statements.
- Amendment to IAS 19 “*Plan Amendment, Curtailment or Settlement*” (issued on 7 February 2018). The amendment clarifies how current service cost and net interest are determined when a change occurs in a defined benefit plan. These amendments are to be applied for financial periods beginning on 1 January 2019. The new provisions as at 31 December 2019 did not have any impact on the Sogefi Group's consolidated financial statements.
- Document “*Annual Improvements to IFRS Standards 2015-2017 Cycle*” (published on 12 December 2017). These amendments are part of the Board's process for maintaining and clarifying IFRS Standards and affected: IAS 12 “*Income Taxes*”, IAS 23 “*Borrowing Costs*”, IFRS 3 “*Business Combination*” and IFRS 11 “*Joint arrangements*”. These amendments are to be applied for financial periods beginning on 1 January 2019. The new provisions as at 31 December 2019 did not have any impact on the Sogefi Group's consolidated financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union but not yet mandatory applicable and not early adopted by the Group as at 31 December 2019

The Group has not adopted the following new and amended standards that have been issued but are not yet applicable:

- Amendment to “*Conceptual Framework in IFRS Standards*” (issued on 29 March 2018). These amendments are to be applied for financial periods beginning on 1 January 2020.
- Amendments to IAS 1 and IAS 8 “*Definition of material*” (issued on 31 October 2018). These amendments clarify the definition of the concept of “*materiality*” provided in IAS 1 to help preparers determine whether a piece of information on an item of the financial statements, a transaction or an event should be provided to users of the financial statements. These amendments are to be applied for financial periods beginning on 1 January 2020. Early adoption is allowed.
- Amendments to IFRS 9, IAS 39 and IFRS 7 “*Interest Rate Benchmark Reform*” (issued on 26 September 2019) These amendments are to be applied for financial periods beginning on 1 January 2020.

IFRS and IFRIC accounting standards, amendments and interpretations not yet endorsed by the European Union

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements. The Directors are evaluating the possible effects of applying these amendments to the Group’s Consolidated Financial Statements.

- IFRS 17 “*Insurance Contracts*” (issued on 18 May 2017). These amendments are to be applied for financial periods beginning on 1 January 2021.
- Amendments to IFRS 3 “*Business combinations*” (issued on 22 October 2018). These amendments are intended to help determine whether a transaction is an acquisition of a business or of a group of assets that does not meet the definition of business under IFRS 3. The amendments apply to acquisitions occurred after 1 January 2020. Early adoption is allowed.
- Amendments to IAS 1 “*Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*” (issued on 23 January 2020).

3. FINANCIAL ASSETS

Classification and initial recognition

Trade receivables and debt instruments issued are recognised when they are originated. All other financial assets and liabilities are initially recognised upon trade date, i.e. when the Group becomes a party to the financial instrument.

With the exception of trade receivables that do not contain a significant financing component, financial assets are initially measured at fair value plus or minus, in the case of financial assets or liabilities not measured at fair value recognised through profit or loss for the year (FVTPL), the transaction costs directly attributable to the acquisition or issue of the financial asset. At the time of initial recognition, trade receivables that do not have a significant financing component are valued at their transaction price.

Subsequent measurement

As provided for by IFRS 9, upon initial recognition, a financial asset is classified according to its valuation: amortised cost; fair value recognised in Other Comprehensive Income (FVOCI) - debt instrument; FVOCI - equity instrument; or at fair value recognised in the profit or loss for the year (FVTPL).

Financial assets are not reclassified after initial recognition, unless the Group changes its business model to manage financial assets. In this case, all affected financial assets concerned are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset must be measured at amortised cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold the financial assets to collect their contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset must be measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to collect contractual cash flows and sell financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an equity instrument not held for trading, the Group may elect to recognise subsequent changes in fair value in the other comprehensive income. This choice is irrevocable. Such choice is made for each asset.

Any financial assets that are not classified as measured at amortised cost or at FVOCI as indicated above, are measured at FVTPL. All derivative financial instruments are included. At initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if this eliminates or significantly reduces the accounting inconsistency that would otherwise arise from measuring the financial asset at amortised cost or at FVOCI.

Business model assessment

The Group assesses the objective of the business model within which the financial asset is held at portfolio level, as this best reflects how the asset is managed and what information is communicated to management. Such information includes:

- the criteria set out, portfolio objectives and the practical application of those criteria, including, among other things, whether the strategy of corporate management aims to collect interest on the contract, to maintain a specified interest rate profile, to align the life of financial assets with that of related liabilities or is aimed at expected cash flows or to collect cash flows by selling assets;
- how portfolio performance is evaluated and communicated to Group executives with strategic responsibilities;
- the risks that affect the performance of the business model (and of the financial assets held within the business model) and how these risks are managed;
- the method of remuneration of the company's management (for example, whether remuneration is based on the fair value of the assets under management or collected contractual cash flows); and
- the frequency, value and timing of sales of financial assets in previous years, the reasons for selling and the expectations about future sales.

Transfers of financial assets to third parties as part of transactions that do not involve derecognition are not treated as sales for the purposes of business model assessment, in line with the Group's continued recognition of these assets in the financial statements.

Financial assets that meet the definition of financial assets held for trading or whose performance is measured at fair value are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is the fair value of the financial asset at initial recognition, whereas 'interest' is the consideration for the time value of money, for the credit risk associated with the principal amount to be repaid over a given period of time and for other basic risks and costs associated with the loan (for example, liquidity risk and administrative costs), as well as for the profit margin.

In order to determine whether contractual cash flows are solely principal and interest payments, the Group considers the contractual terms of the instrument. It assesses, among other things, whether the financial asset contains a contractual provision that changes the timing or amount of contractual cash flows such that the following condition is not met. For the purposes of this assessment, the Group takes into account:

- contingent events that would change the timing or amount of financial flows;
- clauses that could entail an adjustment of the contractual rate of the coupon, including variable rate elements;
- prepayment and extension elements; and
- clauses limiting the Group's requests for cash flows from specific assets (for example, elements without recourse).

The prepayment element is consistent with the 'cash flows that are solely principal and interest payments' criterion when the amount of the prepayment basically represents the principal amount outstanding and interest accrued on the principal amount outstanding, which may include reasonable additional compensation for early termination of the

contract. In addition, in the case of a financial asset acquired at a significant premium or discount on the contractual nominal amount, an element that permits or requires the prepayment of an amount that basically represents the contractual nominal amount plus accrued (yet outstanding) contractual interest (which may include reasonable additional compensation for early termination of the contract) is accounted for in accordance with that criterion if the fair value of the prepayment element is not significant at initial recognition.

B) SEGMENT INFORMATION

4. OPERATING SEGMENTS

In compliance with the provisions of IFRS 8, the following information is provided by operating segments (business segments) and performance indicators that play a key role in the Group's strategic decisions.

The operating segments covered by the Segment Information are the Group's strategic business sectors, provide different products and are managed separately from a strategic viewpoint.

As the analysis by business segments is given higher priority in the decision-making process, the analysis by geographic areas is not presented.

Business segments

With regard to the business segments, disclosures concerning the three business units: Air Intake&Cooling, Suspensions and Filtration are provided below. Figures for the Parent Company Sogefi S.p.A. and the subsidiary Sogefi Gestion S.A.S. are also provided for the purpose of reconciliation with consolidated values.

The tables below provide the Group's income statement and statement of financial position figures for 2019 and 2018:

| (in thousands of Euro) | 2019 | | | | | |
|--|----------------|----------------|----------------|---|------------------|-------------------------------|
| | Air&Cooling | Suspensions | Filtration | Sogefi S.p.A. / Sogefi Gestion S.A.S. | Adjustments | Sogefi consolidated f/s |
| REVENUES | | | | | | |
| Sales to third parties | 425,697 | 547,818 | 545,731 | - | - | 1,519,246 |
| Intersegment sales | 425 | 1,898 | 705 | 21,963 | (24,991) | - |
| TOTAL REVENUES | 426,122 | 549,716 | 546,436 | 21,963 | (24,991) | 1,519,246 |
| RESULTS | | | | | | |
| EBIT | 24,239 | 4,989 | 15,980 | (4,245) | (1,320) | 39,643 |
| Financial expenses, net | | | | | | (23,770) |
| Income from equity investments | | | | | | - |
| Losses from equity investments | | | | | | - |
| Result before taxes | | | | | | 15,873 |
| Income taxes | | | | | | (13,688) |
| NET INCOME (LOSS) OF OPERATING ACTIVITIES | | | | | | 2,185 |
| Net income (loss) from discontinued operations | | | | | | 4,017 |
| NET RESULT INCLUDED THIRD PARTY SHARE | | | | | | 6,202 |
| Profit (loss) from third parties | | | | | | (3,000) |
| NET RESULT | | | | | | 3,202 |
| STATEMENT OF FINANCIAL POSITION | | | | | | |
| ASSETS | | | | | | |
| Segment assets | 371,636 | 443,230 | 395,553 | 687,160 | (768,690) | 1,128,889 |
| Equity investments in associates | - | - | - | - | - | - |
| Unallocated assets | - | - | - | - | 136,947 | 136,947 |
| TOTAL ASSETS | 371,636 | 443,230 | 395,553 | 687,160 | (631,743) | 1,265,836 |
| LIABILITIES | | | | | | |
| Segment liabilities | 242,038 | 341,437 | 349,925 | 485,582 | (360,896) | 1,058,086 |
| TOTAL LIABILITIES | 242,038 | 341,437 | 349,925 | 485,582 | (360,896) | 1,058,086 |
| OTHER INFORMATION | | | | | | |
| Increase in tangible and intangible fixed assets | 53,354 | 45,642 | 29,118 | 677 | (1,044) | 127,747 |
| Depreciation, amortisation and writedowns | 47,636 | 41,173 | 41,451 | 5,071 | 1,182 | 136,513 |

| (in thousands of Euro) | 2018 | | | | | |
|--|----------------|----------------|----------------|---|------------------|-------------------------------|
| | Air&Cooling | Suspensions | Filtration | Sogefi S.p.A. / Sogefi Gestion S.A.S. | Adjustments | Sogefi consolidated €/s |
| REVENUES | | | | | | |
| Sales to third parties | 485,850 | 600,827 | 537,095 | - | (53,063) | 1,570,709 |
| Intersegment sales | 757 | 1,730 | 105 | 26,918 | (29,510) | - |
| TOTAL REVENUES | 486,607 | 602,557 | 537,200 | 26,918 | (82,573) | 1,570,709 |
| RESULTS | | | | | | |
| EBIT | 21,681 | 12,746 | 23,444 | (3,715) | 5,977 | 60,133 |
| Financial expenses, net | | | | | | (23,921) |
| Income from equity investments | | | | | | - |
| Losses from equity investments | | | | | | - |
| Result before taxes | | | | | | 36,212 |
| Income taxes | | | | | | (20,045) |
| NET INCOME (LOSS) OF OPERATING ACTIVITIES | | | | | | 16,167 |
| Net income (loss) from discontinued operations | | | | | | 1,120 |
| NET RESULT INCLUDED THIRD PARTY SHARE | | | | | | 17,287 |
| Profit (loss) from third parties | | | | | | (3,282) |
| GROUP NET RESULT | | | | | | 14,005 |
| STATEMENT OF FINANCIAL POSITION | | | | | | |
| ASSETS | | | | | | |
| Segment assets | 370,758 | 425,908 | 375,938 | 617,207 | (784,562) | 1,005,249 |
| Equity investments in associates | - | - | - | - | - | - |
| Unallocated assets | - | - | - | - | 137,737 | 137,737 |
| TOTAL ASSETS | 370,758 | 425,908 | 375,938 | 617,207 | (646,825) | 1,142,986 |
| LIABILITIES | | | | | | |
| Segment liabilities | 231,304 | 303,840 | 312,526 | 425,189 | (343,741) | 929,118 |
| TOTAL LIABILITIES | 231,304 | 303,840 | 312,526 | 425,189 | (343,741) | 929,118 |
| OTHER INFORMATION | | | | | | |
| Increase in tangible and intangible fixed assets | 52,069 | 33,858 | 45,563 | 1,781 | (531) | 132,740 |
| Depreciation, amortisation and writedowns | 52,887 | 36,274 | 33,513 | 3,959 | 1,063 | 127,696 |

Please note that the Air and Cooling Business Unit figures include the net book value of the Systèmes Moteurs Group (company name is now Sogefi Air & Cooling S.A.S.), deriving from local accounts – in other words, not including the fair value adjustment of net assets after the Purchase Price Allocation of 2011 – and only the adjustments arising from the Purchase Price Allocation and relating to the change in product warranty provisions (contingent liabilities booked upon PPA); the remaining adjustments arising from the Purchase Price Allocation are posted in column "Adjustments".

Adjustments to "Intersegment sales" mainly refer to services provided by the Parent Company Sogefi S.p.A. and by subsidiary Sogefi Gestion S.A.S. to other Group companies (see note 40 for further details on the nature of the services provided). This item also includes intersegment sales between the business units. Intersegment transactions are conducted according to the Group's transfer pricing policy.

The adjustments to "EBIT" mainly refer to depreciation and amortization linked to the revaluation of assets resulting from the acquisition of the Systemes Moteurs Group in 2011.

In the Statement of Financial Position, the adjustments to the item "Segment assets" refer to the consolidation entry of investments in subsidiaries and intercompany receivables.

Adjustments to "Unallocated assets" mainly include the goodwill and the fixed assets revaluations resulting from the acquisitions of: the Allevard Ressorts Automobile Group, Sogefi Rejna S.p.A., the Filtrauto Group, 60% of Sogefi M.N.R. Filtration India

Private Ltd (now merged into Sogefi Engine Systems India Pvt Ltd) and Systemes Moteurs Group.

“Depreciation, amortization and writedowns” include writedowns of tangible (Euro 4,581 thousand) and intangible fixed assets (Euro 6,070 thousand) for the most part relating to European subsidiaries and the subsidiary Sogefi Filtration do Brasil Ltda. These assets were written down based on the recoverable amount of assets at year-end date.

Information on the main customers

Revenues from sales to third parties as at 31 December 2019 accounting for over 10% of Group revenues are shown in the following table:

| (in thousands of Euro) Group | 2019 | | | | |
|---------------------------------|---------------|----------|------------------|-----------------|-------------------|
| | Group | | BU Filtration | BU Air&Cool. | BU Suspensions |
| | <i>Amount</i> | <i>%</i> | | | |
| Renault/Nissan | 176,996 | 11.7 | 55,814 | 36,906 | 84,274 |
| PSA | 169,437 | 11.2 | 41,993 | 57,406 | 70,038 |
| FCA/CNH Industrial | 161,980 | 10.7 | 52,119 | 76,567 | 33,294 |
| Ford | 152,891 | 10.1 | 71,139 | 33,741 | 48,011 |

Information on geographic areas

The breakdown of revenues by geographical area is analysed in the Directors' Report and in note 23 “Sales Revenues”.

The following table shows a breakdown of total assets by geographical area of origin:

| (in thousands of Euro) | 2018 | | | | | |
|------------------------|-----------|------------------|------------------|---------|-------------|-------------------------------|
| | Europe | South America | North America | Asia | Adjustments | Sogefi consolidated f/s |
| TOTAL ASSETS | 1,545,892 | 83,366 | 176,037 | 152,499 | (814,808) | 1,142,986 |

| (in thousands of Euro) | 2019 | | | | | |
|------------------------|-----------|------------------|------------------|---------|-------------|-------------------------------|
| | Europe | South America | North America | Asia | Adjustments | Sogefi consolidated f/s |
| TOTAL ASSETS | 1,636,463 | 82,721 | 179,921 | 175,421 | (808,690) | 1,265,836 |

C) NOTES ON THE MAIN INCOME STATEMENT ITEMS: STATEMENT OF FINANCIAL POSITION

C 1) ASSETS

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to Euro 165,173 thousand versus Euro 91,735 thousand as at 31 December 2018 and break down as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|-----------------------------|----------------|---------------|
| Short-term cash investments | 165,134 | 91,676 |
| Cash on hand | 39 | 59 |
| TOTAL | 165,173 | 91,735 |

“Short-term cash investments” earn interest at a floating rate.

For further details, please refer to the Analysis of the net financial position in note 22 and to the Consolidated Cash Flow Statement included in the financial statements.

As at 31 December 2019, the Group has unused lines of credit for the amount of Euro 279,160 thousand. These funds are available for use on demand, because the conditions required for their availability are met.

6. OTHER FINANCIAL ASSETS

“Other financial assets” can be broken down as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|--------------|--------------|
| Financial receivables | 3,244 | 1,023 |
| Assets for derivative financial instruments | 62 | 183 |
| TOTAL | 3,306 | 1,206 |

Financial receivables mainly refer to financial instruments issued by leading Chinese banks, at the request of some customers, as payment for supplies made by the Chinese subsidiaries.

“Assets for derivative financial instruments” amount to Euro 62 thousand and refer to the fair value of forward foreign currency contracts. Further details can be found in the analysis of financial instruments contained in note 39 “Financial instruments and financial risk management”.

7. INVENTORIES

The breakdown of inventories is as follows:

| (in thousands of Euro) | 12.31.2019 | | | 12.31.2018 | | |
|---|----------------|--------------------|----------------|----------------|--------------------|----------------|
| | <i>Gross</i> | <i>Write-downs</i> | <i>Net</i> | <i>Gross</i> | <i>Write-downs</i> | <i>Net</i> |
| Raw, ancillary and consumable materials | 59,695 | 5,430 | 54,265 | 63,734 | 5,363 | 58,371 |
| Work in progress and semi-finished products | 15,644 | 729 | 14,915 | 17,119 | 533 | 16,586 |
| Finished goods and goods for resale | 52,402 | 6,118 | 46,284 | 47,023 | 6,298 | 40,725 |
| TOTAL | 127,741 | 12,277 | 115,464 | 127,876 | 12,194 | 115,682 |

The gross value of inventories is basically unchanged from the previous fiscal year (at constant exchange rates there would be an increase of Euro 1,190 thousand).

Writedowns consist for the most part of accruals for raw materials that can no longer be used for current production and for obsolete or slow-moving finished goods, goods for resale and ancillary materials. The increase in the provisions by Euro 83 thousand reflects the allocation of an additional Euro 1,778 thousand, partly offset by products scrapped during the year (Euro 1,510 thousand) and a negative currency exchange effect for Euro 185 thousand.

8. TRADE AND OTHER RECEIVABLES

Current receivables break down as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|-------------------------------|----------------|----------------|
| Trade receivables | 131,649 | 141,265 |
| Less: allowance for bad debts | (4,367) | (4,343) |
| Trade receivables, net | 127,282 | 136,922 |
| Due from Parent Company | 3,134 | 4,368 |
| Tax receivables | 28,600 | 23,064 |
| Other receivables | 9,814 | 8,489 |
| Other assets | 2,113 | 2,082 |
| TOTAL | 170,943 | 174,925 |

“Trade receivables, net” are non-interest bearing and have an average due date of 30 days, against 33 days recorded at the end of the previous year.

It should be noted that as at 31 December 2019, the Group factored trade receivables for Euro 94,210 thousand (Euro 99,212 thousand as at 31 December 2018), including an amount of Euro 86,152 thousand (Euro 91,511 thousand as at 31 December 2018) which was not notified and for which the Group continues to manage collection services. The risks and benefits related to these receivables have been transferred to the factor;

therefore, these receivables have been derecognised in the Statement of Financial Position debiting the consideration received from the factoring company.

Excluding the factoring transactions (Euro 94,210 thousand as at 31 December 2019 and Euro 99,212 thousand as at 31 December 2018) and the negative effect of exchange rates (Euro 1,378 thousand), net trade receivables show a decrease of Euro 13,264 thousand mainly as a result of a decrease in the average collection days and a sluggish business growth of the Group during the third quarter of the year compared to the same period of the previous year.

Further adjustments were booked to “Allowance for doubtful accounts” during the year for a total of Euro 1,531 thousand, against net utilisations of the allowance for the amount of Euro 1,781 thousand (see note 39 “Financial instruments and financial risk management” for further details). Writedowns, net of provisions not used during the period, were charged to Income Statement under the item “Variable cost of sales – Variable sales and distribution costs”.

Please note that the Allowance for doubtful accounts as at 31 December 2019 includes Euro 553 thousand reflecting losses on receivables recognised upon adoption of IFRS 9 (Euro 400 thousand at 31 December 2018).

“Due from Parent Company” as at 31 December 2019 is the amount receivable from the Parent Company CIR S.p.A. arising from the participation in the Group tax filing system on the part of the Italian companies of the Group. Outstanding receivables as at 31 December 2018 (totalling Euro 4,368 thousand) collected in 2019 amounted to Euro 3,938 thousand.

See chapter F “Related party transactions” for the terms and conditions governing these receivables from CIR S.p.A.

“Tax receivables” as at 31 December 2019 include tax credits due to the Group companies by the tax authorities of the various countries.

It does not include deferred taxes which are treated separately.

“Other receivables” are made up as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|--------------|--------------|
| Amounts due from social security institutions | 24 | 11 |
| Amounts due from employees | 189 | 217 |
| Advances to suppliers | 3,396 | 3,274 |
| Due from others | 6,205 | 4,987 |
| TOTAL | 9,814 | 8,489 |

The increase in the item "Due from others" mainly refers to the recognition of an insurance refund for damage deriving from a fire at the subsidiary Sogefi HD Suspensions Germany GmbH. The fire occurred in December 2018 and damaged a machine dedicated to the hardening production phase of a product line.

The item “Other assets” mainly includes accrued income and prepayments on insurance premiums, indirect taxes relating to buildings and on costs incurred for sales activities.

9. TANGIBLE FIXED ASSETS

The net carrying amount of tangible fixed assets as at 31 December 2019 amounted to Euro 461,018 thousand versus Euro 390,808 thousand at the end of the previous year and breaks down as follows:

| (in thousands of Euro) | 2019 | | | | | | | |
|---|--------|---|--------------|---|----------|----------------------------|--|-----------|
| | Land | Buildings, plant and machinery, commercial and industrial equipment | Other assets | Assets under construction and payments on account | Tooling | Tooling under construction | Right of use / finance leases IAS 17 (*) | TOTAL |
| <i>Balance at December 31, 2018</i> | | | | | | | | |
| Historical cost | 13,348 | 860,494 | 36,962 | 45,931 | 145,487 | 44,106 | - | 1,146,328 |
| Accumulated depreciation | 89 | 632,504 | 32,606 | 1,049 | 89,182 | 90 | - | 755,520 |
| Net value | 13,259 | 227,990 | 4,356 | 44,882 | 56,305 | 44,016 | - | 390,808 |
| Reclassification right of use / finance leases IAS 17 (*) | - | (4,711) | (10) | - | - | - | 4,721 | - |
| <i>Balance at December 31, 2018</i> | 13,259 | 223,279 | 4,346 | 44,882 | 56,305 | 44,016 | 4,721 | 390,808 |
| Adjustment to the date of initial application of IFRS 16 | - | - | - | - | - | - | 58,604 | 58,604 |
| Additions of the period | - | 18,627 | 1,145 | 40,443 | 5,715 | 29,032 | 9,533 | 104,495 |
| Disposals during the period | - | (373) | (34) | (2) | - | (5) | (486) | (900) |
| Exchange differences | (191) | (1,554) | 239 | (109) | 514 | 328 | 672 | (101) |
| Depreciation for the period | - | (39,524) | (2,380) | - | (33,866) | - | (12,618) | (88,388) |
| Writedowns/revaluations during the period | (23) | (3,516) | (164) | (296) | (577) | - | (5) | (4,581) |
| Other changes | (40) | 37,770 | 1,494 | (36,090) | 19,779 | (22,671) | 839 | 1,081 |
| <i>Balance at December 31, 2019</i> | 13,005 | 234,709 | 4,646 | 48,828 | 47,870 | 50,700 | 61,260 | 461,018 |
| Historical cost | 13,156 | 874,996 | 37,176 | 50,173 | 160,574 | 50,792 | 100,896 | 1,287,763 |
| Accumulated depreciation | 151 | 640,287 | 32,530 | 1,345 | 112,704 | 92 | 39,636 | 826,745 |
| Net value | 13,005 | 234,709 | 4,646 | 48,828 | 47,870 | 50,700 | 61,260 | 461,018 |

(*) The Group adopted the new IFRS 16 "Leases" using the modified retroactive method as of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

The 2018 amounts relating to financial leases under IAS 17 have been reclassified from line items "Buildings, plant and machinery, commercial and industrial equipment" and "Other tangible fixed assets" to "Rights of use" in accordance with the classification under the new standard.

| (in thousands of Euro) | 2018 | | | | | | |
|---|--------|--|-----------------|--|----------|-------------------------------|-----------|
| | Land | Buildings, plant and machinery, commercial and industrial equipment | Other assets | Assets under construction and payments on account | Tooling | Tooling under construction | TOTAL |
| <i>Balance at December 31, 2017</i> | | | | | | | |
| Historical cost | 13,091 | 840,857 | 28,805 | 48,133 | 165,332 | 27,249 | 1,123,467 |
| Accumulated depreciation | 51 | 630,767 | 23,223 | 1,049 | 83,900 | - | 738,990 |
| Net value | 13,040 | 210,090 | 5,582 | 47,084 | 81,432 | 27,249 | 384,477 |
| <i>Balance at December 31, 2017</i> | 13,040 | 210,090 | 5,582 | 47,084 | 81,432 | 27,249 | 384,477 |
| Additions of the period | - | 22,447 | 1,341 | 34,306 | 4,424 | 34,759 | 97,277 |
| Disposals during the period | (54) | 7 | (65) | - | - | (180) | (292) |
| Exchange differences | (265) | (4,733) | (59) | (608) | (726) | (420) | (6,811) |
| Depreciation for the period | - | (38,593) | (3,112) | - | (37,999) | - | (79,704) |
| Writedowns/revaluations during the period | - | (160) | (79) | - | (420) | (87) | (746) |
| Reclassification of non-current assets held for sale | (229) | (2,719) | (3) | (19) | (6,815) | (1,292) | (11,076) |
| Other changes | 767 | 41,650 | 751 | (35,881) | 16,409 | (16,013) | 7,683 |
| <i>Balance at December 30, 2018</i> | 13,259 | 227,989 | 4,357 | 44,882 | 56,305 | 44,016 | 390,808 |
| Historical cost | 13,348 | 860,494 | 36,962 | 45,931 | 145,487 | 44,106 | 1,146,328 |
| Accumulated depreciation | 89 | 632,504 | 32,606 | 1,049 | 89,182 | 90 | 755,520 |
| Net value | 13,259 | 227,990 | 4,356 | 44,882 | 56,305 | 44,016 | 390,808 |

Investments during the year amounted to Euro 104,495 thousand compared to Euro 97,277 thousand in the previous year.

The larger projects regarded the “Assets under construction and payments on account”, “Tooling under construction” and “Buildings, plant and machinery, commercial and industrial equipment” categories.

In the category “Assets under construction and payments on account”, the main investments concerned the subsidiaries Sogefi Suspensions Eastern Europe S.R.L. for the new plant in Oradea, Sogefi Suspensions S.A. for the development of new products and process improvements, Sogefi Filtration S.A. for process improvements, new technologies and new products, Sogefi (Shzhou) Auto Parts Co., Ltd-A&C for the development of new products and the improvement of certain processes and Iberica De Suspension S.L. (ISSA) for the development of new products.

In the category “Tooling under construction”, the main investments concerned in particular the subsidiaries Sogefi Air & Cooling S.A.S., Sogefi Suspensions S.A., Sogefi (Suzhou) Auto Parts Co., Ltd and Sogefi Air & Cooling Canada Corp.

Among the most significant projects in the “Buildings, plant and machinery, commercial and industrial equipment” category, noteworthy are the investments in subsidiaries Sogefi HD Suspensions Germany GmbH to increase production capacity and for updating, Sogefi Air & Cooling S.A.S. to develop new products, increase production capacity and improve processes, Iberica De Suspension S.L. (ISSA) for new products and process improvement, S.C. Sogefi Air&Cool S.r.l. to increase production capacity and develop new products.

Line item “(Writedowns)/revaluations during the period” totalled Euro 4,581 thousand and mainly relates to European companies and the subsidiary Sogefi Filtration do Brasil Ltda.

Impairment losses less reversals are booked to “Other non-operating expenses (income)”.

“Other changes” refer to the completion of projects that were under way at the end of the previous year and their reclassification under the pertinent items. The item also includes the revaluation of the tangible fixed assets of the Argentine subsidiaries as a result of the application of IAS 29.

The balance of “Assets under construction and payments on account” as at 31 December 2019 includes Euro 273 thousand of advances for investments.

The main inactive assets, with a total net value of Euro 4,073 thousand, included in the item “Tangible fixed assets” mostly refer to investment properties of the Parent Company Sogefi S.p.A. (located in Mantova and San Felice del Benaco, for a total amount of Euro 4,051 thousand). The fair value of these assets as measured by an independent expert report exceeds their net book value. The book value of said assets will be recovered through their sale rather than through their continuous use. As we do not expect to sell them within one year, they are not subject to the accounting treatment envisaged by IFRS 5 and depreciation is continued.

No interest costs were capitalised to “Tangible fixed assets” during the year 2019.

Guarantees

Tangible fixed assets at 31 December 2019 were not encumbered by mortgages or liens in favour of financial institutions as loan collaterals. At 31 December 2018, these collaterals amounted to Euro 771 thousand and related to the subsidiary Sogefi Air & Cooling Canada Corp..

Purchase commitments

As at 31 December 2019, there are binding commitments to buy tangible fixed assets for Euro 1,195 thousand (Euro 2,721 thousand as at 31 December 2018) for the most part relating to the subsidiary Sogefi Suspensions S.A.. Said commitments will be settled within 12 months.

Impairment test of Sogefi Filtration do Brasil Ltda

Starting from fiscal year 2018, tangible and intangible fixed assets of the subsidiary Sogefi Filtration do Brasil Ltda were tested for impairment due to its negative economic and financial results and the sluggish performance of the Brazilian car market. The impairment test was carried out in accordance with the procedure laid down in IAS 36 by comparing the net book value of these assets (totalling Euro 11.4 million of tangible fixed assets, including rights of use) with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used the Discounted Cash Flow Unlevered model. The subsidiary took into account cash flows expected for 2020 as determined based on the budget and for the following 5 years (i.e. the estimated remaining useful life of the assets) approved by the Advisory Board of the subsidiary on 21 February 2020.

Budget and plan were prepared taking into account forecasts for the automotive industry in Brazil made by major sources in the industry, based on the expectation that the subsidiary will recover revenues and margins so as to return to pre-crisis profitability levels.

A discount rate of 14.03%, which reflects the weighted average cost of capital, was used.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 30.8%
- levered beta of the industry: 1.29
- risk-free rate: 7.88% (annual average of the Brazilian sovereign debt over 10 years)
- risk premium: 8.16% (average risk premium calculated by an independent source)
- debt cost: 9.4%

The test based on the present value of the estimated future cash flows turns out a value in use of tangible fixed assets that is lower than their book value. Accordingly, item "Buildings, plant and machinery, commercial and industrial equipment" was written down by Euro 1,444 thousand.

Rights of use

The net carrying amount of rights of use as of 31 December 2019 amounted to Euro 61,260 thousand versus Euro 63,325 thousand at 1 January 2019 and breaks down as follows:

| (in thousands of Euro) | 2019 | | | | | TOTAL |
|---|----------------------|-----------------|---------------------|-------------------------------------|--------------|----------|
| | Industrial Buildings | Other buildings | Plant and machinery | Commercial and industrial equipment | Other assets | |
| <i>Balance at January 1°, 2019</i> | | | | | | |
| Historical cost | 63,385 | 9,402 | 11,138 | 703 | 5,892 | 90,520 |
| Accumulated depreciation | 18,701 | 928 | 6,812 | 644 | 110 | 27,195 |
| Net value | 44,684 | 8,474 | 4,326 | 59 | 5,782 | 63,325 |
| Additions of the period | 6,981 | 117 | 97 | 68 | 2,270 | 9,533 |
| Disposals during the period | (437) | - | - | - | (50) | (487) |
| Exchange differences | 828 | (180) | 83 | 1 | (60) | 672 |
| Depreciation for the period | (7,289) | (2,094) | (871) | (38) | (2,326) | (12,618) |
| Writedowns/revaluations during the period | - | - | - | - | (5) | (5) |
| Other changes | (393) | 1,724 | - | - | (491) | 840 |
| <i>Balance at December 31, 2019</i> | 44,374 | 8,041 | 3,635 | 90 | 5,120 | 61,260 |
| Historical cost | 70,201 | 10,968 | 11,435 | 784 | 7,507 | 100,895 |
| Accumulated depreciation | 25,827 | 2,927 | 7,800 | 694 | 2,387 | 39,635 |
| Net value | 44,374 | 8,041 | 3,635 | 90 | 5,120 | 61,260 |

The increases for the period amount to Euro 9,533 thousand, mainly refer to the "Industrial property" categories, and particularly refer to the subsidiaries Sogefi Suspension Argentina S.A. and Allevard. Sogefi USA Inc. – Filters.

Disposals during the period amount to Euro 487 thousand and mainly refer to the early termination of a property rental agreement of the subsidiary Filter Systems Maroc S.a.r.l..

10. INTANGIBLE ASSETS

The net balance as at 31 December 2019 was Euro 272,563 thousand versus Euro 278,989 thousand at the end of the previous year, and breaks down as follows:

| (in thousands of Euro) | 2019 | | | | | | |
|---|-------------------|---|--|-----------------------|-----------------------------|----------|----------|
| | Development costs | Industrial patents and intellectual property rights, concessions, licences and trademarks | Other, assets under construction and payments on account | Customer Relationship | Trade name Systemes Moteurs | Goodwill | TOTAL |
| <i>Balance at December 31, 2018</i> | | | | | | | |
| Historical cost | 271,129 | 71,816 | 25,013 | 19,215 | 8,437 | 149,537 | 545,147 |
| Accumulated amortization | 188,594 | 38,042 | 6,056 | 7,342 | 3,226 | 22,898 | 266,158 |
| Net value | 82,535 | 33,774 | 18,957 | 11,873 | 5,211 | 126,639 | 278,989 |
| <i>Balance at December 31, 2018</i> | 82,535 | 33,774 | 18,957 | 11,873 | 5,211 | 126,639 | 278,989 |
| Additions of the period | 18,060 | 325 | 13,819 | - | - | - | 32,204 |
| Disposals during the period, net | - | - | - | - | - | - | - |
| Exchange differences | 1,444 | 4 | 32 | - | - | - | 1,480 |
| Amortization for the period | (28,840) | (4,708) | (699) | (990) | (435) | - | (35,672) |
| Writedowns / revaluations during the period | (3,822) | (6) | (2,242) | - | - | - | (6,070) |
| Other changes | 7,684 | 503 | (6,562) | 3 | 4 | - | 1,632 |
| <i>Balance at December 31, 2019</i> | 77,061 | 29,892 | 23,305 | 10,886 | 4,780 | 126,639 | 272,563 |
| Historical cost | 284,344 | 72,717 | 32,210 | 19,215 | 8,437 | 149,537 | 566,460 |
| Accumulated amortization | 207,283 | 42,825 | 8,905 | 8,329 | 3,657 | 22,898 | 293,897 |
| Net value | 77,061 | 29,892 | 23,305 | 10,886 | 4,780 | 126,639 | 272,563 |

| (in thousands of Euro) | 2018 | | | | | | |
|---|-------------------|---|--|-----------------------|-----------------------------|----------|----------|
| | Development costs | Industrial patents and intellectual property rights, concessions, licences and trademarks | Other, assets under construction and payments on account | Customer Relationship | Trade name Systemes Moteurs | Goodwill | TOTAL |
| <i>Balance at December 31, 2017</i> | | | | | | | |
| Historical cost | 253,654 | 68,784 | 25,435 | 19,215 | 8,437 | 149,537 | 525,062 |
| Accumulated amortization | 161,992 | 35,108 | 5,440 | 6,352 | 2,791 | 22,898 | 234,581 |
| Net value | 91,662 | 33,676 | 19,995 | 12,863 | 5,646 | 126,639 | 290,481 |
| | - | - | - | - | - | - | - |
| <i>Balance at December 31, 2017</i> | 91,662 | 33,676 | 19,995 | 12,863 | 5,646 | 126,639 | 290,481 |
| Additions of the period | 20,691 | 618 | 14,154 | - | - | - | 35,463 |
| Disposals during the period, net | - | - | - | - | - | - | - |
| Exchange differences | (83) | (33) | (78) | - | - | - | (194) |
| Amortization for the period | (32,187) | (3,907) | (575) | (990) | (435) | - | (38,094) |
| Writedowns / revaluations during the period | (8,282) | - | (150) | - | - | 0 | (8,432) |
| Reclassification of assets held for sale | (411) | - | - | - | - | - | (411) |
| Other changes | 11,145 | 3,420 | (14,389) | - | - | - | 176 |
| <i>Balance at December 31, 2018</i> | 82,535 | 33,774 | 18,957 | 11,873 | 5,211 | 126,639 | 278,989 |
| Historical cost | 271,129 | 71,816 | 25,013 | 19,215 | 8,437 | 149,537 | 545,147 |
| Accumulated amortization | 188,594 | 38,042 | 6,056 | 7,342 | 3,226 | 22,898 | 266,158 |
| Net value | 82,535 | 33,774 | 18,957 | 11,873 | 5,211 | 126,639 | 278,989 |

Investments during the year amounted to Euro 32,204 thousand.

The increases in “Development costs” for the amount of Euro 18,060 thousand refer to the capitalisation of costs incurred by Group companies to develop new products in collaboration with leading motor vehicle manufacturers (after obtaining the nomination letter from the customer). The most significant investments refer to the subsidiaries Filters Systems Maroc S.a.r.l., Sogefi Filtration S.A., Sogefi Air & Cooling Canada Corp., Sogefi Engine Systems Mexico S. de R.L. de C.V. and Sogefi (Shzhou) Auto Parts Co., Ltd-A&C.

Increases in “Industrial patents and intellectual property rights, concessions, licences and trademarks” amount to Euro 325 thousand and refer mainly to the development and implementation in process of the new information system across the Sogefi Group. This integrated information system is amortised on a ten-year basis, based on its estimated useful life, starting from the date of implementation in each subsidiary.

Increases in “Other, assets under construction and payments on account” amount to Euro 13,819 thousand, refer mainly to a large number of investments in the development of the new products not yet ready to use. The highest development costs were recorded at subsidiaries Allev. Sogefi USA Inc., Sogefi Air & Cooling S.A.S., Sogefi Suspensions Eastern Europe S.R.L., S.C. Sogefi Air&Cool S.r.l., Sogefi Engine systems India Pvt Ltd and Sogefi Filtration d.o.o..

Item “Customer relationship” amounts to Euro 10,886 thousand and represents the value of the Systèmes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

Item “Trade name Systèmes Moteurs” amounts to Euro 4,780 thousand and represents the value of the trade name “Systèmes Moteurs” at the acquisition date as determined during the Purchase Price Allocation process.

Item “Writedowns” totalled Euro 6,070 thousand and relates to no longer recoverable projects, mainly of the European subsidiaries.

The item does not include advances to suppliers for the purchase of fixed assets.

“Development costs” principally include costs generated internally, whereas “Industrial patents and intellectual property rights, concessions, licences and trademarks” consist of factors that are acquired externally for the most part.

“Other, assets under construction and payments on account” include around Euro 17,877 thousand of costs generated internally.

There are no intangible assets with an indefinite useful life except for goodwill.

Goodwill and impairment test

Goodwill is not amortised, but subjected each year to impairment test.

The Company identified five Cash Generating Units (CGUs):

- filtration
- air & cooling
- car suspension
- industrial vehicle suspension
- precision springs

For the moment, it is possible to identify goodwill deriving from external acquisitions in three CGUs: Filtration, Air Intake&Cooling and Car Suspension.

The specific goodwill of CGU “filtration” amounts to Euro 77,030 thousand; the goodwill of CGU “Air & Cooling” amounts to Euro 32,560 thousand; and the goodwill of C.G.U. “Car Suspension” amounts to Euro 17,049 thousand.

Impairment tests have been carried out in accordance with the procedure laid down in IAS 36 to check whether there have been any losses in the value of this goodwill, by comparing the book value of the individual CGUs with their value in use, given by the present value of estimated future cash flows that are expected to result from the continuing use of the asset being tested for impairment.

We used the Discounted Cash Flow Unlevered model. The Group took into account the cash flows projections expected for 2020 as determined based on the budget (approved by the Board of Directors on 27 January 2020) and the forecasts included in the 2021-2024 plan (adjusted to eliminate any estimated benefits from future projects and reorganisations) approved by the Board of Directors on 24 February 2020. Budget and plan were prepared taking into account forecasts for the automotive industry made by major sources in the industry.

A discount rate of 8.82%, which reflects the weighted average cost of capital, was used. The same discount rate is used for all three CGUs. As a matter of fact, the three CGUs operate in the same sector and deal with the same kind of customers, and it is estimated that they are exposed to the same risks.

The terminal value was calculated using the “perpetual annuity” approach, assuming a growth rate (“g-rate”) of 2% (assumed to be conservative when compared to the forecasts for the automotive segment available from major sources of the industry) and considering an operating cash flow based on the last year of the projection (the year 2024), adjusted to project a stable situation “in perpetuity”, based on the following main assumptions:

- a balance between capital investment and depreciation (according to the rationale of considering the level of investment needed to "maintain" the business);
- change in working capital equal to zero.

As regards the average cost of capital, we calculated a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread) and the Company's own cost of capital, based on parameters for a group of firms operating in

the European car components sector which are considered by the leading industry analysts to be Sogefi's peers. The values used to calculate the average cost of capital (extrapolated from the main financial sources) are as follows:

- financial structure of the industry: 30.8%
- levered beta of the industry: 1.29
- risk-free rate: 3.5% (annual average of risk-free rates of 10-year sovereign debt of the key markets in which the Group operates, weighted by revenues)
- risk premium: 6.3% (average risk premium calculated by an independent source for the key markets in which the Group operates, weighted by revenues)
- debt cost spread: 3% (estimate based on the 2020 budget)

As far as the sensitivity analysis goes, it should be noted that:

- the impairment test reached the break-even point at the following discounting rates (growth rate of terminal value remaining unchanged at 2% and all other plan assumptions being equal): 13.6% for CGU Filtration; 24.8% for CGU Air Intake&Cooling; and 11.0% for CGU Car Suspension;
- the impairment test reached break-even point with a significant reduction in EBIT during the explicit period covered by the plan that was also applied to terminal value (all other plan assumptions being equal): -43% in CGU Filtration; -72.5% in CGU Air Intake&Cooling; and -27.1% in CGU Car Suspension;
- the impairment test reached break-even point at the following decreasing rates of the terminal value “g-rate” (all other plan assumptions being equal): -5.4% in CGU Filtration; -53% in CGU Air Intake&Cooling; and -0.8% in CGU Car Suspension.

The test based on the present value of the estimated future cash flows turns out a value in use of the CGUs that exceeds their carrying value, so no writedown has been posted.

11. OTHER FINANCIAL ASSETS

As at 31 December 2019, this item amounts to Euro 46 thousand, unchanged compared to the previous fiscal year.

12. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT RECEIVABLES

Non-current financial receivables total Euro 6,803 thousand (Euro 5,115 thousand as at 31 December 2018) and refer to the fair value of cross currency swap and interest rate hedging contracts. Further details can be found in note 39 “Financial instruments and financial risk management”.

The item “Other non-current receivables” includes tax credits relating to the research and development activities of the French subsidiaries, other tax credits, other assets and non-interest bearing guarantee deposits for leased properties.

13. DEFERRED TAX ASSETS

As at 31 December 2019, this item amounts to Euro 36,988 thousand compared to Euro 36,597 thousand as at 31 December 2018.

This amount relates to the expected benefits on deductible temporary differences, booked to the extent that it is probable that it will be recovered. Reference should be made to note 19 for a further discussion of this matter.

14. ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY RELATED TO ASSETS HELD FOR SALE

At 31 December 2018 this item included the assets and liabilities of the Fraize plant, of the French subsidiary Sogefi Air & Cooling S.A.S., classified as "Assets held for sale" and sold in the first half of 2019. For further details, please refer to note 36 "Profit (loss) from discontinued operations, net of tax effects".

C 2) LIABILITIES AND EQUITY

15. FINANCIAL DEBTS TO BANKS AND OTHER FINANCING CREDITORS

These break down as follows:

Current portion

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|---------------|---------------|
| Bank overdrafts and short-term loans | 1,942 | 2,064 |
| Current portion of medium/long-term financial debts | 78,760 | 57,875 |
| Short-term financial debts for right of use | 15,044 | 1,592 |
| TOTAL SHORT-TERM FINANCIAL DEBTS | 95,746 | 61,531 |
| Other short-term liabilities for derivative financial instruments | 21 | 796 |
| TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS | 95,767 | 62,327 |

Non-current portion

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|----------------|----------------|
| Financial debts to banks | 131,932 | 117,785 |
| Other medium/long-term financial debts | 213,638 | 173,405 |
| Medium/long-term financial debts for right of use | 52,806 | 5,048 |
| TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS | 398,376 | 296,238 |

Bank overdrafts and short-term loans

For further details, please refer to the Analysis of the net financial position in note 21 and to the Consolidated Cash Flow Statement included in the financial statements.

Current and non-current portions of medium/long-term financial debts

Details are as follows:

Balance as at 31 December 2019 (in thousands of Euro):

| Company | Bank/Credit Institute | Signing date | Due date | Original amount loan | Interest rate | Current portion | Non-current portion | Total amount | Real Guarantees |
|-------------------------------------|-----------------------------------|--------------|-------------|----------------------|-----------------------|-----------------|---------------------|--------------|-----------------|
| Sogefi S.p.A. | Banca Nazionale del Lavoro S.p.A. | Dec - 2018 | Dec -2023 | 80,000 | Euribor 3m. + 145 bps | - | 79,950 | 79,950 | N/A |
| Sogefi S.p.A. | Private placement | May - 2013 | May - 2020 | 25,000 | Fixed coupon 505 bps | 24,995 | - | 24,995 | N/A |
| Sogefi S.p.A. | ING Bank | Jul - 2015 | Sept - 2022 | 55,000 | Euribor 3m. + 165 bps | - | 24,957 | 24,957 | N/A |
| Sogefi S.p.A. | Mediobanca S.p.A | Aug- 2019 | Aug- 2023 | 25,000 | Euribor 3m. + 170 bps | - | 24,931 | 24,931 | N/A |
| Sogefi S.p.A. | Private placement | May- 2013 | May- 2023 | USD 115,000 | Fixed coupon 600 bps | 14,624 | (*) | 14,624 | N/A |
| Sogefi S.p.A. | Banco do Brasil S.A. | May - 2018 | Sept - 2020 | 20,000 | 0.98% fixed | 11,621 | - | 11,621 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A. | Nov- 2019 | May- 2020 | 11,125 | 4.39 % fixed | 11,125 | - | 11,125 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Nov - 2019 | May - 2020 | 1,279 | 4.06% fixed | 1,279 | - | 1,279 | N/A |
| S.C. Sogefi Air & Cooling S.r.l. | ING Bank | Sept - 2019 | Mar - 2024 | 2,509 | ROBOR 3m. + 190 bps | 470 | 2,038 | 2,508 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Itau | Nov - 2018 | Jul -2020 | 2,090 | 4.89% fixed | 2,231 | - | 2,231 | N/A |
| S.C. Sogefi Air & Cooling S.r.l. | ING Bank | Mar - 2018 | May- 2020 | 4,600 | ROBOR 3m. + 150 bps | 1,225 | - | 1,225 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Itau | Sept - 2019 | Aug- 2020 | 1,561 | 4.38% fixed | 1,517 | - | 1,517 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco do Brasil | Dec - 2018 | Dec -2020 | 1,506 | CDI + 4.80% | 1,506 | - | 1,506 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Itau | Apr - 2018 | Mar - 2020 | 1,107 | 10.2% fixed | 1,107 | - | 1,107 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco do Brasil | May -2019 | Aug - 2020 | 690 | 4.5% fixed | 669 | - | 669 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco do Brasil | Nov - 2018 | Oct -2020 | 1,107 | 9.21% fixed | 615 | - | 615 | N/A |
| Altri finanziamenti | | | | | | 5,776 | 56 | 5,832 | |
| TOTALE | | | | | | 78,760 | 131,932 | 210,692 | |

(*) The medium/long-term portion of the bonds of the Parent company Sogefi S.p.A. is detailed in the following paragraph “Other medium/long-term financial debts”.

The line “Other medium/long-term financial debts” includes other minor loans.

Balance as at 31 December 2018 (in thousands of Euro):

| Company | Bank/Credit Institute | Signing date | Due date | Original amount loan | Interest rate | Current portion | Non-current portion | Total amount | Real Guarantees |
|-------------------------------------|-----------------------------------|--------------|------------|----------------------|-----------------------|-----------------|---------------------|--------------|-----------------|
| Sogefi S.p.A. | Banca Nazionale del Lavoro S.p.A. | Dec - 2018 | Dec -2023 | 80,000 | Euribor 3m. + 145 bps | - | 34,937 | 34,937 | N/A |
| Sogefi S.p.A. | Mediobanca S.p.A. | Aug- 2018 | Aug- 2020 | 25,000 | Euribor 3m. + 110 bps | - | 24,979 | 24,979 | N/A |
| Sogefi S.p.A. | ING Bank | Jul - 2015 | Sep - 2022 | 55,000 | Euribor 3m. + 165 bps | - | 24,917 | 24,917 | N/A |
| Sogefi S.p.A. | Mediobanca S.p.A. | Jun- 2017 | Jun- 2020 | 20,000 | Euribor 3m. + 110 bps | - | 19,986 | 19,986 | N/A |
| Sogefi S.p.A. | Banco do Brasil S.A. | May - 2018 | Sep - 2020 | 20,000 | 0.98% fixed | 8,372 | 11,613 | 19,985 | N/A |
| S.C. Sogefi Air&Cool Srl | ING Bank | Mar - 2018 | May - 2020 | 4,717 | ROBOR 3m. + 150 bps | 2,513 | 1,256 | 3,769 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A. | Nov- 2018 | May- 2019 | 2,804 | 4.90 % fixed | 2,804 | - | 2,804 | N/A |
| Sogefi Filtration S.A. | Société Générale | Apr - 2017 | Oct - 2019 | 5,000 | Euribor 3m. + 75 bps | 2,509 | - | 2,509 | N/A |
| Sogefi Suspensions S.A. | Société Générale | Apr - 2017 | Oct - 2019 | 5,000 | Euribor 3m. + 75 bps | 2,509 | - | 2,509 | N/A |
| Sogefi Air&Cooling S.A.S. | Société Générale | May - 2017 | Nov - 2019 | 5,000 | Euribor 3m. + 75 bps | 2,509 | - | 2,509 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Nov - 2018 | Nov - 2019 | 2,432 | 5.02% fixed | 2,432 | - | 2,432 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Unicredit S.p.A. | Nov - 2018 | Nov - 2019 | 1,577 | 5.25% fixed | 1,577 | - | 1,577 | N/A |
| Sogefi S.p.A. | Banca Carige Italia S.p.A. | Nov - 2015 | Jun - 2019 | 10,000 | Euribor 6m. + 130 bps | 1,446 | - | 1,446 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Nov - 2018 | Nov - 2019 | 1,377 | 5.02% fixed | 1,377 | - | 1,377 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Brasil | Dec - 2018 | Dec - 2019 | 1,297 | 4.80% fixed | 1,308 | - | 1,308 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Nov - 2018 | May - 2019 | 1,270 | 4.85% fixed | 1,270 | - | 1,270 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | May - 2018 | May - 2019 | 1,270 | 5.60% fixed | 1,270 | - | 1,270 | N/A |
| Sogefi (Suzhou) Auto Parts Co., Ltd | Intesa SanPaolo S.p.A. | Jul - 2018 | Jan - 2019 | 1,270 | 5.60% fixed | 1,270 | - | 1,270 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Itau | Sep - 2018 | Sep - 2019 | 1,211 | 4.75% fixed | 1,133 | - | 1,133 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Itau | Apr - 2018 | Apr - 2019 | 1,125 | 10% fixed | 1,125 | - | 1,125 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Brasil | Nov - 2018 | Oct -2020 | 1,125 | 9.21% fixed | 1,125 | - | 1,125 | N/A |
| Sogefi Filtration do Brasil Ltda | Banco Brasil | Nov - 2018 | Nov - 2019 | 1,125 | 9.21% fixed | 1,031 | - | 1,031 | N/A |
| Other loans | | | | | | 20,295 | 97 | 20,392 | |
| TOTAL | | | | | | 57,875 | 117,785 | 175,660 | |

During financial year 2019, the Parent Company Sogefi S.p.A. exercised its right under the contract to repay in advance the entire amount in use (Euro 20 million) of the loan taken from Mediobanca in June 2017.

During 2019 the Parent Company Sogefi S.p.A. also renegotiated the following loans:

- the existing revolving loan taken from Mediobanca S.p.A. for a total amount of Euro 25 million and expiring in August 2023 (previously August 2020), as it negotiated a variable rate linked to the Euribor plus a spread of 170 basis points (previously 110 basis points);
- the existing revolving loan taken from Unicredit S.p.A. for a total amount of Euro 50 million, as its maturity was extended from July 2022 until September 2024 and the variable rate was kept constant, linked to the Euribor plus an average spread of 175 basis points.

The existing loans are not secured by the Company's assets. Furthermore, note that, contractually, the spreads relating to the loans of the Parent Company Sogefi S.p.A. are

reviewed every six months on the basis of the computation of the consolidated NFP/normalised consolidated EBITDA ratio. For an analysis of the covenants relating to loans outstanding at the end of the period, please refer to the note 21 below entitled “Analysis of the financial position”.

Other short-term liabilities for derivative financial instruments

The item includes the short-term portion of the *fair value* of the exchange risk hedging contracts.

Reference should be made to chapter E for a further discussion of this matter.

Other medium/long-term financial debts

As at 31 December 2019, details were as follows (in thousands of Euro):

| Società | Bank/Credit Institute | Signing date | Due date | Original amount loan | Interest rate | Total amount at December 31, 2019 (in thousands of Euro) | Real Guarantees |
|-----------------------|-----------------------|--------------|------------|----------------------|----------------------|--|-----------------|
| Sogefi S.p.A. | Private placement | May - 2013 | May - 2023 | USD 115,000 | Fixed coupon 600 bps | 43,722 | N/A |
| Sogefi S.p.A. | Equity linked bond | May - 2014 | May - 2021 | Euro 100,000 | Fixed coupon 2% year | 93,739 | N/A |
| Sogefi S.p.A. | Private placement | Nov - 2019 | Nov - 2025 | Euro 75,000 | Fixed coupon 3% year | 74,610 | N/A |
| Other financial debts | | | | | | 1,567 | |
| TOTALE | | | | | | 213,638 | |

Please note that an amount of Euro 14,624 thousand relating to the bond issue of USD 115,000 thousand and Euro 24,995 thousand relating to the bond issue of original Euro 25 million were classified under “Current portion of medium/long-term financial debts” as they are to be repaid in 2020.

In November 2019 the Parent Company Sogefi S.p.A. issued a bond for the amount of Euro 75 million that was purchased by three leading institutional investors. This unsecured loan has a total duration of six years, with repayments starting from the second year, and provides for a fixed annual coupon of 3%.

The line “Other medium/long-term financial debts” includes other minor loans.

As at 31 December 2018, details were as follows (in thousands of Euro):

| Company | Bank/Credit Institute | Signing date | Due date | Original amount loan (in thousands) | Interest rate | Total amount at December 31, 2018 (in thousands of Euro) | Real guarantees |
|-----------------------|-----------------------|--------------|------------|-------------------------------------|----------------------|--|-----------------|
| Sogefi S.p.A. | Private placement | May - 2013 | May - 2023 | USD 115,000 | Fixed coupon 600 bps | 57,197 | N/A |
| Sogefi S.p.A. | Private placement | May - 2013 | May - 2020 | Euro 25,000 | Fixed coupon 505 bps | 24,981 | N/A |
| Sogefi S.p.A. | Equity linked bond | May - 2014 | May - 2021 | Euro 100,000 | Fixed coupon 2% year | 89,574 | N/A |
| Other financial debts | | | | | | 1,653 | |
| TOTAL | | | | | | 173,405 | |

The balance in Euro of the bond of original USD 115,000 thousand decreased as a result of the redemption of a portion of USD 16.4 million that was settled during 2019 and of the variation in the Euro-to-USD exchange rate (this variation being hedged as detailed in section E).

Financial payables for rights of use

Details are as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|------------|------------|
| Short-term financial debts for right of use | 15,044 | 1,592 |
| Medium/long-term financial debts for right of use | 52,806 | 5,048 |
| TOTAL | 67,850 | 6,640 |

The item includes payables for Rights of Use recorded following the application of the accounting standard IFRS 16 "Leases". This item mainly refers to the residual debt of property rental agreements. The main property rental agreements refer to the subsidiaries Filter Systems Maroc S.a.r.l., Sogefi Filtration Do Brasil Ltda, Sogefi Engine Systems Mexico S. de R.L. de C.V., Sogefi (Suzhou) Auto Parts Co. Ltd, Allevard Sogefi USA Inc. and Sogefi Air & Cooling Canada Corp..

It should also be noted that the item includes Euro 5,192 thousand (of which Euro 1,450 thousand are current and Euro 3,742 thousand are medium/long-term) relating to financial leases already in place as at 1 January 2019, accounted for in accordance with the provisions of IAS 17. The amounts for 2018 relating to financial leases in place as at 1 January 2019 have been reclassified from the item "Current portion of medium/long-term loans and other loans" to the item "Current financial payables for rights of use" and from the item "Non-current portion of medium/long-term financial debts and other loans" to the item "Medium/long-term financial payables for rights of use" in accordance with the classification under the new standard.

16. TRADE AND OTHER CURRENT PAYABLES

The amounts shown in the financial statements can be broken down into the following categories:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--------------------------|----------------|----------------|
| Trade and other payables | 342,340 | 345,529 |
| Tax payables | 9,213 | 10,029 |
| TOTAL | 351,553 | 355,558 |

Details of trade and other payables are as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|----------------|----------------|
| Due to suppliers | 272,518 | 274,984 |
| Due to the parent company | 2,067 | 2,405 |
| Due to tax authorities for indirect and other taxes | 7,714 | 8,118 |
| Due to social and security institutions | 16,873 | 19,348 |
| Due to employees | 32,255 | 30,348 |
| Other payables | 10,913 | 10,326 |
| TOTAL | 342,340 | 345,529 |

Amounts “Due to suppliers” are not interest-bearing and are settled on average in 73 days (73 days as at 31 December 2018).

There is no significant concentration of payables due to any one supplier or small group of suppliers.

The amounts “Due to suppliers” decreased by Euro 2,466 thousand (the exchange rate effect is immaterial); this is mainly due to sluggish business growth in the last portion of 2019 compared to the same period of the previous year.

Amounts “Due to parent company” reflect the consideration of Euro 1,065 thousand due for the fiscal surplus transferred by companies that have joined the CIR Group tax filing system; Euro 734 thousand represent the tax liability, net of the relevant pre-payments, of the Italian subsidiaries in connection with the CIR Group tax filing system, Euro 20 thousand reflect outstanding Directors' remuneration charged back to the parent company Cir S.p.A. and Euro 248 thousand reflect chargebacks of costs incurred by the Parent Company CIR S.p.A. solely to the benefit of Sogefi Spa. For further details, please refer to note 40.

“Tax payables” are taxes accrued in 2019.

17. OTHER CURRENT LIABILITIES

The item "Other current liabilities", for the amount of Euro 38,987 thousand (Euro 38,893 thousand as at 31 December 2018), mainly includes the liabilities recorded upon adoption of IFRS 15. These liabilities represent the amounts received from customers

for the sale of tooling and prototypes that will be recognised in the Income Statement over the life of the product.

This item also includes adjustments to costs and revenues for the period so as to ensure compliance with the accruals based principle (accrued expenses and deferred income) and advances received from customers for orders still to be delivered.

18. LONG-TERM PROVISIONS AND OTHER PAYABLES

These are made up as follows:

Details of the main items are given below.

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|---------------|---------------|
| Pension funds | 53,235 | 49,019 |
| Employment termination indemnities | 3,467 | 4,478 |
| Provision for restructuring | 2,238 | 1,545 |
| Provision for product warranties | 4,678 | 4,281 |
| Provision for rights of use restoration | 4,586 | - |
| Provisions for disputes in progress and other risks | 8,094 | 7,926 |
| TOTAL | 76,298 | 67,249 |

Pension funds

The amount of Euro 53,325 thousand represents the amount set aside at year end by the various Group foreign companies to cover the liabilities of their various pension funds. Changes in the pension funds occurred during the year are shown below:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|---------------|---------------|
| Opening balance | 49,019 | 48,713 |
| Cost of benefits charged to income statement | 2,580 | 5,047 |
| "Other Comprehensive Income" | 4,957 | (705) |
| Contributions paid | (3,717) | (3,834) |
| Change in the scope of consolidation | (893) | - |
| Exchange differences | 1,289 | (202) |
| TOTAL | 53,235 | 49,019 |

The following table shows all of the obligations deriving from "Pension funds" and the present value of the plan assets for the year 2019 and the two previous years.

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 | 12.31.2017 |
|--|------------|------------|------------|
| Present value of defined benefit obligations | 227,931 | 200,520 | 213,141 |
| Fair value of plan assets | 174,696 | 151,501 | 164,428 |
| Deficit | 53,235 | 49,019 | 48,713 |

Changes in the "Present value of defined benefit obligations" for the year 2019 were as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|------------|------------|
| Present value of defined benefit obligations at the beginning of the period | 200,520 | 213,141 |
| Current service cost | 1,438 | 1,575 |
| Financial expenses | 5,394 | 5,406 |
| Remeasurement (gains)/losses | - | - |
| - Actuarial (gains)/losses arising from changes in demographic assumptions | (5,983) | (3,404) |
| - Actuarial (gains)/losses arising from changes in financial assumptions | 29,823 | (5,452) |
| - Actuarial (gains)/losses arising from experience | (1,988) | (3,076) |
| - Actuarial (gains)/losses arising from "Other long-term benefits" - Jubilee benefit | 136 | (292) |
| Past service cost | - | 2,251 |
| Contribution paid by plan participants | 6 | 14 |
| Settlements/Curtailments | (646) | - |
| Exchange differences | 9,511 | (1,417) |
| Change in the scope of consolidation | (893) | - |
| Benefits paid | (9,387) | (8,226) |
| Present value of defined benefit obligations at the end of the period | 227,931 | 200,520 |

"Actuarial (gains)/losses arising from changes in demographic assumptions" are mainly due to revised mortality assumptions in British pension funds.

"Actuarial (gains)/losses arising from changes in financial assumptions" are mainly due to a diminished discount rate in British and French pension funds.

"Actuarial (gains)/losses arising from experience adjustments" reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

"Actuarial (gains)/losses relating to other long-term benefits" mainly relate to the French subsidiaries.

The item "Change in the scope of consolidation" refers to the pension fund liability of the Fraize plant of the French subsidiary Sogefi Air & Cooling S.A.S., sold during the first half of 2019. For further details, please refer to note 36 "Profit (loss) from discontinued operations, net of tax effects".

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period; the present value of obligations at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Changes in the fair value of plan assets are illustrated in the table below:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|------------|------------|
| Fair value of plan assets at the beginning of the period | 151,501 | 164,428 |
| Interest income | 4,299 | 4,395 |
| Remeasurement (gains)/losses: | | |
| Return on plan assets | 16,895 | (11,227) |
| Non-management costs of plan assets | (557) | (502) |
| Contributions paid by the company | 2,443 | 2,446 |
| Contributions paid by the plan participants | 6 | 14 |
| Settlements/Curtailments | - | - |
| Exchange differences | 8,221 | (1,215) |
| Benefits paid | (8,112) | (6,838) |
| Fair value of plan assets at the end of the period | 174,696 | 151,501 |

With regard to the balances of companies that use functional currencies other than the Euro, please note that the Income Statement items are translated into Euro using the average exchange rate of the reporting period, whereas the fair value of assets at beginning and end of period was translated at the rate of exchange ruling at the relevant date.

Details of the amounts recognised in Other comprehensive income are given below:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|------------|------------|
| Return on plan assets (excluding amounts included in net interests expenses on net liability (assets)) | (16,895) | 11,227 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | (5,983) | (3,404) |
| Actuarial (gains)/losses arising from changes in financial assumptions | 29,823 | (5,452) |
| Actuarial (gains)/losses arising from experience | (1,988) | (3,076) |
| Value of the net liability (asset) to be recognised in "Other Comprehensive income" | 4,957 | (705) |

The amounts charged to the Income Statement can be summarised as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|------------|------------|
| Current service cost | 1,438 | 1,575 |
| Net interest cost | 1,095 | 1,011 |
| Past service cost | - | 2,251 |
| Actuarial (gains)/losses recognised during the year on "Other long-term benefits" - Jubilee benefit | 136 | (292) |
| Non-management costs of plan assets | 557 | 502 |
| Settlements/Curtailments | (646) | - |
| TOTAL | 2,580 | 5,047 |

Items “Current service cost” and “Non-management costs of plan assets” are included in the various “Labour cost” lines of Income Statement items.

Line “Financial expenses, net” is included in “Financial expenses (income), net”. “Actuarial (gains) losses recognized during the year” relating to jubilee benefits, “Settlements/Curtailments” and “Past service cost” are included in “Other non-operating expenses (income)”.

Defined-benefit plans expose the Group to the following actuarial risks:

- Investment risk (only applies to British subsidiaries that hold plan assets): the present value of the defined-benefit obligation is calculated at a discount rate determined with reference to returns on AA-rated UK corporate bonds or Eurozone corporate bonds; if the return on plan assets is lower than this rate, the plan will be in deficit. For this reason, and considering the long-term nature of plan liabilities, the British companies' funds diversified their portfolios to include investment in properties, debt instruments and equity instruments.
- Interest risk: a decrease in the discount rate will lead to an increase in plan liability; however, if plan assets are present, such increase will be partially offset by an increase in the return on plan investments.
- Longevity risk: the value of the defined-benefit obligation is calculated taking into account the best possible estimate of the mortality rate of plan beneficiaries; an increase in life expectancy leads to an increase in the resulting obligation.
- Inflation risk/wage inflation risk: the value of the definite-benefit plan with reference to employees in service is calculated taking into account future pay rises and inflation rate: an increase in these elements causes the relevant obligation to increase.

The following table shows the breakdown of “Pension funds” by geographical area of the relevant subsidiaries:

| (in thousands of Euro) | 12.31.2018 | | | |
|--|---------------|--------|-------|---------|
| | Great Britain | France | Other | TOTAL |
| Present value of defined benefit obligations | 175,069 | 22,020 | 3,431 | 200,520 |
| Fair value of plan assets | 151,142 | - | 359 | 151,501 |
| Deficit | 23,927 | 22,020 | 3,072 | 49,019 |

| (in thousands of Euro) | 12.31.2019 | | | |
|--|---------------|--------|-------|---------|
| | Great Britain | France | Other | TOTAL |
| Present value of defined benefit obligations | 201,511 | 22,665 | 3,755 | 227,931 |
| Fair value of plan assets | 174,371 | - | 325 | 174,696 |
| Deficit | 27,140 | 22,665 | 3,430 | 53,235 |

Note that the actuarial valuations of the “Pension funds” are carried out in collaboration with external specialists.

The following paragraphs summarise the pension systems in the geographical areas that affect the Group the most: Great Britain and France.

Great Britain

In Great Britain, pension plans are mainly private, being made with fund management companies and administered independently from the company.

They are classified as defined-benefit plans subject to actuarial valuation that are accounted for according to the corridor approach as provided for by IAS 19.

With regard to plan governance, administrators are representatives of employees, former employees and employer; they are required by law to act in the interest of the fund and of all main stakeholders and are responsible for the investment policies adopted for plan assets.

With regard to the nature of employee benefits, employees are entitled to a post-employment annuity calculated by multiplying a portion of the wage earned at retirement age by the number of years of service until retirement age.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

| | 12.31.2019 | 12.31.2018 |
|-----------------------------|------------|------------|
| Discount rate % | 2.0-2.1 | 2.8-3.1 |
| Expected annual wage rise % | 3.6 | 3,6 |
| Annual inflation rate % | 2.1-3.1 | 2.1-3.1 |
| Retirement age | 65 | 65 |

The diminished “Discount rate” versus the previous year reflects the downward trend in returns on AA-rated UK corporate bonds recorded in 2019.

The “Discount rate” is calculated based on the returns on AA-rated UK corporate bonds with average duration similar to that of the bond (approximately 22 years for the subsidiary Allevard Springs Ltd and 17 years for the subsidiary Sogefi Filtration Ltd).

Changes in the present value of the UK funds obligation for 2019 and 2018 were as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|------------|------------|
| Present value of defined benefit obligations at the beginning of the period | 175,069 | 185,194 |
| Current service cost | (14) | 10 |
| Financial expenses | 4,942 | 4,953 |
| Remeasurement (gains)/losses: | - | - |
| - Actuarial (gains)/losses arising from changes in demographic assumptions | (6,013) | (3,470) |
| - Actuarial (gains)/losses arising from changes in financial assumptions | 27,738 | (4,819) |
| - Actuarial (gains)/losses arising from experience | (1,707) | (2,744) |
| Past service cost | - | 4,189 |
| Contribution paid by plan participants | 6 | 6 |
| Settlements/Curtailments | - | - |
| Exchange differences | 9,525 | (1,418) |
| Benefits paid | (8,035) | (6,832) |
| Present value of defined benefit obligations at the end of the period | 201,511 | 175,069 |

Changes in the fair value of UK plan assets are illustrated in the table below:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|------------|------------|
| Fair value of plan assets at the beginning of the period | 151,142 | 164,186 |
| Interest income | 4,276 | 4,379 |
| Remeasurement (gains)/losses: | - | - |
| Return on plan assets (excluded amounts recognised in interest income) | 16,899 | (11,227) |
| Non-management costs of plan assets | (557) | (502) |
| Contribution paid by the company | 2,407 | 2,343 |
| Contribution paid by plan participants | 6 | 6 |
| Settlements/Curtailments | - | - |
| Exchange differences | 8,235 | (1,211) |
| Benefits paid | (8,037) | (6,832) |
| Fair value of plan assets at the end of the period | 174,371 | 151,142 |

Allocations of the fair value of plan asset based on type of financial instrument were as follows:

| | 12.31.2019 | 12.31.2018 |
|-------------------------|------------|------------|
| Debt instruments | 23.4% | 16.7% |
| Equity instruments | 27.7% | 28.3% |
| Real estate investments | 0.3% | 0.3% |
| Cash | 13.4% | 11.8% |
| Derivatives | 25.5% | 33.2% |
| Other assets | 9.7% | 9.7% |
| TOTAL | 100.0% | 100.0% |

The fair value of these financial instruments was measured based on quoted prices available in active markets.

Debt instruments are mostly foreign corporate securities. Equity instruments are mostly foreign securities (emerging country securities constitute a minimal share).

The Trustee Board periodically reviews the plan's investment strategies and diversifies them by risk and asset profitability. These strategies take into account the nature and duration of liabilities, the fund's financing needs and the employer's ability to meet the fund's commitments. The fund of subsidiary Sogefi Filtration Ltd uses derivative financial instruments to hedge the risk of changes in liability value connected with inflation, exchange and interest rates.

With regard to the impact of the defined-benefit plan of the UK companies on the Group's future cash flows, expected contributions to the plans for the next year total Euro 2,504 thousand.

Average bond duration as at 31 December 2019 is approximately 18 years.

In compliance with the IAS 19, a sensitivity analysis was performed to determine how the present value of the bond changes as the most significant actuarial assumptions change, other actuarial assumptions being equal.

Considering the peculiar operation of UK funds, the following actuarial assumptions are considered significant:

- Discount rate
- Wage inflation rate
- Life expectancy

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

| (in thousands of Euro) | 12.31.2019 | |
|-------------------------|------------|--------|
| | +1% | -1% |
| Discount rate | (31,339) | 40,133 |
| Rate of salary increase | 105 | (89) |

| (in thousands of Euro) | 12.31.2019 | |
|------------------------|------------|----------|
| | + 1 year | - 1 year |
| Life expectancy | 7,070 | (6,987) |

France

Pensions in France are essentially based on state pension plans and the responsibility of the company is limited to paying the contributions established by law.

In addition to this basic assistance guaranteed by the state, retiring employees are also entitled to other additional amounts under collective labour agreements that are determined based on length of service and salary level, and are only paid if the employee reaches retirement age in the company. An employee leaving the company before retirement age will lose these additional benefits.

These additional benefits are recognised as a liability for the company and, in accordance with IAS 19, they are considered as defined-benefit plans subject to actuarial valuation.

In addition to the retirement indemnity, a collective labour agreement provides for a “*Jubilee benefit*” (which is calculated with a different method at each different French subsidiary) that vests upon reaching 20, 30, 35 and 40 years of service with the company. Under the IAS 19, this “*Jubilee benefit*” falls under the residual category of “Other long-term benefits” and is subject to actuarial valuation; actuarial gains (losses) must be recognised in the Income Statement for that year. Employees will lose the bonus falling due upon the different service jubilee bonuses if they leave the company before reaching the years of service mentioned above.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

| | 12.31.2019 | 12.31.2018 |
|-----------------------------|-----------------------|------------|
| Discount rate % | 0.85 | 1.85 |
| Expected annual wage rise % | 1.6-5 based on age | 2.5-2 |
| Annual inflation rate % | 1.75 | 1.75 |
| Retirement age | 62-67 | 62-67 |

The “Discount rate” is calculated based on the returns on Eurozone AA-rated corporate bonds (average duration of 15 years).

Changes in the "Present value of defined benefit obligations" were as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|------------|------------|
| Present value of defined benefit obligations at the beginning of the period | 22,020 | 24,367 |
| Current service cost | 1,277 | 1,448 |
| Financial expenses | 387 | 382 |
| Remeasurement (gains)/losses: | | |
| - Actuarial (gains)/losses arising from changes in demographic assumptions | 31 | 33 |
| - Actuarial (gains)/losses arising from changes in financial assumptions | 1,793 | (673) |
| - Actuarial (gains)/losses arising from experience | (449) | (198) |
| Past service cost | 136 | (292) |
| - Actuarial (gains)/losses related to "Other long-term benefits" - Jubilee benefit | - | (1,938) |
| Settlements/Curtailments | (646) | - |
| Change in the scope of consolidation | (893) | - |
| Benefits paid | (991) | (1,109) |
| Present value of defined benefit obligations at the end of the period | 22,665 | 22,020 |

“Actuarial (gains)/losses arising from experience adjustments” reflect the difference between actuarial assumptions and what occurred in practice (for instance, in terms of employee turnover, wage inflation or inflation rate).

The sensitivity analysis of the French funds was performed by varying the following actuarial assumptions:

- Discount rate
- Wage inflation rate

An overview of the changes in the present value of the obligation triggered by changes in these actuarial assumptions is provided below:

| (in thousands of Euro) | 12.31.2019 | |
|-------------------------|------------|---------|
| | +1% | -1% |
| Discount rate | (2,598) | 3,493 |
| Rate of salary increase | 3,249 | (2,445) |

Employment termination indemnities

This aspect only concerns the Group's Italian companies, where pensions are represented by state plans and the company's responsibility is limited to regular payment of social contributions each month.

In addition to state-provided pensions, employees are entitled by law to a termination indemnity that accrues in accordance with length of service and is paid when an employee leaves the company.

The termination indemnity is calculated based on the length of service and taxable remuneration of each employee.

The corresponding liability is put aside in a specific provision and the amounts accrued in previous years are subject to annual revaluation based on the official cost-of-life index and at the legal interest rates; it is not associated with any conditions or accrual periods, nor does it require any financial provision; as a result, there are no assets underlying the provision.

This termination indemnity is considered as a defined-benefit provision, but subject to actuarial valuation for the part relating to the expected future benefits in respect of past service (which is the part subject to annual revaluation).

Further to the amendments to the “Employment termination indemnities” introduced by Law 296 of 27 December 2006 and subsequent decrees and regulations issued in the early part of 2007, for companies with 50 or more employees (Sogefi Filtration Italy S.p.A., Sogefi Suspensions Passenger Car Italy S.r.l. and Sogefi Suspensions Heavy Duty Italy S.r.l.), the portions of the provision accruing as from 1 January 2007 are transferred - at employee's option - to supplementary pension funds or to the treasury fund held by INPS (the Italian social security authority) or to supplementary pension schemes, and are considered as “defined-contribution plans”. These amounts therefore do not require actuarial valuation and are no longer booked to “Employment termination indemnities”. The “Employment termination indemnities” accruing up to 31 December 2006 is still a “defined-benefit plan”, consequently requiring actuarial valuation, which however will no longer take account of the component relating to future wage inflation.

In accordance with the IAS 19, for companies with less than 50 employees (Parent Company Sogefi S.p.A.) the item “Employment termination indemnities” as at 31 December 2019 is entirely accounted for as a “Definite-benefit plan” and is subject to actuarial valuation.

The assumptions taken into consideration when carrying out the actuarial valuation of the “Employment termination indemnities” were as follows:

- Macroeconomic assumptions:

1. annual discount rate (IBoxx Eurozone Corporate AA Index): 0.37% (1.13% as at 31 December 2018);
2. annual inflation rate: 1.2% (as at 31 December 2018: 1.5%);
3. annual increase in termination indemnity: 2.4% (as at 31 December 2018: 2.625%);

- Demographic assumptions:

1. rate of voluntary resignations: 3% - 10% of the workforce (same assumptions adopted as at 31 December 2018);
2. retirement age: it was assumed that employees would reach the first of the requirements valid for mandatory general social security (same assumptions adopted as at 31 December 2018);
3. probability of death: the RG48 mortality tables produced by the General State Accounting Body were used (same assumptions adopted as at 31 December 2018);
4. probability of advanced settlement: an annual value of 2% - 3% each year was assumed (same assumptions adopted as at 31 December 2018);
5. INPS' table split by age and gender was used for the probability of disability (same assumptions adopted as at 31 December 2018).
6. The provision changed as follows during the period:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|--------------|--------------|
| Opening balance | 4,478 | 5,425 |
| Accruals for the period | 49 | 66 |
| Amounts recognised in "Other Comprehensive Income" | 106 | (88) |
| Contributions paid | (1,166) | (925) |
| TOTAL | 3,467 | 4,478 |

The amounts charged to the Income Statement can be summarised as follows:

| (in thousands of Euro) | 2019 | 2018 |
|------------------------|-----------|-----------|
| Current service cost | 26 | 21 |
| Financial charges | 23 | 45 |
| TOTAL | 49 | 66 |

Average bond duration as at 31 December 2019 is approximately 9 years.

The sensitivity analysis of the provision for employment termination indemnities is outlined below. The table below shows the changes in the provision triggered by changes in the following actuarial assumptions:

- Discount rate
- Wage inflation

| (in thousands of Euro) | 12.31.2019 | |
|-------------------------|------------|-------|
| | +0.5% | -0.5% |
| Discount rate | (232) | 244 |
| Rate of salary increase | 2 | (2) |

Provision for restructuring

These are amounts set aside for restructuring operations that have been officially announced and communicated to those concerned, as required by IAS/IFRS.

The provision changed as follows during the period:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---------------------------------------|--------------|--------------|
| Opening balance | 1,545 | 2,623 |
| Accruals for the period | 1,859 | 1,877 |
| Utilisations | (1,151) | (2,895) |
| Provisions not used during the period | (15) | (60) |
| Other changes | - | - |
| Exchange differences | - | - |
| TOTAL | 2,238 | 1,545 |

Changes in “Accruals for the period” net of the “Provisions not used during the period” (amounts set aside during previous years in excess of amounts actually paid), total Euro 1,844 thousand; this figure is booked to the Income Statement under “Restructuring costs”.

Provision for product warranties

The provision changed as follows during the period:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---------------------------------------|--------------|--------------|
| Opening balance | 4,281 | 18,214 |
| Accruals for the period | 2,974 | 2,921 |
| Utilisations | (2,001) | (1,019) |
| Provisions not used during the period | (410) | (10,800) |
| Other changes | (214) | (5,000) |
| Exchange differences | 48 | (35) |
| TOTAL | 4,678 | 4,281 |

The item includes provisions for product warranties by Group companies.

It should be noted that at 31 December 2018 the items “Provisions not used during the period” and “Other changes” refer to the French subsidiary Sogefi Air & Cooling S.A.S. and include the amounts relating to a final agreement for the settlement of pending disputes with two customers for the supply of a defective component.

Provision for restoration of rights of use

This item (for the amount of Euro 4,586 thousand) includes an estimate of the costs that the lessees of leased assets will have to incur in order to dismantle and remove the asset and restore the site or asset to the condition provided for in the lease terms.

Lawsuits and other risks

The provision changed as follows during the period:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---------------------------------------|------------|------------|
| Opening balance | 7,926 | 12,074 |
| Accruals for the period | 3,046 | 2,700 |
| Utilisations | (2,350) | (2,080) |
| Provisions not used during the period | - | (1,886) |
| Other changes | (329) | (2,084) |
| Exchange differences | (198) | (798) |
| TOTAL | 8,095 | 7,926 |

The provision includes liabilities toward employees and other counterparts. Amounts stated in the financial statements represent the best possible estimates of liabilities at year-end date.

The provision at 31 December 2019 mainly refers to liabilities relating to risks in the European and Brazilian subsidiaries.

Please refer to note 44 “Potential assets / liabilities” for the details relating to liabilities not valued as probable.

The accrual of Euro 3,046 thousand mainly refers to risks connected with disputes relating to the French and Brazilian subsidiaries.

Other payables

The item “Other payables” amounts to Euro 59,503 thousand (Euro 62,867 thousand as at 31 December 2018), and mainly reflects the non-current portion of the liabilities recorded upon adoption of IFRS 15. These liabilities represent the amounts received from customers for the sale of tooling and prototypes that will be recognised in the Income Statement over the life of the product.

19. DEFERRED TAX LIABILITIES

The following details of deferred tax assets and liabilities are provided in light of the IAS/IFRS disclosure requirements.

| (in thousands of Euro) | 12.31.2019 | | 12.31.2018 | |
|--|---------------------------------|---------------|---------------------------------|---------------|
| | Amount of temporary differences | Tax effect | Amount of temporary differences | Tax effect |
| Deferred tax assets: | | | | |
| Allowance for doubtful accounts | 1,877 | 463 | 1,477 | 379 |
| Fixed assets amortisation/writedowns | 29,697 | 7,572 | 29,110 | 7,529 |
| Inventory writedowns | 4,855 | 1,389 | 3,993 | 1,225 |
| Other provisions - Other payables | 51,437 | 10,846 | 44,872 | 9,547 |
| Fair value derivative financial instruments | 2,490 | 598 | 3,162 | 759 |
| IFRS15 | 15,615 | 3,555 | 20,067 | 5,101 |
| IFRS16 | 4,577 | 1,004 | - | - |
| Other | 23,130 | 6,701 | 17,174 | 5,665 |
| Deferred tax assets for tax losses incurred during the year | 8,153 | 1,869 | 18,378 | 4,667 |
| Deferred tax assets for tax losses incurred during previous years | 14,130 | 2,991 | 14,334 | 1,725 |
| TOTAL | 155,961 | 36,988 | 152,567 | 36,597 |
| Deferred tax liabilities: | | | | |
| Accelerated/excess depreciation and amortisation | 95,664 | 23,094 | 98,745 | 24,298 |
| Difference in inventory valuation methods | 1,174 | 340 | 1,180 | 322 |
| Capitalisation of R&D costs | 38,739 | 9,222 | 35,343 | 9,712 |
| IFRS16 | (76) | (16) | - | - |
| Other | 25,172 | 4,962 | 16,218 | 2,290 |
| TOTAL | 160,673 | 37,602 | 151,486 | 36,622 |
| Deferred tax assets (liabilities) net | | (614) | | (25) |
| Temporary differences excluded from the calculation of deferred tax assets (liabilities): | | | | |
| Tax losses carried forward | 114,524 | 35,530 | 92,677 | 30,072 |

The tax effect has been calculated on the basis of the rates applicable in the various countries, which are in line with those of the previous year, except for the tax rate applicable to French subsidiaries, which will be decreasing gradually from 34.43% to 25.85% for deferred tax expected to be reversed starting in 2022.

The decrease in “Deferred tax assets (liabilities), net” compared to 31 December 2018 amounts to Euro 589 thousand and differs by Euro 226 thousand from the amount shown in the Income Statement under “Income taxes – Deferred tax liabilities (assets)” (Euro 815 thousand) due to:

- movements in Balance sheet items that did not have any effect on the income statement and therefore the related positive tax effect amounting to Euro 879 thousand

has been accounted for as Other comprehensive income (expenses); negative effect of the fair value of derivatives designated as cash flow hedges was Euro 175 thousand; positive effect of actuarial gains/losses arising from the adoption of the IAS 19 was Euro 1,054 thousand;

- deferred tax liabilities of Euro 1,806 thousand relating to the Fraize site of the subsidiary Sogefi Air & Cooling S.A.S. booked to line item “Profit/(loss) from discontinued operations, net of tax effects” in the Income Statement;
- deferred tax assets of Euro 1,195 thousand recorded at 1 January 2019 on first-time adoption of IFRS 16 on 1 January 2019;
- deferred tax liabilities amounting to Euro 443 thousand as a result of IAS 29 adoption;
- exchange differences with a positive effect of Euro 515 thousand;
- other effects for the amount of Euro 114 thousand

The increase in the tax effect relating to item “Other provisions - Other payables” mostly originates from the higher liabilities referred to the pension funds of subsidiary Sogefi Filtration Ltd and Allevard Springs Ltd and the provision for restructuring set up by Sogefi S.p.A.

The decrease in the tax effect relating to item “Fair value of derivatives” mainly relates to the Parent Company Sogefi S.p.A. and reflects the portion of reserve previously booked to Other comprehensive income relating to derivative contracts no longer designated for hedge accounting recognised in Income Statement.

Item “Other” of deferred tax assets includes various types of items, such as for example costs for which tax deduction is deferred (for example, amounts allocated to remuneration accrued in 2019 not yet paid).

“Deferred tax assets relating to tax losses incurred during the year”, for the amount of Euro 1,869 thousand, include Euro 1,397 thousand relating to subsidiary Sogefi Suspension S.A., Euro 342 thousand to subsidiary Sogefi (Suzhou) Auto Parts Co., Ltd., and Euro 130 thousand to subsidiary Sogefi Filtration Argentina S.A.. These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised.

“Deferred tax assets for tax losses incurred during previous years” relate for the most part to the subsidiaries Sogefi Air & Cooling S.A.S. (Euro 1,347 thousand as at 31 December 2019, not present as at 31 December 2018), Sogefi Filtration Spain S.A.U. (Euro 876 thousand as at 31 December 2019 and Euro 1,071 thousand as at 31 December 2018), Sogefi Filtration d.o.o. (Euro 351 thousand as at 31 December 2019, not present as at 31 December 2018), Sogefi USA. Inc. (Euro 137 thousand as at 31 December 2019 and Euro 654 thousand as at 31 December 2018), Sogefi Filtration Argentina S.A. (Euro 104 thousand as at 31 December 2019).

These taxes were recognised because it is believed to be probable that taxable income will be available in the future against which such tax losses can be utilised. Such probability is determined based on the fact that losses have originated under extraordinary circumstances that are unlikely to occur again, such as restructuring plans currently under way or occurred in the past. Please also note that the losses of the French and Spanish subsidiaries can be carried forward indefinitely, but new law passed in

2012 in France and in 2016 in Spain has maintained a limit for the amount that can be utilised each year, making recovery time longer. The losses of the Slovenian subsidiary can also be carried forward indefinitely but there is a limit for the amount that can be utilised each year. The losses of the US subsidiary can be carried forward over a period of up to 20 years since they were incurred, the losses of the Chinese subsidiary and of the Argentine subsidiary can be carried forward over a period of up to 5 years since they were incurred.

Note that the deferred tax assets relating to the “Allowance for doubtful accounts” and to the “Inventory writedowns” include amounts that will mainly be reversed in the twelve months following year end.

Column “Amount of temporary differences” of item “Other” of deferred tax liabilities includes:

- Euro 6,823 thousand relating to dividends expected to be paid out by the Brazilian, Canadian and Argentinian subsidiaries in the short term, subject to a 15%, 5% and 10% tax rate, respectively;
- Euro 3,606 thousand relating to the taxed portion of dividends expected to be paid to the French subsidiaries and the Parent Company Sogefi S.p.A. in the short term;
- Euro 4,739 thousand relating to deferred tax liabilities allocated to the reserve under tax suspension in connection with the convertible bond of the Parent Company Sogefi S.p.A.;
- Euro 6,168 thousand relating to deferred tax liabilities generated by the application of IFRS15;
- other items for the amount of Euro 3,836 thousand.

As regards the figures shown under "Temporary differences excluded from the calculation of deferred tax assets (liabilities)", deferred tax assets were not booked as, at year end, there was not a probability that they would be recovered. “Tax losses carried forward” relate to subsidiaries Sogefi Suspensions S.A., Allevard IAI Suspensions Pvt Ltd, Sogefi Filtration do Brasil Ltda, Filter System Maroc S.a.r.l. and S.ARA Composite S.A.S..

20. SHARE CAPITAL AND RESERVES

Share capital

The share capital of the Parent Company Sogefi S.p.A. is fully paid in and amounts to Euro 62,461 thousand as at 31 December 2019 (unchanged since 31 December 2018), split into 120,117,992 ordinary shares with a par value of Euro 0.52 each (unchanged since 31 December 2018).

No shares are encumbered by rights, liens or limitations relating to dividend distribution.

As at 31 December 2019, the Company has 2,259,760 treasury shares in its portfolio, corresponding to 1.88% of share capital.

Movements in the shares outstanding are as follows:

| (Shares outstanding) | 2019 | 2018 |
|---|-------------|-------------|
| <i>No. shares at start of period</i> | 120,117,992 | 119,987,992 |
| No. shares issued for subscription of stock options | - | 130,000 |
| No. of ordinary shares as of December 31 | 120,117,992 | 120,117,992 |
| Treasury shares | (2,259,760) | (2,485,725) |
| <i>No. of shares outstanding as of December 31</i> | 117,858,232 | 117,632,267 |

Share premium reserve

It amounts to Euro 18,728 thousand compared to Euro 18,212 thousand in the previous year.

During 2019, the Parent Company Sogefi S.p.A. credited Euro 516 thousand to the Share premium reserve after the free grant of 225,965 treasury shares to Stock Grant Plan beneficiaries.

Treasury shares

Item “Treasury shares” reflects the purchase price of treasury shares. Movements during the year amount to Euro 516 thousand and reflect the free grant of 225,965 treasury shares as reported in the note to “Stock-based incentive plans reserve”.

Translation reserve

This reserve is used to record the exchange differences arising from the translation of foreign subsidiaries' financial statements.

Changes during the period show a decrease of Euro 3,846 thousand mainly due to the depreciation of the Argentine peso against the Euro.

Reserve for actuarial gains/losses

This reserve reflects the net impact of the application of the amendment to IAS 19 “Employee Benefits” on other actuarial gains (losses) as at 1 January 2012. The item also includes actuarial gains and losses accrued after 1 January 2012 and recognised under Other Comprehensive Income.

Stock-based incentive plans reserve

The reserve refers to credit to equity for stock-based incentive plans, assigned to Directors, employees and co-workers, resolved after 7 November 2002, including the portion relating to the stock grant plan approved in 2019.

Further to Stock Grant Plan beneficiaries exercising their rights in 2019, and the corresponding free grant of 225,965 treasury shares, the amount of Euro 407 thousand, corresponding to the fair value at right (Unit) allocation date, was reclassified from “Stock-based incentive plans reserve” to “Share premium reserve” (increased by Euro 516 thousand) and to “Retained earnings reserve” (decreased by Euro 109 thousand). During 2019, the Company reclassified the amount of Euro 382 thousand in “Retained earnings reserve” after 2009 stock option plans expired and the 2015 stock grant plan was cancelled because the Performance Units did not meet market conditions within the term specified in the regulation.

Cash flow hedging reserve

This reserve has changed as a result of accounting for the cash flows deriving from instruments that for IAS 39 purposes are designated as “cash flow hedging instruments”. Changes during the period show an increase of Euro 960 thousand which breaks down as follows:

- Increase of Euro 728 thousand reflecting the portion of the negative reserve relating to contracts no longer in hedge accounting that will be recognised to the Income Statement over the same period of time as the differentials relating to the underlying hedged item;
- Increase of Euro 232 thousand following a reclassification from "Retained earnings" of Euro 165 thousand and from “Tax on items booked in Other Comprehensive Income” of Euro 67 thousand.

Other reserves

This item amounts to Euro 12,201 thousand (unchanged compared to 31 December 2018).

Retained earnings

These totalled Euro 172,346 thousand and include amounts of profit that have not been distributed.

The increase of Euro 6,386 thousand refers to the following events:

- reclassification from the above mentioned "Stock-based incentive plans reserve" as outlined above for a total amount of Euro 273 thousand;
- reclassification to the above mentioned "Cash flow hedging reserve" (decrease of Euro 165 thousand);
- the effect of the adoption of IAS 29 "Financial Reporting in Hyperinflationary Economies" in the Argentine subsidiaries, which amounted to Euro 5,644 thousand;
- other positive changes for the amount of Euro 634 thousand.

Tax on items booked in Other Comprehensive Income

The table below shows the amount of income taxes relating to each item of Other Comprehensive Income:

| (in thousands of Euro) | 2019 | | | 2018 | | |
|--|-------------|-------|-----------|-------------|-------|-----------|
| | Gross value | Taxes | Net value | Gross value | Taxes | Net value |
| - Profit (loss) booked to cash flow hedging reserve | 728 | (175) | 553 | 1,851 | (444) | 1,407 |
| - Actuarial gain (loss) | (5,063) | 1,054 | (4,009) | 793 | (224) | 569 |
| - Profit (loss) booked to translation reserve | (3,829) | - | (3,829) | (10,534) | - | (10,534) |
| - Total Profit (loss) booked in Other Comprehensive Income | (8,164) | 879 | (7,285) | (7,890) | (668) | (8,558) |

Tax constraints applicable to certain reserves

The equity of Parent Company Sogefi S.p.A. includes Reserves under tax suspension and its share capital is subject to constraints under tax suspension after revaluation reserves were utilised in the past, for a total amount of Euro 24,164 thousand.

The Parent Company has made no allocations for deferred tax liabilities to such reserves, that, if distributed, would count towards taxable income of the Company, because it is not deemed likely that they will be distributed.

Non-controlling interests

The balance amounts to Euro 19,017 thousand and refers to the portion of shareholders' equity attributable to non-controlling interests.

Details of non-controlling interests are given below:

| (in thousands of Euro) | Region | % owned by third parties | | Loss (profit) attributable to non-controlling interests | | Shareholders' equity attributable to non-controlling interests | |
|--|--------|--------------------------|------------|---|------------|--|------------|
| | | 12.31.2019 | 12.31.2018 | 12.31.2019 | 12.31.2018 | 12.31.2019 | 12.31.2018 |
| Subsidiary's name | Region | 12.31.2019 | 12.31.2018 | 12.31.2019 | 12.31.2018 | 12.31.2019 | 12.31.2018 |
| S.ARA Composite S.A.S. | France | 4.21% | 4.21% | (210) | (65) | 50 | 260 |
| Iberica de Suspensiones S.L. | Spain | 50.00% | 50.00% | 3,557 | 3,359 | 16,319 | 17,762 |
| Shanghai Alleward Spring Co., Ltd | China | 39.42% | 39.42% | (353) | 29 | 2,010 | 2,342 |
| Alleward IAI Suspensions Pvt Ltd | India | 25.77% | 25.77% | 2 | (46) | 577 | 579 |
| Sogefi M.N.R. Engine Systems India Pvt Ltd | India | - | - | - | - | - | - |
| Sogefi Filtration Italy S.p.A. | Italy | 0.12% | 0.12% | (1) | 1 | 28 | 35 |
| Sogefi Suspensions Passenger Car Italy Srl | Italy | 0.12% | 0.12% | 1 | 1 | 18 | 19 |
| Sogefi Suspensions Heavy Duty Italy Srl | Italy | 0.12% | 0.12% | 4 | 3 | 15 | 15 |
| TOTAL | | | | 3,000 | 3,282 | 19,017 | 21,012 |

It should be noted that company Iberica de Suspensiones S.L. (ISSA) – which is 50% owned – is treated as a subsidiary because the Group controls the majority of votes of the Board of Directors, which is the corporate body tasked with deciding on the entity's relevant activities.

As required by IFRS 12, an overview of the key financial indicators of the companies showing significant non-controlling interests:

| (in thousands of Euro) | <i>Shanghai Allevard Spring Co., Ltd</i> | | <i>Iberica de Suspensiones S.L.</i> | |
|---|--|------------|-------------------------------------|------------|
| | 12.31.2019 | 12.31.2019 | 12.31.2019 | 12.31.2019 |
| Current Assets | 3,948 | 4,389 | 32,444 | 34,613 |
| Non-current Assets | 2,153 | 2,561 | 21,489 | 17,934 |
| Current Liabilities | 723 | 732 | 19,681 | 15,717 |
| Non-current Liabilities | 3 | - | 1,612 | 1,306 |
| Shareholders' equity attributable to the Holding Company | 3,365 | 3,876 | 16,320 | 17,762 |
| Non-controlling interests | 2,010 | 2,342 | 16,320 | 17,762 |
| Sales Revenue | 2,616 | 4,045 | 73,192 | 78,822 |
| Variable cost of sales | 1,702 | 2,284 | 47,028 | 50,917 |
| Other variable costs of sales | 211 | 255 | 3,402 | 4,983 |
| Fixed expenses | 1,522 | 1,422 | 12,656 | 13,441 |
| Non-operating expenses (income) | 34 | 5 | 241 | 178 |
| Income taxes | 44 | 5 | 2,749 | 2,587 |
| Income (loss) for the period | (897) | 74 | 7,116 | 6,716 |
| Income (loss) attributable to the Holding Company | (544) | 45 | 3,558 | 3,358 |
| Income (loss) attributable to non-controlling interests | (353) | 29 | 3,558 | 3,358 |
| Income (loss) for the period | (897) | 74 | 7,116 | 6,716 |
| OCI attributable to the Holding Company | 32 | (34) | - | - |
| OCI attributable to non-controlling interests | 21 | (22) | - | - |
| OCI for the period | 53 | (56) | - | - |
| Total income (losses) attributable to the Holding Company | (512) | 11 | 3,558 | 3,358 |
| Total income (losses) attributable to non-controlling interests | (332) | 7 | 3,558 | 3,358 |
| Total income (losses) for the period | (844) | 18 | 7,116 | 6,716 |
| Dividends paid to non-controlling interests | - | - | 5,000 | - |
| Net cash inflow (out flow) from operating activities | (433) | 418 | 14,190 | 10,880 |
| Net cash inflow (out flow) from investing activities | 3 | (214) | (6,189) | (4,434) |
| Net cash inflow (out flow) from financing activities | - | - | (10,000) | - |
| Net cash inflow (out flow) | (430) | 204 | (1,999) | 6,446 |

21. ANALYSIS OF THE NET FINANCIAL POSITION

The following table provides details of the net financial position as required by Consob in its communication no. DEM/6064293 of 28 July 2006 with a reconciliation of the net financial position shown in the table included in the Report on operations:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---|-----------------|-----------------|
| A. Cash | 165,173 | 91,735 |
| B. Other cash at bank and on hand (held to maturity investments) | - | - |
| C. Financial instruments held for trading | - | - |
| D. Liquid funds (A) + (B) + (C) | 165,173 | 91,735 |
| E. Current financial receivables | 3,306 | 1,206 |
| F. Current payables to banks | 1,942 | 2,064 |
| G. Current portion of non-current indebtedness | 78,760 | 57,875 |
| H. Other current financial debts | 15,065 | 2,388 |
| I. Current financial indebtedness (F) + (G) + (H) | 95,767 | 62,327 |
| J. Current financial indebtedness, net (I) - (E) - (D) | (72,712) | (30,614) |
| K. Non-current payables to banks | 131,932 | 117,785 |
| L. Bonds issued | 212,070 | 171,752 |
| M. Other non-current financial debts | 54,374 | 6,701 |
| N. Non-current financial indebtedness (K) + (L) + (M) | 398,376 | 296,238 |
| O. Net indebtedness (J) + (N) | 325,664 | 265,624 |
| Non-current financial receivables (derivates in cash flow hedge) | 6,804 | 5,115 |
| Financial indebtedness, net including non-current financial receivables (as per the "Net financial position" included in the Report on operations) | 318,860 | 260,509 |

It should be noted that the covenants relating to: i) loan of Euro 20,000 thousand from Mediobanca S.p.A., ii) loan of Euro 50,000 thousand from Unicredit S.p.A., iii) loan of Euro 80,000 thousand from Banca Nazionale del Lavoro S.p.A., iv) loan of Euro 55,000 thousand from Ing Bank N.V., v) loan of Euro 50,000 thousand from Intesa Sanpaolo S.p.A., vi) bond of USD 115,000 thousand have been renegotiated after the introduction of IFRS 16.

Details of the covenants applying to loans outstanding at year end are as follows (please read note 15 "Financial debts to banks and other financing creditors" above for further details on loans):

- loan of Euro 20,000 thousand from Mediobanca S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- loan of Euro 25,000 thousand from Mediobanca S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 4; the

ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- loan of Euro 50,000 thousand from Unicredit S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- loan of Euro 80,000 thousand from Banca Nazionale del Lavoro S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- loan of Euro 55,000 thousand from Ing Bank N.V.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- loan of Euro 50,000 thousand from Intesa Sanpaolo S.p.A.: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3;

- bond issue of USD 115,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;

- bond issue of Euro 25,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4.

- bond issue of Euro 75,000 thousand: the ratio of consolidated net financial position to consolidated normalised EBITDA has to be less than or equal to 4; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 3.

As at 31 December 2019, the Company was in compliance with these covenants.

D) NOTES ON THE MAIN INCOME STATEMENT ITEMS: INCOME STATEMENT

22. SALES REVENUES

Revenues from sales and services

During the year 2019, the sales revenues of the Sogefi Group amounted to Euro 1,519.2 million, down 3.3% at historical exchange rates and 2.2% at constant exchange rates compared to 2018.

Revenues from the sale of goods and services are as follows:

| (in thousands of Euro) | 2019 | | 2018 | |
|---------------------------|------------------|--------------|------------------|--------------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Suspensions | 549,716 | 36.2 | 602,557 | 38.4 |
| Filtration | 546,436 | 36.0 | 537,200 | 34.2 |
| Air&Cooling | 426,122 | 28.0 | 433,545 | 27.6 |
| Intercompany eliminations | (3,028) | (0.2) | (2,593) | (0.2) |
| TOTAL | 1,519,246 | 100.0 | 1,570,709 | 100.0 |

By business sector, Filtration, with a growth of 2.7% (+1.7% at current exchange rates) bucks the market trend, Air & Cooling recorded a more moderate decline than the market (-3.5% at constant exchange rates and -1.7% at current exchange rates), while Suspensions sales fell by 5.6% (-8.8% at current exchange rates).

By geographic area:

| (in thousands of Euro) | 2019 | | 2018 | |
|---------------------------|------------------|--------------|------------------|--------------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> |
| Europe | 928,713 | 61.1 | 944,458 | 60.1 |
| South America | 160,579 | 10.6 | 182,022 | 11.6 |
| North America | 288,695 | 19.0 | 294,741 | 18.8 |
| Asia | 149,997 | 9.9 | 160,908 | 10.2 |
| Intercompany eliminations | (8,738) | (0.6) | (11,420) | (0.7) |
| TOTAL | 1,519,246 | 100.0 | 1,570,709 | 100.0 |

Revenues at constant exchange rates fell by 1.7% in Europe, 6.3% in North America and 8.2% in Asia, whereas South America witnessed 8.1% growth. Overall, the decline is more moderate than that recorded by the market (-5.8%) thanks to sales in Europe performing better than the market (-1.7%, compared to -4.7% of the market).

23. VARIABLE COST OF SALES

Details are as follows:

| (in thousands of Euro) | 2019 | 2018 |
|--|-----------|-----------|
| Materials | 808,606 | 841,386 |
| Direct labour cost | 115,407 | 118,465 |
| Energy costs | 34,669 | 34,243 |
| Sub-contracted work | 45,506 | 45,114 |
| Ancillary materials | 19,484 | 20,209 |
| Variable sales and distribution costs | 32,694 | 33,572 |
| Royalties paid to third parties on sales | 4,399 | 5,437 |
| Other variable costs | 2,640 | 2,948 |
| TOTAL | 1,063,405 | 1,101,374 |

“Variable costs of sales” as a percentage of revenues remained in line with the previous year (70%).

“Other variable costs” represent the effect generated by direct labour cost and fixed cost associated with the increase in the inventory of finished goods or semi-finished products.

24. MANUFACTURING AND R&D OVERHEADS

These can be broken down as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|----------|----------|
| Labour cost | 112,111 | 113,350 |
| Materials, maintenance and repairs | 29,540 | 29,836 |
| Rental and hire charges | 1,801 | 10,950 |
| Personnel services | 8,449 | 8,878 |
| Technical consulting | 8,656 | 9,709 |
| Sub-contracted work | 2,984 | 3,000 |
| Insurance | 2,147 | 2,204 |
| Utilities | 4,316 | 4,539 |
| Capitalization of internal construction costs | (27,726) | (29,012) |
| Other | 443 | 114 |
| TOTAL | 142,721 | 153,568 |

“Manufacturing and R&D overheads” posted a decrease of Euro 10,847 thousand that mainly reflects the line item “Rents and hires” due to the adoption of the new IFRS 16 “Leases” standard as of 1 January 2019. At constant exchange rates, the decrease of this item is Euro 8,924 thousand.

It should be noted that the item “Rents and hires” includes costs relating to variable payments and ancillary costs due for leases not included in the valuation of lease liabilities, short-term leases and leases of small value assets.

Line item “Labour cost” shows an overall reduction of Euro 1,239 thousand that reflects the falling number of employees mainly in the French subsidiaries Sogefi Filtration S.A. and Sogefi Air & Cooling S.A.S..

“Capitalization of internal construction costs” mainly reflects capitalised product development costs.

Total costs for Research and Development (not reported in the table) excluding capitalization amount to Euro 39,982 thousand (2.6% of sales), basically in line with the previous year.

25. DEPRECIATION AND AMORTIZATION

Details are as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|----------------|----------------|
| Depreciation of tangible fixed assets | 75,735 | 73,760 |
| Depreciation of Right of Use/assets under finance leases IAS 17 | 12,618 | 1,253 |
| Amortisation of intangible assets | 35,675 | 35,591 |
| TOTAL | 124,028 | 110,604 |

Item “Depreciation and amortization” amounts to Euro 124,028 thousand and increased by Euro 13,424 thousand compared to the previous year. The increase in this item is mainly due to the recording of the amortisation of the right of use following the application, from 1 January 2019, of the new accounting standard IFRS 16 "Leases".

Depreciation of tangible assets amounts to Euro 75,735 thousand, up from Euro 1,975 thousand in 2018, whereas amortization of intangible assets remained virtually unchanged.

26. DISTRIBUTION AND SALES FIXED EXPENSES

This item is made up of the following main components:

| (in thousands of Euro) | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| Labour cost | 28,202 | 27,662 |
| Sub-contracted work | 4,323 | 4,733 |
| Advertising, publicity and promotion | 3,093 | 3,401 |
| Personnel services | 2,092 | 2,131 |
| Rental and hire charges | 1,098 | 2,331 |
| Consulting | 491 | 522 |
| Other | 1,429 | 860 |
| TOTAL | 40,728 | 41,640 |

“Distribution and sales fixed expenses” decreased by Euro 912 thousand compared to 2018. At constant exchange rates, this item would have decreased by Euro 313 thousand.

“Rents and hires” decreased by Euro 1,233 thousand due to the application of the new accounting standard IFRS 16 “Leases” as of 1 January 2019. It should be noted that this item includes costs relating to variable payments and ancillary costs due for leases not included in the valuation of lease liabilities, short-term leases and leases of small value assets.

27. ADMINISTRATIVE AND GENERAL EXPENSES

These can be broken down as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---------------|---------------|
| Labour cost | 36,369 | 36,762 |
| Personnel services | 4,091 | 4,353 |
| Maintenance and repairs | 3,300 | 2,917 |
| Cleaning and security | 2,347 | 2,354 |
| Consulting | 7,768 | 9,851 |
| Utilities | 2,495 | 2,741 |
| Rental and hire charges | 2,075 | 3,643 |
| Insurance | 1,759 | 1,727 |
| <i>Participation des salaires</i> | 1,155 | 463 |
| Administrative, financial and tax-related services provided by Parent Company | 780 | 758 |
| Audit fees and related expenses | 1,516 | 1,608 |
| Directors' and statutory auditors' remuneration | 697 | 810 |
| Sub-contracted work | 454 | 664 |
| Capitalization of internal construction costs | (175) | (593) |
| Indirect taxes | 6,926 | 7,366 |
| Other fiscal charges | 3,239 | 3,146 |
| Other | 5,891 | 7,089 |
| TOTAL | 80,687 | 85,659 |

“Administrative and general expenses” decreased by Euro 4,972 thousand compared to 2018, and decreased by Euro 3,894 thousand at constant exchange rates.

The decrease in “Consulting” by Euro 2,076 thousand mainly reflects less IT consulting services in subsidiary Sogefi Gestion S.A. and lower personnel recruitment costs and legal, fiscal and administrative fees in the French subsidiaries.

“Rents and hires” decreased by Euro 1,568 thousand due to the application of the new accounting standard IFRS 16 “Leases” as of 1 January 2019.

It should be noted that this item includes costs relating to variable payments and ancillary costs due for leases not included in the valuation of lease liabilities, short-term leases and leases of small value assets.

The increase of item “*Participation des salaires*” for Euro 692 thousand is traced back to the results in the subsidiary Sogefi Air & Cooling S.A.S.

“Indirect taxes” include tax charges such as property tax, taxes on sales revenues (*taxe organique* of the French companies), non-deductible VAT and taxes on professional training.

“Other fiscal charges” consist of the *cotisation économique territoriale* (previously called *taxe professionnelle*) relating to the French companies, which is calculated on the value of fixed assets and on added value.

28. PERSONNEL COSTS

Personnel

Regardless of their destination, “Personnel costs” as a whole can be broken down as follows:

| (in thousands of Euro) | 2019 | 2018 |
|--|----------------|----------------|
| Wages, salaries and contributions | 288,159 | 291,992 |
| Pension costs: defined benefit plans | 2,019 | 2,098 |
| Pension costs: defined contribution plans | 1,911 | 2,150 |
| <i>Participation des salaires</i> | 1,155 | 463 |
| Imputed cost of stock option and stock grant plans | 178 | 775 |
| Other costs | 11 | 29 |
| TOTAL | 293,433 | 297,507 |

“Personnel costs” have dropped by Euro 4,074 thousand (-1.4%) compared to the previous period. At constant exchange rates, “Personnel costs” are basically in line with those recorded in the year 2018.

The impact of “Personnel costs” on sales revenues went from 18.9% in the previous year to 19.3% in the current year.

“Wages, salaries and contributions”, “Pension costs: defined benefit plans” and “Pension costs: defined contribution plans” are posted in the tables provided above at lines “Labour cost” and “Administrative and general expenses”.

“*Participation des salaires*” is included in “Administrative and general expenses”.

“Other costs” is included in “Administrative and general expenses”.

“Imputed cost of stock option and stock grant plans” is included in “Other non-operating expenses (income)”. The following paragraph “Personnel benefits” provides details of the stock option and stock grant plans.

The average number of Group employees, broken down by category, is shown in the table below:

| (Number of employees) | 2019 | 2018 |
|-----------------------|--------------|--------------|
| Managers | 99 | 108 |
| Clerical staff | 1,874 | 1,912 |
| Blue collar workers | 4,757 | 4,842 |
| TOTAL | 6,730 | 6,862 |

Personnel benefits

Sogefi S.p.A. implements stock-based incentive plans for the employees of the Company and of its subsidiaries that hold important positions of responsibility within the Group. The purpose is to foster greater loyalty to the Group and to provide an incentive that will raise their commitment to improving business performance and generating value in the long term.

The stock-based incentive plans of Sogefi S.p.A. are first approved by the Shareholders' Meeting.

Except as outlined at the following paragraphs "Stock grant plans" and "Stock option plans", the Group has not carried out any other transaction that involves the purchase of goods or services with payments based on shares or any other kind of instrument representing portions of equity. As a result, it is not necessary to disclose the fair value of such goods or services.

In addition to the plan issued in 2019, The Group has issued plans from 2009 to 2019 of which the main details are provided below.

Stock grant plans

The stock grant plans provide for the free assignment of conditional rights (called units) that cannot be transferred to third parties or other beneficiaries; each of them entitles to the free assignment of one Sogefi S.p.A. share. There are two categories of rights under these plans: Time-based Units, that vest upon the established terms and Performance Units, that vest upon the established terms provided that shares have achieved the target price value established in the regulation.

The regulation provides for a minimum holding period during which the shares held for the plan can not be disposed of.

All shares assigned under these plans will be treasury shares held by Sogefi S.p.A. According to the regulation, a pre-condition for assigning the shares is a continued employer-employee relationship or the continued appointment as a director/executive of the Company or one of its subsidiaries throughout the vesting period of the rights.

On 22 July 2019, the Board of Directors executed the 2019 stock grant plan approved by the Shareholders' Meeting on the same day to assign a maximum of 500,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 482,244 Units (219,635 of which were Time-based Units and 262,609 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 22 October 2021 and ending on 22 July 2023.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019, 34,322 Time-based Units and 41,036 Performance Units expired as per regulation.

The fair value of the rights assigned during 2019 has been determined by a third-party consultant at the time the rights were assigned using the binomial option pricing model (so-called Cox, Ross and Rubinstein model) for US options and amounts to Euro 552 thousand overall.

Input data used for measuring the fair value of the 2019 stock grant plan are provided below:

- curve of EUR/GBP/SEK/CHF-riskless interest rates as at 22 July 2019;
- prices of the underlying (equal to price of Sogefi S.p.A. share as at 22 July 2019, and equal to Euro 1.27) and of the securities included in the benchmark basket, again as at 22 July 2019;
- standard prices of Sogefi S.p.A. share and of the securities included in the benchmark basket during the period starting on 21 June 2019 and ending on 21 July 2019 for the determination of the stock grant Performance Units limit;
- historical volatility rate of stock and exchange rates during 260 days, as at 22 July 2019;
- null dividend yield for stock grant valuation;
- historical series of the logarithmic returns of involved securities and EUR/GBP, EUR/SEK and EUR/CHF exchange rates to calculate the correlation among securities and among the three non-EUR denominated securities and associated exchange rates (to adjust for estimated trends), calculated for the period starting on 22 July 2018 and ending on 22 July 2019.

The main characteristics of the stock grant plans approved during previous years and still under way are outlined below:

- 2011 stock grant plan to assign a maximum of 1,250,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 757,500 Units (320,400 of which were Time-based Units and 437,100 Performance Units).

The Time-based Units were scheduled to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2013 and ending on 20 January 2015.

The Performance Units were scheduled to vest at the same vesting dates established for Time-based Units, provided that the price value of shares at vesting date is at least equal to the percentage of the initial value indicated in the regulation.

On 31 December 2019 29,837 Time-based Units and 134,866 Performance Units expired as per regulation. While 291,325 Time-based Units and 298,333 Performance Units had been exercised.

- 2012 stock grant plan to assign a maximum of 1,600,000 conditional rights, restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries, who were assigned a total of 1,152,436 Units (480,011 of which were Time-based Units and 672,425 Performance Units).

The Time-based Units were scheduled to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2014 and ending on 31 January 2016.

The Performance Units were scheduled to vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) on that date.

On 31 December 2019 82,374 Time-based Units and 596,630 Performance Units expired as per regulation. While 392,252 Time-based Units and 74,852 Performance Units had been exercised.

- 2013 stock grant plan to assign a maximum of 1,700,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 1,041,358 Units (432,434 of which were Time-based Units and 608,924 Performance Units).

The Time-based Units were scheduled to vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2015 and ending on 31 January 2017.

The Performance Units were scheduled to vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) on that date.

On 31 December 2019, 256,954 Time-based Units and 608,924 Performance Units expired as per regulation. While 167,665 Time-based Units had been exercised.

- 2014 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 378,567 Units (159,371 of which were Time-based Units and 219,196 Performance Units).

Time-based Units vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 April 2016 and ending on 20 January 2018.

Performance Units vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019, 109,543 Time-based Units and 219,196 Performance Units expired as per regulation. While 48,472 Time-based Units had been exercised.

- 2015 stock grant plan to assign a maximum of 1,500,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 441,004 Units (190,335 of which were Time-based Units and 250,669 Performance Units).

Time-based Units vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 20 October 2017 and ending on 20 July 2019.

Performance Units vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019 56,911 Time-based Units and 179,805 Performance Units expired as per regulation. While 118,124 Time-based Units and 66,365 Performance Units had been exercised.

- 2016 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 500,095 Units (217,036 of which were Time-based Units and 283,059 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 27 July 2018 and ending on 27 April 2020.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019 75,771 Time-based Units and 98,826 Performance Units expired as per regulation. While 105,366 Time-based Units and 137,409 Performance Units had been exercised.

- 2017 stock grant plan to assign a maximum of 750,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 287,144 Units (117,295 of which were Time-based Units and 169,849 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 26 July 2019 and ending on 26 April 2021.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019, 32,345 Time-based Units and 51,440 Performance Units expired as per regulation. While 21,173 Time-based Units had been exercised.

- 2018 stock grant plan to assign a maximum of 500,000 conditional rights, restricted to employees of the Company and its subsidiaries, who were assigned a total of 415,000 Units (171,580 of which were Time-based Units and 243,420 Performance Units).

Time-based Units will vest in tranches on a three-monthly basis, accounting for 12.5% of their respective total, starting on 23 July 2020 and ending on 23 April 2022.

Performance Units will vest at the same vesting dates established for Time-based Units, provided that the increase in price value of Sogefi S.p.A. shares at each vesting date is higher than the increase of the Sector Index (as provided for by the Regulation) at that date.

On 31 December 2019, 77,208 Time-based Units and 112,939 Performance Units expired as per regulation.

The imputed cost for 2019 for existing stock grant plans is Euro 178 thousand, and is booked to the Income Statement under “Other non-operating expenses (income)”.

The following table shows the total number of existing rights with reference to the 2011-2019 plans:

| | 2019 | 2018 |
|--|-----------|-----------|
| Not exercised/not exercisable at the start of the year | 1,109,427 | 1,036,192 |
| Granted during the year | 469,577 | 415,000 |
| Cancelled during the year | (425,999) | (129,295) |
| Exercised during the year | (225,965) | (212,470) |
| Not exercised/not exercisable at the end of the year | 927,040 | 1,109,427 |
| Exercisable at the end of the year | 50,133 | 87,650 |

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous periods.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

Stock option plans

The stock option plans provide beneficiaries with the opportunity to exercise an option to subscribe to newly-issued Sogefi shares at a set price and within a specific period of time. According to the regulation, a pre-condition for exercising the option is a continued employer-employee relationship with or the continued appointment as a director/executive of the Company or one of its subsidiaries throughout the vesting period.

The main characteristics of the *stock option* plan approved during previous years and still under way are outlined below:

- 2010 stock option plan restricted to the Director who filled the post of Managing Director of the Parent Company at the date of issue of the relevant plan and to employees of the Company and its subsidiaries for a maximum of 2,440,000 shares (2.03% of the share capital as at 31 December 2019) with a subscription price of Euro 2.3012, to be exercised between 30 September 2010 and 30 September 2020.

Please note that the 2009 stock option plan restricted to employees of the Company and its subsidiaries the remaining exercisable shares expired pursuant to the stock option plan on 31 January 2019.

The following table shows the total number of existing options with reference to the 2009-2010 plans and their average exercise price:

| | 12.31.2019 | | 12.31.2018 | |
|--|------------|---------------------------|------------|---------------------------|
| | Number | Average price of the year | Number | Average price of the year |
| Not exercised/not exercisable at the start of the year | 75,000 | 1.88 | 285,000 | 1.91 |
| Granted during the year | - | - | - | - |
| Cancelled during the year | (55,000) | 1.73 | (40,000) | 1.67 |
| Exercised during the year | - | - | (130,000) | 1.95 |
| Expired during the year | - | - | (40,000) | 2.10 |
| Not exercised/not exercisable at the end of the year | 20,000 | 2.30 | 75,000 | 1.88 |
| Exercisable at the end of the year | 20,000 | 2.30 | 75,000 | 1.88 |

The line “Not exercised/not exercisable at the end of the period” refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line “Exercisable at the end of the period” refers to the total amount of options matured at the end of the period and not yet subscribed.

With reference to the options exercised during 2019, the average weighted price of the Sogefi share at the exercise dates is Euro 3.6626.

Details of the number of options exercisable as at 31 December 2019 are given below:

| | Total |
|--|----------|
| Number of exercisable options remaining at December 31, 2018 | 75,000 |
| Options matured during the year | - |
| Options cancelled during the year | (55,000) |
| Options exercised during the year | - |
| Options expired during the year | - |
| Number of exercisable options remaining at December 31, 2019 | 20,000 |

29. RESTRUCTURING COSTS

Restructuring costs amount to Euro 9,767 thousand (compared to Euro 9,094 thousand the previous year) and mainly relate to the European and South American subsidiaries for reorganising clerical employees and industrial workers.

“Restructuring costs” mainly include personnel costs and are made up of the accruals to the “Provision for restructuring” (Euro 1,844 thousand, net of provisions made during the previous years and not utilised) and for the remaining part (Euro 7,923 thousand) of costs incurred and paid during the year.

30. LOSSES (GAINS) ON DISPOSAL

Losses on disposal as at 31 December 2019 amounted to Euro 136 thousand (losses amounted to Euro 60 thousand as at 31 December 2018).

31. EXCHANGE (GAINS) LOSSES

Net exchange losses as at 31 December 2019 amounted to Euro 3,926 thousand (Euro 5,500 thousand as at 31 December 2018).

32. OTHER NON-OPERATING EXPENSES (INCOME)

These amount to Euro 14,205 thousand compared to Euro 3,078 thousand the previous year. The following table shows the main elements:

| (in thousands of Euro) | 2019 | 2018 |
|--|---------|---------|
| Write-downs of tangible and intangible fixed assets | 10,651 | 5,328 |
| Product warranty costs | 5,309 | 3,599 |
| Product warranty Systemes Moteurs group closing | - | (6,565) |
| Cost of stock option and stock grant plans | 178 | 775 |
| Litigations | 4,590 | 2,567 |
| Actuarial losses (gains) | 136 | (291) |
| Past service cost and other items related to pension funds | (646) | (881) |
| Other ordinary (income) expenses | (6,013) | (1,454) |
| TOTAL | 14,205 | 3,078 |

“Writedowns of tangible and intangible fixed assets” amount to Euro 10,651 thousand and include writedowns of tangible (Euro 4,581 thousand) and intangible fixed assets (Euro 6,070 thousand) for the most part relating to European subsidiaries and the subsidiary Sogefi Filtration do Brasil Ltda.

The item “Litigations” mainly refers to risks connected with existing or possible disputes mainly relating to the European and Brazilian subsidiaries.

The line item "Other non-operating expenses (income)" mainly refers to the insurance refund for damage (costs incurred and loss of profit) deriving from a fire at the subsidiary Sogefi HD Suspensions Germany GmbH.

33. FINANCIAL EXPENSES (INCOME), NET

Financial expenses are detailed as follows:

| (in thousands of Euro) | 2019 | 2018 |
|--|---------------|---------------|
| Interests on bonds | 11,476 | 11,806 |
| Interest on amounts due to banks | 4,304 | 3,542 |
| Financial charges under lease contracts | 4,655 | 356 |
| Financial component of pension funds and termination indemnities | 1,078 | 1,007 |
| Loss on interest-bearing hedging instruments | - | 2,127 |
| Fair value put option adjustment | - | 1,753 |
| Financial component IAS 29 | 168 | (788) |
| Other interest and commissions | 4,813 | 6,834 |
| TOTAL FINANCIAL EXPENSES | 26,494 | 26,637 |

Financial income is detailed as follows:

| (in thousands of Euro) | 2019 | 2018 |
|---|---------------|---------------|
| Gain on Cross currency swap in cash flow hedge | 523 | 613 |
| Net gain on fair value derivatives not in cash flow hedge | 1,621 | 1,578 |
| Interest on amounts given to banks | 460 | 347 |
| Other interest and commissions | 120 | 178 |
| TOTAL FINANCIAL INCOME | 2,724 | 2,716 |
| TOTAL FINANCIAL EXPENSES (INCOME), NET | 23,770 | 23,921 |

Please note that item “Net gain on fair value derivatives not in cash flow hedge” is comprised of:

- a financial expense of Euro 728 thousand reflecting the portion of the reserve previously booked to Other Comprehensive Income that will be reclassified to Income Statement over the same period of time expected for the differentials relating to the former underlying hedged item;
- a financial income of Euro 2,349 thousand reflecting the change in the fair value of these derivatives compared to 31 December 2018.

34. LOSSES (GAINS) FROM EQUITY INVESTMENTS

As at 31 December 2019, this item amounts to zero.

35. INCOME TAXES

| (in thousands of Euro) | 2019 | 2018 |
|--|---------------|---------------|
| Current taxes | 12,143 | 13,698 |
| Deferred tax liabilities (assets) | 815 | 5,208 |
| Gain (loss) from participation to fiscal consolidation | 730 | 1,139 |
| TOTAL | 13,688 | 20,045 |

The year 2019 recorded a tax rate of 86.2% compared to 55.4% in the previous year.

A reconciliation between the standard tax rate (that of the Parent Company Sogefi S.p.A.) and the effective tax rate for 2019 and 2018 is shown in the table below. Taxes have been calculated at the domestic rates applicable in the various countries. The differences between the rates applied in the various countries and the standard Italian tax rate are included in the line “Other permanent differences and tax rate differentials”.

| (in thousands of Euro) | 2019 | | 2018 | |
|---|--------|------------|--------|------------|
| | | Tax rate % | | Tax rate % |
| Result before taxes | 15,873 | 24.0% | 36,212 | 24.0% |
| Theoretical income taxes | 3,810 | | 8,691 | |
| <i>Effect of increases (decreases) with respect to the standard rate:</i> | | | | |
| Statutory amortisation of goodwill | (145) | -0.9% | (156) | -0.4% |
| Non-deductible costs, net | 938 | 5.9% | 958 | 2.6% |
| Use of deferred tax assets not recognised in previous years | (610) | -3.8% | (942) | -2.6% |
| Deferred tax assets on losses for the year not recognised in the financial statements | 8,170 | 51.5% | 4,110 | 11.3% |
| Taxed portion of dividends | 731 | 4.6% | 655 | 1.8% |
| Other permanent differences and tax rate differentials | 795 | 5.0% | 6,729 | 18.6% |
| Income taxes in the consolidated income statement | 13,688 | 86.2% | 20,045 | 55.4% |

“Deferred tax assets on losses for the year not recognised in the financial statements” are mainly attributable to subsidiaries Sogefi Filtration do Brasil Ltda, Filter Systems Maroc Sarl, Sogefi Suspensions S.A., S.ARA composite S.A.S., Sogefi Suspensions Eastern Europe S.R.L. and Shanghai Allevard Springs Co., Ltd , for which there was no probability at the end of the year that such losses would be recovered.

The “Taxed portion of dividends” refers to the portion of dividends received from Group companies that is not tax-exempt.

Item “Other permanent differences and tax rate differentials” mainly includes:

- Euro 0.7 million for the net liability arisen when the tax surplus was transferred to the CIR Group;
- Euro 0.2 million for the negative impact of the difference between the tax rates applied in the various countries and the standard Italian tax rate.

36. PROFIT (LOSS) FROM DISCONTINUED OPERATION, NET OF TAX EFFECTS

This item refers to the Fraize production site of the French subsidiary Sogefi Air & Cooling S.A.S. dedicated to a non-core business. The site was sold in April 2019.

At 31 December 2018 the assets and liabilities relating to the Fraize plant had been classified as assets and liabilities held for sale. In 2019, all the information needed to determine the economic effects of this discontinued operation became available. Therefore, the operating result for the years 2019 and 2018 and the related gain on disposal were recognised under the item "Profit (loss) from discontinued operations, net of tax effects".

The following table shows the Result of discontinued operations:

| (in millions of Euro) | 2019 | 2018 |
|---|--------------|--------------|
| Sales revenues | 22,527 | 53,062 |
| Costs | (20,245) | (51,295) |
| Operating income | 2,282 | 1,767 |
| Income taxes | (707) | (647) |
| Net Operating income | 1,574 | 1,120 |
| Income of held for sale activities | 3,542 | - |
| Income taxes from sales of discounted operations | (1,099) | - |
| Net income (loss) of held for sale activities | 4,017 | 1,120 |
| Earnings per share (EPS), without discounted operations (Euro): | | |
| Basic | (0.007) | 0.147 |
| Diluted | (0.007) | 0.147 |

The following table shows the effect of the sale on the Group's financial position:

| (in millions of Euro) | 2019 |
|-----------------------------------|----------------|
| Property, plant and machinery | (10,372) |
| Intangible assets | (471) |
| Inventories | (3,125) |
| Trade and other receivables | (139) |
| Cash and cash equivalents | (1,386) |
| Trade and other payables | 10,821 |
| Net assets and liabilities | (4,672) |
| Cash received | 8,635 |
| Cash and cash equivalents sold | (1,386) |
| Net cash inflow | 7,249 |

37. DIVIDENDS PAID

No dividends were paid to the Parent Company shareholders during the year 2019. Dividends paid to non-controlling interests amounted to Euro 5,012 thousand.

The Parent Company Sogefi S.p.A. did not issue any shares other than ordinary shares; treasury shares are always excluded from the dividend.

38. EARNINGS PER SHARE (EPS)

Basic EPS

| | 2019 | 2018 |
|---|--------------|--------------|
| Net result attributable to the ordinary shareholders (in thousands of Euro) | 3,202 | 14,005 |
| Weighted average number of shares outstanding during the year (thousands) | 117,858 | 117,499 |
| <i>Basic EPS (Euro)</i> | <i>0.027</i> | <i>0.119</i> |

Diluted EPS

The Company only has one category of potential ordinary shares, namely those deriving from the potential conversion of the *stock options* granted to Group employees.

| | 2019 | 2018 |
|--|--------------|--------------|
| Net result attributable to the ordinary shareholders (in thousands of Euro) | 3,202 | 14,005 |
| Average number of shares outstanding during the year (thousands) | 117,858 | 117,499 |
| Weighted average number of shares potentially under option during the year (thousands) | - | 32 |
| Number of shares that could have been issued at fair value (thousands) | - | (21) |
| Adjusted weighted average number of shares outstanding during the year (thousands) | 117,858 | 117,510 |
| <i>Diluted EPS (Euro)</i> | <i>0.027</i> | <i>0.119</i> |

The “Weighted average number of shares potentially under option during the year” represents the average number of shares that are potentially outstanding under stock option plans (only for potentially dilutive options, i.e. with an exercise price lower than the average annual *fair value* of the ordinary shares of Sogefi S.p.A.), for which the subscription right has vested but has not yet been exercised at the end of reporting period. These shares have a potentially dilutive effect on basic EPS and are therefore taken into consideration in the calculation of diluted EPS.

The “Number of shares that could have been issued at fair value” represents the normalisation factor, being the number of shares that would have been issued dividing the proceeds that would have been received from subscription of the stock options by

the average annual fair value of the Sogefi S.p.A. ordinary shares, which amounted to Euro 1.4058 in 2019, compared to Euro 1.5754 in 2018.

Please note that 20,000.00 shares that could dilute basic EPS in the future were not included in the calculation of diluted EPS for 2019 because their exercise price is higher than the average annual fair value of the ordinary shares of Sogefi S.p.A. in 2019.

E) 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments

The following table shows a comparison between the book value of the Group's financial instruments and their fair value.

An analysis of the table shows that the fair value is different from the book value only in the case of short-term and long-term fixed-rate financial debts. This difference, corresponding to Euro 14,749 thousand, is generated by a recalculation of these loans at year-end date at current market rates.

The spreads of floating-rate loans are in line with standard market conditions.

The fair value of fixed-rate financial debts is classified as Level 2 in the fair value hierarchy (see paragraph “Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy”) and was measured using generally accepted discounted cash flow models and a free-risk discount rate.

The fair value of the convertible bond amounts to Euro 96,423 thousand (Euro 91,079 thousand as at 31 December 2018) and is classified as Level 1 in the fair value hierarchy, because the financial instrument is quoted on an active market.

| (in thousands of Euro) | Book value | | Fair value | |
|---|------------|------------|------------|------------|
| | 12.31.2019 | 12.31.2019 | 12.31.2019 | 12.31.2019 |
| Financial assets | | | | |
| Cash and cash equivalents | 165,173 | 91,735 | 165,173 | 91,735 |
| Securities held for trading | - | - | - | - |
| Held-to-maturity investments | - | - | - | - |
| Assets for derivative financial instruments | 62 | 183 | 62 | 183 |
| Current financial receivables | 3,244 | 1,023 | 3,244 | 1,023 |
| Trade receivables | 130,416 | 141,290 | 130,416 | 141,290 |
| Other receivables | 9,814 | 8,489 | 9,814 | 8,489 |
| Other assets | 2,113 | 2,082 | 2,113 | 2,082 |
| Other financial assets available for sale | 46 | 46 | 46 | 46 |
| Non-current trade receivables | - | - | - | - |
| Non-current financial receivables | 6,803 | 5,115 | 6,803 | 5,115 |
| Other non-current receivables | 33,532 | 34,284 | 33,532 | 34,284 |
| Financial liabilities | | | | |
| Short-term fixed rate financial debts | 72,493 | 32,108 | 74,220 | 32,687 |
| Other floating rate short-term financial debts | 15,044 | 1,592 | 15,044 | 1,592 |
| Other short-term liabilities for derivative financial instruments | 8,209 | 27,831 | 8,209 | 27,831 |
| Trade and other payables | 21 | 796 | 21 | 796 |
| Other current liabilities | 342,340 | 345,529 | 342,340 | 345,529 |
| Other non-current liabilities | 38,987 | 38,893 | 38,987 | 38,893 |
| Other fixed rate medium/long-term financial debts | 59,503 | 62,867 | 59,503 | 62,867 |
| Equity linked bond included embedded derivative | 119,969 | 95,588 | 130,307 | 104,916 |
| Other floating rate medium/long-term financial debts | 52,806 | 5,048 | 52,806 | 5,048 |
| Other medium/long-term liabilities for derivative financial instruments | 93,739 | 89,574 | 96,423 | 91,079 |
| Medium/ long-term variable rate financial debt | 131,861 | 106,028 | 131,861 | 106,028 |
| Other medium/ long-term financial liabilities for derivatives | - | - | - | - |

Financial risk management

Given that the Group operates on world markets, its activity is exposed to various kinds of financial risks, including fluctuations, up or down, of interest and exchange rates, and cash flow risks (for cash flows generated outside of the Eurozone). In order to minimise these risks, the Group uses derivatives as part of its risk management activity, whereas it does not use or hold derivatives or similar instruments purely for trading purposes.

The Group also has available a variety of financial instruments other than derivatives, such as bank loans, financial leases, rentals, sight deposits, payables and receivables deriving from normal operating activities.

The Group handles its main hedging operations centrally. Precise instructions have also been issued, laying down guidelines on risk management, while procedures have been introduced to control all transactions in derivatives.

Interest risk

The interest risk to which the Group is exposed mainly arises from long-term debts.

These debts may be fixed or floating rate.

Floating rate debts, which represent 33% of the net book value of Group loans, expose the Group to a risk arising from interest rate volatility (cash flow risk).

With regard to this risk, for the purposes of the related hedging, the Group may use derivative contracts which limit the impacts on the Income Statement of changes in the interest rate. At present, the Company does not hold any hedges of interest risks on floating rate debts to third parties.

The following table gives a breakdown, by maturity, of the book value of the Group's financial assets and liabilities instruments, which are exposed to interest rate risk as at 31 December 2019, split according to whether they are contractually at a fixed or floating rate (for further details see the table shown in the analysis of "Liquidity risk"):

| (in thousands of Euro) | within 12 months | between 1 and 2 years | between 2 and 3 years | between 3 and 4 years | between 4 and 5 years | beyond 5 years | Total |
|-----------------------------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|-----------|
| TOTAL FIXED RATE | (87,538) | (124,889) | (28,949) | (27,964) | (12,740) | (71,971) | (354,051) |
| TOTAL FLOATING RATE - ASSET | 168,480 | - | - | - | - | - | 168,480 |
| TOTAL FLOATING RATE - LIABILITIES | (8,212) | (10,703) | (55,678) | (65,440) | (40) | - | (140,073) |

Financial instruments booked to "Total floating rate – Asset" refer to "Cash and cash equivalents" and "Other financial assets" (Securities held for trading, Held-to-maturity investments, Assets for derivative financial instruments).

Below there is a sensitivity analysis which shows the impact on the Income Statement, net of tax, and on Equity of a change in interest rates that is considered reasonably possible.

An increase or decrease in interest rates of 100 basis points, applied to floating-rate financial assets and liabilities in existence as at 31 December 2019, including interest-rate hedges, would have the following effects:

| (in thousands of Euro) | 12.31.2019 | | 12.31.2018 | |
|------------------------|------------|--------|------------|--------|
| Sensitivity Analysis | Net profit | Equity | Net profit | Equity |
| + 100 basis points | (401) | (401) | (326) | (326) |
| - 100 basis points | 401 | 401 | 326 | 326 |

As was the case in December 2018, the effect on Shareholders' equity at 31 December 2019 is in line with the effect on the Income Statement.

Foreign currency risk

As it operates at an international level, the Group is exposed to the risk that changes in exchange rates could have an impact on the fair value of some of its assets or liabilities. Moreover, as can be seen from the segment information given in note 4, the Group produces and sells mainly in countries of the Eurozone, but it is potentially exposed to currency risk, above all in respect of the British Pound, Brazilian Real, US Dollar, Argentine Peso, Chinese Renminbi and Canadian Dollar.

Generally speaking, the Group is not particularly exposed to exchange risk, which is mainly related to the translation of foreign subsidiaries' financial statements, as the currencies in which the foreign operating companies bill and those in which they are invoiced tend to be much the same.

As regards borrowings, there are also policies stating that any funds raised from third parties have to be in the same currency as the functional currency of the company obtaining the loan. If any exception is made to this principle, then the risk is hedged through forward currency purchases.

More specifically, the Parent Company Sogefi S.p.A. made one private placement of bonds for the amount of USD 115 million in 2013 (USD 65.7 million as at 31 December 2019). The exchange risk on this financing was hedged through Cross Currency Swap contracts (please see paragraph "Hedging – Exchange risk hedges" for more details).

A sensitivity analysis is provided below, which shows the impact on the Income Statement, especially on "Exchange (gains) losses", net of tax, and on Equity of a change that is considered reasonably possible in exchange rates of the main foreign currencies. Note that the exchange effect of translating the financial statements of foreign subsidiaries into Euro has not been taken into consideration here.

What has been taken into consideration are the financial assets and liabilities outstanding as at 31 December 2019 denominated in a currency other than the functional currency of the individual subsidiaries. This analysis also takes into account any changes in the fair value of the financial instruments used to hedge exchange risk.

As at 31 December 2019, exchange risk was concentrated mainly in transactions with the Euro.

A 5% appreciation or depreciation of the Euro against the other main currencies would have the following effects:

| (in thousands of Euro) | 12.31.2019 | | 12.31.2018 | |
|------------------------|------------|---------|------------|---------|
| Sensitivity Analysis | Net profit | Equity | Net profit | Equity |
| + 5% | (1,089) | (1,089) | (1,047) | (1,047) |
| - 5% | 1,195 | 1,195 | 1,367 | 1,367 |

These effects are mainly due to the following exchange rates:

-EUR/GBP due to the net exposure for the trade payables and financial debt in Euro of UK companies and for the net financial debt in GBP of the Parent Company Sogefi S.p.A.;

-EUR/USD due to the net exposure for the trade payables and financial debt in Euro of the US subsidiaries and for the net financial debt in USD of the Parent Company Sogefi S.p.A.;

-EUR/BRL due to the net exposure for the trade payables in Euro of the Brazilian subsidiaries;

-EUR/RON due to the net exposure for the trade payables in Euro of the Romanian subsidiary S.C. Sogefi Air & Cooling S.r.l.

-EUR/MAD due to the net exposure for the trade payables in Euro of the Moroccan subsidiary Filter Systems Maroc S.a.r.l.

Please note that a sensitivity analysis of the MEX/USD exchange rate showed that a 5% appreciation/depreciation of the Mexican Peso would cause Group's net profit and equity to decrease/increase by Euro 2,610 thousand. This effect is due to the exposure for the trade payables and financial debt in USD of the Mexican subsidiary.

Moreover, a further sensitivity analysis of the CAD/USD exchange rate showed that a 5% appreciation/depreciation of the Brazilian Real would cause Group's net profit and equity to decrease/increase by Euro 608 thousand. This effect is due to the exposure for the trade payables and financial debt in USD of the Canadian subsidiary.

Price risk

The Group is partially exposed to price risk as it makes purchases of various raw materials such as steel, plastics, aluminium, cellulose products.

The risk is handled in the best way possible thanks to centralised purchasing (or at business unit level) and a policy of having various suppliers for each kind of raw material, operating in different parts of the world.

We would also point out that price risk is generally mitigated by the Group's ability to pass on part of the variation in raw material costs to selling prices.

The price risk on Group investments classified as “Securities held for trading” and “Other financial assets available for sale” is not significant.

Credit risk

This is the risk that one of the parties signing a contract of a financial nature defaults on an obligation, thereby provoking a financial loss. This risk can derive from strictly commercial aspects (granting and concentration of credits), as well as from purely financial aspects (choice of counterparties used in financial transactions).

Cash and cash equivalents

Cash and cash equivalents held by the Group as at 31 December 2019 amounted to Euro 165,173 thousand (Euro 91,735 thousand as at 31 December 2018). Cash and cash

equivalents are held with banks and financial institutions with credit ratings between A1 and Caa1 by Moody's.

Impairment losses of cash and cash equivalents are measured at 12-month expected credit losses and reflect the maturities of short-term exposures. The Group believes its credit risk on cash and cash equivalents to be low, according to the counterparties' credit ratings by third parties.

The Group measures expected credit loss relating to cash and cash equivalents using a method similar to that adopted for debt instruments.

As at 31 December 2019, impairment losses of cash and cash equivalents were not significant for the Group.

Derivative financial instruments

Derivative financial instruments were entered into with banks and financial institutions with credit ratings between A2 and Baa3 by Moody's.

Trade receivables

From a commercial point of view, the Group does not have excessive concentrations of credit risk as it operates on distribution channels, both *Original Equipment* and the *Aftermarket*, that make it possible not to depend too much on individual customers. For example, Original Equipment sales are largely to car and industrial vehicle manufacturers.

As regards the *Aftermarket*, on the other hand, the Group's main customers are important international purchasing groups.

In order to minimise credit risk, however, procedures have in any case been implemented to limit the impact of any customer insolvencies.

As regards counterparties for the management of financial resources, the Group only has recourse to partners that have a safe profile and a high international standing.

The Group's maximum exposure to credit risk as at 31 December 2019 is represented by the book value of the financial assets shown in the financial statements (Euro 351,203 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 5,510 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 131,649 thousand as at 31 December 2019 (Euro 141,265 thousand as at 31 December 2018), written down by Euro 4,653 thousand (Euro 4,629 thousand as at 31 December 2018), of which Euro 286 thousand are long-term receivable hedges.

Receivables are backed by mainly insurance guarantees for Euro 3,289 thousand and bank guarantees for Euro 134 thousand (Euro 2,053 thousand as at 31 December 2018).

The Group does not have any other guarantees covering trade receivables.

The following table shows the changes in the allowance for doubtful accounts:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|---------------------------------------|------------|------------|
| Opening balance | 4,629 | 4,661 |
| Change to the scope of consolidation | - | - |
| Accruals for the period | 1,531 | 1,628 |
| Utilisations | (757) | (1,144) |
| Provisions not used during the period | (1,024) | (454) |
| Other changes | 259 | - |
| Exchange differences | 15 | (62) |
| TOTAL (*) | 4,653 | 4,629 |

(*)The Allowance for bad debts at December 31, 2019 decreases short-term receivables for Euro 4,367 thousand and long-term receivables for Euro 286 thousand.

The following is an ageing analysis of gross receivables and the related allowance for doubtful accounts to help evaluate credit risk:

| (in thousands of Euro) | 12.31.2019 | | |
|-------------------------------------|-------------|---------------------------------|-----------|
| | Gross value | Allowance for doubtful accounts | Net value |
| Receivables past due: | | | |
| 0-30 days | 17,324 | (7) | 17,317 |
| 30-60 days | 5,141 | (89) | 5,052 |
| 60-90 days | 2,416 | (106) | 2,310 |
| over 90 days | 7,338 | (3,155) | 4,183 |
| Total receivables past due | 32,219 | (3,357) | 28,862 |
| Total receivables still to fall due | 99,430 | (1,010) | 98,420 |
| TOTAL | 131,649 | (4,367) | 127,282 |

| (in thousands of Euro) | 12.31.2018 | | |
|-------------------------------------|-------------|---------------------------------|-----------|
| | Gross value | Allowance for doubtful accounts | Net value |
| Receivables past due: | | | |
| 0-30 days | 16,735 | (5) | 16,730 |
| 30-60 days | 3,763 | (12) | 3,751 |
| 60-90 days | 653 | (47) | 606 |
| over 90 days | 7,784 | (3,767) | 4,017 |
| Total receivables past due | 28,935 | (3,831) | 25,104 |
| Total receivables still to fall due | 112,330 | (512) | 111,818 |
| TOTAL | 141,265 | (4,343) | 136,922 |

As at 31 December 2019, gross receivables past due had decreased by Euro 3,284 thousand compared to the previous year. The increase is concentrated in the ranges of 30-60 day and 60-90 day receivables.

The item “Total receivables still to fall due” does not contain significant positions that have been renegotiated.

Considering the nature of the Sogefi Group's customers (cars and industrial vehicles manufacturers and important international purchasing groups), a Credit risk analysis by type of customer is not considered meaningful.

Liquidity risk

This is the risk that the Group may have trouble meeting its commitments associated with financial liabilities settled by cash or other financial assets. The Group's approach to managing liquidity is to have sufficient funds to meet its commitments upon maturity at all times, whether under normal conditions or under financial pressure, without incurring in excess charges or damaging its reputation.

The Group is subject to a minimum amount of liquidity risk, namely having to handle a situation where it is not able to raise sufficient funds to meet its liabilities.

The Group has always taken an extremely prudent approach to its financial structure, using mainly medium/long-term funding, whereas forms of short-term financing are generally used only to cope with moments of peak requirement.

Its solid capital structure makes it relatively easy for the Group to find additional sources of financing.

It should also be mentioned that the Parent Company Sogefi S.p.A. has implemented a cash pooling system for all of the main European subsidiaries, which makes it possible to optimise liquidity and cash flow management at a supranational level.

The following table shows an analysis of the Group's financial assets and liabilities instruments by maturity, including the amount of future interests to be paid and trade receivables and payables:

| (in thousands of Euro) | within 12 months | between 1 and 2 years | between 2 and 3 years | between 3 and 4 years | between 4 and 5 years | beyond 5 years | Total |
|---|------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------|------------------|
| Fixed rate | | | | | | | |
| Financial debts for right of use | (15,044) | (9,018) | (6,579) | (5,588) | (4,940) | (26,680) | (67,849) |
| Private Placement USD 115 million Sogefi S.p.A. | (14,624) | (14,574) | (14,574) | (14,574) | - | - | (58,346) |
| Private Placement EUR 25 million Sogefi S.p.A. | (24,995) | - | - | - | - | - | (24,995) |
| Equity linked bond EUR 100 million Sogefi S.p.A. | - | (93,739) | - | - | - | - | (93,739) |
| Finance lease Banco do Brasil S.A. EUR 20 Million Sogefi S.p.A. | (11,622) | - | - | - | - | - | (11,622) |
| Private Placement EUR 75 million Sogefi S.p.A. | - | (7,500) | (7,500) | (7,500) | (7,500) | (44,610) | (74,610) |
| Sogefi Filtration do Brasil Ltda loan | (7,818) | (10) | (10) | (10) | (10) | - | (7,858) |
| Sogefi (Suzhou) Auto Parts Co., Ltd loans | (12,403) | - | - | - | - | - | (12,403) |
| Government financing | (85) | (37) | (273) | (286) | (291) | (681) | (1,653) |
| Other fixed rate loans | (947) | (11) | (13) | (6) | - | - | (977) |
| Future interests | (8,563) | (5,163) | (3,292) | (2,186) | (1,587) | (1,213) | (22,004) |
| Future financial income on derivative instruments - interest risk hedging * | 936 | 663 | 306 | 90 | - | - | 1,995 |
| TOTAL FIXED RATE | (95,165) | (129,389) | (31,935) | (30,060) | (14,328) | (73,184) | (374,061) |
| Floating rate | | | | | | | |
| Cash and cash equivalents | 165,173 | - | - | - | - | - | 165,173 |
| Financial assets | - | - | - | - | - | - | - |
| Assets for derivative financial instruments | 62 | - | - | - | - | - | 62 |
| Current financial receivables | 3,244 | - | - | - | - | - | 3,244 |
| Non-current financial receivables | - | - | - | - | - | - | - |
| Bank overdrafts and other short-term loans | (1,942) | - | - | - | - | - | (1,942) |
| Sogefi S.p.A. loans | (0) | (9,979) | (54,954) | (64,750) | 117 | - | (129,566) |
| Sogefi Air&Cooling S.A.S. loan | (1,695) | (627) | (627) | (627) | (157) | - | (3,733) |
| Sogefi Filtration do Brasil Ltda loan | (1,506) | - | - | - | - | - | (1,506) |
| Other floating rate loans | (3,068) | (97) | (97) | (64) | - | - | (3,326) |
| Future interests | (2,455) | (2,348) | (2,384) | (1,250) | (30) | - | (8,467) |
| Liabilities for derivative financial instruments - exchange risk hedging | (21) | - | - | - | - | - | (21) |
| Future financial expenses on derivative instruments - interest risk hedging | - | - | - | - | - | - | - |
| TOTAL FLOATING RATE | 157,792 | (13,051) | (58,062) | (66,691) | (70) | - | 19,918 |
| Trade receivables | 130,416 | - | - | - | - | - | 130,416 |
| Trade and other payables | (342,340) | (59,503) | - | - | - | - | (401,843) |
| TOTAL FINANCIAL INSTRUMENT - ASSET | 298,895 | - | - | - | - | - | 298,895 |
| TOTAL FINANCIAL INSTRUMENT - LIABILITIES | (448,192) | (201,943) | (89,997) | (96,751) | (14,398) | (73,184) | (924,465) |

* The amount is different from "Net financial assets for derivatives – hedging of interest rate" (equal to a total of Euro 6,803 thousand) because it represents the non-discounted cash flows.

Hedging

The Group decided to continue to use the hedge accounting rules provided for in IAS 39 for all hedges already designated as hedge accounting at 31 December 2018.

a) Exchange risk hedges – not designated in hedge accounting

The Sogefi Group has entered the following contracts to hedge the exchange risk on financial and commercial balances. Note that even though the Group considers these instruments as exchange risk hedges from a risk management point of view, it has chosen not to adopt hedge accounting, as this treatment is not considered suitable for the Group's operating requirements. It therefore measures such contracts at fair value, posting the differences to “Exchange (gains) losses” in the Income Statement (this difference is offset within Income Statement by the fair value change of the asset/liability denominated in a certain currency).

The fair value of these instruments was calculated using the forward curve of exchange rates as at 31 December 2019.

As at 31 December 2019, the following forward purchase/sale contracts were maintained to hedge the exchange risk on intercompany financial positions and on commercial positions:

| Company | Forward purchase / Forward sale | Date opened | Currency exchange | Spot price | Date closed | Forward price | Fair value (*) at 12.31.2019 |
|-------------------------------------|------------------------------------|-------------|----------------------|------------|-------------|------------------|---------------------------------|
| Sogefi Suspension Brasil Ltda | S USD 200,000 | 12/09/2019 | BRL/value | 4.13350 | 01/22/2020 | 4.14000 | 5.3 |
| Sogefi Filtration do Brasil Ltda | S USD 150,000 | 12/09/2019 | BRL/value | 4.13350 | 02/05/2020 | 4.14200 | 3.9 |
| Sogefi Filtration do Brasil Ltda | P EUR 150,000 | 11/21/2019 | BRL/value | 4.65300 | 01/20/2020 | 4.68750 | (5.8) |
| Sogefi Suspensions Argentina | P USD 600,000 | 12/17/2019 | ARS/value | 59.92000 | 12/31/2020 | 65.20000 | (15.0) |

* Positive fair value was recognised in "Other financial assets - Asset for derivative financial instruments", whereas negative fair value was recognised in "Other short-term liabilities for derivative financial instruments".

b) Interest risk hedges – in hedge accounting

As at 31 December 2017, the Parent Company Sogefi S.p.A. had three existing Interest Rate Swap contracts, entered into in 2013, for an overall notional amount of Euro 25 million that expired in June 2018.

c) Interest risk hedges – no longer in hedge accounting

As at 31 December 2017, the Parent Company Sogefi S.p.A. held Interest Rate Swap contracts, expired in June 2018, for an overall notional amount of Euro 165 million, which, based on effectiveness tests carried out in the previous years, proved ineffective so the hedging relationship was interrupted, with a resulting reclassification of the derivative contracts to speculative instruments.

The discontinuation of hedge accounting had the following impact on the financial statements as at 31 December 2018:

- a financial income of Euro 2,336 thousand reflecting the change in fair value compared to 31 December 2017 was immediately recognised in the Income Statement;
- a financial expense of Euro 884 thousand was recognised in the Income Statement; this amount reflects the portion of the reserve previously booked to “Other Comprehensive Income” that is recognised in the Income Statement over the same period of time as the differentials relating to the former underlying hedged item.

d) Exchange risk hedges – no longer in hedge accounting

During 2013 the Parent Company Sogefi S.p.A. entered into three cross currency swap (Ccs) contracts maturing in June 2023, initially designated in hedge accounting, in order to hedge interest and exchange rate risks relating to the private placement currently of USD 82.1 million bonds. Under these contracts, a fixed interest receivable of 600 basis points on subscribed notional USD amount is collected by the Company on a quarterly basis against payment of a fixed interest payable on a notional amount in EUR corresponding to the USD notional amount converted at the fixed exchange rate of 1.3055 (totalling Euro 62,921 thousand).

Based on the tests carried out on 31 December 2017, they have become ineffective so that the hedging relationship was discontinued and the derivative contracts were reclassified as fair value through profit or loss instruments. The change in fair value (exclusively for the interest rate risk) compared to 31 December 2017 was recognised in the Income Statement, whereas the reserve booked to "Other Comprehensive Income" (if any) is reclassified in the Income Statement over the same period of time as the differentials relating to the underlying hedged item.

Details of these contracts are as follows:

| Description of CCSwap | Date opened | Contract maturity | Notional (in thousands of Euro) | Fixed rate | Fair value at 12.31.2019 | Fair value at 12.31.2018 |
|--|-------------|-------------------|---------------------------------|--|--------------------------|--------------------------|
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013 | 06/01/2023 | 31,429 | 6,0% USD receivable 5,6775% Euro payables | 3,274 | 2,485 |
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013 | 06/01/2023 | 22,857 | 6,0% USD receivable 5,74% Euro payables | 2,358 | 1,755 |
| Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps | 04/30/2013 | 06/01/2023 | 11,429 | 6,0% USD receivable 5,78% Euro payables | 1,171 | 875 |
| TOTALE | | | 65,714 | | 6,803 | 5,115 |

The discontinuation of hedge accounting, for the interest rate risk, had the following impact on the financial statements as at 31 December 2019:

- a financial income of Euro 2,349 thousand reflecting the change in fair value compared to 31 December 2019 was immediately recognised in the Income Statement;
- a financial expense of Euro 728 thousand was recognised in the Income Statement; this amount reflects the portion of the reserve previously booked to “Other Comprehensive Income” that is recognised in the Income Statement over the same period of time as the differentials relating to the former underlying hedged item. As

at 31 December 2019, an amount of Euro 2,490 thousand remains to be recycled to the Income Statement in the future years.

e) fair value of derivatives

The fair value of all derivatives was calculated using the forward curves of exchange and interest rates as at 31 December 2019, also taking into account a credit valuation adjustment/debit valuation adjustment. The fair value amounts of derivatives are classified as Level 2 in fair value hierarchy, based on the significance of the inputs used in fair value measurements.

Equity management

The main objectives pursued by the Group through its equity risk management are the creation of value for shareholders and the safeguarding of business continuity. The Group also sets itself the objective of maintaining an optimal equity structure so as to reduce the cost of indebtedness and meet the covenants established by the loan agreements.

The Group monitors equity on the basis of the net financial position/total equity ratio (gearing ratio). For the purposes of determination of the net financial position reference is made to note 21. Total equity is analysed in note 20.

As at 31 December 2019, gearing stands at 1.53 (1.22 as at 31 December 2018).

Categories of financial assets and liabilities stated in the financial statements and fair value hierarchy

In compliance with the requirements of IFRS 7, the table below provides the information on the categories of financial assets and liabilities held by the Group as at 31 December 2019.

For the financial instruments measured at fair value in the statement of financial position the IFRS 7 requires a classification by hierarchy determined by reference to the source of inputs used to derive the fair value. This classification uses the following three levels:

- level 1: if the financial instrument is quoted in an active market;
- level 2: if the fair value is determined using valuation techniques and the inputs used for the valuation (other than quoted prices of financial instruments) are observable in the market. Specifically, fair value was calculated using the forward curves of exchange and interest rates;
- level 3: if the fair value is determined using valuation techniques and the inputs used for the valuation are non-observable in the market.

The following table therefore shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2019:

| (in thousands of Euro) | Note | Book value 2019 | Receivables and financial assets | Financial assets available for sale | Held-to- maturity investments | Financial liabilities | Fair Value with changes booked in the Income | |
|---|------|--------------------|--|--|-------------------------------------|--------------------------|---|-------------------------|
| | | | | | | | Amount | Fair value hierarchy |
| Current assets | | | | | | | | |
| Cash and cash equivalents | 5 | 165,173 | 165,173 | - | - | - | - | - |
| Securities held for trading | 6 | - | - | - | - | - | - | - |
| Held-to-maturity investments | 6 | - | - | - | - | - | - | - |
| Assets for derivative financial instruments | 6 | 62 | - | - | - | - | 62 | 2 |
| Current trade receivables | 6 | 3,244 | 3,244 | - | - | - | - | - |
| Trade receivables | 8 | 130,416 | 130,416 | - | - | - | - | - |
| Other receivables | 8 | 9,814 | 9,814 | - | - | - | - | - |
| Other assets | 8 | 2,113 | 2,113 | - | - | - | - | - |
| Non-current assets | | | | | | | | |
| Other financial assets available for sale | 12 | 46 | - | 46 * | - | - | - | - |
| Non-current assets for derivative financial instruments | 12 | 6,803 | - | - | - | - | 6,803 | 2 |
| Other non-current receivables | 12 | 33,532 | 33,532 | - | - | - | - | - |
| Current liabilities | | | | | | | | |
| Short-term fixed rate financial debts | 15 | 72,493 | - | - | - | 72,493 | - | - |
| Short-term financial debts for Right of Use | 15 | 15,044 | - | - | - | 15,044 | - | - |
| Short-term variable rate financial debts | 15 | 8,209 | - | - | - | 8,209 | - | - |
| Other short-term liabilities for derivative financial instruments | 15 | 21 | - | - | - | - | 21 | 2 |
| Trade and other payable | 16 | 342,340 | - | - | - | 342,340 | - | - |
| Other current liabilities | 17 | 38,987 | - | - | - | 38,987 | - | - |
| Non-current liabilities | | | | | | | | |
| Medium/long-term fixed rate financial debts | 15 | 119,969 | - | - | - | 119,969 | - | - |
| Medium/long-term financial debts for Right of Use | 15 | 52,806 | - | - | - | 52,806 | - | - |
| Equity linked bond included embedded derivative | 15 | 93,739 | - | - | - | 93,739 | - | - |
| Medium/long-term variable rate financial debts | 15 | 131,861 | - | - | - | 131,861 | - | - |
| Other medium/long-term liabilities for derivative financial instruments | 15 | - | - | - | - | - | - | - |

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

The following table shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2018:

| (in thousands of Euro) | Note | Book value 2018 | Receivables and financial assets | Financial assets available for sale | Held-to- maturity investments | Financial liabilities | Fair Value with changes booked in the income statement | |
|---|------|--------------------|--|--|-------------------------------------|--------------------------|---|-------------------------|
| | | | | | | | Amount | Fair value hierarchy |
| Current assets | | | | | | | | |
| Cash and cash equivalents | 5 | 91,735 | 91,735 | - | - | - | - | - |
| Securities held for trading | 6 | - | - | - | - | - | - | - |
| Held-to-maturity investments | 6 | - | - | - | - | - | - | - |
| Assets for derivative financial instruments | 6 | 183 | - | - | - | - | 183 | 2 |
| Current financial receivables | 6 | 1,023 | 1,023 | - | - | - | - | - |
| Trade receivables | 8 | 141,290 | 141,290 | - | - | - | - | - |
| Other receivables | 8 | 8,489 | 8,489 | - | - | - | - | - |
| Other assets | 8 | 2,082 | 2,082 | - | - | - | - | - |
| Non-current assets | | | | | | | | |
| Other financial assets available for sale | 11 | 46 | - | 46 * | - | - | - | - |
| Non-current assets for derivative financial instruments | 12 | 5,115 | - | - | - | - | 5,115 | 2 |
| Other non-current receivables | 12 | 34,284 | 34,284 | - | - | - | - | - |
| Current liabilities | | | | | | | | |
| Short-term fixed rate financial debts | 15 | 32,108 | - | - | - | 32,108 | - | - |
| Short-term financial debts for Right of Use | 15 | 1,592 | - | - | - | 1,592 | - | - |
| Short-term variable rate financial debts | 15 | 27,831 | - | - | - | 27,831 | - | - |
| Other short-term liabilities for derivative financial instruments | 15 | 796 | - | - | - | - | 796 | 2 |
| Trade and other payables | 16 | 345,529 | - | - | - | 345,529 | - | - |
| Other current liabilities | 17 | 38,893 | - | - | - | 38,893 | - | - |
| Non-current liabilities | | | | | | | | |
| Medium/long-term fixed rate financial debts | 15 | 95,588 | - | - | - | 95,588 | - | - |
| Medium/long-term financial debts for Right of Use | 15 | 5,048 | - | - | - | 5,048 | - | - |
| Equity linked bond included embedded derivative | 15 | 89,574 | - | - | - | 89,574 | - | - |
| Medium/long-term variable rate financial debts | 15 | 106,028 | - | - | - | 106,028 | - | - |
| Other medium/long-term liabilities for derivative financial instruments | 15 | - | - | - | - | - | - | - |

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not available.

F) 40. RELATED PARTY TRANSACTIONS

See IAS 24 and the related communications from Consob for the definition of related party transactions.

The Group is controlled by the Parent Company CIR S.p.A. (which in turn is controlled by the ultimate Parent Company F.lli De Benedetti S.p.A.), which as at 31 December 2019 held 55.60% of the share capital (56.67% of outstanding shares, excluding treasury shares). Sogefi S.p.A.'s shares are listed on the STAR segment of Mercato Telematico Azionario managed by Borsa Italiana S.p.A.

The Group's consolidated financial statements include the financial statements of the consolidated companies, listed in chapter H along with the stake held in the same by the Group.

Dealings between Group companies are conducted at arm's length, taking into account the quality and type of services rendered.

The Parent Company Sogefi S.p.A., because of its role of Holding company, provides administrative, financial and management services directly to the three French sub-holding operative companies (Sogefi Filtration S.A., Sogefi Suspensions S.A. and Sogefi Air & Cooling S.A.S.) which, in turn, beside dealing with the services provided by the Parent Company to the companies operating in the relevant business units, *provide directly to the latter support services as well as operating and business services*. The Parent Company also debits and credits interest at a market spread to those subsidiaries that have joined the Group's cash pooling system. The Parent Company is also charging royalties fees on the Group "SAP" information system to those subsidiaries at which implementation has been completed.

The subsidiary Sogefi Gestion S.A.S. carries out centralised functions and charges Group companies for administrative, financial, legal, industrial and IT services as well as royalties for the use of Group-wide IT applications.

As part of its activity, the Parent Company Sogefi S.p.A. makes use of the services provided by CIR S.p.A., its Parent Company, in areas such as strategic development and of an administrative, financial, fiscal, corporate and investor relator nature. This relationship is regulated by contracts at arm's-length conditions and the cost is commensurate to the effective value of such services to the Sogefi Group in terms of the resources devoted to them and the specific economic advantages obtained as a result. It should be noted that Sogefi's interest in the provision of services by the parent company is considered to be preferable to services provided by third parties because of, among other things, its extensive knowledge acquired over time in its specific business and market environment.

In 2019, the Parent Company Sogefi S.p.A. used the services of CIR S.p.A., paying Euro 525 thousand for them (Euro 640 thousand in the previous year). In addition, during the year 2019 CIR S.p.A. incurred in costs for the amount of Euro 248 thousand for the sole benefit of the Parent Company Sogefi S.p.A. These costs were charged back to Sogefi S.p.A. as at 31 December 2019.

The Parent Company Sogefi S.p.A. has entered into a rental contract, effective from 1 January 2017, on the offices located in Milan, via Ciovassino 1/A where Sogefi has its registered offices and administration.

As at 31 December 2019, the Italian companies of the Sogefi Group had receivables for the amount of Euro 3,134 thousand owed by CIR S.p.A. in connection with their participation in the group tax filing system, and payables for the amount of Euro 1,799 thousand. As at 31 December 2018, receivables amounted to Euro 4,368 thousand (Euro 3,938 thousand were collected during the course of 2019) and payables amounted to Euro 2,326 thousand.

At the end of 2019, the Italian subsidiaries recorded an income of Euro 335 thousand (Euro 366 thousand in the previous year) following the transfer of fiscal surplus to companies that have joined the CIR Group tax filing system in order to have an interest deduction. The Parent Company Sogefi S.p.A. recorded an expense of Euro 1,065 thousand (Euro 1,505 thousand in the previous year) due to the payment for the fiscal surplus received from the companies that have joined the CIR Group tax filing system.

As regards economic transactions with the Board of Directors, Statutory Auditors, Chief Executive Officer and the Manager with strategic responsibility in 2019, please refer to the attached table.

Apart from those mentioned above and shown in the table below, at the date of these financial statements, we are not aware of any other related party transactions.

The following table summarises related party transactions:

| (in thousands of Euro) | 2019 | 2018 |
|---|-------|-------|
| Receivables | | |
| - for the Group tax filing from CIR S.p.A. | 2,799 | 4,002 |
| - for income following the transfer of fiscal surplus to the CIR Group | 335 | 366 |
| Payables | | |
| - for Director's remuneration | 20 | 14 |
| - for services from other related companies | - | 65 |
| - for services from the CIR Group | 248 | - |
| - for the cost of transferring tax surpluses from the CIR Group | 1,065 | 1,505 |
| - for the Group tax filing from CIR S.p.A. | 734 | 821 |
| Right of use (*) | | |
| - for rental property | 337 | - |
| Financial debts for Right of Use (*) | | |
| - for rental property | 326 | - |
| Costs | | |
| - for services received from CIR S.p.A. | 525 | 640 |
| - for rental contract from CIR S.p.A | 7 | 118 |
| - for services from the CIR Group | 248 | - |
| - for services from other related companies | 63 | 65 |
| -for the cost of transferring tax surpluses from the CIR Group | 1,065 | 1,505 |
| Revenues | | |
| - for income following the transfer of fiscal surplus to the CIR Group | 335 | 366 |
| Compensation of directors and statutory auditors | | |
| - directors | 452 | 433 |
| - directors charged back to the parent company | 20 | 52 |
| - statutory auditors | 93 | 93 |
| - contribution charges on compensation to directors and statutory auditors | 64 | 49 |
| Compensation and related contributions to the General Manager (**) | 575 | 669 |
| Compensation and related contributions to Managers with strategic responsibilities ex Consob resolution no. 17221/2010 (***) | 431 | 421 |

(*) Presented here are the components relating to the rental contract for the headquarters in Via Ciovassino1/A, Milan; it should be noted that rents accrued as at 31 December 2019 totalled Euro 118 thousand.

(**) The Chief Executive Officer ceased to hold office on 9 December 2019. This item also includes the remuneration and contributions paid as an employee of the company after that date. The item also includes the imputed cost of stock grant plans of Euro 93 thousand in 2019 (Euro 218 thousand in 2018) recognised in item "Other non-operating expenses (income)".

(***) The item includes the net imputed cost of stock grant plans of Euro 61 thousand in 2019 (Euro 66 thousand in 2018) recognised in item "Other non-operating expenses (income)".

G) COMMITMENTS AND RISKS

41. INVESTMENT COMMITMENTS

As at 31 December 2019, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 1,195 thousand (Euro 2,721 thousand at the end of the previous year), as already disclosed in the explanatory notes regarding tangible fixed assets.

42. GUARANTEES GIVEN

Details of guarantees are as follows:

| (in thousands of Euro) | 12.31.2019 | 12.31.2018 |
|--|--------------|--------------|
| PERSONAL GUARANTEES GIVEN | | |
| a) Sureties to third parties | 2,697 | 4,661 |
| b) Other personal guarantees in favour of third parties | 2,813 | 2,690 |
| TOTAL PERSONAL GUARANTEES GIVEN | 5,510 | 7,351 |
| REAL GUARANTEES GIVEN | | |
| a) Against liabilities shown in the financial statements | 666 | 1,116 |
| TOTAL REAL GUARANTEES GIVEN | 666 | 1,116 |

The guarantees given in favour of third parties relate to guarantees given to certain customers by subsidiary Sogefi Suspensions Heavy Duty Italy S.p.A., to the provider of the lease contract by subsidiary Sogefi Filtration do Brasil Ltda and subsidiary Sogefi Filtration Ltd; guarantees are shown at a value equal to the outstanding commitment at the end of the reporting period. These accounts indicate risks, commitments and guarantees provided by Group companies to third parties.

The "Other personal guarantees in favour of third parties" relate to the commitment of the subsidiary Sogefi HD Suspensions Germany GmbH to the employee pension fund for the two business lines at the time it was acquired in 1996; this commitment is covered by the contractual obligations of the seller, who is a leading German operator.

"Real guarantees given" refer to subsidiary Allevard IAI Suspensions Pvt Ltd, which pledged tangible fixed assets and trade receivables as real guarantees to secure loans obtained from financial institutions.

43. OTHER RISKS

As at 31 December 2019, the Group had third-party goods and materials held at Group companies worth Euro 14,984 thousand (Euro 15,247 thousand as at 31 December 2018).

44. CONTINGENT ASSETS/LIABILITIES

Contingent assets

In 2006, the subsidiary Sogefi Filtration do Brasil Ltda filed a lawsuit in order to obtain the right to exclude ICMS (value added tax on sales) from the basis for calculating PIS (social inclusion program) and COFINS (federal tax on social contributions on revenues) taxes for the period from January 2002 to July 2019.

On 25 July 2019, the corresponding court ruled in favour of the subsidiary Sogefi Filtration do Brasil Ltda, which therefore obtained the legal right to recognise these tax credits.

It should also be noted that in October 2017 the Brazilian Supreme Court (STF) ruled in favour of taxpayers on the issue at hand; this decision has generated general case law in the country. The Supreme Court, however, has not specified the calculation method that taxpayers should apply, taking into account the different regulations in place governing tax calculation. A new Supreme Court ruling is scheduled for 1 April 2020, and the calculation methodology will also be defined on that date.

As at 31 December 2019, the Brazilian subsidiary prudentially did not record any tax credits in the financial statements with reference to this issue, as it awaits clarifications from the Supreme Court on the calculation method.

Potential liabilities

Sogefi Group is managing environmental issues in some production plants. No relevant costs are expected.

In October 2016, the Parent Company Sogefi S.p.A. received four notices of assessment relating to fiscal periods 2011 and 2012, as a result of a tax audit carried out during the first half year 2016, with two irregularities: i) undue deduction of Euro 0.6 million of VAT paid on purchases of goods and services, ii) non-deductibility from IRES tax (and relating non-deductibility for VAT of Euro 0.2 million) of the expense for services performed by parent company CIR S.p.A., for the overall taxable amount of Euro 1.3 million, not including interest and fines. The notices were challenged by the Company before the Province Tax Commission of Mantua, which on 14 July 2017 filed judgment no. 119/02/2017, ruling in favour of the Company on all claims. The Italian Tax Agency filed an appeal against parts of the judgement, requesting that only the notices of VAT assessment be sustained, and finally waiving the notices of IRES assessment (Italian Corporate Income Tax). The Company has filed its rebuttal arguments against this partial appeal. On 19 November 2019, a hearing was held at the Lombardy Regional Tax Committee, which accepted the Authority's argument. The company may challenge the judgement before the Supreme Court of Cassation by 2 July 2020.

Based on the tax advisor's opinion, Directors believe the risk of losing to be possible but not likely.

The subsidiary Sogefi Filtration Italy S.p.A. has a pending dispute with the tax authorities for tax year 2004. The purpose of the proceedings, which were initiated in 2009, is to challenge the elusion/abuse of the merger by incorporation through the

cancellation of shares of the "old" Sogefi Filtration S.p.A. into Filtrauto Italia S.r.l., which led to the derecognition of the cancellation deficit (generated by the merger), which was partly booked under goodwill and partly to the revaluation of a property, in addition to interest on the loan granted by Sogefi S.p.A. to Filtrauto S.r.l. as part of the transaction.

The Company challenged the notices of assessment and defended the full legitimacy of its actions. In 2012, the Milan Provincial Tax Committee voided the notices of assessment for the part concerning the assessment of elusion/abuse. The Authority challenged the above judgements before the Regional Tax Committee of Milan. On 21 March 2014, the Regional Tax Committee of Milan filed the judgement confirming the annulment of the orders already filed at first instance. On 16 June 2014, the Tax Agency filed an appeal before the Court of Cassation through the Legal Council of State. The Company lodged a defence. On 5 December 2019, the Supreme Court upheld one of the grounds of appeal raised by the Legal Council of State and, as a result, overruled the judgement passed by the court of second instance. The assessment of this aspect was therefore remanded to the Regional Tax Committee, which has to issue an opinion with a petition to resume proceedings to be filed by 5 June 2020.

On the basis of the opinion expressed by the tax advisor who is taking care of the litigation and considering the almost unanimous opinion of the best case law in favour of the arguments put forward by the company on law avoidance and abuse and shared by the first and second instance judgements, the company believes the risk of losing pending disputes concerning disputed taxes amounting to nearly Euro 3 million, penalties in the same amount as disputed taxes and interest estimated at around Euro 2 million – totalling an estimated Euro 8 million approximately – to be possible but not likely as at 31 December 2019.

Consequently, the Company did not set aside any amount for tax risks in financial statements as at 31 December 2019.

45. ATYPICAL OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication dated 28 July 2006, it is specified that the Group did not implement any atypical and/or unusual transactions during 2019.

46. OTHER INFORMATION

DISCLOSURE PURSUANT TO ART. 1, PARAGRAPH 125, OF ACT NO. 124 OF 4 AUGUST 2017

During 2019, the subsidiaries that have obtained public grants under the provisions referred to above disclosed the relevant information in their statutory financial statements.

DISCLOSURE PURSUANT TO ARTICLE 2427, 22-QUINQUIES AND ARTICLE 2427, 22-SEXIES

The company that prepares the consolidated financial statements of the largest group of companies the company is part of as a subsidiary, is Fratelli De Benedetti S.p.A. with registered office in Via Valeggio no. 41 - Turin, whose financial statements are filed at the registered office.

The company that prepares the consolidated financial statements of the smallest group of companies the company is part of as a subsidiary is CIR – Compagnie Industriali Riunite S.p.A. with registered office in Via Ciovassino no. 1 - Milan, whose financial statements are filed at the registered office.

47. SUBSEQUENT EVENTS

The first two months of 2020 have witnessed a growing COVID-19 (aka "Coronavirus") health emergency. This emergency started in the People's Republic of China at the end of 2019 and has recently spread to Italy as well.

Sogefi has started an analysis, which is a work in progress given the ongoing development of the outbreak, to determine the possible effects of the COVID-19 ("Coronavirus") health emergency, with special focus on the relationships between European customers and Chinese suppliers.

Sogefi immediately defined procedures to ensure maximum health protection and the safety of its employees, as trips to and from China were cancelled and European personnel abroad was repatriated.

In addition, Sogefi has put in place procedures to enable Chinese and Italian employees to work from home and ensure business continuity.

At present, based on available information, the COVID-19 health emergency has been classified as a "Non Adjusting" event (IAS 10) in line with the application of international accounting standards. The nature of the event has been described in this paragraph and, given the context of general uncertainty, there are no elements to quantify its impact which – depending among other things on how the emergency will develop – could have unforeseeable and potentially significant effects on future production and business activities and consequently on the Group's income statement and financial position.

H) GROUP COMPANIES

48. LIST OF GROUP COMPANIES AS AT 31 DECEMBER 2019

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

| Direct equity investments | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|---|----------|---------------|------------------|----------|---------------------|--------------------------------|
| SOGEFI FILTRATION S.A. Guyancourt (France) | Euro | 120,596,780 | 6,029,838 | 99.99998 | 20 | 120,596,760 |
| SOGEFI SUSPENSIONS S.A. Guyancourt (France) | Euro | 73,868,383 | 4,345,198 | 99.999 | 17 | 73,868,366 |
| SOGEFI U.S.A., Inc. Prichard (U.S.A.) | USD | 20,055,000 | 191 | 100 | | 20,055,000 |
| SOGEFI GESTION S.A.S. Guyancourt (France) | Euro | 100,000 | 10,000 | 100 | 10 | 100,000 |
| SHANGHAI SOGEFI AUTO PARTS Co., Ltd Shanghai (China) | USD | 13,000,000 | (1) | 100 | (2) | 13,000,000 |
| SOGEFI AIR & COOLING S.A.S. Guyancourt (France) | Euro | 54,938,125 | 36,025 | 100 | 1,525 | 54,938,125 |
| SOGEFI (SUZHOU) AUTO PARTS CO., Ltd Wujiang (China) | USD | 37,400,000 | (1) | 100 | (2) | 37,400,000 |

(1) The share capital is not divided in shares or quotas.

(2) There is no unit nominal value.

| Indirect equity investments | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|--|----------|---------------|------------------|-----------|---------------------|--------------------------------|
| FILTRATION BUSINESS UNIT | | | | | | |
| SOGEFI FILTRATION Ltd Tredegar (Great Britain) held by Sogefi Filtration S.A. | GBP | 5,126,737 | 5,126,737 | 100 | 1 | 5,126,737 |
| SOGEFI FILTRATION SPAIN S.A.U. Cerdanyola (Spain) held by Sogefi Filtration S.A. | Euro | 14,249,084.96 | 2,370,896 | 100 | 6.01 | 14,249,084.96 |
| SOGEFI FILTRATION d.o.o. Medvode (Slovenia) held by Sogefi Filtration S.A. | Euro | 10,291,798 | 1 | 100 | 10,291,798 | 10,291,798 |
| FILTER SYSTEMS MAROC S.a.r.l. Tanger (Morocco) held by Sogefi Filtration S.A. | MAD | 95,000,000 | 95,000 | 100 | 1,000 | 95,000,000 |
| SOGEFI FILTRATION RUSSIA LLC Russia held by Sogefi Filtration S.A. | RUB | 6,800,000 | 1 | 100 | 6,800,000 | 6,800,000 |
| SOGEFI ENGINE SYSTEMS INDIA Pvt Ltd * Bangalore (India) 64.29% held by Sogefi Filtration S.A. 35.69% held by Sogefi Air & Cooling S.A.S. 0.02% held by Systemes Moteurs China, S.à.r.l. | INR | 21,254,640 | 2,125,464 | 100 | 10 | 21,254,640 |
| SOGEFI FILTRATION DO BRASIL Ltda São Bernardo do Campo (Brazil) 87.7772527% held by Sogefi Filtration S.A. 12.2227459% held by Sogefi Filtration Spain S.A.U. 0.0000014% held by Sogefi Suspension Brasil Ltda | BRL | 97,008,787 | 97,008,787 | 100 | 1 | 97,008,787 |
| SOGEFI FILTRATION ARGENTINA S.A. Buenos Aires (Argentina) 99.681788% held by Sogefi Filtration S.A. 0.31821% held by Sogefi Filtration Italy S.p.A. | ARP | 118,423,329 | 118,423,327 | 99.999998 | 1 | 118,423,327 |
| SOGEFI FILTRATION ITALY S.p.A. Sant'Antonino di Susa (Italy) held by Sogefi Filtration S.A. | Euro | 8,000,000 | 7,990,043 | 99.88 | 1 | 7,990,043 |

* The company changed name from SOGEFI-MNR Engine Systems India Pvt Ltd to Sogefi Engine Systems India Private Limited on 18 January 2019

| Indirect equity investments | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|--|----------|---------------|------------------|--------|---------------------|--------------------------------|
| AIR&COOLING BUSINESS UNIT | | | | | | |
| SOGEFI AIR & COOLING CANADA CORP. Nova Scotia (Canada) held by Sogefi Air & Cooling S.A.S. | CAD | 9,393,000 | 2,283 | 100 | (2) | 9,393,000 |
| SOGEFI AIR & COOLING USA, Inc. Wilmington (U.S.A.) held by Sogefi Air & Cooling S.A.S. | USD | 100 | 1,000 | 100 | 0.10 | 100 |
| SYSTEMES MOTEURS CHINA, S.à.r.l. Lussemburgo (Luxembourg) held by Sogefi Air & Cooling S.A.S. | Euro | 12,500 | 125 | 100 | 100 | 12,500 |
| S.C. SOGEFI AIR & COOLING S.r.l. Titesti (Romania) 99.9997% held by Sogefi Air & Cooling S.A.S. 0.0003% held by Sogefi Filtration Spain S.A.U. | RON | 7,087,610 | 708,761 | 100 | 10 | 7,087,610 |
| SOGEFI ENGINE SYSTEMS MEXICO S. de R.L. de C.V. Apodaca (Mexico) 0.000007921% held by Sogefi Air & Cooling S.A.S. 99.999992079% held by Sogefi Air & Cooling Canada Corp. | MXN | 126,246,760 | 1 1 | 100 | 1 126,246,759 | 126,246,760 |
| SOGEFI ENGINE SYSTEMS HONG KONG Ltd Hong Kong (Hong Kong) held by Systemes Moteurs China, S.à.r.l. | HKD | 1,000 | 1,000 | 100 | 1 | 1,000 |

(2) There is no unit nominal value.

| Indirect equity investments | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|--|----------|---------------|------------------|--------|---------------------|--------------------------------|
| SUSPENSIONS BUSINESS UNIT | | | | | | |
| ALLEVARD SPRINGS Ltd Clydach (Great Britain) held by Sogefi Suspensions S.A. | GBP | 4,000,002 | 4,000,002 | 100 | 1 | 4,000,002 |
| SOGEFI PC SUSPENSIONS GERMANY GmbH Volklingen (Germany) held by Sogefi Suspensions S.A. | Euro | 50,000 | 1 | 100 | 50,000 | 50,000 |
| SOGEFI SUSPENSION ARGENTINA S.A. Buenos Aires (Argentina) held by Sogefi Suspensions S.A. al 89.999% held by Sogefi Suspension Brasil Ltda al 9.9918% | ARP | 61,356,535 | 61,351,555 | 99.99 | 1 | 61,351,555 |
| IBERICA DE SUSPENSIONES S.L. (ISSA) Alsasua (Spain) held by Sogefi Suspensions S.A. | Euro | 10,529,668 | 5,264,834 | 50 | 1 | 5,264,834 |
| SOGEFI SUSPENSION BRASIL Ltda São Paulo (Brazil) held by Sogefi Suspensions S.A. al 99.997% held by Allevard Springs Ltd allo 0.003% | BRL | 37,161,683 | 37,161,683 | 100 | 1 | 37,161,683 |
| UNITED SPRINGS Limited Rochdale (Great Britain) held by Sogefi Suspensions S.A. | GBP | 4,500,000 | 4,500,000 | 100 | 1 | 4,500,000 |
| UNITED SPRINGS B.V. Hengelo (Holland) held by Sogefi Suspensions S.A. | Euro | 254,979 | 254,979 | 100 | 1 | 254,979 |
| SHANGHAI ALLEVARD SPRINGS Co., Ltd Shanghai (China) held by Sogefi Suspensions S.A. | Euro | 5,335,308 | 1 | 60.58 | (2) | 3,231,919 |
| UNITED SPRINGS S.A.S. Guyancourt (France) held by Sogefi Suspensions S.A. | Euro | 5,109,000 | 2,043,600 | 100 | 2.5 | 5,109,000 |
| S.ARA COMPOSITE S.A.S. Guyancourt (France) held by Sogefi Suspensions S.A. | Euro | 13,000,000 | 25,000,000 | 96.15 | 0.5 | 12,500,000 |
| ALLEVARD IAI SUSPENSIONS Pvt Ltd Pune (India) held by Sogefi Suspensions S.A. | INR | 432,000,000 | 32,066,926 | 74.23 | 10 | 320,669,260 |
| SOGEFI HD SUSPENSIONS GERMANY GmbH Hagen (Germany) held by Sogefi PC Suspensions Germany GmbH | Euro | 50,000 | (1) | 100 | 50,000 | 50,000 |
| SOGEFI SUSPENSIONS HEAVY DUTY ITALY S.P.A. Puegnago sul Garda (Italy) held by Sogefi Suspensions S.A. | Euro | 6,000,000 | 5,992,531 | 99.88 | 1 | 5,992,531 |
| SOGEFI SUSPENSIONS PASSENGER CAR ITALY S.P.A. Settimo Torinese (Italy) held by Sogefi Suspensions S.A. | Euro | 8,000,000 | 7,990,043 | 99.88 | 1 | 7,990,043 |
| SOGEFI SUSPENSION EASTERN EUROPE S.R.L. Oradea (Romania) held by Sogefi Suspensions S.A. | RON | 31,395,890 | 3,139,589 | 100.00 | 10 | 31,395,890 |

(1) The share capital is not divided in shares or quotas.

(2) There is no unit nominal value.

EQUITY INVESTMENTS IN OTHER COMPANIES CARRIED AT COST

| Indirect equity investments | Currency | Share capital | Number of shares | % held | Par value per share | Par value of the interest held |
|---|----------|---------------|------------------|--------|---------------------|--------------------------------|
| AFICO FILTERS S.A.E. Cairo (Egypt) Held by Sogefi Filtration Italy S.p.A. | EGP | 14,000,000 | 24,880 | 17.77 | 100 | 2,488,000 |

-
- (1) The share capital is not divided in shares or quotas.
(2) There is no unit nominal value.

***CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT
ART. 81-TER OF CONSOB RESOLUTION No. 11971 OF MAY 14, 1999
AND SUBSEQUENT MODIFICATIONS AND INTEGRATIONS***

1. The undersigned:

Mauro Fenzi – Chief Executive Officer of Sogefi S.p.A.

Yann Albrand – Manager responsible for preparing Sogefi S.p.A.’s financial reports hereby certify having also taken into consideration the provisions of Article 154-bis, paragraph 3 and 4, of Italian Legislative Decree n. 58 of February 24, 1998, that:

- are adequate with respect to the company structure and
- have been effectively applied the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2019 fiscal year.

2. No relevant aspects are to be reported on this subject.

3. It is also certified that:

3.1 the consolidated financial statements at December 31, 2019:

- have been prepared in accordance with international accounting standards as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- correspond to the books and accounting records;
- provide a true and fair representation of the financial position, result of operations and cash flow of the issuer and the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the performance and result of operations and also the position of the issuer and the companies included in the scope of consolidation together with all principle risks and uncertainties that the Group is exposed.

Milan, February 24, 2020

Signed by
Chief Executive Officer

Mauro Fenzi

Signed by
Manager responsible for preparing
financial report
Yann Albrand

SOGEFI S.p.A.

Company subject to policy guidance and coordination on the part of Cir S.p.A.

BOARD OF AUDITORS' REPORT

**PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO.
58/1998 AND ART. 2429 OF THE ITALIAN CIVIL CODE**

To the Shareholders' Meeting of SOGEFI S.p.A.

During the financial year closed at 31 December 2019, we carried out our supervisory activity as required by law and the Articles of Association, in accordance with the Rules of Conduct for the Board of Statutory Auditors recommended by the National Council of Accountants and the Corporate Governance Code issued by the Corporate Governance Committee of Borsa Italiana S.p.A., and hereby report on such activity. This report was drawn up following the recommendations set out in Consob Communication no. 1025564 of 6 April 2001 as amended.

As regards the methods employed to perform our duties during the period under consideration, we report as follows:

- we attended the Shareholders' Meetings and Board of Directors meetings held during the period under consideration and obtained timely and adequate information on operations and their outlook, as well as on significant operational, financial and equity-related operations conducted by the Company and subsidiaries within the Group, as required by law and the Articles of Association; all meetings of the Control and Risk Committee and of the Appointment and Remuneration Committee were attended by one or more members of the Board of Statutory Auditors;
- we obtained the necessary information to perform our tasks and determine compliance with the law and the Articles of Association, proper governance principles, adequacy of the Company's organisational structure, internal control system and of the administration-accounting system, by direct investigation, collecting information from the heads of the involved departments and sharing data and significant information with the appointed Independent Auditors;
- we incorporated the results of the quarterly checks on the correct keeping of accounts carried out by the company appointed for the statutory audit of the accounts;

- we received from the independent auditors the Report required by article 14 of the Italian Legislative Decree No. 39/2010 concerning the consolidated and statutory financial statements as at 31 December 2019;
- we received from the independent auditors the Report referred to in Article 11 of European Regulation 537/2014, which does not reveal significant aspects to be reported;
- we fulfilled the tasks provided for in article 19 of the Italian Legislative Decree No. 39/2010, as the Internal Control and Auditing Committee;
- we monitored the performance of the system used to control subsidiaries and the adequacy of the directions given to them, also under art. 114, sub-paragraph 2 of Legislative Decree no. 58/1998;
- we monitored the actual methods used to implement the corporate governance rules set out in the Corporate Governance Code issued by Borsa Italiana S.p.A., as adopted by the Company;
- we determined whether the Organization, Management and Control Model as per Legislative Decree no. 231/2001 as amended was updated to comply with the expanded scope of the Decree;
- pursuant to art. 4, para. 6 of the Regulation approved by Consob Resolution no. 17221 of 12 March 2010, we monitored compliance with the Discipline for related-party transactions approved by the Board of Directors;
- we ensured that no significant issues exist that the controlling bodies of SOGEFI S.p.A.'s would have to disclose;
- we ascertained the adequacy, in terms of method, of the impairment test process implemented to identify the presence of any impairment loss on assets entered to the financial statements subject to impairment test;
- we verified the compliance with the provisions of law and regulations concerning the preparation, layout and presentation of the statutory and consolidated financial statements and the related supporting documents. We also verified that the Report on Operations complies with the laws and regulations in force and is consistent with the resolutions of the Board of Directors;
- we positively assessed the adequacy of all the procedures, processes and facilities that have produced, reported and represented the results and consolidated non-financial information pursuant to the Italian Legislative Decree no. 254 of 30 December 2016;

- we verified that, with regard to the Consolidated statement for the disclosure of non-financial information prepared for the purposes of the aforementioned Italian Legislative Decree no. 254/2016 the independent auditors, as Designated Auditors, have issued the certification referred to in paragraph 10 of article 3 of the Italian Legislative Decree no. 254/2016 on the compliance of consolidated non-financial information with the law and the reporting principles used.
- we have determined that the Board of Directors properly implemented the verification criteria and procedures to assess the independence of its members, based on the statements made by the Directors and the opinions issued by the Board of Directors.

After completing our audit and monitoring activities as outlined above, we did not identify any significant events such as would have to be reported to the Supervisory Authorities, nor any proposals concerning the financial statements, their approval or any other issue within our area of responsibility.

* * *

Outlined below is the information specifically required by the above mentioned Consob Communication of 6 April 2001 as amended.

- We collected adequate information on significant operational, financial and equity-related operations conducted by SOGEFI S.p.A. and its subsidiaries and established their compliance with the law and the Articles of Association; the Directors provide adequate disclosure on such transactions in the Report on Operations; we also obtained information on and assurance that the transactions resolved and carried out were not manifestly imprudent, risky, in conflict with Shareholders' Meeting resolutions or in potential conflict of interest with the same or, in any case, of such a nature as to jeopardise integrity of corporate assets.
- We obtained adequate information on intercompany and related party transactions. Based on obtained information, we determined that such transactions comply with the law and the Articles of Association, satisfy the interest of the company and raise no doubts as to their accurate, exhaustive disclosure in the financial statements, the existence of any conflict-of-interest situations, the protection of corporate assets and of non-controlling shareholders; periodic audits and inspections carried out at the Company's premises did not identify any atypical and/or unusual transactions.

- *The Directors provided adequate disclosures on key transactions, as well as on the dealings between SOGEFI S.p.A., Group companies and/or related parties in the Report on Operations and in the Notes, and stated that such dealings had been conducted at arm's length, taking into account the quality and type of services rendered; such dealings mainly consisted in the provision of administrative and financial services, including the management of the Group's centralised treasury and interest debiting and crediting, as well as management support and communication services and use of the Group's information system; in addition, SOGEFI S.P.A. made use of administrative, financial, fiscal and corporate services provided by the Parent Company CIR S.p.A. and joined the Group tax filing system; appropriate financial details were provided and the impact on the statement of financial position was adequately described in the documents accompanying the 2019 statutory financial statements.*
- *The Independent Auditors KPMG S.p.A. issued their Audit Reports under art. 14 of Legislative Decree no. 39/2010 on the statutory and consolidated financial statements as at 31 December 2019 without any disclosure observations or statements.*
- During the year, the Board of Statutory Auditors did not receive any complaints under article 2408 of the Italian Civil Code.
- In relation to the provisions introduced by the Italian Legislative Decree no. 135/2016 in compliance with EU Regulation 537/2014 on this subject, during the year the Board of Statutory Auditors carried out a prior analysis of and authorised, when necessary, any assignment conferred by the Company and its subsidiaries to KPMG or any companies in its network.

During 2019, the subsidiaries of SOGEFI S.p.A. entrusted the independent auditors with other services and the relevant fees were EUR 16,850.00. The amounts paid for these services were found to be adequate consideration for the scope and complexity of the services rendered and are not deemed liable to affect the independence and discretion of the auditors in performing their auditing tasks.

- During the year under consideration we have given advice pursuant to article 2389 of the Italian Civil Code.
- The following meetings were held during the year 2019: 9 Board of Directors meetings, 8 Control and Risk Committee meetings, 4 Appointment and Remuneration Committee meetings; and 14 Statutory Board of Directors meetings.
- The proper governance principles seem to have been implemented consistently, and we found the organisational structure adequate to meet the requirements for operations management and control.
- We found the internal control system to be adequate to the size and management style of the Company, and were able to confirm this during the meetings of the Control and Risk Committee, which are attended by the Chairperson of the Board of Statutory Auditors (or by a Statutory Auditor appointed by the Chairperson) as provided for by corporate

governance rules. In addition, the Group's Chief Internal Audit Officer and Internal Control Officer under the Corporate Governance Code issued by the Corporate Governance Committee for listed companies acted as a liaison and provided the necessary information on the methods adopted to perform his duties and the results of his audits, among other things by attending certain meetings of the Board of Statutory Auditors.

- There are no observations to be made as to the adequacy of the administrative/accounting system and its ability to provide a reliable view of operations; with regard to the disclosures in the statutory and consolidated financial statements as at 31 December 2019, the Managing Director and the Manager responsible for preparing the Company's financial reports under art. 154-*bis*, sub-paragraph 5 of Legislative Decree 58/1998 and art. 81-*ter* of Consob Regulation no. 11971 of 14 May 1999 as subsequently amended have issued their relevant statements.
- There are no observations to be made on the adequacy of information flows from subsidiaries to the Holding Company aimed at ensuring timely compliance with disclosure obligations under the law.
- During the periodic exchange of data and information between the Board of Statutory Auditors and the Auditors, among other things under art. 150, sub-paragraph 3 of Legislative Decree no. 58/1998, no issues have come up that would need to be disclosed in this report.
- The Company substantially followed the recommendations contained in the Corporate Governance Code drafted by the Corporate Governance Committee for listed companies and described its corporate governance model in the relevant Report, which was prepared among other things under art. 123-*bis* of Legislative Decree no. 58/1998. Within the limits of our responsibility, we monitored the actual methods used to implement the corporate governance rules set out in the above mentioned Corporate Governance Code, as adopted by the Company, and ensured that the findings of the Board's periodic assessment of Statutory Auditors' compliance with the independence requirements according to the same criteria applicable to Independent Directors under the above mentioned Corporate Governance Code were included in the Corporate Governance Report of SOGEFI S.p.A. In compliance with Legislative Decree no. 231/2001, the Company adopted, implemented and maintained up-to-date an "Organisational Model" that governs its behaviour and business conduct and set up a

Supervisory Body as provided for by the Decree. The Company also adopted a Code of Ethics.

- Our auditing and monitoring activities took place during the year 2019 in the normal course of business and identified no omissions, reprehensible facts and/or anomalies worth noting.

After completing our audit and monitoring activities, we have no proposals concerning the statutory financial statements as at 31 December 2019, their approval or any other issue within our area of responsibility pursuant to article 153, paragraph 2 of Legislative Decree 58/1998, nor any remarks on the proposed allocation of the profit for the year or the dividend distribution submitted by the Board of Directors for approval.

Milan, March 29, 2020

THE BOARD OF STATUTORY AUDITORS

Sonia Peron – Chairperson of the Board of Statutory Auditors

Riccardo Zingales – Acting Auditor

Giuseppe Leoni – Acting Auditor



KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
Sogefi S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Sogefi Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Sogefi Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Sogefi S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the consolidated financial statements: Note 2.3 "Accounting policies", sections "Intangible assets - Goodwill" and "Critical estimates and assumptions" and Note 10 "Intangible assets", section "Goodwill and Impairment test"

| Key audit matter | Audit procedures addressing the key audit matter |
|---|--|
| <p>The consolidated financial statements at 31 December 2019 include goodwill of €126.6 million, allocated to the following cash-generating units ("CGU"): Filtration, Air & Cooling and Car suspension.</p> <p>In accordance with the criteria approved by the board of directors on 27 January 2020, the directors carried out impairment tests in order to identify any impairment losses that would arise should the CGU's carrying amount exceed their recoverable amount. The directors estimated the recoverable amount based on the value in use, calculated using the unlevered discounted cash flow model by discounting the expected cash flows.</p> <p>For impairment testing purposes, the directors used the expected operating cash flows estimated on the basis of the 2020 budget and the 2021-2024 plan (approved by the board of directors on 27 January 2020 and 24 February 2020 respectively).</p> <p>The methodology is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about:</p> <ul style="list-style-type: none">— the expected operating cash flows, calculated by taking into account the general economic performance and that of the group's sector, the actual operating cash flows for recent years and the projected growth rates; | <p>Our audit procedures included:</p> <ul style="list-style-type: none">— understanding the process adopted for impairment testing approved by the board of directors;— understanding the process adopted to prepare the 2020 budget and the 2021-2024 business plan approved by the board of directors, from which the operating expected cash flows used for impairment testing have been derived;— analysing the reasonableness of the assumptions used by the directors to prepare the 2020 budget and the 2021-2024 plan;— checking any discrepancies between the previous year business plans' figures and actual figures, in order to check the accuracy of the estimation process;— comparing the expected operating cash flows used for impairment testing to the cash flows forecast in the 2020 budget and 2021-2024 plan and analysing the reasonableness of any discrepancies;— involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions used to calculate the operating cash flows, including by means of comparison with external data and information; |



| Key audit matter | Audit procedures addressing the key audit matter |
|--|---|
| <p>— the parameters used to calculate the discount rate.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p> | <p>— checking the sensitivity analysis made by the directors in relation to the key assumptions used to test goodwill for impairment;</p> <p>— assessing the appropriateness of the disclosures provided in the notes about goodwill and the related impairment test.</p> |

Measurement of the Long-term provisions

Notes to the consolidated financial statements: Note 2.3 “Accounting policies”, section “Provisions for risks and charges” and Note 18 “Long-term provisions and other payables”, sections “Provision for restructuring”, “Provision for product warranties” and “Lawsuits and other risks”

| Key audit matter | Audit procedures addressing the key audit matter |
|--|---|
| <p>The consolidated financial statements at 31 December 2019 include a provision for restructuring of €2.2 million, a provision for product warranties of €4.7 million and a provision for lawsuits and other risks of €8.1 million, classified under the long-term provisions.</p> <p>The valuation of such provisions is associated to a significant risk of error due to the complexity associated to determining the timing for the recognition in accordance with IAS 37 in addition to the high degree of subjectivity and relevance of the estimate.</p> <p>In more detail:</p> <ul style="list-style-type: none"> — restructuring programmes are ongoing at the European and South American subsidiaries, which require, once approved and communicated to the concerned parties, the recognition of a specific provision; — the group companies are exposed to the risk of non-conformity of products/claims from its customers; — the group companies are exposed to the risk of contingent liabilities towards its employees and other third parties. <p>For the above reasons, we believe that the measurement of the long-term provisions is a key audit matter.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the process for the measurement of the provisions and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — sending written requests for information to the legal and tax advisors assisting the group about the assessment of the risk of losing pending claims and the quantification of the related liability; — analysing the assumptions used to calculate the provisions through discussions with the relevant internal departments and analysis of the supporting documentation; — analysing the events after the reporting date to gather useful information for the measurement of the provisions; — assessing the appropriateness of the disclosures provided in the notes about the provisions. |



Responsibilities of the directors and board of statutory auditors (“Collegio Sindacale”) of Sogefi S.p.A. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:



- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 26 April 2017, the shareholders of Sogefi S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2017 to 31 December 2025.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Sogefi S.p.A. are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated Sogefi statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the Sogefi' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to express a statement on any material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Sogefi Group at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.



Sogefi Group
Independent auditors' report
31 December 2019

***Statement pursuant to article 4 of the Consob regulation implementing
Legislative decree no. 254/16***

The directors of Sogefi S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial consolidated statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 29 March 2020

KPMG S.p.A.

(signed on the original)

Elisabetta C. Forni
Director of Audit