CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE BOARD OF DIRECTORS

2018

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.
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BOARD OF DIRECTORS

Honorary Chairman	CARLO DE BENEDETTI
Chairman	MONICA MONDARDINI (1)
Managing Director and General Manager	LAURENT HEBENSTREIT (1)
Directors	PATRIZIA CANZIANI (3) RODOLFO DE BENEDETTI ROBERTA DI VIETO (3) - (4) GIOVANNI GERMANO (2) MAURO MELIS (2) RAFFAELLA PALLAVICINI PAOLO RICCARDO ROCCA (2) - (3) - (4) - (5)
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.
(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) Members of the Supervisory Body (Italian Legislative Decree no. 231/2001).
(5) *Lead independent director.*

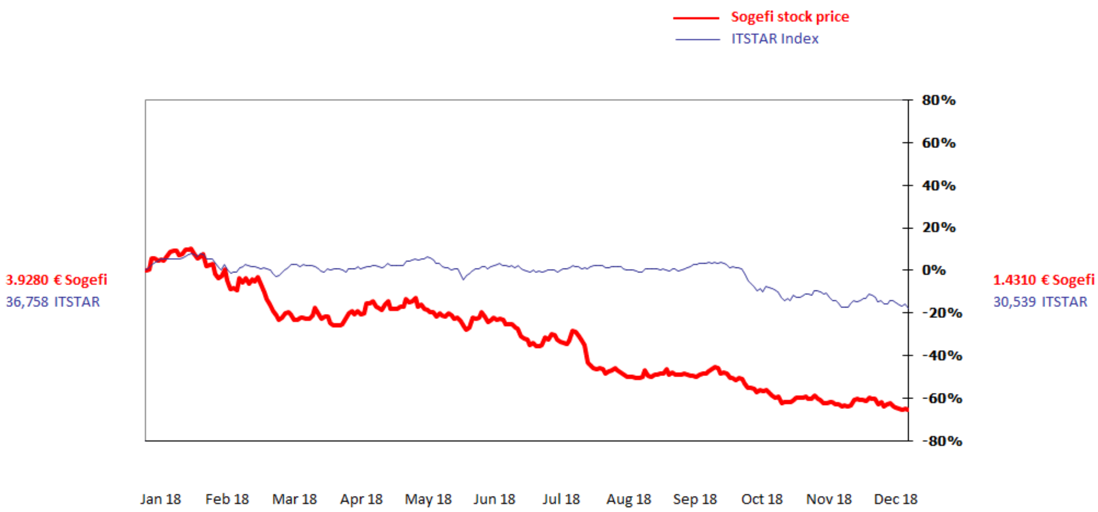
OVERVIEW OF GROUP RESULTS

(in millions of Euro)	2015		2016		2017		2018	
	Amount	%	*Amount*	%	*Amount*	%	*Amount*	%
Sales revenues	1,499.1	100.0%	1,574.1	100.0%	1,647.8	100.0%	1,623.8	100.0%
EBITDA	115.5	7.7%	152.7	9.7%	206.9	12.6%	190.0	11.7%
Ebit	50.7	3.4%	74.5	4.7%	85.8	5.2%	61.9	3.8%
Result before taxes and non-controlling interests	17.9	1.2%	46.6	3.0%	54.1	3.3%	38.0	2.3%
Net result	1.1	0.1%	9.3	0.6%	26.6	1.7%	14.0	0.9%
Self-financing	53.4		109.1		165.8		134.4	
Free cash flow	(24.8)		31.2		34.4		2.9	
Net financial position	(322.3)		(299.0)		(264.0)		(260.5)	
Total shareholders' equity	190.4		189.0		195.1		213.9	
GEARING	1.69		1.58		1.35		1.22	
ROI	10.2%		14.9%		37.4%		13.1%	
ROE	0.7%		5.4%		30.0%		7.3%	
Number of employees at December 31	6,702		6,801		6,947		6,967	
EPS (Euro)	0.010		0.081		0.228		0.119	
Average annual price per share	2.5133		1.7004		4.0293		1.5754	

(*) As proposed by the Board of Directors to the Shareholders' Meeting

STOCK PERFORMANCE

The graph below shows the performance of Sogefi stock and of the ITSTAR index in 2018.



REPORT OF THE BOARD OF DIRECTORS ON PERFORMANCE IN 2018

Dear Shareholders,

In 2018 the world car market reported a contraction in production of 1%, with a decline of 2% in Europe, of 0.6% in North America and of 2.3% in Asia, while South America reported growth of 3.2%.

Performance was particularly critical in the fourth quarter, with a decline of 5.4% in volumes compared to the same period of 2017, due to the decline in Europe, South America and Asia, because of the inversion of the trend in the Chinese market.

Before presenting the results of Sogefi for the year 2018, it is worth noting that the new accounting standard "IFRS 15 - Revenue from contracts with customers" introduced a change to accounting standards governing the recognition of revenues as of 1 January 2018. For the purpose of a correct analysis of the evolution of the results, the values for the previous year have been recalculated on the basis of the new accounting standard.
In addition, the values for 2018 have been recalculated after adopting "IAS 29 - Financial Reporting in Hyperinflationary Economies". In the last quarter of the year, IAS 29 was applied in the subsidiaries in Argentina; this had a positive effect of Euro 13.5 million on revenues, of which Euro 8.5 million accounted for by the Suspensions business and Euro 5.0 million by the Filtration business, but negatively affected operating results. IAS 29 requires that assets, liabilities and the income statement be restated to reflect changes in general purchasing power and converted into Euro at the closing exchange rate at period end.

In this context, in 2018 Sogefi reported revenues of Euro 1,623.8 million, down by 1.5% at current exchange rates but up by 3.2% at constant exchange rates.
In the fourth quarter revenues declined by 0.4%, but rose by 3.1% at constant exchange rates, thus outperforming the market.

At constant exchange rates, revenues were down in Europe (-1.4%) but higher in North America (+5.7%), Asia (+4.8%) and South America (+28% and +18.5% on a like-for-like basis, i.e. without including the impact of the application of IAS 29 for hyperinflation, to the Argentinian business).

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

(in millions of Euro)	2018		2017		var. '18 vs '17	var. '18 vs '17 constant exchange rate
	Amount	*%*	*Amount*	*%*		
Europe	997.5	61.4	1,013.2	61.5	-1.5%	-1.4%
South America	182.0	11.2	195.2	11.8	-6.8%	28.0%
North America	294.7	18.1	292.2	17.7	0.9%	5.7%
Asia	160.9	9.9	161.4	9.8	-0.3%	4.8%
Intercompany eliminations	(11.3)	(0.6)	(14.2)	(0.8)		
TOTAL	1,623.8	100.0	1,647.8	100.0	-1.5%	3.2%

The three divisions reported declines in revenues of around 1,2 %; at constant exchange rates, however, the revenues of Suspensions and Filtration increased (+4.5% and +4.1% respectively) while those of the Air and Cooling business unit remained substantially stable.

(in millions of Euro)	2018		2017		var. '18 vs '17	var. '18 vs '17 constant exchange rate
	Amount	*%*	*Amount*	*%*		
Suspensions	602.6	37.1	609.4	37.0	-1.1%	4.5%
Filtration	537.2	33.1	546.4	33.2	-1.7%	4.1%
Air&Cooling	486.6	30.0	496.2	30.1	-1.9%	0.5%
Intercompany eliminations	(2.6)	(0.2)	(4.2)	(0.3)		
TOTAL	1,623.8	100.0	1,647.8	100.0	-1.5%	3.2%

The main customers of Sogefi are Renault/Nissan, PSA, FCA, Ford, Daimler and GM, which together account for 62.1% of revenues (64.9% in 2017).

(in millions of Euro)	2018		2017	
Group	*Amount*	*%*	*Amount*	*%*
Renault/Nissan	187.4	11.5	192.3	11.7
PSA	181.8	11.2	185.1	11.2
FCA/CNH Industrial	177.4	10.9	200.9	12.2
Ford	175.2	10.8	201.2	12.2
Daimler	146.6	9.0	142.1	8.6
GM	141.2	8.7	147.9	9.0
Volkswagen/Audi	81.3	5.0	77.2	4.7
Toyota	52.0	3.2	52.0	3.2
BMW	46.2	2.9	44.0	2.7
Others (including the Aftermarket)	434.7	26.8	405.1	24.5
TOTAL	1,623.8	100.0	1,647.8	100.0

The following table provides comparative figures of the income statement for the period under consideration and the corresponding period of the previous year.

(in millions of Euro)	2018		2017	
	Amount	%	*Amount*	%
Sales revenues	1,623.8	100.0	1,647.8	100.0
Variable cost of sales	1,137.3	70.0	1,128.3	68.5
CONTRIBUTION MARGIN	486.5	30.0	519.5	31.5
Manufacturing and R&D overheads	155.6	9.6	157.4	9.5
Depreciation and amortization	118.1	7.3	110.0	6.7
Distribution and sales fixed expenses	42.2	2.6	44.3	2.7
Administrative and general expenses	86.2	5.3	88.9	5.4
Restructuring costs	9.1	0.6	11.2	0.7
Losses (gains) on disposal	0.1	-	-	-
Exchange (gains) losses	5.5	0.3	3.2	0.2
Other non-operating expenses (income)	7.8	0.5	18.7	1.1
EBIT	61.9	3.8	85.8	5.2
Financial expenses (income), net	23.9	1.5	31.7	1.9
Losses (gains) from equity investments	-	-	-	-
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS	38.0	2.3	54.1	3.3
Income taxes	20.7	1.2	23.4	1.4
NET RESULT BEFORE NON-CONTROLLING INTERESTS	17.3	1.1	30.7	1.9
Loss (income) attributable to non-controlling interests	(3.3)	(0.2)	(4.1)	(0.2)
GROUP NET RESULT	14.0	0.9	26.6	1.7

EBITDA[1] came in at Euro 190.0 million, in contraction compared to financial year 2017 (Euro 206.9 million), with profitability (EBITDA/Revenues %) down by 12.6% at 11.7%. The lower EBITDA mainly reflects the performance of the Suspensions business unit, which was significantly penalized by steel prices, as well the negative effect of exchange rates on the whole Group (Euro 6.2 million).

EBIT, which came to Euro 61.9 million and posted a decline on 2017 (Euro 85.8 million), substantially reflected the lower EBITDA. The EBIT included a positive effect from the non-operating gain generated by the claims agreement (Euro 6.6 million) but also the negative impact of the write-down of the asset relating to the Fraize site in view of its sale (Euro -5.2 million) and of the application of IAS 29 to the Argentina businesses (Euro -2.6 million).

Financial expenses amounted to Euro 23.9 million in 2018, down from Euro 31.7 million in 2017, due to the reduction of interest expense (from Euro 22.0 million in 2017 to Euro 21.4 million in 2018), to the lower impact of the fair value adjustment

[1] Ebitda is calculated by adding to the item "Ebit" the amount of "Amortization and depreciation" and the amount of the write-downs of tangible and intangible assets included in the item "Other non-operating expense (income)", equal to Euro 10 million in the year 2018 (Euro 11.1 million in the same period of the previous year).

made to the put option of the minority shareholder of the Indian subsidiary (for Euro 4.2 million) and to the lower costs for hedging interest rate risk (for Euro 3.0 million).

Tax expense came to Euro 20.7 million, down from Euro 23.4 million in the previous year; the modest decline in relation to the reduction in the pre-tax result reflects the composition of the result, with some areas showing significant earnings while for other areas with losses linked to the start-up of businesses or to ongoing problems, it was decided not to set aside any deferred tax assets.

Net result came in at Euro 14.0 million, compared to Euro 26.6 million for the year 2017.

As at 31 December 2018, the Sogefi Group's **workforce** was 6,967, in line with the number of heads as at 31 December 2017:

	12.31.2018		12.31.2017	
	Number	*%*	*Number*	*%*
Suspensions	2,541	36.5	2,623	37.8
Filtration	2,890	41.5	2,831	40.8
Air&Cooling	1,471	21.1	1,431	20.6
Other	66	0.9	62	0.8
TOTAL	6,967	100	6,947	100.0

Breakdown by category is provided below:

	12.31.2018		12.31.2017	
	Number	*%*	*Number*	*%*
Managers	107	1.5	115	1.6
Clerical staff	1,950	28.0	1,908	27.5
Blue collar workers	4,910	70.5	4,924	70.9
TOTAL	6,967	100.0	6,947	100.0

At 31 December 2018 shareholders' equity, excluding minority interests, stood at Euro 192.9 million (Euro 177.4 million at 31 December 2017), as analysed in the table below:

(in millions of Euro)	Note(*)	12.31.2018		12.31.2017	
		Amount	%	*Amount*	%
Short-term operating assets	(a)	304.2		331.2	
Short-term operating liabilities	(b)	(403.7)		(430.5)	
Net working capital		(99.5)	(21.0)	(99.3)	(21.6)
Equity investments	(c)	-	-	-	-
Intangible, tangible fixed assets and other medium and long-term assets	(d)	740.6	156.1	758.0	165.1
CAPITAL INVESTED		641.1	135.1	658.7	143.5
Other medium and long-term liabilities	(e)	(166.7)	(35.1)	(199.6)	(43.5)
NET CAPITAL INVESTED		474.4	100.0	459.1	100.0
Net financial indebtedness		260.5	54.9	264.0	57.5
Non-controlling interests		21.0	4.4	17.7	3.9
Consolidated equity of the Group		192.9	40.7	177.4	38.6
TOTAL		474.4	100.0	459.1	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.

Net debt amounted to Euro 260.5 million at 31 December 2018 (Euro 286.2 million at September 30 2018 and Euro 264 million at 31 December 2017).

(in millions of Euro)	12.31.2018	12.31.2017
Cash, banks, financial receivables and securities held for trading	92.9	105.4
Medium/long-term financial receivables	5.1	2.2
Short-term financial debts (*)	(62.3)	(83.4)
Medium/long-term financial debts	(296.2)	(288.2)
NET FINANCIAL POSITION	(260.5)	(264.0)

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

Free Cash Flow for the year 2018 was a positive figure of Euro 2.9 million, down from Euro 34.4 million in 2017. It should be noted that in 2018 the minority interest in the Indian branch Sogefi M.N.R. Engine Systems India Pvt Ltd was acquired (Euro 16.7 million). In the fourth quarter, free cash flow was positive for approximately Euro 25.7 million (compared to Euro 1.9 million in the fourth quarter of 2017), thus recovering from the temporary unfavourable trend of working capital experienced in the third quarter.

The table below shows a breakdown of cash flows in 2018 compared with the full year 2017:

(in millions of Euro)	Note(*)	2018	2017
SELF-FINANCING	(f)	134.4	165.8
Change in net working capital		(9.1)	9.3
Other medium/long-term assets/liabilities	(g)	8.6	1.6
CASH FLOW GENERATED BY OPERATIONS		**133.9**	**176.7**
Sale of equity investments	(h)	-	-
Net decrease from sale of fixed assets	(i)	2.6	0.5
TOTAL SOURCES		136.5	177.2
Increase in intangible assets		35.5	40.0
Purchase of tangible assets		97.3	104.1
TOTAL APPLICATION OF FUNDS		132.8	144.1
Exchange differences on assets/liabilities and equity	(l)	(0.8)	1.3
FREE CASH FLOW		**2.9**	**34.4**
Holding Company increases in capital		0.3	1.3
Increases in share capital of consolidated subsidiaries		0.1	0.2
Dividends paid by the Holding Company to shareholders		-	-
Dividends paid by subsidiaries to non-controlling interests		-	(2.6)
Change in fair value derivative instruments		0.2	1.7
CHANGES IN SHAREHOLDERS' EQUITY		0.6	0.6
Change in net financial position	(m)	**3.5**	**35.0**
Opening net financial position	(m)	**(264.0)**	**(299.0)**
CLOSING NET FINANCIAL POSITION	(m)	**(260.5)**	**(264.0)**

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

INVESTMENTS AND RESEARCH & DEVELOPMENT ACTIVITIES

Investments totalled Euro 97.3 million in 2018 (Euro 104.1 million in the previous year). In detail, investment in tangible fixed assets (excluding the impact of IFRS 15) amounted to Euro 58.1 million (Euro 68.1 million in 2017) and investment in intangible fixed assets amounted to Euro 35.5 million (Euro 40.0 million in 2017).
As for material investments, 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)	2018	2017
Net result per Sogefi S.p.A. financial statements	(13.7)	11.5
Group share of results of subsidiary companies included in the consolidated financial statements	39.5	53.4
Writedowns/Gains of equity investments in Sogefi S.p.A.	36.0	0.8
Elimination of Sogefi S.p.A. dividends	(39.0)	(32.4)
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	(8.8)	(6.7)
NET RESULT PER CONSOLIDATED FINANCIAL STATEMENTS	14.0	26.6

(in millions of Euro)	12.31.2018	12.31.2017
Shareholders' equity per Sogefi S.p.A. financial statements	203.2	214.5
Group share of higher/lower equity value of investments in consolidated companies over carrying value in Sogefi S.p.A.	(19.7)	(38.5)
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	9.4	1.4
SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS	192.9	177.4

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

In financial year 2018, the Company reported a write-down, recognized on the basis of the impairment test carried out at 31 December 2018, of Euro 36 million (accounted for in the item “Adjustments to the value of financial assets”) on the value of the French subsidiary Sogefi Filtration S.A.. Because of this write-down, Sogefi S.p.A. reported a loss of Euro 13.7 million, compared to net income of Euro 11.5 million in 2017. The dividend flow from the subsidiaries was higher than that of the previous year (Euro +6.6 million) and net financial expense was lower than in 2017 (Euro -3.8 million).
The increase in "Non-operating expenses" is mainly due to higher expenses incurred in 2018 in adjusting the fair value of certain investment properties of the Company to reflect experts' valuation.

(in millions of Euro)	2018	2017
Financial income/expenses and dividends	27.2	16.8
Adjustments to financial assets	(36.0)	(0.8)
Other operating revenues	12.5	14.0
Operating costs	(15.5)	(17.6)
Other non-operating income (expenses)	(3.9)	(3.3)
RESULT BEFORE TAXES	(15.7)	9.1
Income taxes	(2.0)	(2.4)
NET RESULT	(13.7)	11.5

As regards the **statement of financial position**, the table below shows the main items as at 31 December 2018, compared to the figures recorded at the end of the previous year:

(in millions of Euro)	Note(*)	12.31.2018	12.31.2017
Short-term assets	(n)	8.3	14.1
Short-term liabilities	(o)	(4.4)	(7.0)
Net working capital		3.9	7.1
Equity investments	(p)	380.9	415.8
Other fixed assets	(q)	44.6	50.2
CAPITAL INVESTED		429.4	473.1
Other medium and long-term liabilities	(r)	(0.5)	(0.8)
NET CAPITAL INVESTED		428.9	472.3
Net financial indebtedness		225.7	257.8
Shareholders' equity		203.2	214.5
TOTAL		428.9	472.3

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

The decrease in "Net working capital" is mainly due to the collection in 2018 of Euro 3.3 million from the French subsidiary Sogefi Gestion S.A.S. in connection with the sale of IT applications as at 31 December 2017.
“Shareholders' equity” as at 31 December 2018 amounts to Euro 203.2 million, down from 31 December 2017 (Euro 214.5 million), mainly because of the negative result for the year 2018.

Net **financial indebtedness** as at 31 December 2018 was Euro 225.7 million, showing a year-over-year improvement of Euro 32.1 million compared to 31 December 2017.

(in millions of Euro)	12.31.2018	12.31.2017
Short-term cash investments	25.2	36.3
Short/medium-term financial receivables to third and subsidiaries	160.8	96.0
Short-term financial debts (*)	(123.6)	(120.1)
Medium/long-term financial debts	(288.1)	(270.0)
NET FINANCIAL POSITION	(225.7)	(257.8)

(*) 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(*)	2018	2017
SELF-FINANCING	(s)	28.0	18.3
Change in net working capital	(t)	3.1	(2.0)
Other medium/long term assets/liabilities	(u)	2.0	2.7
CASH FLOW GENERATED BY OPERATIONS		**33.1**	**19.0**
Sale of equity investments	(v)	-	0.4
Net decrease from sale of intangible assets		-	3.2
TOTAL SOURCES		33.1	22.6
Increase in intangible assets		0.3	3.1
Purchase of tangible assets		-	-
Purchase of equity investments		1.2	0.3
TOTAL APPLICATION OF FUNDS		1.5	3.4
FREE CASH FLOW		**31.6**	**19.2**
Holding Company increases in capital		0.3	1.3
Change in fair value derivative instruments		0.2	1.8
Dividends paid by the Holding Company		-	-
CHANGES IN SHAREHOLDERS' EQUITY		0.5	3.1
Change in net financial position	(w)	**32.1**	**22.3**
Opening net financial position	(w)	**(257.8)**	**(280.1)**
CLOSING NET FINANCIAL POSITION	(w)	**(225.7)**	**(257.8)**

(*) 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 12.4 million compared to 2017 thanks for the most part to improved self-financing in 2018 and lower net increases in intangible assets, which were partially offset by higher capital increases granted to subsidiaries compared to the previous year.

PERFORMANCE BY BUSINESS DIVISION

SUSPENSIONS BUSINESS UNIT

The following tables show the key results and economic indicators of the Suspensions business unit for the year 2018 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Sales revenues	558.0	562.8	609.4	602.6	-1.1%
EBIT	35.4	35.6	39.1	12.7	-67.4%
% on sales revenues	*6.3%*	*6.3%*	*6.4%*	*2.1%*	

KEY FINANCIAL DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Net Assets	108.6	125.3	120.8	101.1	-16.3%
Net financial surplus (indebtedness)	(60.1)	(61.4)	(67.3)	(84.3)	-25.2%

OTHER INDICATORS

	2015	2016	2017	2018	Change '18 vs '17
Number of employees	2,663	2,625	2,623	2,541	-3.1%

In 2018, the Suspensions business unit reported revenues of Euro 602.6 million, down by 1.1%, but up by 4.5% at constant exchange rates. Revenues reflect the positive effect of IAS 29 in the amount of Euro 8.5 million. The business unit was affected by the troubled performance of the automotive market, particularly in December in Europe (-3.4%).

EBIT amounted to Euro 12.7 million, compared to Euro 39.1 million in 2017, with impact on sales revenues down to 2.1%, from 6.4% in the corresponding period of the previous year. The reduction in the result is due to the significant increase in the purchase price of steel, which was only partially transferred to sales prices.

Net assets as at 31 December 2018 amounted to Euro 101.1 million (compared to Euro 120.8 million at the end of 2017), whereas net financial position recorded an indebtedness of Euro 84.3 million compared to 67.3 million at the end of 2017.

Employees of the business unit at 31 December 2018 were 2,541 (2,623 at 31 December 2017).

FILTRATION BUSINESS UNIT

The following tables show the key results and economic indicators of the Filtration business unit for the year 2018 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Sales revenues	529.7	535.1	546.4	537.2	-1.7%
EBIT	30.9	25.1	24.4	23.4	-4.0%
% on sales revenues	*5.8%*	*4.7%*	*4.5%*	*4.4%*	

KEY FINANCIAL DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Net Assets	119.7	84.4	70.1	63.4	-9.6%
Net financial surplus (indebtedness)	11.1	(14.9)	(8.6)	(22.8)	-165.1%

OTHER INDICATORS

	2015	2016	2017	2018	Change '18 vs '17
Number of employees	2,629	2,735	2,831	2,890	2.0%

In 2018, the Filtration business unit reported revenues of Euro 537.2 million, down by 1.7% (+4.1% at constant exchange rates) compared with the same period of the previous year. Revenues benefited from the positive effect of IAS 29 in the amount of Euro 5.0 million. At constant exchange rates, however, revenues grew in all geographical areas except for Europe.

EBIT amounted to Euro 23.4 million, compared to Euro 24.4 million in 2017, with impact on sales revenues basically stable at 4.4% in 2018 compared to 4.5% in 2017.

As at 31 December 2018, Net assets amounted to Euro 63.4 million compared to Euro 70.1 million at the end of 2017, whereas net financial indebtedness amounted to Euro 22.8 million (Euro 8.6 million as at 31 December 2017).

Employees of the business unit at 31 December 2018 were 2,890 (2,831 at 31 December 2017).

AIR&COOLING BUSINESS UNIT

The following tables show the key results and economic indicators of the Air&Cooling business unit for the year 2018 and the three previous years.

KEY ECONOMIC DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Sales revenues	415.3	480.2	496.2	486.6	-1.9%
EBIT	(1.2)	23.3	27.4	23.4	-14.8%
% on sales revenues	*-0.3%*	*4.8%*	*5.5%*	*4.8%*	

KEY FINANCIAL DATA

(in millions of Euro)	2015	2016	2017	2018	Change '18 vs '17
Net Assets	103.7	121.6	130.9	128.8	-1.6%
Net financial surplus (indebtedness)	34.6	51.5	71.3	71.6	0.4%

OTHER INDICATORS

	2015	2016	2017	2018	Change '18 vs '17
Number of employees	1,350	1,381	1,431	1,471	2.8%

In 2018, the Air&Cooling business unit reported revenues of Euro 486.6 million, down by 1.9% (+0.5% at constant exchange rates), with a positive trend in all geographical areas except for Europe.

EBIT amounted to Euro 23.4 million, down compared to Euro 27.4 million in 2017, with an impact on revenues of 4.8% (5.5% in 2017). EBIT 2018 includes the write-down of assets relating to the Fraize plant in France (Euro -5.2 million), an asset held for sale.

Net assets as at 31 December 2018 amounted to Euro 128.8 million (Euro 130.9 million at the end of 2017), whereas net financial position recorded a surplus of Euro 71.6 million compared to Euro 71.3 million at the end of 2017.

Employees of the business unit at 31 December 2018 were 1,471 (1,431 at 31 December 2017).

OUTLOOK FOR OPERATIONS

According to the sources generally used at sector level, it is expected that car production in 2019 will be in line with that of 2018, with a decline in the first half due mainly to China, and a recovery in the second half of the year. It should however be stressed that there is a lack of visibility at present as to how the year will evolve, and there is also a very high level of volatility in the markets. Uncertainty also remains as to how the prices of raw materials will evolve.

In such a climate, Sogefi expects to see growth in line with the market and is committed to recovering profitability particularly in the Suspensions sector.

MANAGEMENT OF THE MAIN BUSINESS RISKS

In line with national and international best practices, the Sogefi Group has adopted an Internal Control and Risk Management System, i.e. a set of rules, corporate standards and organisational structures designed to enable sound business management and consequently a correct decision-making process consistent with the strategic and business goals set by the Board of Directors.

As part of this 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, measure, manage and 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.

This process is coordinated by the Group Chief Risk Officer according to the guidelines approved by the Board of Directors and requires that the Group's Top and Senior Management be involved directly and periodically, according to a top-down approach.

It should be noted that, 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.

According to the top-down 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.

The ERM framework aims to analyse and evaluate a wide portfolio of risks, which vary in nature and type according to the business model applicable to the Sogefi Group, as outlined in the Risk Model, in which two main risk families are identified:

- **Strategic Risks**, i.e. the risks directly connected with the strategies and goals defined in the Group's three-year strategic plan;
- **Cross Business Risks**, i.e. all of those operational, financial, legal and compliance risks that may have an impact on business activities and subsequently prevent the achievement of the defined strategic goals.

Further areas or clusters of main risk situations to which the Group could be exposed are identified within these risk families as outlined below:

STRATEGIC RISKS				
MACROECONOMIC AND MARKET TRENDS	*CUSTOMERS*	*COMPETITORS*	*TECHNOLOGICAL INNOVATION*	
PROVIDERS	OPERATIONS	FINANCE	M&A	PARTENERSHIP/ JOINT VENTURES

CROSS BUSINESS RISKS			
INFORMATION TECHNOLOGY	*HR & ORGANISATION*	*CORPORATE GOVERNANCE*	*BUSINESS INTERRUPTION*
PLANNING & CONTROL	SUSTAINABILITY	LEGAL & COMPLIANCE	SAFETY

The Chief Risk Officer is responsible for coordinating the entire ERM process and preparing periodic reports on risk management activities for the Control and Risk Committee, whose members are appointed among Directors to assist the Board in verifying the adequacy of the internal control and risk management system.

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 2018 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

In recent years, technological innovation has taken on an increasingly central role in the automotive industry, with a number of new developments in electronics, automation and connection technologies, material research, as well as in power, fuel, engine and timing systems. These changes had and continue to have significant impact not only on the types of products, but also in terms of how production processes are being re-engineered to incorporate robotics, new integrated supply chain management systems, etc..
In this scenario, investing in Research and Development is an important medium to long term strategic goal for Groups like Sogefi, and at the same time addresses the risk of not being able to promptly seize business opportunities in both mature and emerging markets.

In particular, the Group is committed to developing new products designed to equip the new generation of "Hybrid & Electrical Vehicles" in the Air and Cooling and suspension components sectors. Furthermore, the Group's pipeline includes certain product/process innovations that could give a leading edge over key competitors, such as elastic suspension components made from composite materials, and oil cooling technologies that use aluminium foam.

Each Research & Development department within the business units, in coordination with the corporate management tasked with guiding Group strategies and, where necessary, in agreement with some customers, constantly monitors the progress of innovative projects and possible critical issues, so as to act promptly to correct their actions and minimise risks.

Risks relating to competitors

Although the world automotive market is highly competitive, the segment of suspension components, Air and cooling in which the Sogefi Group operates has witnessed a progressive consolidation of the market, leading to a gradual reduction in the number of competitors. However, the strong drive for technological innovation, the ongoing striving for the quality of products and accessories, as well as the strong price pressure and the efficiency of the plant development system are all elements that intensify competition on the market between the market players.

It should be noted that the risk of potential new entrants is considered to be very low, because anyone intending to enter the automotive sector has to overcome significant barriers to entry, first and foremost the huge overheads required for the installation of machinery, plants, sales networks, as well as the strict restrictions of global standards concerning environmental emissions. With regard to the original equipment Suspensions and Filtration, Air and Cooling sector, the Group benefits from objective barriers to entry, i.e. a typically capital-intensive structure and a wide technological and qualitative gap with competing manufacturers in low-cost countries. On the other hand, in the spare part sector, important barriers to entry are represented by the exhaustive product range of the Filtration Business Unit and by the strong brand reputation that distinguishes Sogefi products from those of manufacturers in low-cost countries.

Risks associated with customer management and related pricing policies

The business model adopted by the Group tends to be strongly oriented and guided by the decisions of a few large customers with strong purchasing power in the market.

On one hand, Sogefi 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.

On the other hand, the 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, especially those of steel and plastic materials, which account for a significant part of the production cost of its products.

Risks relating to the quality of products and processes

The risk associated with the production and marketing of products potentially not meeting industry quality standards and customer requirements could expose the Group to significant consequences for business and end users. In particular, this risk could jeopardise relations with customers causing significant reputational damage, as well as high extra costs for the management of claims or possible cases of non-compliance, say, with REACH requirements.

In this regard, the Sogefi Group attaches great importance to keeping high quality standards in line with customer needs. In 2018, 98% of the Group's production plants were IATF 16949:2016 certified (this is the updated version of the previous ISO TS 16949 standard). 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. This process has also been updated and supplemented to meet the new requirements introduced with the recent amendment to the standard in force since 2018.
IATF certification is part of the Sogefi Excellence System (S.E.S.) promoted by the Group to improve industrial performance, with special focus on the so-called "Quality Basics" (i.e. Customer, Supplier and Production Waste), i.e. performance indicators aimed at ensuring compliance with production process standards on a daily basis.

In 2015, the Group also launched a programme called "Back to basics" with the purpose of enhancing focus on product quality. The strategic pillars of this programme are control of the Group's general quality performance, with a specific escalation process and a set of Key Performance Indicators (KPIs) that are monitored and governed at Group level by the Industrial Performance department, in collaboration with the functions from time to time involved at a business unit level.

CROSS BUSINESS RISKS

Health and Safety Risks

These risks concern the protection of the health and safety of employees who could become involved in severe accidents at work, especially at production plants. In this regard, Sogefi supports the ongoing improvement of its internal control systems and the dissemination of a health and safety culture aimed at increasing awareness of possible risks and promoting virtuous behaviour among all employees and collaborators.

In 2016, Sogefi S.p.A. approved an Occupational Health and Safety Policy, which sets out the core principles concerning health and safety that all subsidiaries must adopt and observe. In line with these principles, as of 2017, the Group also implemented the Sogefi Excellence System (S.E.S.), which defines, among other goals, the best practices for creating a safe workplace for employees. The Health and Safety departments of each business unit ensure that they are compliant with the SES through periodic monitoring activities. In addition, specific KPIs relating to incidents at production plants have been defined at Group level and are monitored on a half-yearly basis by the business unit H&S departments and aggregated at Group level by the Group Industrial Performance department (for detailed information, please read section 5.1 of the Sustainability Report).

Finally, the Group promotes the certification of its production plants to the OHSAS 18001 standard (i.e. Occupational Health and Safety Assessment). As at December 2018, 17% of its sites had obtained the certification[2]. This certification allows health and safety best practices to be adopted through an effective structured management system.

[2] The calculation includes 42 production sites, excluding the Saint-Soupplets site (mainly dedicated to the production of prototypes) and considers the Bangalore site as two different units.

Environmental Risks

Sogefi considers respect for the environment as a core value for the Group. The same is true of respect for its employees, its customers and the local communities in which it operates.
The environmental risks to which Sogefi could be exposed are 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.

In 2016, Sogefi S.p.A. approved an Environmental Policy, which sets out the guiding principles that all subsidiaries must adopt and observe. 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 and implemented a dedicated environmental management system aimed at controlling possible environmental risks and their consequences. In this regard, it launched an ISO 14001:2015 certification programme for its production sites and 93% of them had demonstrated compliance as at December 2018[3].

The Group also implemented the following mitigation actions:

- 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;
- Reduction of greenhouse gas emissions in the production process;
- Increased use of reused and recycled materials in order to reduce the volume of waste generated by production (especially in those countries where the Group expects an increase in production volumes);
- Improvement of wastewater treatment systems in production plants before their release into the environment (e.g. rivers, lakes, etc.) 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.

Finally, it should be noted that Sogefi is also working to reduce its exposure to environmental risk by developing finished products that require less and less energy consumption.

[3] The calculation includes 42 production sites, excluding the Saint-Soupplets site (mainly dedicated to the production of prototypes) and considers the Bangalore site as two different units.

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 20 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 early 2019 Sogefi launched a Compliance Project aimed at revising and strengthening the anti-corruption elements of the Group's organisational model. The project will also enable the Group to ensure compliance 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.

Cyber Security Risks

The Group is faced with risks associated with unauthorised and fraudulent access to its IT systems by third parties, with the subsequent potential loss and violation of sensitive and confidential data that could lead to financial losses and significant reputational damage.
In order to reduce these risks to a minimum, a number of technical and operational measures have been implemented and/or updated under the supervision of the Chief Information Officer (CIO) in order to increase the level of protection of the Group's IT infrastructure.
Each production site has taken the following measures to protect data:

- Malware protection for the use of corporate mail (Microsoft Office/ 365 protection);
- Antivirus protection for Endpoints (Sophos);
- Regular updates of operating systems (Microsoft WSUS);
- Access control through the management of Group Active Directories.

In addition, a Cyber Security Programme headed by the CIO has been in place since 2018 to strengthen the entire cyber security structure at Group level, from the governance model through to the implementation of tools capable of providing greater protection against external attacks.

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.

CORPORATE GOVERNANCE

Note that the "Annual Report on Corporate Governance" for 2018 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 2018 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website (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)

Italian 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 incurred or created - to the extent necessary for an understanding of the company's performance, results, situation and impact of its activities. The aforementioned decree provided that the Statement must also 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.. 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.
Sogefi complied with its obligations by preparing a separate document titled "Consolidated statement for the disclosure of non-financial information" pursuant to articles 3 and 4 of Legislative Decree No. 254/2016 and GRI Standards issued in 2016 by the Global Reporting Initiative, providing the full information at consolidated level required by Legislative Decree no. 254/2016. Since 2015, the Company has been drawing up an annual Sustainability Report that has given evidence of the Group's performance for sustainability matters and provided 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 2018 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 2018 and is made available to Shareholders as provided for by the law. The Report will also be available on the Company's website (www.sogefigroup.com in the “Group – Sustainability” section).

TREASURY SHARES

As at 31 December 2018, the Parent Company has 2,485,725 treasury shares in its portfolio (having a nominal value of Euro 0.52 each), corresponding to 2.07% of share capital. In 2018, 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 2018, 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 Italian Civil Code; 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 2018, the Company's Board of Directors comprised 9 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 2018, was approved by the Board of Directors on 25 February 2019.

MAJOR EVENTS OCCURRED AFTER YEAR-END

No significant events occurred after 31 December 2018 that could have had an impact on the income statement, balance sheet and financial data presented.

PROPOSED ALLOCATION OF THE RESULT FOR THE YEAR

The statutory financial statements as at 31 December 2018 that we submit for your approval show a net loss of Euro 13,744,350.25, which we propose to cover entirely using “Retained earnings”.

Milan, 25 February 2019

For THE BOARD OF DIRECTORS
The Managing Director
Laurent Hebenstreit

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 “Total working capital” in the Consolidated Statement Of Financial Position;

(b) the heading agrees with the sum of the line items “Trade and other payables”, “Tax payables” and “Other current liabilities” in the Consolidated Statement Of Financial Position;

(c) the heading agrees with the sum of the line items “Investments in joint ventures” and “Other financial assets available for sale” in the Consolidated Statement Of Financial Position;

(d) the heading agrees with the sum of the line items “Total fixed assets”, “Other receivables”, “Non-current trade receivables”, “Deferred tax assets” and “Non-current assets held for sale” in the Consolidated Statement Of Financial Position;

(e) the heading agrees with the line item "Total other long-term 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, restructuring” and “Post-retirement and other employee benefits” excluded the financial component related to pension funds and the deferred taxes included in the line item “Income tax” in the Consolidated Cash Flow Statement;

(g) the heading is included in the line item of the Consolidated Cash Flow Statement “Other medium/long term assets/liabilities”;

(h) the heading corresponds to the line item “Sale of subsidiaries (net of cash and cash equivalents) and associates” in the Consolidated Cash Flow Statement;

(i) the heading agrees with the sum of the line items “Losses/(gains) on disposal of fixed assets and non-current assets held for sale”, “Sale of property, plant and equipment” and “Sale of intangible assets” in the Consolidated Cash Flow Statement;

(l) 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;

(m) 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

(n) (the heading agrees with “Total working capital” (“Totale attivo circolante operativo”) in the Parent Company's statutory Statement Of Financial Position;

(o) 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;

(p) 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;

(q) 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;

(r) 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;

(s) the heading agrees with the sum of the line items “Net profit” (“Utile netto d’esercizio”), “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”), “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 received ” (“Dividendi incassati”) and “Net financial expenses paid” (“Oneri finanziari netti pagati”) of the Parent Company's statutory Cash Flow Statement

(t) the heading agrees with the sum of the 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;

(u) 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;

(v) 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;

(w) 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
- other writedowns of non-ordinary balance sheet items

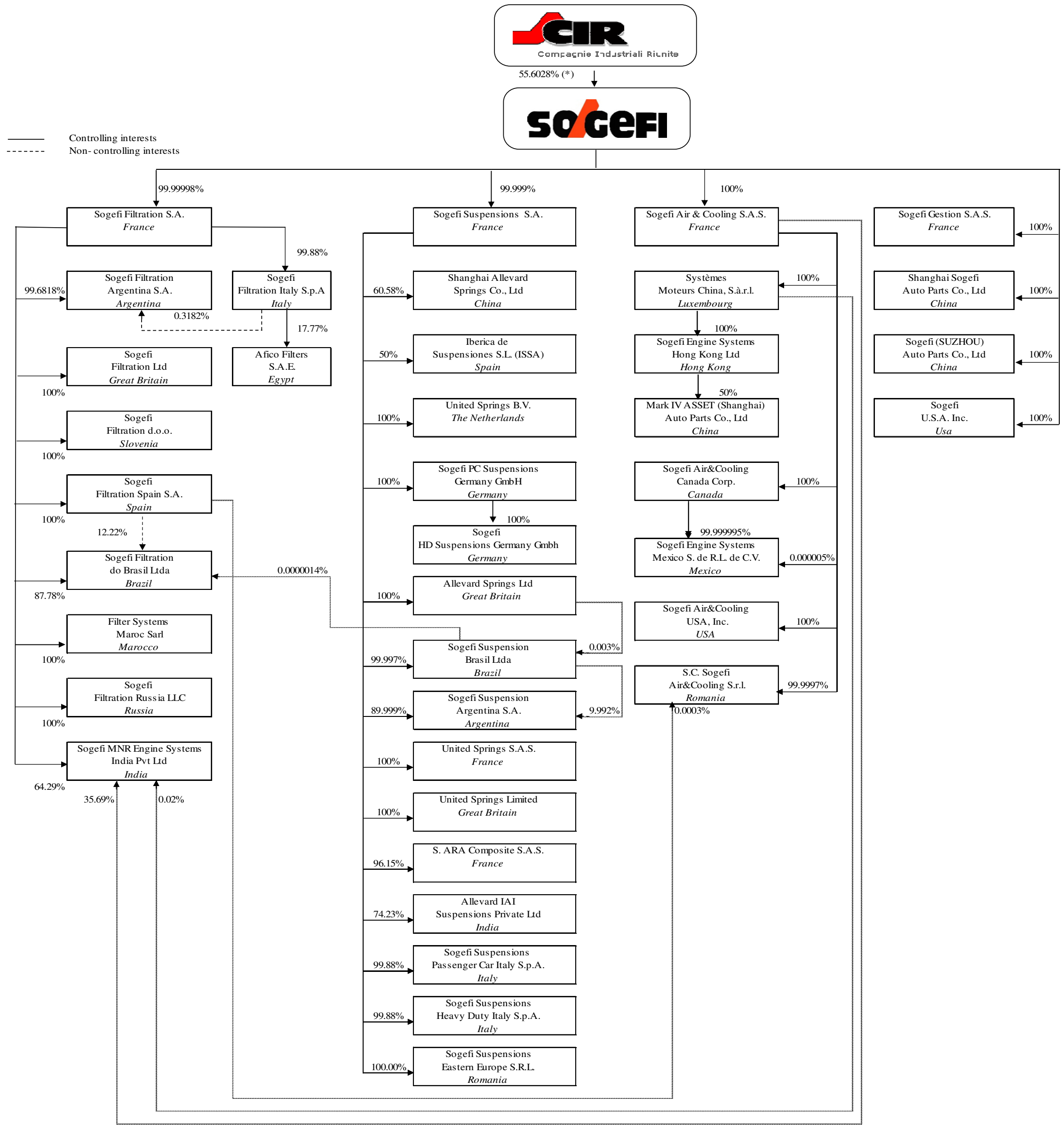
Normalised EBITDA (used to calculate covenants): it is calculated by summing “EBITDA” and the following expenses and revenues arising from non-ordinary operations: “Restructuring costs” and “Losses (gains) on disposal”.

“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 2018 there were no non-recurring expenses as defined in Consob Communication DEM/6064293 of 28 July 2006.

SOGEFI GROUP STRUCTURE: CONSOLIDATED COMPANIES



(*) 56.7777% of shares outstanding (excluding treasury shares)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)

ASSETS	*Note*	12.31.2018	12.31.2017
CURRENT ASSETS			
Cash and cash equivalents	*5*	91,735	103,889
Other financial assets	*6*	1,206	1,510
Working capital			
Inventories	*7*	115,682	122,928
Trade receivables	*8*	141,290	173,959
Other receivables	*8*	8,489	5,508
Tax receivables	*8*	23,064	23,062
Other assets	*8*	2,082	2,304
TOTAL WORKING CAPITAL		*290,607*	*327,761*
ASSETS HELD FOR SALE	*15*	13,599	3,418
CURRENT ASSETS		397,147	436,578
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	*9*	13,259	13,040
Property, plant and equipment	*9*	373,192	365,854
Other tangible fixed assets	*9*	4,357	5,583
Of which: leases		4,721	5,772
Intangible assets	*10*	278,989	290,481
TOTAL FIXED ASSETS		669,797	674,958
OTHER NON-CURRENT ASSETS			
Investments in joint ventures	*11*	-	-
Other financial assets available for sale	*12*	46	46
Non-current trade receivables	*13*	-	4
Financial receivables	*13*	5,115	2,215
Other receivables	*13*	34,284	37,382
Deferred tax assets	*14-20*	36,597	45,646
TOTAL OTHER NON-CURRENT ASSETS		76,042	85,293
TOTAL NON-CURRENT ASSETS		745,839	760,251
TOTAL ASSETS		1,142,986	1,196,829

Certain values for the year 2017 were redetermined after the application of “IFRS 15 – Revenue from contracts with customers” and “IFRS 9 – Financial instruments”.

LIABILITIES	*Note*	12.31.2018	12.31.2017
CURRENT LIABILITIES			
Bank overdrafts and short-term loans	*16*	2,064	14,170
Current portion of medium/long-term financial debts and other loans	*16*	59,467	66,584
Of which: leases		*1,592*	*1,679*
TOTAL SHORT-TERM FINANCIAL DEBTS		61,531	80,754
Other short-term liabilities for derivative financial instruments	*16*	796	2,678
TOTAL SHORT-TERM FINANCIAL DEBTS INSTRUMENTS		62,327	83,432
Trade and other payables	*17*	345,529	373,181
Tax payables	*17*	10,029	7,817
Other current liabilities	*18*	38,893	49,367
LIABILITIES RELATED TO ASSETS HELD FOR SALE	*15*	9,364	-
TOTAL CURRENT LIABILITIES		466,142	513,797
NON-CURRENT LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS			
Financial debts to bank	*16*	117,785	101,993
Other medium/long-term financial debts	*16*	178,453	186,224
Of which: leases		*5,048*	*6,408*
DEBTS		296,238	288,217
Other medium/long-term financial liabilities for derivative financial instruments	*16*	-	-
DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS		296,238	288,217
OTHER LONG-TERM LIABILITIES			
Long-term provisions	*19*	67,249	87,049
Other payables	*19*	62,867	71,983
Deferred tax liabilities	*20*	36,622	40,640
TOTAL OTHER LONG-TERM LIABILITIES		166,738	199,672
TOTAL NON-CURRENT LIABILITIES		462,976	487,889
SHAREHOLDERS' EQUITY			
Share capital	*21*	62,461	62,394
Reserves and retained earnings (accumulated losses)	*21*	116,390	88,425
Group net result for the year	*21*	14,005	26,600
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY		192,856	177,419
Non-controlling interests	*21*	21,012	17,724
TOTAL SHAREHOLDERS' EQUITY		213,868	195,143
TOTAL LIABILITIES AND EQUITY		1,142,986	1,196,829

Certain values for the year 2017 were redetermined after the application of “IFRS 15 – Revenue from contracts with customers” and “IFRS 9 – Financial instruments”.

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

	Note	2018		2017	
		Amount	*%*	*Amount*	*%*
Sales revenues	*23*	1,623,771	100.0	1,647,799	100.0
Variable cost of sales	*24*	1,137,339	70.0	1,128,345	68.5
CONTRIBUTION MARGIN		486,432	30.0	519,454	31.5
Manufacturing and R&D overheads	*25*	155,602	9.6	157,443	9.5
Depreciation and amortization	*26*	118,073	7.3	109,951	6.7
Distribution and sales fixed expenses	*27*	42,201	2.6	44,278	2.7
Administrative and general expenses	*28*	86,225	5.3	88,859	5.4
Restructuring costs	*30*	9,106	0.6	11,175	0.7
Losses (gains) on disposal	*31*	60	-	-	-
Exchange losses (gains)	*32*	5,499	0.3	3,236	0.2
Other non-operating expenses (income)	*33*	7,766	0.5	18,702	1.1
EBIT		61,900	3.8	85,810	5.2
Financial expenses (income), net	*34*	23,920	1.5	31,679	1.9
Losses (gains) from equity investments	*35*	-	-	-	-
RESULT BEFORE TAXES AND NON-CONTROLLING INTERESTS		37,980	2.3	54,131	3.3
Income taxes	*36*	20,693	1.2	23,391	1.4
NET RESULT BEFORE NON-CONTROLLING INTERESTS		17,287	1.1	30,740	1.9
Loss (income) attributable to non-controlling interests	*21*	(3,282)	(0.2)	(4,140)	(0.2)
GROUP NET RESULT		14,005	0.9	26,600	1.7
Earnings per share (EPS) (Euro):	*38*				
Basic		0.119		0.228	
Diluted		0.119		0.227	

Certain values for the year 2017 were redetermined after the application of “IFRS 15 – Revenue from contracts with customers”.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
(in thousands of Euro)

	Note	*2018*	*2017*
Net result before non-controlling interests		17,287	30,740
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
- Actuarial gain (loss)	*21*	793	3,430
- Tax on items that will not be reclassified to profit or loss	*21*	(224)	(994)
Total items that will not be reclassified to profit or loss		*569*	*2,436*
Items that may be reclassified to profit or loss			
- Profit (loss) booked to cash flow hedging reserve	*21*	1,851	4,254
- Tax on items that may be reclassified to profit or loss	*21*	(444)	(894)
- Profit (loss) booked to translation reserve	*21*	(10,534)	(18,883)
Total items that may be reclassified to profit or loss		*(9,127)*	*(15,523)*
Other Comprehensive Income		*(8,558)*	*(13,087)*
Total comprehensive result for the period		8,729	17,653
Attributable to:			
- Shareholders of the Holding Company		5,494	13,717
- Non-controlling interests		3,235	3,936

Certain values for the year 2017 were redetermined after the application of “IFRS 15 – Revenue from contracts with customers”.

CONSOLIDATED CASH FLOW STATEMENT
(in thousands of Euro)

	2018	2017
Cash flows from operating activities		
Net result	14,007	26,600
Adjustments:		
- non-controlling interests	3,282	4,140
- depreciation, amortization and writedowns	128,088	121,055
- expenses recognised for share-based incentive plans	775	510
- exchange rate differences on private placement	2,134	(14,323)
- provision in income statement of fair value derivates in cash flow hedge	(2,134)	14,323
- losses/(gains) on disposal of fixed assets and non-current assets held for sale	60	-
- losses/(gains) on sale of equity investments in associates and joint ventures	-	-
- provisions for risks, restructuring and deferred taxes	(11,576)	3,829
- post-retirement and other employee benefits	(2,413)	(1,904)
- Net financial expenses	23,920	31,679
- income tax	20,693	23,391
- change in net working capital	(11,067)	4,020
- other medium/long-term assets/liabilities	5,870	(852)
CASH FLOWS FROM OPERATING ACTIVITIES	171,640	212,469
Interest paid	(20,723)	(24,027)
Income tax paid	(17,129)	(13,633)
NET CASH FLOWS FROM OPERATING ACTIVITIES	133,788	174,809
INVESTING ACTIVITIES		
Interest received	1,228	2,172
Net financial position of entities acquired / sold during the year	-	-
Purchase of property, plant and equipment	(97,277)	(104,081)
Purchase of intangible assets	(35,463)	(40,006)
Net change in other securities	-	3,950
Sale of subsidiaries (net of cash and cash equivalents) and associates	-	-
Sale of property, plant and equipment	2,532	389
Sale of intangible assets	-	112
NET CASH FLOWS FROM INVESTING ACTIVITIES	(128,981)	(137,465)
FINANCING ACTIVITIES		
Capital increase in subsidiaries from third parties	102	168
Net change in capital	253	1,301
Net purchase of treasury shares	-	-
Dividends paid to Holding Company shareholders and non-controlling interests	(9)	(2,606)
New (repayment of) bonds	(12,584)	(12,584)
New (repayment of) long-term loans	9,903	(13,263)
New (repayment of) finance leases	(1,703)	(1,608)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(4,038)	(28,593)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	769	8,750
Balance at the beginning of the period	89,720	82,656
(Decrease) increase in cash and cash equivalents	769	8,750
Exchange differences	(818)	(1,687)
BALANCE AT THE END OF THE PERIOD	89,671	89,719

Certain values for the year 2017 were redetermined after the application of “IFRS 15 – Revenue from contracts with customers”.

NB: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7 (in particular the net balance between “Cash and cash equivalents” and “Bank overdrafts and short-term loans” included bank overdrafts repayable on demand). 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of Euro)

(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, 2016	*62,065*	*16,159*	*6,572*	*(6,572)*	*12,640*	*2,992*	*(30,594)*	*(9,555)*	*(42,338)*	*10,091*	*12,201*	*129,941*	*9,336*	*172,938*	*16,130*	*189,068*
Paid share capital increase	329	972	-	-	-	-	-	-	-	-	-	-	-	1,301	168	1,469
Allocation of 2016 net profit:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,606)	(2,606)
Retained earnings	-	-	-	-	-	-	-	-	-	-	-	9,336	(9,336)	-	-	-
Recognition of share-based incentive plans	-	-	-	-	-	510	-	-	-	-	-	-	-	510	-	510
Other changes	-	411	(411)	411	-	(974)	-	-	-	-	-	1,615	-	1,052	96	1,148
Fair value measurement of cash flow hedging instruments	-	-	-	-	-	-	-	4,254	-	-	-	-	-	4,254	-	4,254
Actuarial gain/loss	-	-	-	-	-	-	-	-	3,430	-	-	-	-	3,430	-	3,430
Tax on items booked in Other Comprehensive Income	-	-	-	-	-	-	-	-	-	(2,015)	-	-	-	(2,015)	-	(2,015)
Currency translation differences	-	-	-	-	-	-	(19,046)	-	-	-	-	-	-	(19,046)	(204)	(19,250)
Net result for the period	-	-	-	-	-	-	-	-	-	-	-	-	26,604	26,604	4,140	30,744
Total of the period	-	-	-	-	-	-	*(19,046)*	*4,254*	*3,430*	*(2,015)*	-	-	*26,604*	*13,227*	*3,936*	*17,163*
Balance at December 31, 2017	*62,394*	*17,542*	*6,161*	*(6,161)*	*12,640*	*2,528*	*(49,640)*	*(5,301)*	*(38,908)*	*8,076*	*12,201*	*140,892*	*26,604*	*189,028*	*17,724*	*206,752*
Adjustment on date of first adoption of IFRS 9	-	-	-	-	-	-	-	-	-	128	-	(425)	-	(298)	-	(298)
Adjustment on date of first adoption of IFRS 15	-	-	-	-	-	-	*367*	-	-	*5,109*	-	*(16,783)*	*(4)*	*(11,312)*	-	*(11,312)*
Balance restated as at 1 January 2018	*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
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
Total of the period	-	-	-	-	-	-	*(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*

EXPLANATORY AND SUPPLEMENTARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CONTENTS

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	2	Consolidation principles and accounting policies
	3	Financial assets
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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 and engine cooling systems, and suspension components.
SOGEFI is present in 4 continents and 20 countries, with 56 locations, of which 42 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 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.

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 2018 were approved by the Board of Directors of the Parent Company Sogefi S.p.A. on 25 February 2019.

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 and minority interests;
- Net result before non-controlling interests;
- Group net result.

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 2018 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.

During the year the following changes occurred in the scope of consolidation:
- the subsidiary Allevard IAI Suspensions Pvt Ltd approved a capital increase of Euro 102 thousand (amount approved and paid in) fully subscribed by minority shareholders; the stake held by the parent company Sogefi Suspensions S.A. therefore fell from 75.67% to 74.23%. This transaction generated a reclassification between equity of non-controlling interests and group's equity of Euro 40 thousand.

No further changes were made to the scope of consolidation during the period.

Please also note that during the year 2018:

- the subsidiary Sogefi Suspensions S.A. set up the company Sogefi Suspensions Eastern Europe S.r.l., with registered offices in Romania;
- the subsidiaries Sogefi Filtration S.A. and Sogefi Air & Cooling S.A.S. acquired 30% of the subsidiary Sogefi M.N.R. Engine Systems India Pvt from the minority shareholders after the minority shareholders exercised the put option at the end of 2017.

1.3 Group composition

As required by IFRS 12, Group composition as at 31 December 2018 and 31 December 2017 was as follows:

Business Unit	*Region*	*Wholly-owned subsidiaries*	
		December 31, 2018	December 31, 2017
Air&Cooling	Canada	1	1
	France	1	1
	Messico (*)	1	1
	Romania	1	1
	China (**)	2	2
	Lussemburgo	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	-
	Russia	1	1
	Marocco	1	1
Suspensions	France	2	2
	Italy	2	2
	Great Britain	2	2
	Germany	2	2
	The Netherlands	1	1
	Romania	1	-
	Brazil	1	1
	Argentina	1	1
Sofegi Gestion S.A.S.	France	1	1
TOTAL		33	31

(*) 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.
(****) These subsidiaries work also for Air&Cooling business unit.

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Business Unit	*Region*	*Non-wholly-owned subsidiaries*	
		December 31, 2018	December 31, 2017
Air&Cooling	China	1	1
Filtration	India (*****)	-	1
Suspensions	France	1	1
	Spain	1	1
	China	1	1
	India	1	1
TOTAL		5	6

(*****) Classified as 100% subsidiary at December 31, 2018

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 Directors' Report. 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 financial statements of the Group prepared by adopting IFRS 15 – Revenue from contracts with customers and "IFRS 9 – Financial instruments. Changes to significant accounting principles are outlined at paragraph 2.4

2.1 Consolidation principles

The financial statements as at 31 December 2018 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 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:

	2018		2017	
	Average	*12.31*	*Average*	*12.31*
US dollar	1.1815	1.1450	1.1293	1.1993
Pound sterling	0.8847	0.8945	0.8761	0.8872
Brazilian real	4.3087	4.4440	3.6041	3.9728
Argentine peso	32.9056	43.1593	18.7266	22.9305
Chinese renminbi	7.8076	7.8751	7.6266	7.8046
Indian rupee	80.7103	79.7298	73.4754	76.6284
New romanian Leu	4.6540	4.6635	4.5687	4.6585
Canadian dollar	1.5302	1.5605	1.4644	1.5039
Mexican peso	22.7169	22.4921	21.3265	23.6630
Moroccan dirham	11.0840	10.9390	10.9493	11.2360
Hong Kong dollar	9.2601	8.9675	8.8013	9.3721

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 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 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 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 2018 (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 2018.

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
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.

Assets under lease
The Group plans on applying IFRS 16 – *Leases* at the date of first-time adoption (1 January 2019). Therefore, the cumulative effect of the adoption of IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.
As at 31 December 2018, assets under lease were accounted for as provided for by IAS 17, under which leases are classified as financial and operating leases.
A lease is considered a finance lease when it transfers substantially all risks and benefits incidental to ownership of the asset to the lessee.
As envisaged in IAS 17, a lease is considered a finance lease when the following elements are present, either individually or in combination:
- the contract transfers ownership of the asset to the lessee at the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that it is reasonably certain, at the inception of the lease, that it will be exercised;
- the lease term is for the major part of the useful life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments is equal to at least the fair value of the asset being leased;
- the assets being leased are of such a specialised nature that only the lessee is able to use them without making major modifications.

Assets available to Group companies under contracts that fall into the category of finance leases are accounted for as tangible fixed assets at their fair value at the date of

purchase or, if lower, at the present value of the minimum payments due under the lease; the corresponding liabilities to the lessor are shown in the Statement of Financial Position as financial debts. The assets are depreciated over their estimated useful lives.
Lease payments are split between the principal portion, which is booked as a reduction of financial debts, and interest. Financial expenses are charged directly to the Income Statement for the period.
Payments under operating lease contracts, on the other hand, are charged to the Income Statement on a straight-line basis over the life of the contract.

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&Cooling (previously named "Engine Systems – Air and Cooling"), Car Suspension, Industrial Vehicles Suspension and Precision Springs.
The goodwill currently on the books only concerns the CGUs Filtration, Air&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 2018, 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 2016, 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 2016-2018. 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
Group companies prepare their financial statements in the local currency of the country concerned.
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 2018 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.

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%.

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

Accordingly, the financial statements of the consolidated Argentine companies 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).

When the new standard was applied, shareholders' equity increased by Euro 4.2 million and Group net result fell by Euro 3.4 million.

The Group did not restate the comparative period upon first adoption of this IFRS as provided for by IAS 21 “The Effects of Changes in Foreign Exchange Rates”. According to this standard, when the financial position and results of an entity with a hyperinflationary currency are converted into the currency of a non-hyperinflationary economy, the comparative amounts must be those presented as current year amounts in the financial statements of the previous year.

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 2019 as determined based on the budget and the forecasts included in the 2020-2023 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 4 February 2019. 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 7.7 million) - impairment test: at the end of the fiscal year 2018, 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 2019 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 19 February 2019 were taken into account. The impairment test, based on such forecasts, does not indicate a need for write-down;
- pension plans (Euro 49 million): actuaries 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 6.4 million compared to Euro 6.6 million in the previous year): as at 31 December 2018, 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 5.3 million in assets and Euro 0,8 million in liabilities): 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 2018

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2018:

Application of the new accounting standard IFRS 15 – Revenue from contracts with customers

The standard 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 IFRSs, such as leases, insurance contracts and financial instruments.

As far as the Sogefi Group is concerned, application of the new standard IFRS 15 basically led to a change in the accounting of "tooling" and "prototypes" supplied to customers, as shown below.
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. This is because the "tooling" is used by the Group exclusively for the supply of the specific goods ordered by the customer and the customer does not have a substantial option to obtain the production of these specific goods from another supplier through the use of such "tooling". Contracts entered into with customers feature specific clauses in the different jurisdictions in which the Group operates (the legal ownership of the tooling could be transferred to the customer before specific forms of mass production in exchange for a fixed fee or at the end of mass production, i.e. the revenue from the sale of tooling could be included in the sale price of the individual goods). Previously, revenues from the contractual obligation to supply the tooling were recognised on the basis of the contractual provisions, with specific reference to the transfer of ownership of the tooling to the customer.
By changing the recognition policy for revenues deriving from the contractual obligation to provide the tooling, the Group changed the accounting policy relating to the costs for the production/purchase of the tooling as well. These costs are now capitalised in the item "Tangible fixed assets" and are depreciated over the period corresponding to the supply of the goods to the customer (these costs are therefore no longer recorded in the item "Variable cost of sales - Materials"). Costs relating to the development of prototypes (previously recorded under the item "Variable cost of sales - Materials") are

now capitalised in the item "Intangible assets" and amortised over the period corresponding to the supply of goods to the customer.

The average duration of supply of goods to the customer has been conventionally defined by the Group in 4 years on the basis of historical experience. During this period, revenues from contractual obligations relating to the development of the production process and the supply of "tooling" and "prototypes" will be recorded, and the costs for the production/purchase of "tooling" and "prototypes" will be depreciated.

The Group has analysed the contractual obligation for the warranty for the supplied components, concluding that it does not represent a distinct performance obligation because it does not provide additional services that benefit the customers. Warranty costs will continue to be recognised under IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.

The Group has also identified an impact on the presentation of revenues from aftermarket customers. This is due to the "marketing contributions" provided to customers who meet the definition of "consideration payable to customers" in IFRS 15 and that have to be presented net of revenues. These costs were previously presented in the item "Variable cost of sales" because they are considered marketing costs provided by customers to the Group.

In addition to the effects described above, other aspects of the contracts with customers that are relevant to the Group's activities and business were analysed, without finding any significant impact for the application of the new standard. This includes, for example, contractual aspects (price review, productivity, contract acquisition costs) which have been measured and recorded in accordance with the new principle, and their analysis is still under consideration for new contracts.

The Group restated the comparative period to the date of first-time adoption of IFRS 15 by adopting practical measures. In particular, IFRS 15 has not been applied retrospectively for contracts completed before 1 January 2018. When applied retrospectively to the corresponding 2017 balances, the impact on initial equity as at 1 January 2017 was Euro 11.7 million.

The adoption of the new standard caused a reduction in shareholders' equity as at 1 January 2018 from Euro 189 million to approximately Euro 177.7 million (net of the tax effect). It should be noted that the impact on the net profit for 2017 was not material.
It should also be noted that the new accounting policy relating to tooling and prototypes mentioned above led to a reduction in the items "Sales revenues" and "Variable cost of sales" and an increase in the item "Depreciation and amortization".

The following tables present the effects of the adoption of the new standard in the income statement as at 31 December 2017.

CONSOLIDATED INCOME STATEMENT

(in millions of Euro)	Period 01.01 – 12.31.2017	Period 01.01 – 12.31.2017 restated	Change
	Amount	Amount	Amount
Sales revenues	1,672.4	1,647.8	(24.6)
Variable cost of sales	1,194.0	1,128.3	(65.7)
Depreciation and amortization	69.3	110.0	40.7
Income taxes	23.0	23.4	0.4
GROUP NET RESULT	26.6	26.6	(0.0)

CONSOLIDATED BALANCE SHEET

ASSETS	12.31.2017	12.31.2017 restated	Change
Inventories	159.3	122.9	(36.4)
Property, plant and equipment	275.8	384.5	108.7
Intangible assets	272.6	290.5	17.9
Deferred tax assets	40.1	45.5	5.4
TOTAL ASSETS	1,101.5	1,197.1	95.6

LIABILITIES	12.31.2017	12.31.2017 restated	Change
Other current liabilities	8.6	49.4	40.8
Deferred tax liabilities	39.7	40.6	0.9
Other non-current payables	6.7	72.0	65.3
TOTAL LIABILITIES	894.8	1,001.7	106.9
SHAREHOLDERS' EQUITY			
Reserves and retained earnings (accumulated losses)	100.0	88.7	(11.3)
Group net result for the period	26.6	26.6	0.0
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY	189.0	177.7	(11.3)
TOTAL LIABILITIES AND EQUITY	1,101.5	1,197.1	95.6

Application of new accounting standard IFRS 9 – Financial instruments

The document (issued on 24 July 2014) includes the results of the classification, valuation, derecognition, impairment and hedge accounting phases relating to the IASB project pending the replacement of IAS 39:

- it introduces new criteria to classify and measure financial assets and liabilities;
- with reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using information that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data;

- a new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

Based on the analysis performed, the effect on initial shareholders' equity, resulting from the implementation of IFRS 9, is a reduction of Euro 0.3 million (net of the tax effect) as a result of a reduction in receivables of Euro 0.4 million, without, however, making any significant changes to the income statement figures for 2018.
The adjustment to reduce retained earnings refers to the recognition of further, and possible, losses due to a reduction in financial assets, deriving from the application of the expected credit loss model introduced by IFRS 9, in replacement of the incurred credit loss model provided for by IAS 39. On the basis of this new model, the financial assets not past due, for which there is no evidence of impairment, were also analysed.
It should also be noted that the reduction in value recorded as at 1 January 2018 mainly refers to trade receivables; the analyses carried out at present on the other financial assets and liabilities did not reveal any significant critical issues.

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 2017.

The Group did not restate the first comparative year at the date of first-time adoption of IFRS 9 considering the limited impact deriving from the adoption of this standard.

Other standards

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group as from 1 January 2018:

- IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*" (issued on 8 December 2016 and endorsed by the European Commission in March 2018). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognised before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 applies as from 1 January 2018. The new provisions as at 31 December 2018 did not have any impact on the Sogefi Group's consolidated financial statements.

- Amendments to IAS 40 "*Transfers of Investment Property*" (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity's management alone is not sufficient. These amendments apply as from 1 January

2018. The new provisions as at 31 December 2018 did not have any impact on the Sogefi Group's consolidated financial statements.

- Amendments to IFRS 2 "*Classification and measurement of share-based payment transactions*" (issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. As at 31 December 2018, the Group had no significant transactions of this kind in place.

- Document "*Annual Improvements to IFRS Standards 2014-2016 Cycle*" (published on 8 December 2016 and endorsed in February 2018) with major changes concerning:
    - IFRS 1 - First adoption of *International Financial Reporting Standards* - The changes eliminate some exemptions from IFRS 1 as the benefit of these exemptions is deemed to have been superseded. These amendments are to be applied for financial periods beginning on 1 January 2018.
    - IAS 28 – Equity investments in subsidiaries and joint ventures– The amendment clarifies that the option for an investment entity in risk capital or another entity qualified to measure the investments in subsidiaries and joint ventures values at fair value posted to the income statement (rather than by applying the equity method) is performed for each single investment upon initial recognition. These amendments are to be applied for financial periods beginning on 1 January 2018.

These improvements had no effects for the companies within the Sogefi Group.

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 2018

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

- IFRS 16 – *Leases* (issued on 13 January 2016). This document 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 standard applies for reporting period beginning on or after 1 January 2019. Early application is only allowed for early adopters of IFRS 15 – *Revenue from Contracts with Customers*.
The Group plans on applying 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 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative data.

The Group opted to not recognise assets from right of use and liabilities from short-term leases (up to one year) for machinery, or leases of low value assets, including IT equipment. Therefore, the Group recognises lease payments relating to these leases as a cost on a straight-line basis over the lease term.
The Group estimated the effects of the first-time adoption of the standard on the consolidated financial statements. The estimate of these effects on the Group's shareholders' equity and net financial position at 1 January 2019 is based on the assumptions made so far.
It should be noted that the effects on final balances of the adoption of this standard on 1 January 2019 could turn out to be different because:
– the Group has not yet completed the review and assessment of the controls over its new IT systems; and
– the new valuation criteria could be modified before the presentation of the first consolidated financial statements of the Group for the year that includes the date of first-time adoption.

The analyses available so far provided the following findings as at 1 January 2019: Shareholders' equity decreased by Euro 4.8 million approximately (net of tax effects), additional assets from right of use and liabilities from leases, Euro 57.3 million and Euro 59.4 million, respectively. The differences will be recognised in retained earnings.

- 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.

- IFRIC 23 "*Uncertainty over income taxes treatment*" (issued on 7 June 2017 and endorsed by the European Commission in October 2018). 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, though early adoption is allowed.

- Amendment to IAS 28 "*Long-term Interests in Associates and Joint Ventures*" (issued on 12 October 2017 and endorsed by the European Commission in February 2019). 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, though early adoption is allowed.

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.

- Amendments to IFRS 10 and IAS 28 "*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*" (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

- 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* and IFRS 3 *Business Combination.* These amendments are to be applied for financial periods beginning on 1 January 2019, though early adoption is allowed.

- Amendment to IAS 19 - *Plan Amendment, Curtailment or Settlement* (published in 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. Early adoption is allowed.

- Amendments to IFRS 3 – *Business combinations* (published in 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 and IAS 8 - *Definition of material* (published in 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.

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 – criterion applicable as from 1 January 2018.

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 – criterion applicable as from 1 January 2018

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 – criterion applicable as from 1 January 2018

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&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 2017 and 2018:

(in thousands of Euro)	2017					
	Air&Cooling	Suspensions	Filtration	Sogefi S.p.A. / Sogefi Gestion S.A.S.	Adjustments	Sogefi consolidated f/s
REVENUES						
Sales to third parties	495,501	607,879	544,419	-	-	1,647,799
Intersegment sales	713	1,522	1,972	30,086	(34,293)	-
TOTAL REVENUES	496,214	609,401	546,391	30,086	(34,293)	1,647,799
RESULTS						
EBIT	27,387	39,101	24,427	(3,864)	(1,241)	85,810
Financial expenses, net						(31,679)
Income from equity investments						-
Losses from equity investments						-
Result before taxes						54,131
Income taxes						(23,391)
Loss (profit) attributable to non-controlling interests						(4,140)
NET RESULT						26,600
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Segment assets	382,908	428,277	356,893	608,443	(727,892)	1,048,629
Equity investments in associates	-	-	-	-	-	-
Unallocated assets	-	-	-	-	148,200	148,200
TOTAL ASSETS	382,908	428,277	356,893	608,443	(579,692)	1,196,829
LIABILITIES						
Segment liabilities	252,522	289,783	284,262	408,126	(233,007)	1,001,686
TOTAL LIABILITIES	252,522	289,783	284,262	408,126	(233,007)	1,001,686
OTHER INFORMATION						
Increase in tangible and intangible fixed assets	51,921	43,634	46,087	6,433	(3,988)	144,087
Depreciation, amortisation and writedowns	42,346	34,091	39,926	4,292	400	121,055

(in thousands of Euro)	2018					
	Air&Cooling	Suspensions	Filtration	Sogefi S.p.A. / Sogefi Gestion S.A.S.	Adjustments	Sogefi consolidated f/s
REVENUES						
Sales to third parties	485,850	600,827	537,095	-	-	1,623,772
Intersegment sales	757	1,730	105	26,918	(29,511)	(1)
TOTAL REVENUES	486,607	602,557	537,200	26,918	(29,511)	1,623,771
RESULTS						
EBIT	23,448	12,746	23,444	(3,715)	5,977	61,900
Financial expenses, net						(23,921)
Income from equity investments						-
Losses from equity investments						-
Result before taxes						37,980
Income taxes						(20,693)
Loss (profit) attributable to non-controlling interests						(3,282)
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	261,998	307,633	195,911	(67,728)	929,118
TOTAL LIABILITIES	231,304	261,998	307,633	195,911	(67,728)	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&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-MNR Engine Systems India Pvt Ltd) and Systemes Moteurs Group.
"Depreciation, amortization and writedowns" include writedowns of tangible (Euro 746 thousand) and intangible fixed assets (Euro 8,432 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 2018 accounting for over 10% of Group revenues are shown in the following table:

(in thousands of Euro)	2018				
Group	Group		BU Filtration	BU Air&Cool.	BU Suspensions
	Amount	%			
Renault/Nissan	187,420	11.5	53,049	45,601	88,770
PSA	181,737	11.2	46,745	64,193	70,799
FCA/CNH Industrial	177,293	10.9	84,710	41,381	51,202
Ford	175,248	10.8	55,201	68,961	51,086

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)	2017					
	Europe	South America	North America	Asia	Adjustments	Sogefi consolidated f/s
TOTAL ASSETS	1,535,516	89,637	154,456	142,744	(725,524)	1,196,829

(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

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 91,735 thousand versus Euro 103,889 thousand as at 31 December 2017 and break down as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Short-term cash investments	91,676	103,850
Cash on hand	59	39
TOTAL	91,735	103,889

"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 2018, the Group has unused lines of credit for the amount of Euro 311,465 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)	12.31.2018	12.31.2017
Financial receivables	1,023	653
Assets for derivative financial instruments	183	857
TOTAL	1,206	1,510

"Assets for derivative financial instruments" amount to Euro 183 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)	12.31.2018			12.31.2017		
	Gross	*Write-downs*	*Net*	*Gross*	*Write-downs*	*Net*
Raw, ancillary and consumable materials	63,734	5,363	58,371	64,642	5,286	59,356
Work in progress and semi-finished products	17,119	533	16,586	16,117	626	15,491
Finished goods and goods for resale	47,023	6,298	40,725	54,773	6,692	48,081
TOTAL	127,876	12,194	115,682	135,532	12,604	122,928

The gross value of inventories decreased by Euro 7,656 thousand compared to the previous fiscal year (at constant exchange rates there would be a decrease of Euro 2,732 thousand).
As at 31 December 2018, Euro 2,152 thousand were reclassified to "Assets held for sale".

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 decrease in the provisions (by Euro 410 thousand) reflects products scrapped during the year for the amount of Euro 641 thousand, items reclassified to "Asset held for sale" for the amount of Euro 208 thousand, and a negative exchange effect for Euro 495 thousand, that were partly offset by further accruals for Euro 934 thousand.

8. *TRADE AND OTHER RECEIVABLES*

Current receivables break down as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Trade receivables	141,265	172,136
Less: allowance for bad debts	4,343	4,661
Trade receivables, net	136,922	167,475
Due from Parent Company	4,368	6,484
Tax receivables	23,064	23,062
Other receivables	8,489	5,508
Other assets	2,082	2,304
TOTAL	174,925	204,833

"Trade receivables, net" are non-interest bearing and have an average due date of 30 days, against 36 days recorded at the end of the previous year.
It should be noted that as at 31 December 2018, the Group factored trade receivables for Euro 99,212 thousand (Euro 94,885 thousand as at 31 December 2017), including an amount of Euro 91,511 thousand (Euro 83,582 thousand as at 31 December 2017) 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 99,212 thousand as at 31 December 2018 and Euro 94,885 thousand as at 31 December 2017) and the effect of exchange rates (Euro 5,400 thousand), net trade receivables show a decrease of Euro 20,820 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 2018 compared to the same period of the previous year.

Further adjustments were booked to "Allowance for bad debts" during the year for a total of Euro 1,628 thousand, against net utilisations of the allowance for the amount of Euro 1,598 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 bad debts as at 31 December 2018 includes about Euro 400 thousand reflecting losses on receivables recognised upon adoption of IFRS 9, in line with the previous year.

"Due from Parent Company" as at 31 December 2018 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 2017 (totalling Euro 6.484 thousand) collected in 2018 amounted to Euro 6,423 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 2018 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)	12.31.2018	12.31.2017
Amounts due from social security institutions	11	127
Amounts due from employees	217	186
Advances to suppliers	3,274	2,940
Due from others	4,987	2,255
TOTAL	8,489	5,508

The item "Other assets" mainly includes accrued income and prepayments on insurance premiums, rents, 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 2018 amounted to Euro 390,808 thousand versus Euro 384,477 thousand at the end of the previous year and breaks down as follows:

(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*
Balance at January 1	13,040	210,090	5,583	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)
(Write-downs)/revaluations during the period	-	(160)	(79)	-	(420)	(87)	(746)
Reclassification of non-current asset held for sale	(229)	(2,719)	(3)	(19)	(6,815)	(1,292)	(11,077)
Other changes	767	41,650	751	(35,881)	16,409	(16,013)	7,683
Balance at December 31	13,259	227,989	4,357	44,882	56,305	44,016	390,808
Historical cost	13,348	860,493	36,963	45,931	145,487	44,106	1,146,328
of which: leases - gross value	-	*15,515*	*120*	-	-	-	*15,635*
Accumulated depreciation	89	632,504	32,606	1,049	89,182	90	755,520
of which: leases - accumulated depreciation	-	*10,804*	*110*	-	-	-	*10,914*
Net value	13,259	227,989	4,357	44,882	56,305	44,016	390,808
of which: leases - net value	-	*4,711*	*10*	-	-	-	*4,721*

(in thousands of Euro)	2017						
	Land	*Buildings, plant and machinery, commercial and industrial equipment*	*Other assets*	*Assets under construction and payments on account*	*Tooling*	*Tooling under construction*	*TOTAL*
Balance at January 1	12,818	209,155	6,401	34,108	80,183	28,579	371,244
Additions of the period	-	25,186	1,884	41,022	35,719	(605)	103,206
Disposals during the period	-	(233)	(126)	(30)	-	-	(389)
Exchange differences	(102)	(9,760)	(678)	(1,615)	(1,685)	(725)	(14,565)
Depreciation for the period	-	(36,955)	(2,464)	-	(32,786)	-	(72,205)
(Write-downs)/revaluations during the period	4	(4,042)	(202)	-	-	-	(4,240)
Reclassification of non-current asset held for sale	-	-	-	-	-	-	-
Other changes	320	26,739	769	(26,401)	-	-	1,426
Balance at December 31	13,040	210,090	5,583	47,084	81,432	27,249	384,477
Historical cost	13,091	840,857	28,805	48,133	165,332	27,249	1,123,466
of which: leases - gross value	-	*15,008*	*78*	-	-	-	*15,086*
Accumulated depreciation	51	630,767	23,223	1,049	83,900	-	738,990
of which: leases - accumulated depreciation	-	*9,236*	*78*	-	-	-	*9,314*
Net value	13,040	210,090	5,583	47,084	81,432	27,249	384,477
of which: leases - net value	-	*5,772*	-	-	-	-	*5,772*

Investments during the year amounted to Euro 97,277 thousand compared to Euro 103,206 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.

The main investments in the category “Assets under construction and payments on account” concerned in particular the subsidiaries Sogefi Suspensions S.A. for the development of new products and extraordinary maintenance, Filters Systems Maroc S.a.r.l. for the new Moroccan plant in Tangiers for the Filtration business unit and Sogefi USA Inc. 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 Filters Systems Maroc S.a.r.l..

Among the most significant projects in the “Buildings, plant and machinery, commercial and industrial equipment” category, noteworthy are the investments in subsidiaries Sogefi Filtration d.o.o. to develop new products and increase production capacity, Filters Systems Maroc S.a.r.l. for the new Moroccan plant in Tangiers for the Filtration business unit and Sogefi Air & Cooling S.A.S. to develop new products, increase production capacity and for extraordinary maintenance.

“Depreciation for the period” has been recorded in the appropriate item in the Income Statement.

“(Writedowns)/revaluations during the period” totalled Euro 746 thousand and mainly relates to the European companies.
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.
This item also includes the revaluation of the tangible fixed assets of the Argentine subsidiaries for Euro 7,746 thousand after the application of IAS 29; this value is converted at the average rate for the period and also includes Euro 1,310 thousand of depreciation for the period.

The balance of “Assets under construction and payments on account” as at 31 December 2018 includes Euro 335 thousand of advances for investments.

The main inactive assets, with a total net value of Euro 4,330 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 4,301 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 financial expenses were capitalised to “Tangible fixed assets” during the year 2018.

Guarantees
As at 31 December 2018, tangible fixed assets are encumbered by mortgages or liens totalling Euro 771 thousand to guarantee loans from financial institutions, compared to Euro 1,828 thousand as at 31 December 2017. Guarantees existing as at 31 December 2018 refer to subsidiary Sogefi Air & Cooling Canada Corp..

Purchase commitments
As at 31 December 2018, there are binding commitments to buy tangible fixed assets for Euro 2,721 thousand (Euro 785 thousand as at 31 December 2017) for the most part relating to the subsidiary Sogefi Suspensions S.A.. Said commitments will be settled within 12 months.

Leases
The carrying value of assets under financial leases as at 31 December 2018 was Euro 15,635 thousand, and the related accumulated depreciation amounted to Euro 10,914 thousand.
The financial aspects of the lease payments and their due dates are explained in note 16 “Financial debts to banks and other financing creditors”.

Impairment test of Sogefi Filtration do Brasil Ltda

At the end of the 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 5.4 million of tangible fixed assets) 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 2019 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 19 February 2019.
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 18.77%, 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: 20.3%

- levered beta of the industry: 1.07
- risk-free rate: 10.61% (annual average of the Brazilian sovereign debt over 10 years)
- risk premium: 10.13% (average risk premium calculated by an independent source)
- debt cost: 11%

The test based on the present value of the estimated future cash flows turns out a value in use of the assets that exceeds their book value. As a result, no writedown was made.

10. INTANGIBLE ASSETS

The net balance as at 31 December 2018 was Euro 278,989 thousand versus Euro 290,481 thousand at the end of the previous year, and breaks down as follows:

(in thousands of Euro)	2018						
	Develop-ment 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*
Balance at January 1	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
Exchange differences	(83)	(33)	(78)	-	-	-	(194)
Amortisation for the period	(32,187)	(3,907)	(575)	(990)	(435)	-	(38,094)
Writedowns during the period	(8,282)	-	(150)	-	-	-	(8,432)
Reclassification of non-current asset held for sale	(411)	-	-	-	-	-	(411)
Other changes	11,145	3,420	(14,389)	-	-	-	176
Balance at December 31	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 amortisation / Impairment	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

(in thousands of Euro)	2017						
	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*
Balance at January 1	81,391	32,714	20,972	13,853	6,081	126,639	281,650
Additions of the period	23,385	4,415	12,206	-	-	-	40,006
Disposals during the period	(112)	-	-	-	-	-	(112)
Exchange differences	(3,107)	(71)	(929)	-	-	-	(4,107)
Amortisation for the period	(32,123)	(3,472)	(726)	(990)	(435)	-	(37,746)
Writedowns during the period	(6,544)	-	(319)	-	-	-	(6,863)
Other changes	28,772	90	(11,209)	-	-	-	17,653
Balance at December 31	91,662	33,676	19,995	12,863	5,646	126,639	290,481
Historical cost	253,654	68,784	25,435	19,215	8,437	149,537	525,062
Accumulated amortisation / Impairment	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

Investments during the year amounted to Euro 35,463 thousand.

The increases in “Development costs” for the amount of Euro 20,691 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 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 Air & Cooling S.A.S..

Increases in “Industrial patents and intellectual property rights, concessions, licences and trademarks” amount to Euro 618 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”, for the amount of Euro 14,154 thousand, refer mainly to a large number of investments in the development and implementation of the new products not yet flowed into production. The highest development costs were recorded at subsidiaries Sogefi Suspensions S.A., Sogefi Air & Cooling S.A.S., S.C. Sogefi Air & Cooling S.r.l. and Sogefi Air & Cooling Canada Corp..

Item “Customer relationship” amounts to Euro 11,873 thousand and represents the value of the Systemes Moteurs Group's customer portfolio at the acquisition date as determined during the Purchase Price Allocation process.

Item “Trade name Systemes Moteurs” amounts to Euro 5,211 thousand and represents the value of the trade name “Systemes Moteurs” at the acquisition date as determined during the Purchase Price Allocation process.

The item “Writedowns during the period”, equal to Euro 8,432 thousand, reflects research and development projects no longer recoverable from the French site of Fraize held for sale for Euro 5,188 thousand to (see note 15 for further details) and, for the remaining amount, projects no longer recoverable mainly in the subsidiaries Sogefi Filtration d.o.o. and Sogefi Suspensions S.A..

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 13,289 thousand of costs generated internally.
An impairment test was carried out during the year to determine whether such costs could be recovered. As at 31 December 2018, impairment losses for projects deemed to be no longer recoverable were recognised for the amount of Euro 8,282 thousand overall.

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&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 2019 as determined based on the budget (approved by the Board of Directors on 4 February 2019) and the forecasts included in the 2020-2023 plan (adjusted to eliminate any estimated benefits from future projects and reorganisations) approved by the Board of Directors on the same date. Budget and plan were prepared taking into account forecasts for the automotive industry made by major sources in the industry.

A discount rate of 10.06%, 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 2023), 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: 20.3%
- levered beta of the industry: 1.09
- risk-free rate: 3.7% (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: 7.5% (average risk premium calculated by an independent source for the key markets in which the Group operates, weighted by revenues)
- debt cost spread: 2.8% (estimate based on the 2019 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): 16.3% for CGU Filtration; 29.7% for CGU Air&Cooling; and 13.0% 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): -45.5% in CGU Filtration; -73.9% in CGU Air&Cooling; and -32.3% 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): -8.8% in CGU Filtration; -143.8% in CGU Air&Cooling; and -1.9% 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. INVESTMENTS IN JOINT VENTURES

As at 31 December 2018, there were no investments in joint ventures.

12. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 December 2018, this item amounts to Euro 46 thousand, unchanged compared to the previous fiscal year.

13. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT RECEIVABLES

Non-current financial receivables total Euro 5,115 thousand (Euro 2,215 thousand as at 31 December 2017) 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".

"Other receivables" break down as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Indemnification asset	-	9,735
Other receivables	34,284	27,647
TOTAL	34,284	37,382

With regard to item "Indemnification asset", please read note 19 "Long-term provisions and other payables".

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.
These receivables will be collected over the coming years. They increased by Euro 6,637 thousand, of which Euro 3,084 thousand reflect tax credits originated from research and development activities of the French subsidiaries.

14. DEFERRED TAX ASSETS

As at 31 December 2018, this item amounts to Euro 36,597 thousand compared to Euro 45,646 thousand as at 31 December 2017.
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 20 for a further discussion of this matter.

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

In the second half of 2018, management put forward a plan to sell part of the production plants at the Fraize plant of French subsidiary Sogefi Air & Cooling S.A.S.. For this reason, this plant has been presented in the financial statements as an "Asset held for sale". The sale is currently underway and is expected to be completed in early 2019.

At 31 December 2018, the disposal group was recognised at fair value less selling costs and included the following assets and liabilities.

(in thousands of Euro)	12.31.2018
Assets held for sale	
Property, plant and machinery	11,077
Intangible assets	411
Inventory	1,944
Other receivables	167
Total Assets held for sale	13,599

(in thousands of Euro)	12.31.2018
Liabilities related to assets held for sale	
Commercial payables and other payables	9,364
Total Liabilities related to assets held for sale	9,364

The recognition of these directly related assets and liabilities as available for sale, led to a writedown of Euro 5,188 thousand relating to research and development projects deemed unrecoverable from the sale of the site under consideration.

The assets held for sale at the end of 2017, for the amount of Euro 3,418 thousand and relating to the land and the building of the Lieusaint site of the subsidiary Sogefi Suspensions S.A., were sold in 2018.

C 2) LIABILITIES AND EQUITY

16. FINANCIAL DEBTS TO BANKS AND OTHER FINANCING CREDITORS

These break down as follows:

Current portion

(in thousands of Euro)	12.31.2018	12.31.2017
Bank overdrafts and short-term loans	2,064	14,170
Current portion of medium/long-term financial debts	59,467	66,584
of which: leases	*1,592*	*1,679*
Total loans maturing within one year	59,467	66,584
TOTAL SHORT-TERM FINANCIAL DEBTS	61,531	80,754
Other short-term liabilities for derivative financial instruments	796	2,678
TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS	62,327	83,432

Non-current portion

(in thousands of Euro)	12.31.2018	12.31.2017
Financial debts to banks	117,785	101,993
Other medium/long-term financial debts	178,453	186,224
of which: leases	*5,048*	*6,408*
TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS	296,238	288,217

Bank overdrafts and short-term loans

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.

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

Details are as follows:

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 Guaran-tees
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 trim. + 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						21,887	97	21,984	
TOTAL						59,467	117,785	177,252	

The current portion of line “Other medium/long-term financial debts” includes Euro 14,348 thousand relating to the bond issue of original USD 115,000 thousand.
This item also includes other minor loans, as well as financial lease payments in accordance with IAS 17.

Balance as at 31 December 2017 (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 Guaran-tees
Sogefi S.p.A.	BNP Paribas S.A.	Sep - 2014	Nov - 2019	35,000	Euribor 3m. + 153 bps	-	34,993	34,993	N/A
Sogefi S.p.A.	ING Bank	Jul - 2015	Sep - 2022	55,000	Euribor 3m. + 165 bps	10,000	34,876	44,876	N/A
Sogefi S.p.A.	Mediobanca S.p.A	Jun - 2017	Jun- 2020	20,000	Euribor 3m. + 110 bps	-	19,976	19,976	N/A
Sogefi S.p.A.	Banco do Brasil S.A.	Sep - 2015	Sep - 2018	19,000	Euribor 3m. + 130 bps	7,580	-	7,580	N/A
Sogefi S.p.A.	Banca Carige S.p.A	Nov - 2015	Jun - 2019	10,000	Euribor 6m. + 130 bps	2,885	1,425	4,310	N/A
Sogefi Filtration S.A.	Société Générale	Apr - 2017	Oct - 2019	5,000	Euribor 3m. + 75 bps	2,490	2,510	5,000	N/A
Sogefi Suspensions S.A.	Société Générale	Apr - 2017	Oct - 2019	5,000	Euribor 3m. + 75 bps	2,491	2,509	5,000	N/A
Sogefi Air&Cooling S.A.S.	Société Générale	May - 2017	Nov - 2019	5,000	Euribor 3m. + 75 bps	2,491	2,509	5,000	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Intesa SanPaolo S.p.A	Aug - 2017	May - 2018	5,941	106.4% PBOC 6m.	5,941	-	5,941	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Unicredit S.p.A.	Nov - 2017	Nov - 2018	6,347	107% PBOC 6m.	6,347	-	6,347	N/A
Sogefi (Suzhou) Auto Parts Co., Ltd	Commerz bank	July - 2017	Jan - 2018	705	106% PBOC 6m.	705	-	705	N/A
Sogefi Air & Cooling Canada Corp.	Ge Capital	Sep - 2015	Sep - 2019	3,990	4.207% fixed	1,028	800	1,828	YES
Sogefi Filtration do Brasil Ltda	Banco do Brasil	Aug - 2017	Aug - 2018	1,166	3.84% fixed	1,166	-	1,166	N/A
Sogefi Filtration do Brasil Ltda	Banco Itau	Nov - 2017	May - 2018	600	5% fixed	600	-	600	N/A
Sogefi Filtration do Brasil Ltda	Banco do Brasil	Apr - 2017	Apr - 2018	1,458	4.05% fixed	1,458	-	1,458	N/A
S.C. Sogefi Air & Cooling S.r.l	ING Bank	May - 2016	May - 2020	4,602	ROBOR 3m + 1.75%	1,416	2,124	3,540	N/A
Other loans						19,986	272	20,257	
TOTAL						66,584	101,993	168,577	

During the year 2018, the Parent Company Sogefi S.p.A. took out the following loans:

- in May, a loan with Banco do Brasil S.A. in amortised instalments, with a final instalment falling due in September 2020, for a total amount of Euro 20 million at a fixed rate of 98 basis points; the loan had been fully drawn down at 31 December 2018;
- in May, a revolving loan with Intesa Sanpaolo S.p.A. for a total amount of Euro 50 million with a duration of five years. This loan accrues floating rate interest linked to Euribor plus a spread of 155 basis points. At 31 December 2018, Sogefi S.p.A. has not drawn any money on this loan;
- in August, a revolving loan with Mediobanca S.p.A. for a total amount of Euro 25 million falling due in August 2020. This loan accrues floating rate interest linked to Euribor plus a spread of 110 basis points. As at 31 December 2018, the loan had been fully drawn down;
- in December, a term loan with Banca Nazionale del Lavoro S.p.A. for a total amount of Euro 80 million with final expiry in December 2023. This loan accrues floating rate interest linked to Euribor plus a spread of 145 basis points. As at 31 December 2018, Euro 35 million had been drawn down on this loan. The remaining amount of Euro 45 million will be drawn down, as provided for in the contract, by June 2019.

In connection with the above loans, it should be noted that in 2018 the Parent Company exercised its contractual right to repay in advance the entire portion utilised (Euro 35 million) of the loan taken out with BNP Paribas S.A. in September 2014 and partially a portion equal to Euro 20 million of the loan taken out with Ing Bank N.V. in July 2015;

as at 31 December 2018, the remaining Euro 25 million had been drawn down on the loan with Ing Bank N.V.
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 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						6,701	
TOTAL						178,453	

Please note that an amount of Euro 14,348 thousand relating to the bond issue of USD 115,000 thousand was classified under "Current portion of medium/long-term financial debts" because redemption will occur during the year 2019.

Line "Other medium/long-term financial debts" includes other minor loans, as well as financial lease payments in accordance with IAS 17.

As at 31 December 2017, 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, 2017 (in thousands of Euro)	Real guarantees
Sogefi S.p.A.	Private placement	May - 2013	May - 2023	USD 115,000	Fixed coupon 600 bps	68,253	N/A
Sogefi S.p.A.	Private placement	May - 2013	May - 2020	Euro 25,000	Fixed coupon 505 bps	24,967	N/A
Sogefi S.p.A.	Equity linked bond	May - 2014	May - 2021	Euro 100,000	Fixed coupon 2% year	85,678	N/A
Other financial debts						7,326	
TOTAL						186,224	

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 2018 and of the variation in the Euro-to-USD exchange rate (this variation being hedged as detailed in section E).

Finance leases

The Group has finance leases as well as rental and hire contracts for building, plant and machinery that, according to their type, cover almost the entire useful life of the asset concerned. The assets held under these leases, rental and hire contracts are booked in accordance with IAS 17 as though they were fixed assets owned by the Group, disclosing their historical cost, depreciation, the financial cost and the residual liability.
For more details, please read note 2.4 concerning the adoption of IFRS 16 as of 1 January 2019 and relating impacts.
Future payments deriving from these contracts can be summarised as follows:

(in thousands of Euro)	Instalments	Capital
Within 12 months	1,873	1,592
Between 1 and 5 years	5,479	5,048
Beyond 5 years	-	-
Total lease payments	7,352	6,640
Interests	(712)	-
TOTAL PRESENT VALUE OF LEASE PAYMENTS	6,640	6,640

The contracts included in this item refer to the following subsidiaries:

- Sogefi Filtration Ltd for a long-term rental contract for the production site in Tredegar. The contract expires in September 2022 and the original total amount of the contract was Euro 2,962 thousand; the future capital payments amount to Euro 1,260 thousand and the annual nominal rate of interest applied by the lessor is 11.59%.
The Group has given sureties for this contract.
This rental contract has been accounted for as financial leases, as required by IAS 17, where the present value of the rent payments amounted approximately with the fair value of the asset at the time the contract was signed.

- Sogefi USA Inc. has entered into the following lease contracts for the Prichard production site relating to:
a) plants, machinery and improvements to the building for an original amount of Euro 1,397 thousand. The contract expires in May 2019, the future capital payments amount to Euro 70 thousand and the annual interest rate applied by the lessor is equal to 3.92%. The Group has given sureties for this contract;
b) plants, machinery and improvements to the building for an original amount of Euro 2,513 thousand. The contract expires in July 2019, the future capital payments amount to Euro 180 thousand and the annual interest rate applied by the lessor is equal to 3%. The Group has given sureties for this contract.
c) plants, machinery and improvements to the building for an original amount of Euro 8,762 thousand. The contract expires in June 2023, the future capital payments amount to Euro 5,130 thousand and the annual interest rate applied by the lessor is equal to 3.24%. The Group has given sureties for this contract.

There are no restrictions of any nature on these leases. Upon expiry of the contracts ownership of the assets is transferred to the lessee without payment of any purchase price.
These contracts are therefore accounted for as financial leases, as required by IAS 17.

17. TRADE AND OTHER CURRENT PAYABLES

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

(in thousands of Euro)	12.31.2018	12.31.2017
Trade and other payables	345,529	373,181
Tax payables	10,029	7,817
TOTAL	355,558	380,998

Details of trade and other payables are as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Due to suppliers	274,984	283,805
Due to the parent company	2,405	4,611
Due to tax authorities for indirect and other taxes	8,118	9,287
Due to social and security institutions	19,348	20,354
Due to employees	30,348	31,871
Fair value put option	-	14,997
Other payables	10,326	8,256
TOTAL	345,529	373,181

Amounts “Due to suppliers” are not interest-bearing and are settled on average in 71 days (69 days as at 31 December 2017).
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 8,821 thousand (by Euro 4,365 thousand at constant exchange rates); this is mainly due to sluggish business growth in the last portion of 2018 compared to the same period of the previous year.

Amounts “Due to parent company” reflect the consideration of Euro 1,505 thousand due for the fiscal surplus transferred by companies that have joined the CIR Group tax filing system; Euro 821 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 14 thousand reflect outstanding Directors' remuneration charged back to the parent company Cir S.p.A. and Euro 65 thousand reflect insurance premiums paid in advance by Cofide S.p.A. (parent company of CIR S.p.A.) relating to the coverage of the civil liability of directors, statutory auditors and managers. For further details, please refer to note 40.

With regard to item “Fair value put option”, it should be noted that in 2018 the subsidiaries Sogefi Filtration S.A. and Sogefi Air & Cooling S.A.S. acquired 30% of the subsidiary Sogefi M.N.R. Engine Systems India Pvt from the minority shareholders after the minority shareholders exercised the put option at the end of 2017.
“Tax payables” are taxes accrued in 2018.

18. OTHER CURRENT LIABILITIES

The item “Other current liabilities”, for the amount of Euro 38,893 thousand (Euro 49,367 thousand as at 31 December 2017), 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.

19. LONG-TERM PROVISIONS AND OTHER PAYABLES

These are made up as follows:

Details of the main items are given below.

(in thousands of Euro)	12.31.2018	12.31.2017
Pension funds	49,019	48,713
Employment termination indemnities	4,478	5,425
Provision for restructuring	1,545	2,623
Provision for product warranties	4,281	18,214
Provisions for disputes in progress and other risks	7,926	12,074
TOTAL	67,249	87,049

Pension funds

The amount of Euro 49,019 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)	12.31.2018	12.31.2017
Opening balance	48,713	53,198
Cost of benefits charged to income statement	5,047	3,816
"Other Comprehensive Income"	(705)	(3,416)
Contributions paid	(3,834)	(4,091)
Exchange differences	(202)	(794)
TOTAL	49,019	48,713

The following table shows all of the obligations deriving from "Pension funds" and the present value of the plan assets for the year 2018 and the two previous years.

(in thousands of Euro)	12.31.2018	12.31.2017	12.31.2016
Present value of defined benefit obligations	200,520	213,141	221,176
Fair value of plan assets	151,501	164,428	167,978
Deficit	49,019	48,713	53,198

Changes in the "Present value of defined benefit obligations" for the year 2018 were as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Present value of defined benefit obligations at the beginning of the period	213,141	221,176
Current service cost	1,575	1,895
Financial expenses	5,406	5,586
Remeasurement (gains)/losses		
- Actuarial (gains)/losses arising from changes in demographic assumptions	(3,404)	586
- Actuarial (gains)/losses arising from changes in financial assumptions	(5,452)	234
- Actuarial (gains)/losses arising from experience	(3,076)	(632)
- Actuarial (gains)/losses arising from "Other long-term benefits"- Jubilee benefit	(292)	112
Past service cost	2,251	-
Contribution paid by plan participants	14	157
Settlements/Curtailments	-	195
Exchange differences	(1,417)	(6,708)
Benefits paid	(8,226)	(9,460)
Present value of defined benefit obligations at the end of the period	200,520	213,141

"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 higher 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.

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)	12.31.2018	12.31.2017
Fair value of plan assets at the beginning of the period	164,428	167,978
Interest income	4,395	4,520
Remeasurement (gains)/losses:		
Return on plan assets	(11,227)	3,604
Non-management costs of plan assets	(502)	(548)
Contributions paid by the company	2,446	2,405
Contributions paid by the plan participants	14	157
Settlements/Curtailments	-	-
Exchange differences	(1,215)	(5,915)
Benefits paid	(6,838)	(7,773)
Fair value of plan assets at the end of the period	151,501	164,428

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)	12.31.2018	12.31.2017
Return on plan assets (excluding amounts included in net interests expenses on net liability (assets))	11,227	(3,604)
Actuarial (gains)/losses arising from changes in demographic assumptions	(3,404)	586
Actuarial (gains)/losses arising from changes in financial assumptions	(5,452)	234
Actuarial (gains)/losses arising from experience	(3,076)	(632)
Value of the net liability (asset) to be recognised in "Other Comprehensive income"	(705)	(3,416)

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

(in thousands of Euro)	12.31.2018	12.31.2017
Current service cost	1,575	1,895
Net interest cost	1,011	1,066
Past service cost	2,251	-
Actuarial (gains)/losses recognised during the year on "Other long-term benefits"- Jubilee benefit	(292)	112
Non-management costs of plan assets	502	548
Settlements/Curtailments	-	195
TOTAL	5,047	3,816

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" are 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)".
"Past service cost" refers to costs posted by the financial statement of the British subsidiaries for the amount of Euro 4,189 thousand and breaks down as follows: Euro 2,012 thousand reflect the benefits owed to employees in order to guarantee equal treatment to men and women in terms of GMP (Guaranteed Minimum Pension), as required by changes in legislation in 2018; Euro 2,177 thousand represent the benefits owed to employees for the equalisation of treatment of men and women that took place in the years 1991-1998, which was booked in previous years (this amount had already been set aside in previous years to "Lawsuits and other risks", which therefore decreased by the same amount).

The item also includes a reduction in the benefits of the French subsidiaries by Euro 1,938 thousand.

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)	12.31.2017			
	Great Britain	France	Other	TOTAL
Present value of defined benefit obligations	185,194	24,367	3,580	213,141
Fair value of plan assets	164,186	-	242	164,428
Deficit	21,008	24,367	3,338	48,713

(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

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:

	12.31.2018	12.31.2017
Discount rate %	2.8-3.1	2.7
Expected annual wage rise %	3.6	3.6
Annual inflation rate %	2.1-3.1	2.1-3.1
Retirement age	65	65

The increased "Discount rate" versus the previous year reflects the upward trend in returns on AA-rated UK corporate bonds recorded in 2018.

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 18 years for the subsidiary Sogefi Filtration Ltd).

Changes in the present value of the UK funds obligation for 2018 and 2017 were as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
Present value of defined benefit obligations at the beginning of the period	185,194	190,788
Current service cost	10	178
Financial expenses	4,953	5,118
Remeasurement (gains)/losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	(3,470)	1,550
- Actuarial (gains)/losses arising from changes in financial assumptions	(4,819)	1,679
- Actuarial (gains)/losses arising from experience	(2,744)	-
Past service cost	4,189	-
Contribution paid by plan participants	6	138
Settlements/Curtailments	-	195
Exchange differences	(1,418)	(6,691)
Benefits paid	(6,832)	(7,761)
Present value of defined benefit obligations at the end of the period	175,069	185,194

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

(in thousands of Euro)	12.31.2018	12.31.2017
Fair value of plan assets at the beginning of the period	164,186	167,781
Interest income	4,379	4,508
Remeasurement (gains)/losses:		
Return on plan assets (excluded amounts recognised in interest income)	(11,227)	3,603
Non-management costs of plan assets	(502)	(548)
Contribution paid by the company	2,343	2,365
Contribution paid by plan participants	6	138
Settlements/Curtailments	-	-
Exchange differences	(1,211)	(5,900)
Benefits paid	(6,832)	(7,761)
Fair value of plan assets at the end of the period	151,142	164,186

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

	12.31.2018	12.31.2017
Debt instruments	16.7%	17.3%
Equity instruments	28.3%	33.9%
Real estate investments	0.3%	0.3%
Cash	11.8%	11.2%
Derivatives	33.2%	28.3%
Other assets	9.7%	9.0%
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 2,348 thousand.

Average bond duration as at 31 December 2018 is approximately 19 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)	12.31.2018	
	+1%	-1%
Discount rate	(28,456)	37,973
Rate of salary increase	75	(65)

(in thousands of Euro)	12.31.2018	
	+ 1 year	- 1 year
Life expectancy	5,262	(5,146)

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:

	12.31.2018	12.31.2017
Discount rate %	1.85	1.60
Expected annual wage rise %	2.5-2	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)	12.31.2018	12.31.2017
Present value of defined benefit obligations at the beginning of the period	24,367	26,734
Current service cost	1,448	1,583
Financial expenses	382	397
Remeasurement (gains)/losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	33	(964)
- Actuarial (gains)/losses arising from changes in financial assumptions	(673)	(1,370)
- Actuarial (gains)/losses arising from experience	(198)	(699)
Past service cost	(1,938)	-
- Actuarial (gains)/losses related to "Other long-term benefits" - Jubelee benefit	(292)	112
Benefits paid	(1,109)	(1,426)
Present value of defined benefit obligations at the end of the period	22,020	24,367

"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)	12.31.2018	
	+1%	-1%
Discount rate	(3,058)	3,528
Rate of salary increase	3,406	(3,070)

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 the “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 “Employment termination indemnities” as at 31 December 2018 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): 1.13% (0.88% as at 31 December 2017);
2. annual inflation rate: 1.5% (as at 31 December 2017: 1.5%);
3. annual increase in termination indemnity: 2.625% (as at 31 December 2017: 2.625%);

- Demographic assumptions:
1. rate of voluntary resignations: 3% - 10% of the workforce (same assumptions adopted as at 31 December 2017);
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 2017);
3. probability of death: the RG48 mortality tables produced by the General State Accounting Body were used (same assumptions adopted as at 31 December 2017);
4. probability of advanced settlement: an annual value of 2% - 3% each year was assumed (same assumptions adopted as at 31 December 2017);
5. INPS' table split by age and gender was used for the probability of disability (same assumptions adopted as at 31 December 2017).

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2018	12.31.2017
Opening balance	5,425	5,996
Accruals for the period	66	124
Amounts recognised in "Other Comprehensive Income"	(88)	(14)
Contributions paid	(925)	(681)
TOTAL	4,478	5,425

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

(in thousands of Euro)	2018	2017
Current service cost	21	72
Financial charges	45	52
TOTAL	66	124

Average bond duration as at 31 December 2018 is approximately 8 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)	12.31.2018	
	+0.5%	-0.5%
Discount rate	(120)	162
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)	12.31.2018	12.31.2017
Opening balance	2,623	2,106
Accruals for the period	1,877	1,696
Utilisations	(2,895)	(890)
Provisions not used during the period	(60)	(278)
Exchange differences	-	(11)
TOTAL	1,545	2,623

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

1,817 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)	12.31.2018	12.31.2017
Opening balance	18,214	19,081
Accruals for the period	2,921	1,248
Utilisations	(1,019)	(2,062)
Provisions not used during the period	(10,800)	(15)
Other changes	(5,000)	-
Exchange differences	(35)	(38)
TOTAL	4,281	18,214

The item includes provisions for product warranties by Group companies.

It should be noted that, in August 2018, Sogefi reached a final agreement on the claims made by two customers against its subsidiary Sogefi Air & Cooling S.A.S. (formerly Systèmes Moteurs S.A.S.) for the supply of a defective component.
These claims had given rise to various disputes, on the one hand, with the two customers and the subcontractors, and on the other hand, with the company from which Sogefi acquired Systèmes Moteurs (Dayco Europe S.r.l.).
The agreement settled all pending disputes, eliminating the significant risks associated with the matter (which has been duly and regularly disclosed to the market).
This agreement had a positive impact on the result of Euro 6,565 thousand before taxes – recognised in "Other non-operating expenses (income)" – thanks to the provisions made in previous years. This amount breaks down as follows: Euro 10,800 thousand from the release of a portion of the provision for product warranties, Euro 9,735 thousand from the reversal of the "Indemnification asset" booked to non-current receivables in previous years, and Euro 5,500 thousand reflecting the recognition of a non-operating revenue in the income statement.
"Other changes", for the amount of Euro 5,000 thousand, include a reclassification to "Trade and other payables".

Lawsuits and other risks

The provision changed as follows during the period:

(in thousands of Euro)	12.31.2018	12.31.2017
Opening balance	12,074	8,936
Accruals for the period	2,700	7,824
Utilisations	(2,080)	(2,943)
Provisions not used during the period	(1,886)	(650)
Other changes	(2,084)	(103)
Exchange differences	(798)	(990)
TOTAL	7,926	12,074

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

The accrual of Euro 2,700 thousand mainly refers to risks connected with existing or possible disputes relating to the French, Argentine and Brazilian subsidiaries.
The item "Other changes" includes a reclassification of Euro 2,177 thousand to "Pension funds" (for further details, see the relevant paragraph).

Other payables

The item "Other payables" amounts to Euro 62,867 thousand (Euro 71,983 thousand as at 31 December 2017), 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.

20. DEFERRED TAX ASSETS AND LIABILITIES

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

(in thousands of Euro)	12.31.2018		12.31.2017	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Deferred tax assets:				
Allowance for doubtful accounts	1,477	379	2,161	539
Fixed assets amortisation/writedowns	29,110	7,529	30,669	7,871
Inventory writedowns	3,993	1,225	5,400	1,656
Provisions for restructuring	-	-	1,397	367
Other provisions - Other payables	44,872	9,547	65,631	16,412
Fair value derivative financial instruments	3,162	759	5,013	1,203
IFRS15	20,067	5,101	18,896	5,440
Other	17,174	5,665	17,974	5,590
Deferred tax assets for tax losses incurred during the year	18,378	4,667	14,894	4,239
Deferred tax assets for tax losses incurred during previous years	14,334	1,725	22,198	2,329
TOTAL	152,567	36,597	184,233	45,646
Deferred tax liabilities:				
Accelerated/excess depreciation and amortisation	98,745	24,298	87,933	21,737
Difference in inventory valuation methods	1,180	322	652	163
Capitalisation of R&D costs	35,343	9,712	41,358	12,401
Other	16,218	2,290	27,659	6,339
TOTAL	151,486	36,622	157,602	40,640
Deferred tax assets (liabilities) net		(25)		5,006
Temporary differences excluded from the calculation of deferred tax assets (liabilities):				
Tax losses carried forward	92,677	30,072	77,617	24,889

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 2017 amounts to Euro 5,031 thousand and differs by Euro 219 thousand from the amount shown in the Income Statement under “Income taxes – Deferred tax liabilities (assets)” (Euro 5,250 thousand) due to:

- movements in Balance sheet items that did not have any effect on the income statement and therefore the related negative tax effect amounting to Euro 122 thousand has been accounted for as Other comprehensive income; negative effect of the fair value of derivatives designated as cash flow hedges was Euro 444 thousand; negative effect of

actuarial gains/losses arising from the adoption of the IAS 19 was Euro 197 thousand; positive effect of other reclassifications in subsidiary Sogefi USA Inc. was Euro 519 thousand;
- exchange differences with a positive effect of Euro 341 thousand.

The decrease in the tax effect relating to item “Other provisions - Other payables” mostly originates from the lower liabilities referred to the provisions for risks of the French subsidiary Sogefi Air & Cooling S.A.S..

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 2018 not yet paid).

“Deferred tax assets relating to tax losses incurred during the year”, for the amount of Euro 4,667 thousand, include Euro 3,619 thousand relating to subsidiary Sogefi Air & Cooling S.A.S., Euro 387 thousand to subsidiary Sogefi (Suzhou) Auto Parts Co., Ltd., Euro 311 thousand to subsidiary Allevard Springs Ltd and Euro 350 thousand to the subsidiary Sogefi Filtration d.o.o.. 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 to subsidiaries Sogefi USA Inc. (Euro 654 thousand as at 31 December 2018 and Euro 1,145 thousand as at 31 December 2017), Sogefi Filtration Spain S.A.U. (Euro 1,071 thousand as at 31 December 2018 and Euro 1,021 thousand as at 31 December 2017). 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 can be carried forward over a period of up to 5 years since they were incurred, whereas the losses of the English subsidiary can be carried forward indefinitely.
Note that the deferred tax assets relating to the “Allowance for bad debts” 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 9,600 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 4,449 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;
- other minor items for the amount of Euro 2,169 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, and S.ARA Composite S.A.S..

21. 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 2018 (Euro 62,394 thousand as at 31 December 2017), split into 120,117,992 ordinary shares with a par value of Euro 0.52 each (119,987,992 shares as at 31 December 2017).
No shares are encumbered by rights, liens or limitations relating to dividend distribution.

As at 31 December 2018, the Company has 2,485,725 treasury shares in its portfolio, corresponding to 2.07% of share capital.

Movements in the shares outstanding are as follows:

(Shares outstanding)	2018	2017
No. shares at start of period	119,987,992	119,356,455
No. shares issued for subscription of stock options	130,000	631,537
No. of ordinary shares as of December 31	120,117,992	119,987,992
Treasury shares	(2,485,725)	(2,698,195)
No. of shares outstanding as of December 31	122,603,717	117,289,797

Share premium reserve
It amounts to Euro 18,212 thousand compared to Euro 17,542 thousand in the previous year.
The increase by Euro 186 thousand accounts for share subscriptions under stock option plans.
During 2018, the Parent Company Sogefi S.p.A. credited Euro 484 thousand to the Share premium reserve after the free grant of 212,470 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 484 thousand and reflect the free grant of 212,470 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 10,487 thousand mainly due to the appreciation of the Euro against South American currencies.

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 2018.

Further to 2011, 2012, 2013, 2014, 2015 and 2016 Stock Grant Plan beneficiaries exercising their rights in 2018, and the corresponding free grant of 212,470 treasury shares, the amount of Euro 387 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 484 thousand) and to “Retained earnings reserve” (decreased by Euro 97 thousand).
During 2018, the Company reclassified the amount of Euro 527 thousand in “Retained earnings reserve” after 2008 stock option plans and the 2009 extraordinary stock option plant expired and 2014 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 are designated as “cash flow hedging instruments”. Changes during the period show an increase of Euro 1,851 thousand which breaks down as follows:
- increase of Euro 239 thousand as a consequence of the change after 31 December 2017 in the fair value of the existing effective contracts;
- increase of Euro 1,612 thousand reflecting the portion of reserve relating to contracts no longer in hedge accounting that will be reclassified to the Income Statement over the same period of time as the differentials relating to the underlying hedged item.

Other reserves
This item amounts to Euro 12,201 thousand (unchanged compared to 31 December 2017).

Retained earnings
These totalled Euro 159,629 thousand and include amounts of profit that have not been distributed.
The increase of Euro 9,345 thousand refers to the following events:

- the interest held by subsidiary Sogefi Suspensions S.A. in Allevard IAI Suspensions Pvt Ltd from 75.67% to 74.23% through a share capital increase (Euro 102 thousand, resolved and paid out) only subscribed by non-controlling interests that led to an amount of Euro 40 thousand being reclassified between non-controlling interests' and Group's shareholders' equity;
- reclassification from the above mentioned "Stock-based incentive plans reserve" as outlined above for a total amount of Euro 430 thousand;
- the effect of the adoption of IAS 29 "Financial Reporting in Hyperinflationary Economies" in the Argentine subsidiaries, which amounted to Euro 8,888 thousand;
- other negative changes for the amount of Euro 13 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)	2018			2017		
	Gross value	Taxes	Net value	Gross value	Taxes	Net value
- Profit (loss) booked to cash flow hedging reserve	1,851	(444)	1,407	4,254	(894)	3,360
- Actuarial gain (loss)	793	(224)	569	3,430	(994)	2,436
- Profit (loss) booked to translation reserve	(10,534)	-	(10,534)	(18,883)	-	(18,883)
- Total Profit (loss) booked in Other Comprehensive Income	(7,890)	(668)	(8,558)	(11,199)	(1,888)	(13,087)

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 21,012 thousand and refers to the portion of shareholders' equity attributable to non-controlling interests.
During the year, the reserve increased by Euro 35 thousand, due to the above mentioned change in the interest held in subsidiary Allevard IAI Suspensions Pvt Ltd.

Details of non-controlling interests are given below:

(in thousands of Euro)		*% owned by third parties*		*Loss (profit) attributable to non-controlling interests*		*Shareholders' equity attributable to non-controlling*	
Subsidiary's name	Region	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
S.ARA Composite S.A.S.	France	4.21%	4.21%	(65)	(71)	260	325
Iberica de Suspensiones S.L.	Spain	50.00%	50.00%	3,359	4,420	17,762	14,404
Shanghai Allevard Spring Co., Ltd	China	39.42%	39.42%	29	(92)	2,342	2,334
Allevard IAI Supensions Pvt Ltd	India	25.77%	24.33%	(46)	(126)	579	588
Sogefi M.N.R. Engine Systems India Pvt Ltd	India	-	30.00%	-	-	-	-
Sogefi Filtration Italy S.p.A.	Italy	0.12%	0.12%	1	4	35	42
Sogefi Suspensions Passenger Car Italy Srl	Italy	0.12%	0.12%	1	2	19	19
Sogefi Suspensions Heavy Duty Italy Srl	Italy	0.12%	0.12%	3	3	15	12
TOTAL				3,282	4,140	21,012	17,724

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

Company	*Shanghai Allevard Spring Co., Ltd*		*Iberica de Suspensiones S.L.*	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Current Assets	4,389	4,031	34,613	29,159
Non-current Assets	2,561	2,785	17,934	16,878
Current Liabilities	732	616	15,717	15,854
Non-current Liabilities	-	-	1,306	1,374
Shareholders' equity attributable to the Holding Company	3,876	3,865	17,762	14,404
Non-controlling interests	2,342	2,335	17,762	14,404
Sales Revenue	4,045	3,016	78,822	79,547
Variable cost of sales	2,284	1,727	50,917	48,410
Other variable costs of sales	255	295	4,983	5,147
Fixed expenses	1,422	1,201	13,441	13,512
Non-operating expenses (income)	5	25	178	201
Income taxes	5	1	2,587	3,438
Income (loss) for the period	74	(233)	6,716	8,839
Income (loss) attributable to the Holding Company	45	(141)	3,358	4,420
Income (loss) attributable to non-controlling interests	29	(92)	3,358	4,420
Income (loss) for the period	74	(233)	6,716	8,839
OCI attributable to the Holding Company	(34)	(255)	-	-
OCI attributable to non-controlling interests	(22)	(166)	-	-
OCI for the period	(56)	(421)	-	-
Total income (losses) attributable to the Holding Company	11	(396)	3,358	4,420
Total income (losses) attributable to non-controlling interests	7	(258)	3,358	4,420
Total income (losses) for the period	18	(654)	6,716	8,839
Dividends paid to non-controlling interests	-	102	-	2,500
Net cash inflow (out flow) from operating activities	418	437	10,880	11,651
Net cash inflow (out flow) from investing activities	(214)	(145)	(4,434)	(797)
Net cash inflow (out flow) from financing activities	-	(259)	-	(5,000)
Net cash inflow (out flow)	204	33	6,446	5,854

22. 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)	12.31.2018	12.31.2017
A. Cash	91,735	103,889
B. Other cash at bank and on hand (held to maturity investments)	-	-
C. Financial instruments held for trading	-	-
D. Liquid funds (A) + (B) + (C)	**91,735**	**103,889**
E. Current financial receivables	**1,206**	**1,510**
F. Current payables to banks	2,064	14,170
G. Current portion of non-current indebtedness	59,467	66,584
H. Other current financial debts	796	2,678
I. Current financial indebtedness (F) + (G) + (H)	**62,327**	**83,432**
J. Current financial indebtedness, net (I) - (E) - (D)	**(30,614)**	**(21,967)**
K. Non-current payables to banks	117,785	101,993
L. Bonds issued	171,752	178,898
M. Other non-current financial debts	6,701	7,326
N. Non-current financial indebtedness (K) + (L) + (M)	**296,238**	**288,217**
O. Net indebtedness (J) + (N)	**265,624**	**266,250**
Non-current financial receivables (derivates in cash flow hedge)	5,115	2,215
Financial indebtedness, net including non-current financial receivables (as per the "Net financial position" included in the Report on operations)	**260,509**	**264,035**

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 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- 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 3.5; the ratio of consolidated normalised EBITDA to consolidated net financial expenses must not be less than 4;
- 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.

As at 31 December 2018, the Company was in compliance with these covenants.

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

23. SALES REVENUES

Revenues from sales and services

In 2018, the Sogefi Group reported revenues of Euro 1,623.8 million, up by 3.2% at constant exchange rates and down by 1.5% at historical exchange rates, compared to the same period of 2017.

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

(in thousands of Euro)	2018		2017	
	Amount	%	*Amount*	%
Suspensions	602,557	37.1	609,401	37.0
Filtration	537,200	33.1	546,392	33.2
Air&Cooling	486,607	30.0	496,215	30.1
Intercompany eliminations	(2,593)	(0.2)	(4,209)	(0.3)
TOTAL	1,623,771	100.0	1,647,799	100.0

Suspensions grew by +4.5% at constant exchange rates (-1.1% at current exchange rates due to the devaluation of South American currencies). Filtration grew by 4.1% at constant exchange rates (-1.7% at current exchange rates due to the performance of South American currencies) and finally Air & Cooling grew marginally (+0.5%) at constant exchange rates (-1.9% at current exchange rates, affected as it was by the depreciation of the US dollar).

By geographic area:

(in thousands of Euro)	2018		2017	
	Amount	%	*Amount*	%
Europe	997,520	61.4	1,013,181	61.5
South America	182,022	11.2	195,240	11.8
North America	294,741	18.1	292,207	17.7
Asia	160,908	9.9	161,449	9.8
Intercompany eliminations	(11,420)	(0.6)	(14,278)	(0.8)
TOTAL	1,623,771	100.0	1,647,799	100.0

At constant exchange rates, revenues were down in Europe (-1.4%) but higher in North America (+5.7%), Asia (+4.8%) and South America (+28% and +18.5% on a like-for-like basis, i.e. without including the impact of the application of IAS 29 for hyperinflation, to the Argentinian business).

24. VARIABLE COST OF SALES

Details are as follows:

(in thousands of Euro)	2018	2017
Materials	869,192	858,002
Direct labour cost	122,409	125,848
Energy costs	34,823	35,780
Sub-contracted work	47,428	46,288
Ancillary materials	20,333	21,647
Variable sales and distribution costs	34,325	34,116
Royalties paid to third parties on sales	5,437	5,529
Other variable costs	3,392	1,135
TOTAL	1,137,339	1,128,345

The impact of "Variable cost of sales" on sales revenues increased from 68.5% in 2017 to 70% in the current year due to higher cost of materials, mainly in the Suspensions business unit.

"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.

25. MANUFACTURING AND R&D OVERHEADS

These can be broken down as follows:

(in thousands of Euro)	2018	2017
Labour cost	114,802	111,418
Materials, maintenance and repairs	30,287	33,105
Rental and hire charges	11,062	10,702
Personnel services	8,884	9,152
Technical consulting	10,164	10,286
Sub-contracted work	3,038	2,459
Insurance	2,239	2,915
Utilities	4,676	4,858
Capitalization of internal construction costs	(29,666)	(27,770)
Other	116	318
TOTAL	155,602	157,443

"Manufacturing and R&D overheads" show a decrease of Euro 1,841 thousand (the increase would have been Euro 5,438 thousand, at constant exchange rates).

The "Labour cost" line shows an overall increase of Euro 3,384 thousand (increase of Euro 7,447 thousand at constant exchange rates) reflecting the growth of research and development departments mainly in subsidiaries Sogefi Filtration S.A., Sogefi - MNR Engine System India Pvt Ltd and Sogefi (Suzhou) Auto Parts Co., Ltd for Euro 2,097 thousand, the new production site in Morocco for Euro 480 thousand, and for the remainder an expansion of the production department mainly in the French subsidiaries.

The decrease of Euro 2,818 thousand in the item "Repair and maintenance expenses and materials" was affected for Euro 1,484 thousand by the exchange rate effect of South American subsidiaries, and for the remainder by the lower maintenance interventions in the European subsidiaries.

“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 40,303 thousand (2.5% of sales), up compared to Euro 38,682 thousand of the previous year.

26. DEPRECIATION AND AMORTIZATION

Details are as follows:

(in thousands of Euro)	2018	2017
Depreciation of tangible fixed assets	79,989	72,205
of which: assets under finance leases	*1,253*	*1,508*
Amortisation of intangible assets	38,084	37,746
TOTAL	118,073	109,951

Item “Depreciation and amortization” amounts to Euro 118,073 thousand and increased by Euro 8,122 thousand compared to the previous year. Exchange rates being equal, the increment would have been Euro 11,107 thousand.

Depreciation of tangible assets amounts to Euro 79,989 thousand, up from Euro 7,784 thousand in 2017. An increase of Euro 5,213 thousand is due to the tooling depreciation after the adoption of the new accounting standard IFRS 15.

Amortisation of intangible assets increased by Euro 337 thousand.

27. DISTRIBUTION AND SALES FIXED EXPENSES

This item is made up of the following main components:

(in thousands of Euro)	2018	2017
Labour cost	28,041	28,887
Sub-contracted work	4,915	5,131
Advertising, publicity and promotion	3,401	4,249
Personnel services	2,131	2,469
Rental and hire charges	2,331	1,937
Consulting	522	964
Other	860	641
TOTAL	42,201	44,278

"Distribution and sales fixed expenses" decreased by Euro 2,077 thousand compared to 2017. At constant exchange rates, this item would have increased by Euro 584 thousand.

The decrease in "Labour cost" (down by Euro 846 thousand compared to the previous year) is mainly due to the foreign exchange effect in South American subsidiaries. At constant exchange rates, this item would have increased by Euro 978 thousand.

The line "Advertising, publicity and promotion" decreased by Euro 848 thousand (at constant exchange rates, the item decreased by Euro 449 thousand) after such costs were cut in the aftermarket segment of the Filtration division and due to the exchange rate effect especially on the South American subsidiaries.

"Rental and hire charges" increased by Euro 394 thousand, for the most part due to a new warehouse in Morocco.

28. ADMINISTRATIVE AND GENERAL EXPENSES

These can be broken down as follows:

(in thousands of Euro)	2018	2017
Labour cost	36,868	39,358
Personnel services	4,401	5,278
Maintenance and repairs	2,917	1,811
Cleaning and security	2,354	2,150
Consulting	9,887	11,627
Utilities	2,741	3,203
Rental and hire charges	3,643	3,788
Insurance	1,727	1,610
Participation des salaries	463	192
Administrative, financial and tax-related services provided by Parent Company	758	663
Audit fees and related expenses	1,624	1,652
Directors' and statutory auditors' remuneration	714	840
Sub-contracted work	674	1,027
Capitalization of internal construction costs	(593)	(2,625)
Indirect taxes	7,519	7,472
Other fiscal charges	3,369	3,616
Other	7,159	7,197
TOTAL	86,225	88,859

"Administrative and general expenses" decreased by Euro 2,634 thousand compared to 2017, and increased by Euro 645 thousand at constant exchange rates.

"Labour cost" decreased by Euro 2,490 thousand mainly in the European and North American subsidiaries due to personnel downsizing and in the South American companies due to the effect of exchange rates.

The decrease in item "Personnel services" for the amount of Euro 877 thousand mainly reflects lower travel expenses in the subsidiary Sogefi Gestion S.A. and reduced personnel services in European subsidiaries.

"Maintenance and repairs" increased by Euro 1,106 thousand, mainly due to higher maintenance costs incurred in IT departments.

The decrease in "Consulting" by Euro 1,740 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.

The increase of item "*Participation des salaries*" is traced back to the results in subsidiary Sogefi Filtration S.A..

The decrease in item "Capitalization of internal construction costs" for the amount of Euro 2,032 thousand mainly reflects lower IT expenses that can be capitalised.

As part of its activity, the Parent Company Sogefi S.p.A. makes use of services provided by CIR S.p.A., its Parent Company, in areas such as investor relation and management support, and services of an administrative, financial, fiscal and corporate nature, for an annual amount of Euro 640 thousand (Euro 547 thousand in 2017). Moreover, the Parent Company Sogefi S.p.A. maintains a rental contract for the Milan offices, for Euro 118 thousand per year.

"Indirect taxes" include tax charges such as property tax, taxes on sales revenues (*taxe organic* 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.

29. PERSONNEL COSTS

Personnel

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

(in thousands of Euro)	2018	2017
Wages, salaries and contributions	297,874	300,842
Pension costs: defined benefit plans	2,098	2,515
Pension costs: defined contribution plans	2,150	2,140
Participation des salaries	463	192
Imputed cost of stock option and stock grant plans	775	510
Other costs	29	193
TOTAL	303,389	306,392

"Personnel costs" have dropped by Euro 3,003 thousand (-1%) compared to the previous period. Exchange rates being equal, "Personnel costs" would have increased by Euro 10,777 thousand (+3.7%).

The impact of "Personnel costs" on sales rises from 18.6% in the previous year to 18.7% 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 salaries*" 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)	2018	2017
Managers	108	111
Clerical staff	1,935	1,881
Blue collar workers	4,939	4,835
TOTAL	6,982	6,827

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 2018, The Group has issued plans from 2009 to 2017 of which the main details are provided blow.

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 23 April 2018, the Board of Directors executed the 2018 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 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 defined in the Regulation) at that date.
On 31 December 2018, 4,830 Time-based Units and 7,005 Performance Units expired as per regulation.

The fair value of the rights assigned during 2018 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 1,202 thousand overall.
Input data used for measuring the fair value of the 2018 stock grant plan are provided below:
- curve of EUR/GBP/SEK/CHF-riskless interest rates as at 23 April 2018;
- prices of the underlying (equal to price of Sogefi S.p.A. share as at 23 April 2018, and equal to Euro 3.310) and of the securities included in the benchmark basket, again as at 23 April 2018;
- standard prices of Sogefi S.p.A. share and of the securities included in the benchmark basket during the period starting on 22 March 2018 and ending on 22 April 2018 for the determination of the stock grant Performance Units limit;
- historical volatility rate of stock and exchange rates during 260 days, as at 23 April 2018;
- 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 23 April 2017 and ending on 23 April 2018.

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 2018 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 2018 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 2018, 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 2018, 109,543 Time-based Units and 219,196 Performance Units expired as per regulation. While 47,503 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 2018 56,102 Time-based Units and 75,212 Performance Units expired as per regulation. While 73,899 Time-based Units and 63,183 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 2018 68,041 Time-based Units and 88,744 Performance Units expired as per regulation. While 37,479 Time-based Units and 48,879 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 2018, 13,802 Time-based Units and 20,867 Performance Units expired as per regulation.

The imputed cost for 2018 for existing stock grant plans is Euro 775 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 2011-2018 plans:

	2018	2017
Not exercised/not exercisable at the start of the year	1,036,192	1,286,966
Granted during the year	415,000	287,144
Cancelled during the year	(129,295)	(357,662)
Exercised during the year	(212,470)	(180,256)
Not exercised/not exercisable at the end of the year	1,109,427	1,036,192
Exercisable at the end of the year	87,650	53,490

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* plans approved during previous years and still under way are outlined below:
• 2009 stock option plan restricted to employees of the Company and its subsidiaries for a maximum of 2,335,000 shares (1.94% of the share capital as at 31 December 2018) with a subscription price of Euro 1.0371, to be exercised between 30 September 2009 and 30 September 2019;
• 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 2018) with a subscription price of Euro 2.3012, to be exercised between 30 September 2010 and 30 September 2020.

Please note that the second portion of the 2009 extraordinary stock option plan and the 2008 stock option plan restricted to employees of the Company and its subsidiaries expired on 3 April 2018 and on 30 September 2018, respectively, as per relevant regulation.

The following table shows the total number of existing options with reference to the 2009-2010 plans and their average exercise price:

	12.31.2018		12.31.2017	
	Number	Average price of the year	Number	Average price of the year
Not exercised/not exercisable at the start of the year	285,000	1.91	2,254,737	2.77
Granted during the year	-	-	-	-
Cancelled during the year	(40,000)	1.67	(1,338,200)	3.26
Exercised during the year	(130,000)	1.95	(631,537)	2.06
Expired during the year	(40,000)	2.10	-	-
Not exercised/not exercisable at the end of the year	75,000	1.88	285,000	1.91
Exercisable at the end of the year	75,000	1.88	285,000	1.91

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 2018, 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 2018 are given below:

	Total
Number of exercisable options remaining at December 31, 2017	285,000
Options matured during the year	-
Options cancelled during the year	(40,000)
Options exercised during the year	(130,000)
Options expired during the year	(40,000)
Number of exercisable options remaining at December 31, 2018	75,000

30. RESTRUCTURING COSTS

Restructuring costs amount to Euro 9,106 thousand (compared to Euro 11,175 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 1,817 thousand, net of provisions made during the previous years and not utilised) and for the remaining part (Euro 7,289 thousand) of costs incurred and paid during the year.

31. LOSSES (GAINS) ON DISPOSAL

Losses on disposal as at 31 December 2018 amounted to Euro 60 thousand (this item amounted to zero as at 31 December 2017).

32. EXCHANGE (GAINS) LOSSES

Net exchange losses as at 31 December 2018 amounted to Euro 5,499 thousand (Euro 3,236 thousand as at 31 December 2017).

33. OTHER NON-OPERATING EXPENSES (INCOME)

These amount to Euro 7,766 thousand compared to Euro 18,702 thousand the previous year. The following table shows the main elements:

(in thousands of Euro)	2018	2017
Write-downs of tangible and intangible fixed assets	10,016	11,103
Product warranty costs	3,599	1,272
Product warranty Systemes Moteurs group closing	(6,565)	-
Litigations	2,567	6,221
Past service cost and other items related to pension funds	(881)	-
Actuarial losses (gains)	(291)	112
Cost of stock option and stock grant plans	775	510
Other ordinary (income) expenses	(1,454)	(516)
TOTAL	7,766	18,702

"Writedowns of tangible and intangible fixed assets" amount to Euro 10,016 thousand and include writedowns of tangible (Euro 1,588 thousand) and intangible fixed assets (Euro 8,428 thousand) for the most part relating to European subsidiaries.

The item "Litigations" mainly refers to risks connected with existing or possible disputes mainly relating to the European and Brazilian subsidiaries.

With regard to item "Product warranty Systemes Moteurs Group closing", please read note 19 "Long-term provisions and other payables - Provision for product warranties".

The item "Past service cost and other items related to pension funds" for the amount of Euro 881 thousand breaks down as follows:
- past service cost for the amount of Euro 74 thousand (net of a reclassification of Euro 2,177 thousand from the provision for "Lawsuits and other risks");
- revenue of Euro 1,318 thousand released from a provision set aside during previous years in view of the equalisation of certain pension funds;
- legal expenses for the amount of Euro 363 thousand.

34. FINANCIAL EXPENSES (INCOME), NET

Financial expenses are detailed as follows:

(in thousands of Euro)	2018	2017
Interests on bonds	11,806	12,524
Interest on amounts due to banks	3,542	3,894
Financial charges under lease contracts	356	426
Loss on interst-bearing hedging instruments	2,127	5,719
Other interests and commissions	6,046	5,706
FINANCIAL EXPENSES RELATED TO THE FINANCIAL DEBT	23,877	28,269
Financial component of pension funds and termination indemnities	1,007	1,069
Adjustment fair value put option	1,753	6,000
OTHER FINANCIAL EXPENSES	2,760	7,069
TOTAL FINANCIAL EXPENSES	26,637	35,338

Financial income is detailed as follows:

(in thousands of Euro)	2018	2017
Gain on Cross currency swap in cash flow hedge	613	848
Net gain on fair value derivatives not in cash flow hedge	1,578	2,031
Interest on amounts given to banks	347	524
Other interest and commissions	179	256
TOTAL FINANCIAL INCOME	2,717	3,659
TOTAL FINANCIAL EXPENSES (INCOME), NET	23,920	31,679

The "Financial expense related to the financial debt" show a decrease of Euro 4,392 thousand mainly due to the expiry in June 2018 of the IRS contracts entered into by the Parent Company Sogefi S.p.A..

Item "Adjustment fair value put option" reflects the change in the fair value of the liability generated when the non-controlling shareholders of subsidiary Sogefi M.N.R. Engine Systems India Pvt Ltd exercised their put option on 30% of its share capital. For further details, please refer to note 17.

Please note that item "Net gain on fair value derivatives not in cash flow hedge" is comprised of:

- a financial expense of Euro 1,612 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 3,190 thousand reflecting the change in the fair value of these derivatives compared to 31 December 2017.

35. LOSSES (GAINS) FROM EQUITY INVESTMENTS

As at 31 December 2018, this item amounts to zero.

36. INCOME TAXES

(in thousands of Euro)	2018	2017
Current taxes	14,304	13,378
Deferred tax liabilities (assets)	5,250	8,578
Gain (loss) from partecipation to fiscal consolidation	1,139	1,435
TOTAL	20,693	23,391

The year 2018 recorded a tax rate of 54.5% compared to 43.2% 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 2018 and 2017 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)	2018		2017	
		Tax rate %		Tax rate %
Result before taxes	37,980	24.0%	54,131	24.0%
Theoretical income taxes	9,115		12,991	
Effect of increases (decreases) with respect to the standard rate:				
Statutory amortisation of goodwill	(156)	-0.4%	(236)	-0.4%
Non-deductible costs, net	958	2.5%	(238)	-0.4%
Use of deferred tax assets not recognised in previous years	(942)	-2.5%	(2,028)	-3.7%
Deferred tax assets on losses for the year not recognised in the financial statements	4,110	10.8%	4,655	8.6%
Taxed portion of dividends	655	1.7%	613	1.1%
Other permanent differences and tax rate differentials	6,953	18.3%	7,633	14.1%
Income taxes in the consolidated income statement	20,693	54.5%	23,391	43.2%

The increase in the item “Non-deductible costs, net” refers to the effect of the application of IAS 29 on the Argentine subsidiaries for approximately Euro 1.1 million.
The item “Use of deferred tax assets not recognised in previous years” relates for the most part to subsidiary Sogefi (Suzhou) Auto Parts Co.,Ltd.
“Deferred tax assets on losses for the year not recognised in the financial statements” are attributable to subsidiaries Sogefi Filtration do Brasil Ltda, Sogefi Suspensions S.A. and S.ARA composite S.A.S., for which there was no probability at the end of the year that such losses would be recovered.

The line “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 1.5 million for the net liability arisen when the tax surplus was transferred to the CIR Group;
- Euro 5 million for the negative impact of the difference between the tax rates applied in the various countries and the standard Italian tax rate.

37. DIVIDENDS PAID

No dividends were paid to the Parent Company shareholders during the year 2018. Dividends paid to non-controlling interests amounted to Euro 9 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

	2018	2017
Net result attributable to the ordinary shareholders (in thousands of Euro)	14,005	26,600
Weighted average number of shares outstanding during the year (thousands)	117,499	116,899
Basic EPS (Euro)	*0.119*	*0.228*

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.

	2018	2017
Net result attributable to the ordinary shareholders (in thousands of Euro)	14,005	26,600
Average number of shares outstanding during the year (thousands)	117,499	116,899
Weighted average number of shares potentially under option during the year (thousands)	32	851
Number of shares that could have been issued at fair value (thousands)	(21)	(448)
Adjusted weighted average number of shares outstanding during the year (thousands)	117,510	117,302
Diluted EPS (Euro)	*0.119*	*0.227*

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 1.5754 in 2018, compared to Euro 4.0293 in 2017.

Please note that 87,875.46 shares that could dilute basic EPS in the future were not included in the calculation of diluted EPS for 2017 because their exercise price is higher than the average annual fair value of the ordinary shares of Sogefi S.p.A. in 2018.

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 11,411 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 91,079 thousand (Euro 103,114 thousand as at 31 December 2017) 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	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Financial assets				
Cash and cash equivalents	91,735	103,889	91,735	103,889
Securities held for trading	-	-	-	-
Held-to-maturity investments	-	-	-	-
Assets for derivative financial instruments	183	857	183	857
Current financial receivables	1,023	653	1,023	653
Trade receivables	141,290	173,959	141,290	173,959
Other receivables	8,489	5,508	8,489	5,508
Other assets	2,082	2,304	2,082	2,304
Other financial assets available for sale	46	46	46	46
Non-current trade receivables	-	4	-	4
Non-current financial receivables	5,115	2,215	5,115	2,215
Other non-current receivables	34,284	37,382	34,284	37,382
Financial liabilities				
Short-term fixed rate financial debts	33,700	20,792	34,279	21,487
Other floating rate short-term financial debts	27,831	59,962	27,831	59,962
Other short-term liabilities for derivative financial instruments	796	2,678	796	2,678
Trade and other payables	345,529	373,181	345,529	373,181
Other current liabilities	38,893	49,367	38,893	49,367
Other non- current liabilities	62,867	71,983	62,867	71,983
Other fixed rate medium/long-term financial debts	100,636	101,364	109,964	113,647
Equity linked bond included embedded derivative	89,574	85,678	91,079	103,114
Other floating rate medium/long-term financial debts	106,028	101,175	106,028	101,175
Other medium/long-term liabilities for derivative financial instruments	-	-	-	-

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 36% 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 Group has not any interest rate hedging transactions on variable-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 2018, 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	(33,700)	(52,550)	(105,448)	(16,188)	(15,053)	(971)	(223,910)
TOTAL FLOATING RATE - ASSET	92,942	-	-	-	-	-	92,942
TOTAL FLOATING RATE - LIABILITIES	(27,831)	(46,231)	(10,010)	(32,331)	(17,447)	(11)	(133,861)

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 2018, including interest-rate hedges, would have the following effects:

(in thousands of Euro)	12.31.2018		12.31.2017	
Sensitivity Analysis	Net profit	Equity	Net profit	Equity
+ 100 basis points	(326)	(326)	1,331	1,380
- 100 basis points	326	326	(1,335)	(1,384)

The effect on Equity as at 31 December 2018 is in line with the effect on Income Statement, whereas at 31 December 2017 it differed due to the change in the fair value of the instruments hedging the interest rate risk, designed as cash flow hedges, which expired in 2018.

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 82.1 million as at 31 December 2018). 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 2018 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 2018, 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)	12.31.2018		12.31.2017	
Sensitivity Analysis	Net profit	Equity	Net profit	Equity
+ 5%	(1,047)	(1,047)	(589)	(589)
- 5%	1,367	1,367	670	670

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 711 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 BRL/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 157 thousand. This effect is due to the exposure for the trade payables and financial debt in USD of the Brazilian subsidiaries.

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
As at 31 December 2018, cash and cash equivalents held by the Company amounted to Euro 91,735 thousand (Euro 103,889 thousand as at 31 December 2017). 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 1 January 2018, the date of first adoption of IFRS 9, the Group has not recognised any allowance for impairment losses of cash and cash equivalents, because the impairment losses of cash and cash equivalents as determined upon testing were not significant (effect unchanged in 2018).

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 2018 is represented by the book value of the financial assets shown in the financial statements (Euro 284,247 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 7,351 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 141,265 thousand as at 31 December 2018 (Euro 172,136 thousand as at 31 December 2017), written down by Euro 4,629 thousand (Euro 4,661 thousand as at 31 December 2017), 286 of which are long-term receivable hedges.

Receivables are backed by mainly insurance guarantees for Euro 3,859 thousand and bank guarantees for Euro 2,053 thousand (Euro 4,415 thousand as at 31 December 2017). The Group does not have any other guarantees covering trade receivables.

The following table shows the changes in the allowance for bad debts:

(in thousands of Euro)	12.31.2018	12.31.2017
Opening balance	4,661	4,977
Change to the scope of consolidation	-	-
Accruals for the period	1,628	871
Utilisations	(1,144)	(1,352)
Provisions not used during the period	(454)	(110)
Other changes	-	406
Exchange differences	(62)	(131)
TOTAL (*)	4,629	4,661

(*)The Allowance for bad debts at December 31, 2018 decreases short-term receivables for Euro 4,343 thousand and long-term receivables for Euro 286.

The following is an ageing analysis of gross receivables and the related Allowance for bad debts to help evaluate credit risk:

(in thousands of Euro)	12.31.2017		
	Gross value	Allowance for doubtful accounts	Net value
Receivables past due:			
0-30 days	16,157	(960)	15,197
30-60 days	1,745	(1)	1,744
60-90 days	857	(65)	792
over 90 days	5,904	(3,489)	2,415
Total receivables past due	24,663	(4,515)	20,148
Total receivables still to fall due	147,473	(146)	147,327
TOTAL	172,136	(4,661)	167,475

(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 2018, gross receivables past due had decreased by Euro 4,272 thousand compared to the previous year. The increase is concentrated in the ranges of 30-60 day and >90 day receivables and mainly refers to subsidiaries.

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							
Finance lease Sogefi Filtration Ltd	(264)	(297)	(330)	(368)	-	-	(1.259)
Finance lease Sogefi U.S.A. Inc.	(1.328)	(1.112)	(1.148)	(1.186)	(607)	-	(5.381)
Private Placement USD 115 million Sogefi S.p.A.	(14.348)	(14.348)	(14.348)	(14.348)	(14.153)	-	(71.545)
Private Placement EUR 25 million Sogefi S.p.A.	-	(24.981)	-	-	-	-	(24.981)
Equity linked bond EUR 100 million Sogefi S.p.A.	-	-	(89.574)	-	-	-	(89.574)
Finance lease Banco do Brasil S.A. EUR 20 Million Sogefi S.p.A.	(8.372)	(11.613)	-	-	-	-	(19.985)
Sogefi Air & Cooling Canada Corp. loan	(771)	-	-	-	-	-	(771)
Sogefi Filtration do Brasil Ltda loan	(7.551)	-	-	-	-	-	(7.551)
Government financing	(229)	(85)	(37)	(273)	(287)	(971)	(1.882)
Other fixed rate loans	(837)	(114)	(11)	(13)	(6)	-	(981)
Future interests	(8.329)	(6.018)	(3.185)	(1.397)	(396)	-	(19.325)
Future financial income on derivative instruments - interest risk hedging *	953	936	663	306	90	-	2.948
TOTAL FIXED RATE	(41.076)	(57.632)	(107.970)	(17.279)	(15.359)	(971)	(240.287)
Floating rate							
Cash and cash equivalents	91.735	-	-	-	-	-	91.735
Financial assets	-	-	-	-	-	-	-
Assets for derivative financial instruments	183	-	-	-	-	-	183
Current financial receivables	1.023	-	-	-	-	-	1.023
Non-current financial receivables	-	-	-	-	-	-	-
Bank overdrafts and other short-term loans	(2.064)	-	-	-	-	-	(2.064)
Sogefi S.p.A. loans	(1.446)	(44.965)	(10.000)	(32.321)	(17.437)	-	(106.169)
Sogefi Suspension S.A. loan	(2.509)	-	-	-	-	-	(2.509)
Sogefi Air&Cooling S.A.S. loan	(2.509)	-	-	-	-	-	(2.509)
Sogefi Filtration S.A. loan	(2.509)	-	-	-	-	-	(2.509)
S.C. Sogefi Air & Cooling S.r.l. loan	(2.513)	(1.256)	-	-	-	-	(3.769)
Sogefi (Suzhou) Auto Parts Co., Ltd loans	(12.000)	-	-	-	-	-	(12.000)
Other floating rate loans	(2.279)	(10)	(10)	(10)	(10)	(11)	(2.330)
Future interests	(2.057)	(1.339)	(837)	(642)	(258)	-	(5.133)
Liabilities for derivative financial instruments - exchange risk hedging	(796)	-	-	-	-	-	(796)
Future financial expenses on derivative instruments - interest risk hedging	-	-	-	-	-	-	-
TOTAL FLOATING RATE	62.259	(47.570)	(10.847)	(32.973)	(17.705)	(11)	(46.846)
Trade receivables	141.290	-	-	-	-	-	141.290
Trade and other payables	(345.529)	(62.867)	-	-	-	-	(408.396)
TOTAL FINANCIAL INSTRUMENT - ASSET	234.232	-	-	-	-	-	234.232
TOTAL FINANCIAL INSTRUMENT - LIABILITIES	(417.289)	(168.068)	(118.816)	(50.252)	(33.064)	(982)	(788.471)

* The amount is different from "Net financial assets for derivatives – hedging of interest rate" (equal to a total of Euro 5.115 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 2018.

As at 31 December 2018, 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 12.31.2018
Sogefi S.p.A.	P	GBP 8.000.000	12/03/2018	€/currency	0.89170	07/25/2019	0.89940	(19.2)
Sogefi S.p.A.	P	GBP 8.000.000	11/23/2018	€/currency	0.89065	02/25/2019	0.89386	(7.1)
Sogefi S.p.A.	S	USD 10.000.000	11/29/2018	€/currency	1.13280	01/29/2019	1.13970	66.0
Sogefi Filtration S.A.	P	USD 300.000	12/06/2018	€/currency	1.13600	01/08/2019	1.13928	1.5
Sogefi Air&Cooling Canada Corp.	P	USD 2.000.000	11/29/2018	CAD/currency	1.32900	01/14/2019	1.32800	44.3
Sogefi Engine Systems Mexico S. de R.L. de C.V.	P	USD 15.000.000	12/10/2018	MXN/currency	20.55000	06/10/2019	21.20000	(654.4)
Sogefi Suspension Brasil Ltda	P	EUR 100.000	10/30/2018	BRL/currency	4.21200	01/18/2019	4.24550	4.9
Sogefi Suspension Brasil Ltda	P	EUR 200.000	11/30/2018	BRL/currency	4.36400	02/20/2019	4.42400	1.8
Sogefi Suspension Brasil Ltda	S	EUR 250.000	11/30/2018	BRL/currency	3.85350	01/03/2019	3.85700	(1.0)
Sogefi Suspension Brasil Ltda	S	USD 300.000	07/12/2018	BRL/currency	3.87240	01/10/2019	3.87800	0.2
Sogefi Suspension Brasil Ltda	S	USD 300.000	07/12/2018	BRL/currency	3.87240	01/17/2019	3.87910	0.2
Sogefi Suspension Brasil Ltda	S	USD 250.000	12/17/2018	BRL/currency	3.88760	01/24/2019	3.89100	0.8
Sogefi Suspension Brasil Ltda	S	USD 250.000	12/17/2018	BRL/currency	3.88760	01/31/2019	3.89230	0.8
Sogefi Filtration do Brasil Ltda	P	USD 58.312	04/20/2018	BRL/currency	3.40000	04/15/2019	3.70000	3.4
Sogefi Suspensions Argentina	P	USD 1.200.000	10/18/2018	ARS/currency	36.60000	01/31/2019	42.20000	(71.7)
Sogefi Suspensions Argentina	P	USD 1.000.000	12/04/2018	ARS/currency	37.10000	02/28/2019	41.65000	(13.0)
Air Intake India Pvt.Ltd	P	EUR 1.200.000	11/30/2018	INR/currency	79.45000	04/30/2019	82.05000	(3.8)
Allevard IAI Suspensions Pvt Ltd	P	EUR 350.000	10/29/2018	INR/currency	83.68000	02/28/2019	86.75000	(25.4)

* Positive fair value was recognised in "Other financial assets - Asset for derivative financial instruments", whreas 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 Usd)	Fixed rate	Fair value at 12.31.2018 (in thousands of Euro)	Fair value at 12.31.2017 (in thousands of Euro)
Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	39,286	6.0% USD receivable 5.6775% Euro payables	2,485	1,103
Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	28,571	6.0% USD receivable 5.74% Euro payables	1,755	752
Private placement USD 115 million (05/03/2013 maturity 06/01/2023), coupon 600 bps	04/30/2013	06/01/2023	14,286	6.0% USD receivable 5.78% Euro payables	875	360
TOTAL			82,143		5,115	2,215

The discontinuation of hedge accounting, for the interest rate risk, had the following impact on the financial statements as at 31 December 2018:

- a financial income of Euro 766 thousand reflecting the change in fair value compared to 31 December 2018 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 2018, an amount of Euro 3,219 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 2018, 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 22. Total equity is analysed in note 21.

As at 31 December 2018, gearing stands at 1.22 (1.35 as at 31 December 2017).

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 2018.
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 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	
							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 trade 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	12	46	-	46 *	-	-	-	-
Non-current trade receivables	13	-	-	-	-	-	-	-
Non-current assets for derivative financial instruments	13	5.115	-	-	-	-	5.115	2
Other non-current receivables	13	34.284	34.284	-	-	-	-	-
Current liabilities								
Short-term fixed rate financial debts	16	33.700	-	-	-	33.700	-	-
Short-term variable rate financial debts	16	27.831	-	-	-	27.831	-	-
Other short-term liabilities for derivative financial instruments	16	796	-	-	-	-	796	2
Trade and other payable	17	345.529	-	-	-	345.529	-	-
Other current liabilities	18	38.893	-	-	-	38.893	-	-
Non-current liabilities								
Medium/long-term fixed rate financial debts	16	100.636	-	-	-	100.636	-	-
Equity linked bond included embedded derivative	16	89.574	-	-	-	89.574	-	-
Medium/long-term variable rate financial debts	16	106.028	-	-	-	106.028	-	-
Other medium/long-term liabilities for derivative financial instruments	16	-	-	-	-	-	-	-

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not avaible.

The following table shows the fair value level of financial assets and liabilities measured at fair value, as at 31 December 2017:

(in thousands of Euro)	Note	Book value 2017	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	103,889	103,889	-	-	-	-	-
Securities held for trading	6	-	-	-	-	-	-	-
Held-to-maturity investments	6	-	-	-	-	-	-	-
Assets for derivative financial instruments	6	857	-	-	-	-	857	2
Current financial receivables	6	653	653	-	-	-	-	-
Trade receivables	8	173,959	173,959	-	-	-	-	-
Other receivables	8	5,508	5,508	-	-	-	-	-
Other assets	8	2,304	2,304	-	-	-	-	-
Non-current assets								
Other financial assets available for sale	12	46	-	46 *	-	-	-	-
Non-current trade receivables	13	4	4	-	-	-	-	-
Non-current assets for derivative financial instruments	13	2,215	-	-	-	-	2,215	2
Other non-current receivables	13	37,382	37,382	-	-	-	-	-
Current liabilities								
Short-term fixed rate financial debts	16	20,792	-	-	-	20,792	-	-
Short-term variable rate financial debts	16	59,962	-	-	-	59,962	-	-
Other short-term liabilities for derivative financial instruments	16	2,678	-	-	-	-	2,678 **	2
Trade and other payables	17	373,181	-	-	-	373,181	-	-
Other current liabilities	18	49,367	-	-	-	49,367	-	-
Non-current liabilities								
Medium/long-term fixed rate financial debts	16	101,364	-	-	-	101,364	-	-
Equity linked bond included embedded derivative	16	85,678	-	-	-	85,678	-	-
Medium/long-term variable rate financial debts	16	101,175	-	-	-	101,175	-	-
Other medium/long-term liabilities for derivative financial instruments	16	-	-	-	-	-	-	-

* relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not avaible.

** of which Euro 250 thousand relating to hedge instruments accounted according to the cash flow hedge method.

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 2018 held 55.60% of the share capital (56.78% 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 2018, the Parent Company Sogefi S.p.A. used the services of CIR S.p.A., paying Euro 640 thousand for them (Euro 547 thousand in the previous year).
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 2018, the Italian companies of the Sogefi Group had receivables for the amount of Euro 4,368 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 821 thousand. As at 31 December 2017, receivables amounted to Euro 6,484 thousand (Euro 6,423 thousand were collected during the course of 2018) and payables amounted to Euro 2,553 thousand.

At the end of 2018, the Italian subsidiaries recorded an income of Euro 366 thousand (Euro 508 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 1,505 thousand (Euro 1,943 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 2018, 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)	2018	2017
Receivables		
- for the Group tax filing from CIR S.p.A.	4,002	5,976
- for income following the transfer of fiscal surplus to the CIR Group	366	508
Payables		
- for expense due to fiscal surplus received from the CIR Group	1,505	1,943
- for Director's remuneration	14	114
- for services from other related companies	65	-
- for the Group tax filing from CIR S.p.A.	821	2,553
Costs		
- for services received from CIR S.p.A.	640	547
- for rental contract from CIR S.p.A	118	116
- for expense due to fiscal surplus received from the CIR Group	1,505	1,943
Revenues		
- for income following the transfer of fiscal surplus to the CIR Group	366	508
Compensation of directors and statutory auditors		
- directors	433	427
- directors charged back to the parent company	52	120
- statutory auditors	93	93
- contribution charges on compensation to directors and statutory auditors	49	107
Compensation and related contributions to the General Manager (*)	669	864
Compensation and related contributions to Managers with strategic responsibilities ex Consob resolution no. 17221/2010 (**)	421	483

(*) The item includes the imputed cost of stock grant plans of Euro 218 thousand in 2018 (Euro 154 thousand in 2017) recognised in item “Other non-operating expenses (income)”.
(**) The item includes the net imputed cost of stock grant plans of Euro 66 thousand in 2018 (Euro 46 thousand in 2017) recognised in item “Other non-operating expenses (income)”.

G) COMMITMENTS AND RISKS

41. OPERATING LEASES

For accounting purposes, *leases* and rental contracts are classified as operating when:
- a significant part of the risks and benefits associated with ownership are retained by the lessor;
- there are no purchase options at prices that do not represent the presumable market value of the asset being leased at the end of the period;
- the lease term is not for the major part of the useful life of the asset leased or rented.

Operating lease instalment payments are booked to the Income Statement in line with the underlying contracts.

The main operating leases existing as at 31 December 2018 regard the following companies:

- Sogefi Filtration do Brasil Ltda for the rental of three production plant in Jarinu, under a contract that will expire in August 2034.
  As at 31 December 2018, remaining payments amount to Euro 20,892 thousand, Euro 1,393 thousand of which due by the end of the year. For this contract, the company signed a bank guarantee of Euro 1,617 thousand;

- Sogefi (Suzhou) Auto Parts Co., Ltd. for the rental of the production plant in Wujiang, under a contract that will expire in September 2033.
  As at 31 December 2018, total remaining payments amount to Euro 10,144 thousand, Euro 660 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract;

- Filter Systems Maroc S.a.r.l. for the rental of the production plant located in Tangier, under a contract that will expire in October 2028.
  As at 31 December 2018, total remaining payments amount to Euro 8,818 thousand, Euro 793 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract;

- Sogefi Filtration S.A. for the rental of the offices in Guyancourt. The contract expires in May 2027. As at 31 December 2018, remaining payments amount to Euro 4,334 thousand, Euro 515 thousand of which due by the end of the year.
  The Group has not given any guarantees for this contract;

- Sogefi Air & Cooling Canada Corp. for the rental of the production plant in Montreal. The contract expires in December 2021. As at 31 December 2018, remaining payments amount to Euro 2,380 thousand, Euro 1,097 thousand of which due by the end of the year.
  For this contract Sogefi S.p.A. provided a guarantee equal to approximately 100% of the residual instalments still to fall due;

- S.C. Sogefi Air & Cooling S.r.l. for the rental of the production plant in Titesti. The contract expires in July 2028. As at 31 December 2018, remaining payments amount to Euro 3,588 thousand, Euro 339 thousand of which due by the end of the year. The Group has not given any guarantees for this contract;

- Sogefi Engine Systems Mexico S. de R.L. de C.V. for the rental of the production plant in Monterrey. The contract expires in June 2031. As at 31 December 2018, remaining payments amount to Euro 19,179 thousand, Euro 1,450 thousand of which due by the end of the year. For this contract Sogefi S.p.A. provided a guarantee equal to approximately 100% of the residual instalments still to fall due.

Future lease payments under operating leases outstanding as at 31 December 2018 are as follows:

(in thousands of Euro)	2018	2017
Within 12 months	12,912	12,345
Between 1 and 5 years	36,336	34,588
Beyond 5 years	38,618	37,592
TOTAL	87,866	84,525

42. INVESTMENT COMMITMENTS

As at 31 December 2018, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 2,721 thousand (Euro 785 thousand at the end of the previous year), as already disclosed in the explanatory notes regarding tangible fixed assets.

43. GUARANTEES GIVEN

Details of guarantees are as follows:

(in thousands of Euro)	12.31.2018	12.31.2017
PERSONAL GUARANTEES GIVEN		
a) Sureties to third parties	4,661	7,210
b) Other personal guarantees in favour of third parties	2,690	2,541
TOTAL PERSONAL GUARANTEES GIVEN	7,351	9,751
REAL GUARANTEES GIVEN		
a) Against liabilities shown in the financial statements	1,116	2,130
TOTAL REAL GUARANTEES GIVEN	1,116	2,130

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, to Inland Revenue for VAT and other indirect taxes by the Parent Company Sogefi S.p.A. 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 subsidiaries Sogefi Air & Cooling Canada Corp. and Allevard IAI Suspensions Pvt Ltd, which pledged tangible fixed assets and trade receivables as real guarantees to secure loans obtained from financial institutions.

44. OTHER RISKS

As at 31 December 2018, the Group had third-party goods and materials held at Group companies worth Euro 15,247 thousand (Euro 14,884 thousand as at 31 December 2017).

45. POTENTIAL LIABILITIES

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 detraction 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 filed its rebuttal argument against this partial appeal and is currently waiting for a date to be set for the hearing.
Based on the tax advisor's opinion, Directors believe the risk of losing to be possible but not likely.
This is why the Company did not set aside any amount for tax risks in financial statements as at 31 December 2018.

46. 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 2018.

47. SUBSEQUENT EVENTS

No significant events occurred after 31 December 2018 that could have had an impact on the income statement, balance and financial data presented.

H) GROUP COMPANIES

48. LIST OF GROUP COMPANIES AS AT 31 DECEMBER 2018

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 (Francia)	Euro	120,596,780	6,029,838	99.99998	20	120,596,760
SOGEFI SUSPENSIONS S.A. Guyancourt (Francia)	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 (Francia)	Euro	100,000	10,000	100	10	100,000
SHANGHAI SOGEFI AUTO PARTS Co., Ltd Shanghai (Cina)	USD	13,000,000	(1)	100	(2)	13,000,000
SOGEFI AIR & COOLING S.A.S. Guyancourt (Francia)	Euro	54,938,125	36,025	100	1,525	54,938,125
SOGEFI (SUZHOU) AUTO PARTS CO., Ltd Wujiang (Cina)	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 (Gran Bretagna) 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 (Spagna) 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 (Marocco) 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-MNR 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 (Brasile) 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	70,380,912	70,380,912	100	1	70,380,912
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 (Italia) held by Sogefi Filtration S.A.	Euro	8,000,000	7,990,043	99.88	1	7,990,043

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.	CAD	9,393,000	2,283	100	(2)	9,393,000
Nova Scotia (Canada)						
held by Sogefi Air & Cooling S.A.S.						
SOGEFI AIR & COOLING USA, Inc.	USD	100	1,000	100	0.10	100
Wilmington (U.S.A.)						
held by Sogefi Air & Cooling S.A.S.						
SYSTEMES MOTEURS CHINA, S.à.r.l.	Euro	12,500	125	100	100	12,500
Lussemburgo (Lussemburgo)						
held by Sogefi Air & Cooling S.A.S.						
S.C. SOGEFI AIR & COOLING S.r.l.	RON	7,087,610	708,761	100	10	7,087,610
Titesti (Romania)						
99.9997% held by Sogefi Air & Cooling S.A.S.						
0.0003% held by Sogefi Filtration Spain S.A.U.						
SOGEFI ENGINE SYSTEMS MEXICO S. de R.L. de C.V.	MXN	20,003,000		100		20,003,000
Apodaca (Messico)						
0.000005% held by Sogefi Air & Cooling S.A.S.			1		1	
99.999995% held by Sogefi Air & Cooling Canada			1		20,000,000	
Corp.			1		2,999	
SOGEFI ENGINE SYSTEMS HONG KONG Ltd	HKD	1,000	1,000	100	1	1,000
Hong Kong (Hong Kong)						
held by Systemes Moteurs China, S.à.r.l.						

(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 (Gran Bretagna) held by Sogefi Suspensions S.A.	GBP	4,000,002	4,000,002	100	1	4,000,002
SOGEFI PC SUSPENSIONS GERMANY GmbH Volklingen (Germania) 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 (Spagna) held by Sogefi Suspensions S.A.	Euro	10,529,668	5,264,834	50	1	5,264,834
SOGEFI SUSPENSION BRASIL Ltda São Paulo (Brasile) 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 (Gran Bretagna) held by Sogefi Suspensions S.A.	GBP	4,500,000	4,500,000	100	1	4,500,000
UNITED SPRINGS B.V. Hengelo (Olanda) held by Sogefi Suspensions S.A.	Euro	254,979	254,979	100	1	254,979
SHANGHAI ALLEVARD SPRINGS Co., Ltd Shanghai (Cina) held by Sogefi Suspensions S.A.	Euro	5,335,308	1	60.58	(2)	3,231,919
UNITED SPRINGS S.A.S. Guyancourt (Francia) 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 (Francia) 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 (Germania) 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 (Italia) 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 (Italia) 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	464,890	46,489	100.00	10	464,890

* On 1 June 2018, the company changed name from Sogefi Suspension Heavy Duty Italy S.r.l. to Sogefi Suspension Heavy Duty Italy S.p.A.

** On 1 June 2018, the company changed name from Sogefi Suspension Passenger Car Italy S.r.l. to Sogefi Suspension Passenger Car Italy S.p.A.

*** Company founded on 6 September 2018

(1) The share capital is not divided in shares or quotas.
(2) There is no unit nominal value.

EQUITY INVESTMENTS IN SUBSIDIARIES CONSOLIDATED USING THE EQUITY METHOD

Indirect equity investments	Currency	Share capital	Number of shares	% held	Par value per share	Par value of the interest held
MARK IV ASSET (Shanghai) AUTO PARTS Co., Ltd Shanghai (Cina) Held by Sogefi Engine Systems Hong Kong Limited	CNY	5,000,000	(1)	50	(2)	2,500,000

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. Il Cairo (Egitto) 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:
Laurent Hebenstreit – 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 2018 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, 2018:

– 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 25, 2019

Signed by Chief Executive Officer Laurent Hebenstreit	Signed by Manager responsible for preparing financial report Yann Albrand

SOGEFI S.p.A.

Company subject to management and coordination of Cir S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998 AND TO ARTICLE 2429 OF ITALIAN CIVIL CODE

To the Shareholders' Meeting of SOGEFI S.p.A.

During the financial year closed at 31 December 2018, 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 Italian 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 Italian 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 Italian 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, collection of information from the heads of the involved departments and sharing of 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 2018;
- 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 Italian 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 Italian Legislative Decree no. 231/2001 as amended had been updated to comply with the expanded scope of the aforementioned Decree;
- pursuant to art. 4, sub-par. 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 existed that the controlling bodies of SOGEFI S.p.A.'s subsidiaries should have disclosed;
- 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 non-financial statement 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 determined that the Board of Directors had 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 which should have been 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 aforementioned 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 Italian law and the Articles of Association; the Directors provided 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 them or, in any case, of such a nature as to jeopardize integrity of corporate assets.

- We obtained adequate information on intercompany and related party transactions. Based on obtained information, we determined that such transactions complied with Italian law and the Articles of Association, satisfied the interest of the company and raised 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 SAP; 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 2018 statutory financial statements.
- The Independent Auditors KPMG S.p.A. issued their Audit Reports under art. 14 of Italian Legislative Decree no. 39/2010 on the statutory and consolidated financial statements as at 31 December 2018 without any disclosure observations or statements.
- During the year no complaints was lodged with the Board of Statutory Auditors pursuant art. 2408 of 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 Auditors carried out a prior analysis of and authorized, when necessary, any assignment conferred by the Company and its subsidiaries to KPMG or any companies in its network
- During the year 2018, the subsidiaries of SOGEFI S.p.A. engaged the independent auditors to perform other services for a consideration of Euro 7,000. The amounts paid were found to be adequate consideration for the scope and complexity of the services rendered and were not deemed liable to affect the independence and discretion of the auditors in performing their auditing tasks.
- During the year under consideration, we gave advice pursuant to article 2389 of Italian Civil Code.
- The following meetings were held during the year 2018: 6 Board of Directors meetings, 5 Control and Risk Committee meetings, 3 Appointment and Remuneration Committee meetings; and 10 Statutory Board of Directors meetings.
- Proper governance principles seemed to have been implemented consistently, and the organizational structure was found to be adequate to meet the requirements for operations management and control.

- The internal control system seemed to be adequate to the size and management style of the Company, as was confirmed during the meetings of the Control and Risk Committee, which were attended by the Chairman of the Statutory Board of Auditors (or by a Statutory Auditor appointed by the Chairman) as provided for by corporate governance rules. In addition, the Group's Chief Internal Auditing 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 some meetings of the Statutory Board of 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 2018, the Managing Director and the Manager responsible for preparing the Company's financial reports under art. 154-*bis*, sub-paragraph 5 of Italian Legislative Decree 58/1998 and art. 81-*ter* of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended, 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 Italian 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 Italian Legislative Decree no. 58/1998, no issues were found 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 Italian 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 aforementioned Corporate Governance Code had been included in the Corporate Governance Report of SOGEFI S.p.A.. In compliance with Italian Legislative Decree no. 231/2001, the Company adopted, implemented and maintained up-to-date an "Organizational Model" that governs its behavior 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 2017 in the normal course of business and identified no material omissions, reprehensible facts and/or anomalies to be reported.

After completing our audit and monitoring activities, we have no proposals concerning the statutory financial statements as at 31 December 2018, their approval or any other issue within our area of responsibility pursuant to article 153, paragraph 2 of Italian Legislative Decree 58/1998, nor any remarks on the proposal of cover the net loss for the year submitted by the Board of Directors for approval.

Milan, 25 March 2019

The Board of Statutory Auditors
Sonia Peron (Chairman of the Board of Statutory Auditors)
Riccardo Zingales (Acting Auditor)
Giuseppe Leoni (Acting Auditor)

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(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 2018, 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 2018 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**
The consolidated financial statements at 31 December 2018 include goodwill of €126.6 million, allocated to the following cash-generating units ("CGU"): Filtration, Air & Cooling and Car suspension. In accordance with the criteria approved by the board of directors on 4 February 2019, 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 their value in use, calculated using the unlevered discounted cash flow model by discounting the expected cash flows. For impairment testing purposes, the directors used the expected operating cash flows estimated on the basis of the 2019 budgeted and the 2020-2023 plan figures (approved by the board of directors on 4 February 2019). The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — 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;	Our audit procedures included: — understanding the process adopted for impairment testing approved by the board of directors; — understanding the process adopted to prepare the 2019 budget and the 2020-2023 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 2019 budget and the 2020-2023 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 2019 budget and 2020-2023 plan and analysing any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of comparison with external data and information;

Key audit matter	Audit procedures addressing the key audit matter
— the parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	— checking the sensitivity analysis made by the directors in relation to the key assumptions used to test goodwill for impairment; — assessing the appropriateness of the disclosures provided in the notes about goodwill and the related impairment test.

Measurement of the provision for product warranties

Notes to the consolidated financial statements: Note 2.3 "Accounting policies", sections "Provisions for risks and charges", Note 19 "Long-term provisions and other payables", section "Provision for product warranties"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include a provision for product warranties of €4.3 million, classified under non-current provisions, which total €67.3 million. Specifically, a French subsidiary had pending disputes with two customers for a defective component it supplied them, with respect to which it accrued €31 million to the provisions for product warranties at 31 December 2017. In August 2018, the group companies reached a final agreement on the claims made by the two customers, which settled all pending disputes, eliminating the significant risks associated with the matter. As a result of the agreement, the group used the related provision, made a reclassification to the caption "Trade and other payables" and recognised €6.6 million in "Other non-operating expenses (income)", which positively affected its profit for 2018. The group companies are exposed to the risk of non-conformance claims made by its customers. Measuring the provision for product warranties require estimates about non-conforming products and the outcome of claims, with a high degree of uncertainty since it entails an assessment of technical, legal and market issues.	Our audit procedures included: — understanding the process for the measurement of the provision for product warranties 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 advisors assisting the group about the assessment of the risk of losing pending claims for non-conforming products and the quantification of the related liability; — analysing the assumptions used to calculate the provision for product warranties 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 provision for product warranties; — assessing the appropriateness of the disclosures provided in the notes about the provision for product warranties and

Key audit matter	Audit procedures addressing the key audit matter
For the above reasons, we believe that the measurement of the provision for product warranties is a key audit matter.	the final agreement reached during the year.

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 2018 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 2018 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 2018 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.

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, 25 March 2019

KPMG S.p.A.

(signed on the original)

Elisabetta C. Forni
Director of Audit