

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 of December 31, 2015 regard the following companies:

- Sogefi (Suzhou) Auto Parts Co., Ltd. for the rental of three production plants in Wujiang, under a contract that will expire in September 2033.
As at December 31, 2015, total remaining payments amount to Euro 16,106 thousand, Euro 774 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract;
- Filtrauto S.A. for the rental of the offices in Guyancourt. The two contracts will expire in March 2020 and May 2021, respectively. Remaining payments as of December 31, 2015 amount to Euro 4,070 thousand, Euro 778 thousand of which are due by the end of the year.
The Group has not given any guarantees for this contract;
- Allevard Federn GmbH for the rental of the production plant in Völklingen. The contract expires in September 2020. As at December 31, 2015, the remaining payments amount to Euro 1,825 thousand, Euro 384 thousand of which due by the end of the year.
The Group has not given any guarantees for this contract;
- Sogefi Engine Systems Canada Corp. for the rental of the production plant in Montreal. The contract expires in December 2021. As at December 31, 2015, the remaining payments amount to Euro 4,898 thousand, Euro 937 thousand of which due by the end of the year.
For this contract Sogefi S.p.A. provided a guarantee equal to 100% of the residual instalments still to fall due;
- 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 December 31, 2015, the remaining payments amount to Euro 13,384 thousand, Euro 479 thousand of which due by the end of the year.
For this contract Sogefi S.p.A. provided a guarantee equal to 100% of the residual instalments still to fall due;

- Allevard Sogefi USA Inc. for the rental of the production plant in Prichard (West Virginia). The contract expires in October 2019. As at December 31, 2015, the remaining payments amount to Euro 793 thousand, Euro 199 thousand of which due by the end of the year.

For this contract Sogefi S.p.A. provided a guarantee equal to 100% of the residual instalments still to fall due;

- Allevard Sogefi U.S.A. Inc. for the rental of the production plant in Prichard (West Virginia).

The contract expires in May 2019, and the remaining payments as at December 31, 2015, amount to Euro 1,245 thousand, of which Euro 364 thousand due by the end of the year.

For this contract Sogefi S.p.A. provided a guarantee equal to 63% of the residual instalments still to fall due. The guarantee is renewed at the end of each year according to the residual amount.

There are no restrictions of any kind on this type of lease and at the end of the contract the US company will be able to purchase the building at its market value.

Future lease payments under operating leases outstanding as of December 31, 2015 are as follows:

| (in thousands of Euro) | 2015 | 2014 |
|------------------------|---------------|---------------|
| Within 12 months | 8,316 | 7,555 |
| Between 1 and 5 years | 25,910 | 18,814 |
| Beyond 5 years | 11,385 | 12,646 |
| TOTAL | 45,610 | 39,016 |

42. INVESTMENT COMMITMENTS

At December 31, 2015, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 1,709 thousand, Euro 323 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) | 12.31.2015 | 12.31.2014 |
|--|------------|------------|
| PERSONAL GUARANTEES GIVEN | | |
| a) Sureties to third parties | 4,984 | 1,893 |
| b) Other personal guarantees in favour of third parties | 2,463 | 9,714 |
| TOTAL PERSONAL GUARANTEES GIVEN | 7,447 | 11,607 |
| REAL GUARANTEES GIVEN | | |
| a) Against liabilities shown in the financial statements | 8,422 | 7,122 |
| TOTAL REAL GUARANTEES GIVEN | 8,422 | 7,122 |

The guarantees given in favour of third parties relate to guarantees given to certain customers, to Inland Revenue for Group VAT and to operating lease contracts; guarantees are shown at a value equal to the outstanding commitment at 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 LPDN 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 Engine Systems Canada Corp., Allevard IAI Suspensions Pvt Ltd, United Springs B.V., Sogefi Filtration do Brasil Ltda and Sogefi M.N.R. Engine Systems India Pvt Ltd, which pledged tangible fixed assets and trade receivables as real guarantees to secure loans obtained from financial institutions.

44. OTHER RISKS

As of December 31, 2015, the Group had third-party goods and materials held at Group companies worth Euro 10,200 thousand (Euro 9,367 thousand as of December 31, 2014).

45. POTENTIAL LIABILITIES

Sogefi Group is managing environmental issues in some production plants. No relevant costs are expected.

In 2004, the subsidiary Sogefi Filtration Ltd purchased the assets and liabilities of Filtrauto UK Ltd, thus taking charge of employer as regards the pension funds Filtrauto UK Limited Staff Pension Scheme and Filtrauto UK Limited Works Pension Scheme. Said funds are defined-benefit plans.

Between 1990 and 2006, the employer and the pension fund *trustees* received professional advices from leading consulting companies to equalise the conditions of the pension funds, as required by amended legislation.

It shows that the above equalisation may not have been correctly applied.

Sogefi Filtration Ltd has therefore submitted a *protective claim* to the Birmingham High Court.

The Court could conclude that the equalisation was correctly applied, or that an adjustment could be possible, or even that there is a potential liability. In the latter case, we are confident that almost the entire amount of any liability can be recovered from the consultants.

An initial valuation of the maximum potential liability, before its likely recovery from the consultants amounts to around Euro 2 million.

In January 2014, the Holding Company Sogefi S.p.A. received two notices of assessment under which tax authorities disallowed deduction of the costs for services performed by the Parent Company CIR S.p.A. during the year 2009 for Euro 1.8 million from IRES tax base and consequently their eligibility for VAT tax deduction.

Based on the tax advisor's opinion, Directors believe said arguments to be groundless and inconsistent with the applicable tax regulation in force and, for the moment, the risk of losing to be possible but not likely.

This is why the Holding Company Sogefi S.p.A. did not set aside any amount for tax risks in financial statements as at December 31, 2015.

This is to report that said assessments were already processed by the Provincial Tax Committee with a favourable outcome.

The tax authorities appealed before the Regional Tax Committee against the outcome.

46. ATYPICAL OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication dated July 28, 2006, it is specified that the Group did not implement any atypical and/or unusual transactions during 2015.

47. SUBSEQUENT EVENTS

No significant events occurred after December 31, 2015.