

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 2016 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 2016, remaining payments amount to Euro 30,820 thousand, Euro 1,651 thousand of which due by the end of the year. For this contract, the company provided a bank guarantee of Euro 1,978 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 2016, total remaining payments amount to Euro 14,871 thousand, Euro 746 thousand of which due by the end of the year. The Group has not given any guarantees whatsoever for this contract;
- Sogefi Filtration France S.A. for the rental of the offices in Guyancourt. The two contracts will expire in March 2020 and May 2021, respectively. As at 31 December 2016, remaining payments amount to Euro 3,284 thousand, Euro 778 thousand of which due by the end of the year.
The Group has not given any guarantees for this contract;
- Sogefi PC Suspensions Germany GmbH for the rental of the production plant in Völklingen. The contract expires in September 2020. As at 31 December 2016, remaining payments amount to Euro 1,441 thousand, Euro 384 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 2016, remaining payments amount to Euro 4,695 thousand, Euro 1,099 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 31 December 2016, remaining payments amount to Euro 21,303 thousand, Euro 1,468 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 31 December 2016, amount to Euro 912 thousand, of which Euro 379 thousand due by the end of the year.

For this contract Sogefi S.p.A. provided a guarantee equal to 76% 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 at 31 December 2016 are as follows:

(in thousands of Euro)	2016	2015
Within 12 months	11,307	10,420
Between 1 and 5 years	37,222	37,831
Beyond 5 years	43,918	42,750
TOTAL	92,447	91,001

42. INVESTMENT COMMITMENTS

As at 31 December 2016, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 2,373 thousand (Euro 1,709 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)	12.31.2016	12.31.2015
PERSONAL GUARANTEES GIVEN		
a) Sureties to third parties	7,373	5,366
b) Other personal guarantees in favour of third parties	2,463	2,463
TOTAL PERSONAL GUARANTEES GIVEN	9,836	7,829
REAL GUARANTEES GIVEN		
a) Against liabilities shown in the financial statements	7,433	8,422
TOTAL REAL GUARANTEES GIVEN	7,433	8,422

The guarantees given in favour of third parties relate to guarantees given to certain customers by subsidiary Sogefi 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 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 Air & Cooling Canada Corp., Allevard IAI Suspensions Private Ltd, Sogefi Filtration do Brasil Ltda and Sogefi M.N.R. Engine Systems India Private 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 2016, the Group had third-party goods and materials held at Group companies worth Euro 12,719 thousand (Euro 10,200 thousand as at 31 December 2015).

45. POTENTIAL LIABILITIES

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

In January 2014, the Parent Company Sogefi S.p.A. received two notices of assessment relating to fiscal period 2009 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 a taxable amount Euro 1.8 million from IRES tax base and consequently their eligibility for VAT tax deduction.

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 and the Company entered an appearance according to standard procedure.

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. (same irregularity found in the notices relating to the year 2009) for a total taxable amount of Euro 1.3 million.

In December 2016, the Parent Company Sogefi S.p.A. appealed the notices before the Regional Tax Committee and entered an appearance in January 2017.

Based on the tax advisor's opinion, with regard to all notices of assessment, 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 Company did not set aside any amount for tax risks in financial statements as at 31 December 2016.

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 2016.

47. SUBSEQUENT EVENTS

No significant events occurred after 31 December 2016.