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 of December 31, 2013 include the Holding 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 Holding 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:
- subsidiary Allevard Rejna Autosuspensions S.A. increased its percentage of ownership in subsidiary Allevard IAI Suspensions Pvt Ltd. from 54.91% to 70.24%;
- subsidiary Sogefi Allevard S.r.l. was wound up.

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

The effects resulting from changes to the scope of consolidation are illustrated, if significant, in the notes related to the individual financial statement items.

## *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 on the going concern assumption, as the Directors have verified the inexistence 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.

### *2.1 Basis for consolidation*

The financial statements of the entities included in the scope of consolidation as of December 31, 2013, prepared in accordance with Group accounting policies that make reference to IAS/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 financial and operating policies are considered subsidiaries. In particular the Company Iberica de Suspensiones S.L., in which the Group owns a 50% interest, is treated as a subsidiary because the Group holds the majority of voting rights in the Board of Directors.
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 Holding 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 and as such 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 Holding 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, taking account of any exchange risk hedging transactions;
- the Consolidated Income Statement items are translated into Euro using the year’s average exchange rates;
- differences arising on translation of opening equity at year-end exchange rates are booked to the translation reserve, together with any difference between the income statement and the statement of financial position result;
- whenever a subsidiary with a different functional currency from the Euro is disposed of, any exchange differences included in equity are charged to the Income Statement;
- dividends paid by entities with functional currencies other than the Euro are converted at the average exchange rate of the previous year for the entity that pays the dividend and at the current exchange rate for the entity that receives the dividend; exchange differences between the two amounts are booked to the translation reserve.

The following exchange rates have been used for translation purposes:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | *Average* | *12.31* | *Average* | *12.31* |
| US dollar | 1.3277 | 1.3791 | 1.2849 | 1.3194 |
| Pound sterling | 0.8491 | 0.8337 | 0.8108 | 0.8161 |
| Brazilian real | 2.8503 | 3.2576 | 2.5023 | 2.7036 |
| Argentine peso | 7.2207 | 8.9888 | 5.8350 | 6.4863 |
| Chinese renminbi | 8.1639 | 8.3493 | 8.1064 | 8.2210 |
| Indian rupee | 77.3994 | 85.3971 | 68.5871 | 72.5689 |
| New romanian Leu | 4.4189 | 4.4711 | 4.4567 | 4.4444 |
| Canadian dollar | 1.3672 | 1.4671 | 1.2842 | 1.3137 |
| Mexican peso | 16.9405 | 18.0734 | 16.9005 | 17.1851 |
| Hong Kong dollar | 10.2987 | 10.6929 | 9.9671 | 10.2260 |

A joint venture is an economic activity for which strategic financial and operating decisions are taken with the unanimous consent of the sharing control parties.
An associate is an entity in which the Group is able to exert a significant influence, but without being able to control its financial and operating policies.
Equity investments in joint ventures and associates are consolidated applying the equity method, which means that the results of operations of joint ventures and 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 Consolidated Income Statement.

### *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 net assets value 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 financial statements as of December 31, 2013.

#### 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 to their utilisable or 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, or any other value representing the cost, less its residual value, where the residual value of an asset is the estimated value that the entity could receive at that time from its disposal, 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 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 |
| Assets under construction | n.a. |

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

Ordinary maintenance costs are charged to the Consolidated 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 Consolidated 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*
There are two types of leases: finance leases and operating leases.
A lease is considered a finance lease when it transfers a significant and substantial part of the risks and benefits associated with 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 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 Consolidated 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 Consolidated 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 amortisation and accumulated impairment losses.

The annual average amortisation rates applied are as follows:

| | % |
|---|---|
| Development costs | 20-33 |
| Industrial patents and intellectual property rights, concessions, licences, trademarks | 10-33 |
| Customer relationship | 5 |
| Trade name | 5 |
| Sotware | 10-50 |
| Other | 20-33 |
| Goodwill | n.a. |
| Assets under construction | n.a. |

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

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

*Customer Relationship*
Customer relationship represents the value of the Systemes Moteurs Group's customer portfolio measured at the acquisition date, as determined during the Purchase Price Allocation process.

*Brand name*
Brand name represents the value of the "Systemes Moteurs" brand name measured 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 amortisation and any accumulated impairment losses.
It should be pointed out that a multi-year project has been launched in 2011 to implement a new integrated IT system across the Group. Relating costs are capitalised by Holding 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 in 10 years and amortisation begins when implementation at the site of each individual subsidiary 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: Engine Systems – Fluid Filters (previously named “Filters”), Engine Systems – Air Intake and Cooling (Systemes Moteurs Group), Car Suspension, Industrial Vehicles Suspension and Precision Springs.
The goodwill currently on the books only concerns the following CGUs: Engine Systems – Fluid Filters, Engine Systems – Air Intake and 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 of December 31, 2013, 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, 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

In accordance with IAS 39, 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 changes in fair values 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

Under IFRS 5 "Non-current assets held for sale and discontinued operations", providing the relevant requirements are met, non-current assets whose book value will be recovered principally by selling them rather than by using them on a continuous basis, have to be classified as being held for sale and valued at the lower of book value or fair value net of any selling costs. From the date they are classified as non-current assets held for sale, their depreciation is suspended.

### 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.

**Derivatives**

A derivative is understood as being any contract of a financial nature with the following characteristics:

1. its value changes in relation to changes in an interest rate, the price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or interest rate index, a credit rating or any other pre-established underlying variable;
2. it does not require an initial net investment or, if required, this is less than what would be requested for other types of contract likely to provide a similar reaction to changes in market factors;
3. it will be settled at some future date.

For accounting purposes, a derivative's treatment depends on whether it is speculative in nature or whether it can be considered an hedging instrument.
All derivatives are initially recognised in the Consolidated Statement of Financial Position at cost as this represents their fair value. Subsequently, all derivatives are measured at fair value.

Any changes in the fair value of derivatives that are not designated as hedging instruments are booked to the Consolidated Income Statement (under the item "Financial expenses (income), net").

Derivatives that can be booked under the hedge accounting are classified as:

- fair value hedge if they are meant to cover the risk of changes in the market value of the underlying assets or liabilities;
- cash flow hedge if they are taken out to hedge the risk of fluctuations in the cash flows deriving from an existing asset or liability, or from a future transaction that is highly probable.

For derivatives classified as fair value hedges, the gains and losses that arise on determining their fair value and the gains and losses that derive from adjusting the underlying hedged items to their fair value are booked to the Consolidated Income Statement.

For those classified as cash flow hedges, used for example, to hedge medium/long-term loans at floating rates, gains and losses that arise from their valuation at fair value are booked directly to Other Comprehensive Income for the part that effectively hedges the risk for which they were taken out. The portion booked to Other Comprehensive Income will be reclassified to the Consolidated Income Statement (under the item "Financial expenses (income), net") in the period when the hedged assets and liabilities impact the costs and revenues of the period.

When the hedge of the instrument is determined to be ineffective, the hedging relationship is discontinued and the following amounts are booked to the Consolidated Income Statement (under the item "Financial expenses (income), net"):

- the change in fair value of the hedging instrument, since the date when the hedging relationship was last proved to be effective is immediately recognised in the Income Statement;
- the reserve previously booked to Other Comprehensive Income is recognised in the Income Statement over the same period of time over which underlying hedged item affects the Income Statement.

Note that the Group has adopted a specific procedure for managing financial instruments as part of an overall risk management policy.

**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 Consolidated 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 amendments to IAS 19 "Employee Benefits" effective as of January 1, 2013, the Group recognises actuarial gains and losses immediately to "Other Comprehensive Income", so that the full amount of the provisions for the defined benefits (net of plan assets) is recognised in the consolidated financial position. The amendments further require any changes in the defined benefit provision value and plan assets value in respect of the previous period to be categorised into three components:

the cost components of work performed during the reporting period must be recognised in the Consolidated 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 the Consolidated 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 interest costs must be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets.

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 gains or losses relating to said reduction is immediately booked to the Consolidated Income Statement (under service costs).

All of the costs and income resulting from the measurement of funds for pension plans are presented in 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 Consolidated Income Statement when incurred.

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the amendments were applied retrospectively adjusting Shareholders' equity as at December 31, 2012 for the amount of Euro 15,038 thousand (net of tax effect) and income statement as at December 31, 2012 for the amount of Euro 1,079 thousand (net of tax effect). Impact as at January 1, 2012 was Euro 11,631 thousand (net of tax effect).

| (in thousands of Euro) | *January 1, 2012* | *January 1, 2012 restated* | *Variance* |
|---|---|---|---|
| OTHER NON-CURRENT ASSETS | | | |
| Other receivables | 14,102 | 2,161 | (11,941) |
| Deferred tax assets | 48,637 | 49,111 | 474 |
| TOTAL ASSETS | 1,036,161 | 1,024,694 | (11,467) |
| OTHER LONG-TERM LIABILITIES | | | |
| Long-term provisions | 70,595 | 73,505 | 2,910 |
| Deferred tax liabilities | 44,838 | 42,092 | (2,746) |
| TOTAL LIABILITIES | 821,959 | 822,123 | 164 |
| SHAREHOLDERS' EQUITY | | | |
| Reserves and retained earnings (accumulated losses) | 110,515 | 98,884 | (11,631) |
| Group net result for the period | 24,046 | 24,046 | - |
| TOTAL SHAREHOLDERS' EQUITY | 214,202 | 202,571 | (11,631) |

| (in thousands of Euro) | *December 31, 2012* | *December 31, 2012 restated* | *Variance* |
|---|---|---|---|
| OTHER NON-CURRENT ASSETS | | | |
| Other receivables | 17,022 | 6,789 | (10,233) |
| Deferred tax assets | 57,530 | 60,178 | 2,648 |
| TOTAL ASSETS | 1,022,295 | 1,014,710 | (7,585) |
| OTHER LONG-TERM LIABILITIES | | | |
| Long-term provisions | 70,869 | 80,676 | 9,807 |
| Deferred tax liabilities | 43,648 | 41,294 | (2,354) |
| TOTAL LIABILITIES | 807,000 | 814,453 | 7,453 |
| SHAREHOLDERS' EQUITY | | | |
| Reserves and retained earnings (accumulated losses) | 105,421 | 91,462 | (13,959) |
| Group net result for the period | 29,325 | 28,246 | (1,079) |
| TOTAL SHAREHOLDERS' EQUITY | 215,295 | 200,257 | (15,038) |

| (in thousands of Euro) | *December 31, 2012* | *December 31, 2012 restated* | *Variance* |
|---|---|---|---|
| CONSOLIDATED INCOME STATEMENT | | | |
| Variable cost of sales | 927,302 | 927,396 | 94 |
| Distribution and sales fixed expenses | 39,267 | 39,279 | 12 |
| Administrative and general expenses | 71,883 | 72,005 | 122 |
| Other non-operating expenses (income) | 24,696 | 23,845 | (851) |
| Financial expenses (income), net | 16,474 | 18,537 | 2,063 |
| Income taxes | 13,771 | 13,410 | (361) |
| TOTAL GROUP NET RESULT | 1,093,393 | 1,094,472 | 1,079 |

| (in thousands of Euro) | *December 31, 2012* | *December 31, 2012 restated* | *Variance* |
|---|---|---|---|
| CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME | | | |
| Net result before non-controlling interests | 32,530 | 31,451 | (1,079) |
| Actuarial gains (losses) | - | (3,370) | (3,370) |
| Tax effect on the items that will not be reclassified to income statement | - | 1,335 | 1,335 |
| Profit (loss) booked to translation reserve | (10,556) | (10,849) | (293) |
| TOTAL GROUP COMPREHENSIVE RESULT | 21,974 | 18,567 | (3,407) |

| | *December 31, 2012* | *December 31, 2012 restated* | *Variance* |
|---|---|---|---|
| EARNINGS PER SHARE (EPS) (Euro) | | | |
| Basic | 0.260 | 0.250 | (0.010) |
| Diluted | 0.259 | 0.249 | (0.010) |

*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".

*Phantom stock options*
With regard to phantom stock option plans, as envisaged by IFRS 2, in the section regarding "Cash-settled share-based payment transactions", the fair value of the plan at the date of the financial statements is remeasured, with any changes in fair value recognised to the Income Statement with a corresponding entry to a provision.

*Share-based incentive plans*
With regard to "Stock-based incentive plans" (Stock options and Stock Grants), as envisaged by IFRS 2 "Share-based payments", the Group calculates the fair value of the option at the granting date, booking it to the Consolidated Income Statement as a cost over the vesting period of the benefit. Given that this is an eminently imputed element, 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 temporary differences between the booked 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.
Current and deferred taxes are recognised in the Consolidated 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)**

Each company participating 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 be paid (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 transferor 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**

Revenues from the sale of products are recognised at the time ownership passes (time of risks and benefits transfer), which is generally upon shipment to the customer. They are shown net of returns, discounts and allowance.
The proceeds from the sale of *tooling* to customers can be recognised as follows:
a) the full amount is recognised at the time risks and benefits of the *tooling* are transferred (if said transfer is deferred, margin is booked to “Other current liabilities”);
b) the amount is recognised by means of an increase of the sales price of the products manufactured using the relevant *tooling*, throughout a variable time frame depending on the number of products sold (in this case the unrealised value of the *tooling* is booked to “Inventory – Contract work in progress and advances”).
Revenues from services rendered are recognised at the time the services are provided.

**Income Statement Presentation**

*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 amortisation 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-recurring activities and are disclosed in the notes if they are of a significant amount. The non-recurring nature of restructuring costs makes it appropriate for them to be disclosed separately, posting them in such a way that does not affect the operating result deriving from the Group's normal business activities.

**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 Holding Company by the weighted average number of ordinary shares outstanding during the period, net of treasury shares.

*Diluited 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 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.

## Critical estimates and assumptions

Various estimates and assumptions regarding the future have to be made when preparing the Consolidated 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 the Consolidated Statement of Financial Position items in future years. The main items affected by these estimates are as follows:

- goodwill – 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 2014 as determined based on the budget and the forecasts included in the 2015-2017 strategic plan for the following years (adjusted to eliminate any estimated benefits from future projects and reorganisations). Budget and plan were prepared in line with forecasts for the automotive industry made available by the industry's most important sources. Such forecasts do not indicate a need for impairment;
- pension plans: 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 rates of salary increase, mortality and turnover rates;
- recoverability of deferred tax assets on tax losses: as of December 31, 2013, deferred tax assets on tax losses incurred in the year or during 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 under extraordinary circumstances that are unlikely to occur again in the future and that these assets could be recovered throughout an unlimited or long-term time frame;
- derivatives: the fair value of derivatives was estimated with the help of third-party consultants based on assessment models in accordance with industry practice, in compliance with the new requirements of IFRS 13 (calculation of DVA- Debit valuation adjustment);

- Provision for product warranties/Other non-current receivables: please note that the determination of the fair value of assets and liabilities arising from the acquisition of Systèmes Moteurs S.A.S. in 2011 had led to the recognition of assets and liabilities in connection with:
  - liabilities booked to long-term provisions for the fair value of potential liabilities connected with warranty risks;
  - other receivables, which represent the estimated amount left after full or partial insurance compensation and indemnities paid by suppliers that will be repaid by the seller of Systèmes Moteurs S.A.S.' shares.
    In order to evaluate said items, the Group considered all information and assumptions available on reporting date referred to the settlement status of any claims payable to automotive manufacturers involved and the indemnity process (i.e. claims receivables, status of international arbitration proceedings against seller, etc.). Closing time of said disputes cannot be estimated so far.

***2.4 Adoption of new accounting standards***

*IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE SINCE JANUARY 1, 2013*

The following accounting standards, amendments and interpretations were first adopted by the Group starting January 1, 2013:

- On May 12, 2011, IASB issued IFRS 13 – Fair value measurement, clarifying the measurement of the fair value for the purpose of the financial statement and applying to all situations in which IFRS permit or require a fair value measurement or the presentation of disclosures based on fair value, with some limited exceptions. In addition, this standard requires more detailed information to be disclosed on fair value measurement (fair value hierarchy) compared to IFRS 7 requirements. The standard has been effective prospectively since January 1, 2013. The adoption of this principle had an effect of approximately Euro 964 thousand on the fair value evaluation of the Group's derivative liabilities (due to the inclusion of the debt valuation adjustment component) before the related tax effect.
- On June 16, 2011, IASB issued amendments to IAS 19 – Employee benefits that eliminate the option to defer the recognition of actuarial gains and losses, known as the "corridor method", and require all actuarial gains and losses to be booked 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 Financial Position. The amendments further require 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 Consolidated Income Statement as service costs; net interest costs, calculated by applying the appropriate discount rate to the opening net balance of defined benefit provision net of assets, must be booked to Consolidated 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 interest costs must be calculated using the discount rate applicable to liabilities and no longer

the expected return on the assets. The amendments also introduce the requirement for supplementary disclosures to be provided in the notes. The amendment is applicable retrospectively from financial periods beginning on or after January 1, 2013.
The effects of the adoption of the new principle on the Group's Consolidated financial statements are outlined at paragraph “2.3 Accounting policies”.

- On June 16, 2011, IASB issued an amendment to IAS 1 – Presentation of Financial Statements requiring entities to group all items presented in "Other comprehensive income" depending on whether they can be reclassified to the Income Statement. The amendment is applicable from financial periods beginning on or after July 1, 2012. The amendment adoption required a new layout of "Other comprehensive income".
- On December 16, 2011, IASB issued certain amendments to IFRS 7 – Financial instruments: Disclosures. The amendments require information about the effect or potential effect of offsetting financial assets and liabilities on an entity's financial position. These amendments are to be applied retrospectively for periods beginning on or after January 1, 2013. The required disclosures should be provided retrospectively. The adoption of these amendments has had no effect on these Group Consolidated Financial Statements.
- On May 17, 2012 IASB published document *Annual Improvements to IFRSs: 2009-2011 Cycle*, amending standards as part of the annual improvement process, which is designed to make necessary, but not urgent, amendments to IFRSs. Outlined below are those amendments that impact the presentation, recognition and measurement of the items of the Consolidated Financial Statements. Those related to changes in new terminology having minimal accounting impacts, or those that concern standards or interpretations not applicable to the Group have been omitted:
  - IAS 1 Presentation of Financial Statements – Comparative information: clarifies that any additional comparative information provided must be presented in accordance with IAS/IFRS. It also clarifies that when an entity changes an accounting principle or makes adjustments/restatements retrospectively, it must include an opening statement of financial position at the beginning of the comparative period (“third statements of financial position” in the financial statements); related disclosures are not required for such “third statements of financial position”, except for the affected items, in the supporting notes.
  - IAS 16 Property, Plant and Equipment – Classification of servicing equipment: clarifies that servicing equipment must be classified under Property, plant and equipment if used during more than one accounting period. Otherwise, they must be classified as inventory.
  - IAS 32 Financial Instruments: Presentation – Taxes relating to distributions to holders of an equity instrument and transaction costs on equity transaction: clarifies that such income taxes are accounted according to IAS 12.
  - IAS 34 Interim Financial Reporting – Total assets for a reportable segment: clarifies that total assets must be disclosed only if such information is regularly provided to the chief operating decision maker of the entity and there has been a material change from the amounts disclosed in the last annual financial statements for the reportable segment.

The proposed amendments are effective for the years beginning on or after January 1, 2013. Early adoption is allowed. The adoption of these amendments has had no effect on measurements and had limited effect in terms of disclosures on the Group Consolidated Financial Statements of the Company.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION BUT NOT YET APPLICABLE AND NOT EARLY ADOPTED BY THE GROUP

- On May 12, 2011, IASB issued IFRS 10 – Consolidated Financial Statements that is to supersede SIC-12 Consolidation – Special Purpose Entities (Special Purpose Vehicles) and parts of IAS 27 – Consolidated and Separate Financial Statements, which will be renamed Separate Financial Statements and will establish how equity investments are to be accounted for in the Separate financial statements. The key changes introduced by this new principle are as follows:
    - under IFRS 10, all types of entities are to be consolidated according to a single basic principle, i.e. the principle of control. The changes introduced remove the perceived inconsistency between the former IAS 27 (based on control) and SIC 12 (based on the transfer of risk and benefits);
    - a more detailed definition of control has been introduced, based on three elements: (a) power over the investee; (b) exposure, or rights, to variable returns from the investor's involvement with the investee; (c) ability on the part of the investor to use its power over the investee to affect the amount of the investor's returns;
    - for the purpose of determining whether an investor has control over an investee, IFRS 10 requires investor to focus on the activities that significantly affect the investee's return;
    - for the purpose of determining whether an investor has control over an investee, IFRS 10 requires that only substantive rights to be considered, i.e. those rights that can be exercised when significant decisions need to be taken concerning the investee;
    - IFRS 10 provides application guidance on evaluating whether control exists in complex situations, such as *de facto* control, potential voting rights, situations in which it is necessary to assess whether the decision-maker is acting as a principal or an agent, etc.

Generally speaking, IFRS 10 application requires significant insight on a certain number of application issues.
This standard is to be applied retrospectively from January 1, 2014. The adoption of this new principle will have no impact on the scope of consolidation of the Group.

- On May 12, 2011, IASB issued IFRS 11 – Joint Arrangements that is to replace IAS 31 – Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. Without prejudice to the criteria for determining joint control, the new standard provides criteria for the accounting of joint arrangements that focus on the rights and obligations of the arrangement, rather than its legal form and requires a single method to account for interests in jointly-controlled entities in the Consolidated Financial Statements, the equity method. According to IFRS 11, the existence of a separate vehicle alone is not sufficient to classify a joint arrangement as a joint venture. This new standard is to be applied retrospectively from January 1, 2014. After this standard was issued, IAS 28 – Investments in Associates was amended to include interests in joint ventures in its scope of application, as of the effective date of the new standard. The adoption of this new principle will have no impact on the Consolidated Financial Statements of the Group.

- On May 12, 2011, IASB issued IFRS 12 – Disclosure of interests in other entities, a new standard that includes all of the disclosure requirements for subsidiaries, joint arrangements, associates, special purpose entities and other non-consolidated special purpose vehicles to be stated in the Consolidated Financial Statements. This standard is to be applied retrospectively from January 1, 2014. The adoption of this new principle will have effects in terms of disclosures within the Consolidated Financial Statements.
- On December 16, 2011, IASB issued certain amendments to IAS 32 – Financial Instruments: presentation to clarify the application of certain offsetting criteria for financial assets and financial liabilities in IAS 32. These amendments are to be applied retrospectively for periods beginning on or after January 1, 2014. The adoption of this new principle will have no impact on Consolidated Financial Statements of the Group.
- On June 28, 2012, IASB published document *Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)*. The purpose of this document is to clarify the transition rules in IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. These amendments have been applied - along with the reference standards - for years beginning on January 1, 2014, unless adopted earlier.
- The amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" issued on October 31, 2012 introduce an exemption from the consolidation of subsidiaries for investment entities, unless the investees provide them with services related to their investment activities. Under these amendments, an investment entity must measure its investment in subsidiaries on a fair value basis. In order to qualify as investment entity, an entity must:
  - obtain funds from one or more investors for the purpose of providing them with professional investment management services;
  - commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both;
  - measure and evaluate the performance of substantially all of its investments on a fair value basis.

These amendments are to be applied - along with the reference standards - for years beginning on January 1, 2014, unless adopted earlier.

- On May 29, 2013, IASB issued some amendments to IAS 36 Impairment of Assets – Recoverable amount disclosures for non-financial assets. These amendments clarify that the additional disclosures on the recoverable amount of assets (including goodwill) or cash-generating units when such recoverable amount is based on fair value less costs of disposal, are only required for those assets for which an impairment loss was recognised or reversed during the reporting period. These amendments are to be applied retrospectively for financial periods beginning on January 1, 2014. The adoption of this new principle will have no impact on Consolidated financial statements of the Group.
- On June 27, 2013, IASB issued some amendments to IAS 39 "Financial instruments: Recognition and measurement – Novation of derivatives and continuation of hedge accounting". These amendments introduce certain exceptions to the hedge accounting

requirements in IAS 39 applicable when an existing derivative is required to be replaced with a new derivative for laws or regulations mandate clearing, either directly or indirectly, through a central counterparty (CCP). These amendments are to be applied retrospectively for financial periods beginning on January 1, 2014. Early adoption is allowed. The adoption of this new principle will have no impact on the Consolidated Financial Statements of the Group.

IFRS 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.

- On May 20, 2013, IFRIC interpretation 21 – Levies was issued. The interpretation clarifies when a liability for levies imposed by government agencies should be recognised, both for levies that are accounted for in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, and those for which the settlement timing and amount are certain. The adoption of this new principle will have no impact on the Consolidated Financial Statements of the Group.
- On November 12, 2009, IASB issued IFRS 9 – Financial instruments: the same standard was amended on October 28, 2010. The standard, applicable retrospectively from January 1, 2015, represents the first part of a process in stages, the aim of which is to entirely replace IAS 39, and introduces new requirements for the classification and measurement of financial assets and financial liabilities. In particular, as regards financial assets, the new standard adopts a single approach based on how an entity manages its financial instruments and the contractual cash flows characteristics of the financial assets, in order to determine its valuation criteria and replacing the many different rules in IAS 39. The most significant effect of the standard regarding the financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. According to the new standard, these changes must be recognised in "Other Comprehensive Income" and will no longer be recognised in the Consolidated Income Statement. The Group is assessing any potential effects linked to the application of this principle.
- On November 19, 2013, IASB published document "*IFRS 9 Financial Instruments - Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*" concerning the new hedge accounting model. The document aims at responding to some criticisms made to IAS 39 requirements for hedge accounting, which are often considered as too stringent and not suitable for reflecting the entities' risk management policies. The main new features are the following:
    - changes to the types of transactions eligible for hedge accounting, namely extending the risks for non-financial assets/liabilities eligible for hedge accounting;
    - change in the way forward contracts and options are recognised when they are included in a hedge accounting transaction in order to decrease Income Statement volatility;
    - changes to effectiveness test by replacing the current method based on 80-125% range with the principle of the "economic relationship" between hedged item and

hedging instrument. Moreover, no retrospective effectiveness test of the hedging relationship is required any more;
- the increased flexibility of the new accounting rules is offset by additional disclosure required on the company risk management activities.

*3. FINANCIAL ASSETS*

**Classification and initial recognition**

In accordance with IAS 39, financial assets are to be classified in the following four categories:

1. financial assets at fair value through profit or loss;
2. held-to-maturity investments;
3. loans and receivables;
4. available-for-sale financial assets.

The classification depends on the purpose for which assets are bought and held. *Management* decides on their initial classification at the time of initial recognition, subsequently checking that it still applies at the end of each reporting period.

The main characteristics of the assets mentioned above are as follows:

*Financial assets at fair value through profit or loss*
This is made up of two sub-categories:
- financial assets held specifically for trading purposes;
- financial assets to be measured at fair value under the fair value option designation.

This category also includes all financial investments, other than equity instruments that do not have a price quoted on an active market, but for which the fair value can be determined.
Derivatives are included in this category, unless they are designated as hedging instruments, and their fair value is booked to the Consolidated Income Statement.

At the time of initial recognition, financial assets held for trading are recognised at fair value, not including the transaction costs or income associated with the same instruments, which are recognised in the Consolidated Income Statement.

All of the assets in this category are classified as current if they are held for trading purposes or if they are expected to be sold within 12 months from the end of the reporting period.

Designation of a financial instrument to this category is considered final (IAS 39 envisages some exceptional circumstances in which said financial assets may be reclassified in another category) and can only be done on initial recognition.

*Held-to-maturity investments*
These are non-derivative assets with fixed or determinable payments and fixed maturities which the Group intends to hold to maturity (e.g. subscribed bonds).