

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, 2014 regard the following subsidiaries:

- Sogefi (Suzhou) Auto Parts Co., Ltd. for the rental of two production plants in Wujiang, under a contract that will expire in September 2033.
As of December 31, 2014, total remaining payments amount to Euro 16,835 thousand, Euro 771 thousand of which due by the end of the year. The increase in the residual amount over 2013 is due for the most part to exchange rate effects in the amount of Euro 1.6 million. The Group has not given any guarantees whatsoever for this contract;
- Filtrauto S.A. for the rental of the production plant in Guyancourt. The contract will expire in May 2021 and remaining payments as of December 31, 2014 amount to Euro 4,841 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 May 2020. As of December 31, 2014, the remaining payments amount to Euro 2,210 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 2015 and the remaining payments as of December 31, 2014 amount to Euro 752 thousand, which are due by the end of the year.
The Group has not given any guarantees for this contract;
- 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 of December 31, 2014 amount to Euro 1,443 thousand, of which Euro 327 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.

- The lease contract for the production site in Shanghai entered into by subsidiary Shanghai Sogefi Auto Parts Co., Ltd, which would have expired in August 2023, was terminated after the plant was shut down and production relocated to Wuijiang. The Group had not given any guarantees whatsoever for this contract;

Future lease payments under operating leases outstanding as of December 31, 2014 are as follows:

(in thousands of Euro)	2014	2013
Within 12 months	7,555	6,582
Between 1 and 5 years	18,814	18,751
Beyond 5 years	12,646	14,131
TOTAL	39,016	39,465

42. INVESTMENT COMMITMENTS

As of December 31, 2014, Group companies have binding commitments for investments relating to the purchase of property, plant and equipment for Euro 323 thousand (Euro 1,907 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)	12.31.2014	12.31.2013
PERSONAL GUARANTEES GIVEN		
a) Sureties to third parties	1,893	1,745
b) Other personal guarantees in favour of third parties	9,714	9,714
TOTAL PERSONAL GUARANTEES GIVEN	11,607	11,459
REAL GUARANTEES GIVEN		
a) Against liabilities shown in the financial statements	7,122	9,588
TOTAL REAL GUARANTEES GIVEN	7,122	9,588

The guarantees given in favour of third parties relate to guarantees given to certain customers and to secure 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” mainly refer to subsidiaries Sogefi Engine Systems Canada Corp., Allevard IAI Suspensions Private Ltd and United Springs B.V., which have real guarantees on tangible fixed assets and trade receivables to secure loans obtained from financial institutions.

44. OTHER RISKS

As of December 31, 2014, the Group had third-party goods and materials held at Group companies worth Euro 9,367 thousand (Euro 7,075 thousand as of December 31, 2013).

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 1.9 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 did not set aside any amount for tax risks in the 2014 financial statements.

It should be noted that the Province Tax Commission has already discussed these tax assessments and decided in favour of the Company.

Tax authorities lodged an appeal with the Regional Tax Commission to reverse this decision.

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 2014.

47. SUBSEQUENT EVENTS

Under a resolution of the Board of Directors passed on January 19, 2015 and a Deed Poll executed on January 28, 2015 under British law (notified to agent on January 29, 2015), the Holding Company Sogefi S.p.A. unilaterally waived the right to settle the convertible bonds in cash rather than by conversion into ordinary shares when the conversion options are exercised by bondholders under the Bond Terms. Such renouncement is final, irrevocable and unconditional. Under British law, such renouncement has the same effect as an amendment to the Bond Terms.

As of January 28, 2015, the fair value of the option (calculated using the same model applied as of December 31, 2014) was Euro 9,090 thousand. This will have a positive effect (Euro 1,450 thousand) on the 2015 Income Statement. In addition, because the Deed Pool executed has the same effect as an amendment to the Bond Terms, the Holding Company Sogefi S.p.A. reviewed the liability-equity classification made upon initial recognition of the option (because the call option rights granted to the Company were waived irrevocably, finally and unconditionally). As a result, the Holding Company Sogefi S.p.A. reclassified the amount of the option mentioned above (Euro 9,090 thousand) from “Other medium/long-term liabilities for derivative financial instruments” to shareholders's equity.