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.

Analysing 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 20,355 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 market trends.
Fair value 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 equity- linked bond (including the embedded derivative linked to the conversion option) is classified as Level 1 in the fair value hierarchy being the financial instrument listed in an active market.

(in thousands of Euro)	Book value		Fair value	
	12.31.2014	12.31.2013	12.31.2014	12.31.2013
Financial assets				
Cash and cash equivalents	124,033	125,344	124,033	125,344
Securities held for trading	18	14	18	14
Held-to-maturity investments	6,953	7,462	6,953	7,462
Assets for derivative financial instruments	519	32	519	32
Current financial receivables	2,000	-	2,000	-
Trade receivables	148,083	145,837	148,083	145,837
Other receivables	6,884	7,827	6,884	7,827
Other assets	3,599	3,692	3,599	3,692
Other financial assets available for sale	439	439	439	439
Non-current trade receivables	4	4	4	4
Non-current financial receivables	157	-	157	-
Other non-current receivables	34,626	31,582	34,626	31,582
Financial liabilities				
Short-term fixed rate financial debts	11,268	7,685	11,731	8,058
Other floating rate short-term financial debts	66,666	75,950	66,666	75,950
Other short-term liabilities for derivative financial instruments	350	93	350	93
Trade and other payables	309,808	285,410	309,808	285,410
Other current liabilities	8,096	8,055	8,096	8,055
Other non- current liabilities	6,988	257	6,988	257
Other fixed rate medium/long-term financial debts	146,121	142,886	165,109	148,669
Equity linked bond included embedded derivative (call option)	86,067	-	86,971	-
Other floating rate medium/long-term financial debts	113,617	189,453	113,617	189,453
Other medium/long-term liabilities for derivative financial instruments	13,924	21,378	13,924	21,378

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 activities, whereas it does not use or hold derivatives or similar instruments purely for trading purposes.

The Group also has available a whole series 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 43% 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, hedging transactions cover around 78% of the net book value of the Group's floating-rate debts. After such transactions, floating-rate loans exposing the Group to a cash flow risk fall to 9% of the net book value of the Group's total loans (not all derivatives considered to be hedges from an operational point of view were designated in hedge accounting as of December 31, 2014).

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 of December 31, 2014, 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	(10,621)	(15,023)	(18,945)	(14,342)	(14,265)	(166,407)	(239,603)
TOTAL FLOATING RATE - ASSET	133,523	-	-	-	-	-	133,523
LIABILITIES	(67,015)	(70,085)	(34,334)	(13,374)	(9,748)	-	(194,556)

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 of December 31, 2014, including interest-rate hedges, would have the following effects:

(in thousands of Euro)	12.31.2014		12.31.2013	
Sensitivity Analysis	Net profit	Equity	Net profit	Equity
+ 100 basis points	4,508	4,849	951	7,943
- 100 basis points	(4,685)	(5,045)	(960)	(8,346)

The effect on Equity differs from the effect on the Income Statement by Euro 341 thousand (in the event of an increase in interest rates), and by Euro -360 thousand (in the event of a decrease in interest rates), which reflects the change in fair value of the instruments hedging the interest rate risk.

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 Holding Company Sogefi S.p.A. made one private placement of bonds for the amount of USD 115 million in 2013. 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 of December 31, 2014 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 of December 31, 2014, 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)	12.31.2014		12.31.2013	
Sensitivity Analysis	Net profit	Equity	Net profit	Equity
+ 5%	(640)	(640)	(481)	(481)
- 5%	712	712	540	540

These effects are mainly due to the following exchange rates:
-EUR/CNY mainly due to the debt exposure for the trade and financial payables in Euro of Chinese subsidiaries;
-EUR/BRL mainly due to the debt exposure for the trade payables in Euro of the Brazilian subsidiaries and to the financial debt exposure in Brazilian Real of Sogefi Filtration S.A.;

-EUR/USD mainly due to the private placement noted above, in spite of the cross currency swaps that partly neutralise the effect of possible fluctuations in the relevant exchange rate.

It should be noted that a sensitivity analysis of the CAD/USD exchange rate showed that the economic effect and impact on equity in the event of a 5% appreciation/depreciation of the Canadian Dollar would cause Net profit and Group's equity to increase/decrease by Euro 474 thousand. This effect is due to the debt exposure for the trade and financial payables in USD of Canadian subsidiary.

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 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 increase 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).

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 of December 31, 2014 is represented by the book value of the financial assets shown in the financial statements (Euro 331,548 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 11,607 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 150,976 thousand as of December 31, 2014 (Euro 140,576 thousand as of December 31, 2013), written down by Euro 5,170 thousand (Euro 4,703 thousand as of December 31, 2013).

Receivables are backed by mainly insurance guarantees for Euro 6,633 thousand (Euro 6,174 thousand as of December 31, 2013). The Group does not have any other guarantees covering trade receivables.

The following table shows the changes in the allowance for doubtful accounts:

(in thousands of Euro)	12.31.2014	12.31.2013
Opening balance	4,703	5,263
Change to the scope of consolidation	-	-
Accruals for the period	631	491
Utilisations	(11)	(240)
Provisions not used during the period	(202)	(660)
Other changes	-	(36)
Exchange differences	49	(115)
TOTAL	5,170	4,703

The following is an ageing analysis of gross receivables and the related allowance for doubtful accounts to help evaluate credit risk:

(in thousands of Euro)	12.31.2013		
	Gross value	Allowance for doubtful accounts	Net value
Receivables past due:			
0-30 days	6,791	(55)	6,736
30-60 days	4,740	(101)	4,639
60-90 days	2,060	(96)	1,964
over 90 days	7,926	(4,398)	3,528
Total receivables past due	21,517	(4,650)	16,867
Total receivables still to fall due	119,059	(53)	119,006
TOTAL	140,576	(4,703)	135,873

(in thousands of Euro)	12.31.2014		
	Gross value	Allowance for doubtful accounts	Net value
Receivables past due:			
0-30 days	10,829	(19)	10,810
30-60 days	2,793	(384)	2,409
60-90 days	1,247	(88)	1,159
over 90 days	8,276	(4,679)	3,597
Total receivables past due	23,145	(5,170)	17,975
Total receivables still to fall due	127,831	-	127,831
TOTAL	150,976	(5,170)	145,806

As of December 31, 2014, gross receivables past due were Euro 1,628 thousand higher than at the end of the previous year. The increase is concentrated in the “0-30 days” bracket (Euro 4,038 thousand) and is mostly due to payments due owed by customers of the French subsidiaries that were put off until early 2015. This increase is partly offset by a decrease in the “30-60 days” past due bracket (Euro -1,947 thousand) and in the “60-90 days” bracket (Euro -813 thousand) mostly relating to subsidiaries Filtrauto S.A. and Sogefi Engine Systems Mexico S. de R.L. de C.V..

The impact of gross receivables past due on total receivables is unchanged from the previous year at 15.3%.
Past due receivables have been written down by 22.3% overall (21.6% as of December 31, 2013) and by 56.5% (55.5% as of December 31, 2013) considering only the “over 90 days” bracket. Writedowns refer mainly to disputed amounts or receivables that have been due for a significant period of time and can no longer be collected.
Net receivables past due account for 12.3% of total net receivables, compared to 12.4% in the previous year.
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

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 Group 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	(195)	(217)	(244)	(275)	(304)	(1,150)	(2,385)
Finance lease Allevard Sogefi U.S.A. Inc.	(719)	(743)	(768)	(793)	(604)	(1,383)	(5,010)
Private Placement USD 115 million Sogefi S.p.A.	-	-	(13,536)	(13,536)	(13,536)	(53,752)	(94,360)
Private Placement EUR 25 million Sogefi S.p.A.	-	-	-	-	-	(24,922)	(24,922)
included embedded derivative (call option)	-	-	-	-	-	(86,067)	(86,067)
Sogefi (Suzhou) Auto Parts Co., Ltd loan	(6,436)	(6,569)	-	-	-	-	(13,005)
Sogefi Filtration do Brasil Ltda loan	(41)	(6,491)	(3,541)	-	-	-	(10,073)
Systèmes Moteurs S.A.S. loan	(437)	-	-	-	-	-	(437)
Sogefi Engine Systemes Canada Corp. loan	(662)	(705)	(686)	-	-	-	(2,053)
Government financing	(628)	(630)	(518)	(239)	(229)	(183)	(2,427)
Other fixed rate loans	(2,150)	(315)	(245)	-	-	-	(2,710)
Future interest	(9,726)	(10,456)	(9,580)	(7,907)	(7,044)	(9,819)	(54,532)
Future financial income on derivative instruments - interest risk hedging *	647	647	593	501	408	1,050	3,846
TOTAL FIXED RATE	(20,347)	(25,479)	(28,525)	(22,249)	(21,309)	(176,226)	(294,135)
Floating rate							
Cash and cash equivalents	124,033	-	-	-	-	-	124,033
Financial assets	6,971	-	-	-	-	-	6,971
Assets for derivative financial instruments	519	-	-	-	-	-	519
Current financial receivables	2,000	-	-	-	-	-	2,000
Non-current financial receivables	-	-	-	-	-	-	-
loans	(13,426)	-	-	-	-	-	(13,426)
Sogefi S.p.A. loans	(17,404)	(66,665)	(32,374)	-	(9,748)	-	(126,191)
Shanghai Sogefi Auto Parts Co., Ltd loans	(2,654)	-	-	-	-	-	(2,654)
S.C. Systemes Moteurs SRL loan	(827)	(827)	(207)	-	-	-	(1,861)
Sogefi (Shouzu) Auto Parts Co., Ltd loan	(20,512)	-	-	-	-	-	(20,512)
Sogefi Filtration S.A. loan	(1,400)	(700)	-	-	-	-	(2,100)
Systèmes Moteurs S.A.S. loan	(3,500)	-	-	-	-	-	(3,500)
Sogefi Engine Systems Canada Corp. loans	(1,440)	(703)	(681)	-	-	-	(2,824)
Allevard Rejna Autosuspensions S.A. loan	(4,000)	-	-	-	-	-	(4,000)
Other floating rate loans	(1,502)	(647)	(1,072)	-	-	-	(3,221)
Future interest	(3,871)	(2,457)	(990)	(211)	(122)	-	(7,651)
Liabilities for derivative financial instruments - exchange risk hedging	(350)	-	-	-	-	-	(350)
Future financial expenses on derivative instruments - interest risk hedging *	(4,091)	(4,316)	(4,334)	(1,806)	-	-	(14,547)
TOTAL FLOATING RATE	58,546	(76,315)	(39,658)	(2,017)	(9,870)	-	(69,314)
Trade receivables	148,083	-	-	-	-	-	148,083
Trade and other payables	(309,808)	(223)	(6,765)	-	-	-	(316,796)
TOTAL FINANCIAL INSTRUMENT - ASSET	281,606	-	-	-	-	-	281,606
TOTAL FINANCIAL INSTRUMENT - LIABILITIES	(405,132)	(102,017)	(74,948)	(24,266)	(31,179)	(176,226)	(813,768)

* The amount is different from "Net financial liabilities for derivatives – hedging of interest rate" (equal to a total of Euro 13,767 thousand) because it represents the non-discounted cash flows

Hedging

a) Exchange risk hedges – not designated in hedge accounting
The Sogefi Group has the following contracts to hedge the exchange risk on financial balances. Note that even though the Group considers these instruments as exchange risk hedges from a 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 the Income Statement (this difference is offset within Income Statement by the fair value change of the asset/liability denominated in a certain currency).
Fair value was calculated using the forward curve of exchange rates as of December 31, 2014.

As of December 31, 2014, the Holding Company Sogefi S.p.A. held the following forward sale contracts to hedge exchange risk on intercompany financial positions:

Forward sale	Date opened	Spot price €/currency	Date closed	Forward price €/currency
USD 5,000,000	12/19/2014	1.24480	03/19/2015	1.24580
GBP 6,000,000	12/19/2014	0.79320	03/19/2015	0.79438

As of December 31, 2014, the fair value of these contracts was negative for Euro 242 thousand and was booked to “Other short-term liabilities for derivative financial instruments”.

The subsidiary Filtrauto S.A. holds the following forward purchase contract to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price €/currency	Date closed	Forward price €/currency
USD 250,000	11/12/2014	1.24630	01/05/2015	1.24666

As of December 31, 2014, the fair value of this contract amounted to Euro 5 thousand and was booked to “Other financial assets – Assets for derivative financial instruments”.

The subsidiary Systèmes Moteurs S.A.S. holds the following forward purchase contract to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price €/currency	Date closed	Forward price €/currency
CAD 10,000,000	11/28/2014	1.40570	01/28/2015	1.40800

As of December 31, 2014, the fair value of this contract was positive for Euro 3 thousand and was booked to “Other financial assets – Assets for derivative financial instruments”.

The subsidiary S.C. Systèmes Moteurs S.r.l. holds the following forward purchase contracts to hedge the exchange risk on trade and intercompany financial positions:

Forward purchase	Date opened	Spot price RON/currency	Date closed	Forward price RON/currency
EUR 3,100,000	11/28/2014	4.41730	01/28/2015	4.42660
EUR 400,000	12/10/2014	4.44300	01/09/2015	4.44650
EUR 200,000	12/19/2014	4.47900	01/15/2015	4.48380

As of December 31, 2014, the fair value of this contract was positive for Euro 45 thousand and was booked to "Other financial assets – Assets for derivative financial instruments".

The subsidiary Sogefi Engine Systems Canada Corp. holds the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price CAD/currency	Date closed	Forward price CAD/currency
USD 7,700,000	12/04/2014	1.13900	01/02/2015	1.13990
USD 7,000,000	12/10/2014	1.14580	02/02/2015	1.14750
USD 7,900,000	12/11/2014	1.14700	03/02/2015	1.14930

and the following forward sale contract to hedge exchange risk on intercompany financial positions:

Forward sale	Date opened	Spot price CAD/currency	Date closed	Forward price CAD/currency
MXN 75,000,000	12/17/2014	12.67060	02/19/2015	12.70460

As of December 31, 2014, the fair value of these contracts was positive for Euro 229 thousand and was booked to "Other financial assets – Assets for derivative financial instruments".

The subsidiary Sogefi Engine Systems Mexico S. de R.L. de C.V. holds the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price MXN/USD	Date closed	Forward price MXN/USD
MXN 7,700,000	12/15/2014	14.77000	01/05/2015	14.78250
MXN 7,700,000	12/19/2014	14.50000	02/03/2015	14.53000

and the following forward purchase contract to hedge exchange risk on trade and intercompany financial positions:

Forward purchase	Date opened	Spot price MXN/currency	Date closed	Forward price MXN/currency
CAD 7,500,000	11/28/2014	12.11850	02/27/2015	12.16050

As of December 31, 2014, the fair value of these contracts was positive for Euro 236 thousand and was booked to "Other financial assets – Assets for derivative financial instruments".

The subsidiary Systèmes Moteurs India Pvt. Ltd. holds the following forward purchase contract to hedge the exchange risk on intercompany financial positions:

Forward purchase	Date opened	Spot price INR/currency	Date closed	Forward price INR/currency
EUR 2,000,000	10/31/2014	78.00000	01/30/2015	80.04000

As of December 31, 2014, the fair value of these contracts was negative for Euro 68 thousand and was booked to "Other short-term liabilities for derivative financial instruments".

The subsidiary Allevard Molas do Brasil Ltda holds the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price BRL/currency	Date closed	Forward price BRL/currency
EUR 102,000	12/12/2014	3.22270	01/30/2015	3.27530
EUR 220,000	12/13/2014	3.22270	02/27/2015	3.30360
EUR 164,000	12/14/2014	3.22270	03/31/2015	3.33760

and the following forward sale contracts to hedge exchange risk on trade positions:

Forward sale	Date opened	Spot price BRL/currency	Date closed	Forward price BRL/currency
USD 733,000	12/12/2014	2.59650	01/30/2015	2.62900
USD 942,000	12/12/2014	2.59650	02/27/2015	2.64580
USD 1,010,000	12/12/2014	2.59650	03/31/2015	2.66450

As of December 31, 2014, the fair value of these contracts was negative for Euro 40 thousand and was booked to "Other short-term liabilities for derivative financial instruments".

The subsidiary Sogefi Filtration Argentina S.A. holds the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	Date opened	Spot price ARP/currency	Date closed	Forward price ARP/currency
USD 200,000	12/30/2014	8.55200	01/30/2015	8.78000
USD 200,000	12/30/2014	8.55200	02/27/2015	8.96500

As of December 31, 2014 the fair value of those contracts amounts to zero.

b) Exchange risk hedges – in hedge accounting

In 2013, the Holding Company Sogefi S.p.A. entered into the following Interest Rate Swap contracts (in thousands of Euro) as part of a macro cash flow hedge strategy aimed at hedging the risk of fluctuations in future cash flows deriving from the envisaged future long term indebtedness of the Holding Company Sogefi S.p.A.. Future indebtedness is deemed to be highly probable in view of the 2015-2018 projections approved by management. Relating cash flows will be exchanged from 2016 onwards:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi S.p.A. future financial indebtedness	02/21/2013	06/01/2018	10,000	1.660%	(281)	(21)
Hedging of Sogefi S.p.A. future financial indebtedness	02/19/2013	06/01/2018	10,000	1.650%	(277)	(17)
Hedging of Sogefi S.p.A. future financial indebtedness	02/21/2013	06/01/2018	5,000	1.660%	(139)	(8)
TOTAL			25,000		(697)	(46)

These financial instruments envisage payment by the Group of an agreed fixed rate and payment by the counterparty of the floating rate that is the basis of the underlying loan.

c) Exchange risk hedges – in hedge accounting

During 2013, the Holding Company Sogefi S.p.A. entered into three cross currency swap (CCS) contracts maturing in June 2023, designated in hedge accounting, in order to hedge interest and exchange rate risk relating to the private placement of USD 115 million bonds. Under these contracts, a fixed interest receivable of 600 basis points on subscribed notional USD amount is collected by the Holding Company Sogefi S.p.A. 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 88,089 thousand).

Details of these contracts are as follows:

Description of CCSwap	Date opened	Contract maturity	Notional (in thousands of Usd)	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Private placement USD 115 million (05/03/2013 maturity 06/01/2013), coupon 600 bps	04/30/2013	06/01/2023	55,000	6.0% USD receivable 5.6775% Euro payables	140	(4,363)
Private placement USD 115 million (05/03/2013 maturity 06/01/2013), coupon 600 bps	04/30/2013	06/01/2023	40,000	6.0% USD receivable 5.74% Euro payables	17	(3,320)
Private placement USD 115 million (05/03/2013 maturity 06/01/2013), coupon 600 bps	04/30/2013	06/01/2023	20,000	6.0% USD receivable 5.78% Euro payables	(7)	(1,698)
TOTAL			115,000		150	(9,381)

d) derivatives no longer in hedge accounting

As of December 31, 2014, the Group held the following Interest Rate Swap contracts that had become ineffective according to the effectiveness tests performed as of December 31,

2013 (with regard the first derivatives listed below) and as of June 30, 2014 (with regard to the other derivatives listed here), so that the hedging relationship was discontinued and the derivatives were reclassified as trading instruments. More specifically, the change in fair value since the last effectiveness test passed is immediately recognised in the Income Statement, whereas any reserve previously booked to Other Comprehensive Income is recognised in the Income Statement over the same period of time as the differentials relating to the underlying hedged item.
Details are as follows:

Derivative held by the subsidiary Sogefi Filtration S.A.:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi Filtration S.A. loan for Euro 7 million (05/30/2011 maturity 05/30/2016), rate Euribor 3 months + 225 bps	08/30/2011	05/30/2016	1,050	2.651%	(24)	(56)
TOTAL			1,050		(24)	(56)

Derivatives held by the Holding Company Sogefi S.p.A.:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi S.p.A. loan for Euro 60 million (04/29/2011 maturity 12/31/2016), rate Euribor 3 months + 200 bps	05/11/2011	12/31/2016	16,000	2.99%	(518)	(986)
TOTAL			16,000		(518)	(986)

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi S.p.A. future financial indebtedness	02/10/2011	06/01/2018	10,000	3.679%	(1,153)	(1,117)
Hedging of Sogefi S.p.A. future financial indebtedness	02/23/2011	06/01/2018	10,000	3.500%	(1,135)	(1,108)
Hedging of Sogefi S.p.A. future financial indebtedness	03/11/2011	06/01/2018	10,000	3.545%	(1,148)	(1,128)
Hedging of Sogefi S.p.A. future financial indebtedness	03/23/2011	06/01/2018	10,000	3.560%	(1,152)	(1,127)
Hedging of Sogefi S.p.A. future financial indebtedness	03/28/2011	06/01/2018	10,000	3.670%	(1,195)	(1,182)
Hedging of Sogefi S.p.A. future financial indebtedness	05/13/2011	06/01/2018	10,000	3.460%	(1,124)	(1,092)
Hedging of Sogefi S.p.A. future financial indebtedness	06/24/2011	06/01/2018	10,000	3.250%	(1,051)	(1,001)
Hedging of Sogefi S.p.A. future financial indebtedness	06/28/2011	06/01/2018	10,000	3.250%	(1,049)	(1,002)
Hedging of Sogefi S.p.A. future financial indebtedness	11/28/2011	06/01/2018	10,000	2.578%	(824)	(712)
TOTAL			90,000		(9,831)	(9,469)

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.225%	(186)	(51)
Hedging of Sogefi S.p.A. future financial indebtedness	02/01/2013	06/01/2018	10,000	1.310%	(397)	(119)
Hedging of Sogefi S.p.A. future financial indebtedness	02/06/2013	06/01/2018	10,000	1.281%	(388)	(109)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.220%	(184)	(50)
Hedging of Sogefi S.p.A. future financial indebtedness	02/12/2013	06/01/2018	5,000	1.240%	(185)	(27)
TOTAL			35,000		(1,340)	(356)

According to the effectiveness tests carried out as of December 31, 2014, the derivatives listed below, aimed at hedging the risk of fluctuations in cash flows from 2015 onwards connected with expected future indebtedness, became ineffective as well:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value at 12.31.2014	Fair value at 12.31.2013
Hedging of Sogefi S.p.A. future financial indebtedness	02/07/2013	06/01/2018	15,000	1.445%	(566)	(79)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.425%	(186)	(30)
Hedging of Sogefi S.p.A. future financial indebtedness	02/19/2013	06/01/2018	10,000	1.440%	(376)	(62)
Hedging of Sogefi S.p.A. future financial indebtedness	02/11/2013	06/01/2018	5,000	1.420%	(185)	(52)
Hedging of Sogefi S.p.A. future financial indebtedness	02/13/2013	06/01/2018	5,000	1.500%	(195)	(36)
TOTAL			40,000		(1,508)	(259)

The non-application of hedge accounting had the following impact on the financial statements as of December 31, 2014:

- a financial charge of Euro 2,776 thousand was recognised in the Income Statement; this amount reflects the portion of the reserve previously booked to Other Comprehensive Income that will be recognised in the Income Statement over the same period of time as the differentials relating to the underlying hedged item.
- a financial charge of Euro 1,168 thousand, reflecting the amount of the change in fair value since the previous effectiveness test (December 31, 2013), was recognised in the Income Statement.

e) fair value of derivative contracts in hedge accounting and no longer designated in hedge accounting

The fair value of all derivatives was calculated using the forward curves of exchange and interest rates as of December 31, 2014, also taking into account a credit valuation adjustment / debit valuation adjustment. The fair value amounts of derivatives are classified as Level 2 in a hierarchy of levels that describes the significance of the inputs used in fair value measurements.

Derivative embedded in the bond

As noted above, the Holding Company Sogefi S.p.A. issued a bond designated "€100,000,000 2 per cent. Equity Linked Bonds due 2021" under which terms the Company has the right to pay cash or offer a combination of ordinary shares and cash when the conversion rights are exercised - following the Extraordinary Shareholders Meeting on September 26, 2014 - passed the resolution to increase share capital, excluding option rights, under art. 2441, paragraph 5 of the Italian Civil Code, through the issue of shares exclusively for bond conversion.
Such right constitutes an embedded derivative that is booked to the appropriate item in the statement of financial position (financial liability).
On May 14, 2014, the Holding Company Sogefi S.p.A. separated the embedded derivative (call option on Company's shares) from the host contract (equity-linked bonds) in accordance with IAS 39 and determined that its fair value amounts to Euro 24,500 thousand. The fair value was classified as Level 2 in the fair value hierarchy. As of December 31, 2014, the fair value of the embedded derivative amounted to Euro 10,540

thousand, and the Euro 13,960 thousand increase was recognised in the Income Statement under item “Other financial income”.
The following parameters were used to measure fair value:

- Three-month average price of the Sogefi stock as of December 31, 2014: Euro 2.2626 (the three-month average price was used due to the high volatility of the stock during the final months of 2014)
- Exercise price: Euro 5.3844
- 7-year BTP yield as of December 31, 2014: 1.43%
- Average annual volatility of the Sogefi stock as of December 31, 2014: 45.2%

With regard to sensitivity, if the price of the Sogefi stock ruling as of December 31, 2014 had been used, the fair value of the embedded derivative would have been Euro 8,791 thousand; if the average price of December were used, the fair value of embedded derivative would amount to Euro 9,365 thousand.

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 of December 31, 2014, gearing stands at 1.68 (1.61 as of December 31, 2013).

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 of December 31, 2013.
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 of December 31, 2014:

(in thousands of Euro)	Note	Book value 2014	Receivables and financial assets	Financial assets available for sale	Held-to-maturity investments	Financial liabilities	Fair Value with changes booked in the Income Statement	
							Amount	Fair value hierarchy
Current assets								
Cash and cash equivalents	*5*	124,033	124,033	-	-	-	-	
Securities held for trading	*6*	18	-	-	-	-	18	*1*
Held-to-maturity investments	*6*	6,953	-	-	6,953	-	-	
Assets for derivative financial instruments	*6*	519	-	-	-	-	519	*2*
Trade receivables	*8*	148,083	148,083	-	-	-	-	
Other receivables	*8*	6,884	6,884	-	-	-	-	
Other assets	*8*	3,599	3,599	-	-	-	-	
Non-current assets								
Other financial assets available for sale	*12*	439	-	439 *	-	-	-	
Non-current trade receivables	*13*	4	4		-			
Other non-current receivables	*13*	34,626	34,626	-	-	-	-	
Current liabilities								
Short-term fixed rate financial debts	*16*	11,268	-	-	-	11,268	-	
Short-term variable rate financial debts	*16*	66,666	-	-	-	66,666	-	
Other short-term liabilities for derivative financial instruments	*16*	350	-	-	-	-	350	*2*
Trade and other payable	*17*	309,808	-	-	-	309,808	-	
Other current liabilities	*18*	8,096	-	-	-	8,096	-	
Non-current liabilities								
Medium/long-term fixed rate financial debts	*16*	146,121	-	-	-	146,121	-	
Equity linked bond included embedded derivative (call option)	*16*	86,067	-	-	-	86,067	-	2
Medium/long-term variable rate financial debts	*16*	113,617	-	-	-	113,617	-	
Other medium/long-term liabilities for derivative financial instruments	*16*	13,924	-	-	-	-	13,924 **	*2*

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

** of which € 11,245 thousand relating to hedge instruments accounted according to the cash flow hedge method.

The following table therefore shows the fair value level of financial assets and liabilities measured at fair value, as of December 31, 2013:

(in thousands of Euro)	Note	Book value 2013	Receivables and financial assets	Financial assets available for sale	Held-to-maturity investments	Financial liabilities	Fair Value with changes booked in the income statement	
							Amount	Fair value hierarchy
Current assets								
Cash and cash equivalents	*5*	125,344	125,344	-	-	-	-	-
Securities held for trading	*6*	14	-	-	-	-	14	*1*
Held-to-maturity investments	*6*	7,462	-	-	7,462	-	-	-
Assets for derivative financial instruments	*6*	32	-	-	-	-	32	*2*
Trade receivables	*8*	145,837	145,837	-	-	-	-	-
Other receivables	*8*	7,827	7,827	-	-	-	-	-
Other assets	*8*	3,692	3,692	-	-	-	-	-
Non-current assets								
Other financial assets available for sale	*12*	439	-	439 *	-	-	-	-
Other non-current receivables	*13*	4	4	-	-	-	-	-
Other non-current receivables	*13*	31,582	31,582	-	-	-	-	-
Current liabilities								
Short-term fixed rate financial debts	*16*	7,685	-	-	-	7,685	-	-
Short-term variable rate financial debts	*16*	75,950	-	-	-	75,950	-	-
Other short-term liabilities for derivative financial instruments	*16*	93	-	-	-	-	93	*2*
Trade and other payables	*17*	285,410	-	-	-	285,410	-	-
Other current liabilities	*18*	8,055	-	-	-	8,055	-	-
Non-current liabilities								
Medium/long-term fixed rate financial debts	16	142,886	-	-	-	142,886	-	-
Medium/long-term variable rate financial debts	16	189,453	-	-	-	189,453	-	-
Other medium/long-term liabilities for derivative financial instruments	16	21,378	-	-	-	-	21,378 **	*2*

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

** of which € 20,336 thousand relating to hedge instruments accounted according to the cash flow hedge method.