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 financial debts. This difference, corresponding to Euro 1,833 thousand, is generated by the fixed-rate loans outstanding at the end of the reporting period, for which the value has been recalculated at current market rates.

(in thousands of Euro)	*Book value*		*Fair value*	
	12.31.2012	*12.31.2011*	*12.31.2012*	*12.31.2011*
Financial assets				
Cash and cash equivalents	85,209	102,461	85,209	102,461
Securities held for trading	15	11	15	11
Held-to-maturity investments	8,199	1,893	8,199	1,893
Assets for derivative financial instruments	15	8	15	8
Current financial receivables	-	-	-	-
Trade receivables	155,161	178,655	155,161	178,655
Other receivables	32,477	32,141	32,477	32,141
Other assets	3,559	2,800	3,559	2,800
Other financial assets available for sale	489	490	489	490
Non-current trade receivables	-	918	-	918
Non-current financial receivables	-	-	-	-
Other non-current receivables	17,022	14,102	17,022	14,102
Financial liabilities				
Short-term financial debts	97,973	56,789	98,150	57,057
Other short-term liabilities for derivative financial instruments	1,011	632	1,011	632
Trade and other payables	307,984	314,841	307,984	314,841
Other current liabilities	8,765	7,324	8,765	7,324
Medium/long-term financial debts	276,594	338,378	278,250	338,491
Other medium/long-term liabilities for derivative financial instruments	13,708	8,416	13,708	8,416

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.

Fixed rate debts expose the Group to a fair value risk. For this kind of risk arising from said contracts, the Group does not implement specific hedging policies, as it deems the risk to be limited to the modest amount of the fixed term loans.

Floating rate debts, which represent 93% 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 31% 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 64% of the net book value of the Group's total loans.

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, 2012, 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	*(11,678)*	*(4,022)*	*(2,687)*	*(2,302)*	*(2,135)*	*(2,756)*	*(25,580)*
TOTAL FLOATING RATE - ASSET	*93,438*	*-*	*-*	*-*	*-*	*-*	*93,438*
TOTAL FLOATING RATE - LIABILITIES	*(87,306)*	*(49,235)*	*(69,886)*	*(105,634)*	*(51,644)*	*-*	*(363,705)*

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, 2012, including interest-rate hedges, would have the following effects:

(in thousands of Euro)	*12.31.2012*		*12.31.2011*	
Sensitivity Analysis	*Net profit*	*Equity*	*Net profit*	*Equity*
+ 100 basis points	*(1,113)*	*2,841*	*(1,041)*	*3,351*
- 100 basis points	*1,113*	*(2,841)*	*1,041*	*(3,351)*

It should be noted that as of December 31, 2012, the KIRD (Key Interest Rate Duration) method was adopted for the sensitivity analysis of interest-rate hedges in place of the full revaluation approach used in the previous years; values as of December 31, 2011 were recalculated according to the new method.

The effect on Equity differs from the effect on the Income Statement by Euro 3,954 thousand, 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 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 systematic hedging of the risk is used through forward currency purchases.

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, 2012 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, 2012, 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)	*12.31.2012*		*12.31.2011*	
Sensitivity Analysis	*Net profit*	*Equity*	*Net profit*	*Equity*
+ 5%	*(613)*	*(613)*	*(711)*	*(711)*
- 5%	*661*	*661*	*774*	*774*

These effects are mainly due to the following exchange rates:
- *EUR/GBP mainly due to the net debt exposure for the trade payables in Euro of the UK subsidiaries net of the change in the fair value of the relative hedge (subsidiaries Sogefi Filtration Ltd and Allevard Springs Ltd);*
- *EUR/CNY mainly due to the debt exposure for the trade and financial payables in Euro of Chinese subsidiaries;*
- *EUR/ARP mainly due to the debt exposure for the trade payables in Euro of Argentinian subsidiaries.*

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, 2012 is represented by the book value of the financial assets shown in the financial statements (Euro 302,146 thousand), as well as by the nominal value of the guarantees given in favour of third parties, as mentioned in note 43 (Euro 10,946 thousand).

The exposure to credit risk is essentially linked to trade receivables which amounted to Euro 156,245 thousand as of December 31, 2012 (Euro 180,581 thousand as of December 31, 2011), written down by Euro 5,263 thousand (Euro 5,319 thousand as of December 31, 2011).
Receivables are backed by insurance guarantees for Euro 4,652 thousand (Euro 4,861 thousand as of December 31, 2011). 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)	*12.31.2012*	*12.31.2011*
Opening balance	*5,319*	*5,852*
Change to the scope of consolidation	*-*	*65*
Accruals for the period	*706*	*1,009*
Utilisations	*(627)*	*(1,226)*
Provisions not used during the period	*(104)*	*(375)*
Other changes	*6*	*25*
Exchange differences	*(37)*	*(31)*
TOTAL	*5,263*	*5,319*

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)	*12.31.2011*		
	Gross value	*Allowance for doubtful accounts*	*Net value*
Receivables past due:			
0-30 days	*15,502*	*(69)*	*15,433*
30-60 days	*3,393*	*(181)*	*3,212*
60-90 days	*1,143*	*(201)*	*942*
over 90 days	*7,045*	*(4,868)*	*2,177*
Total receivables past due	*27,083*	*(5,319)*	*21,764*
Total receivables still to fall due	*153,498*	*-*	*153,498*
TOTAL	*180,581*	*(5,319)*	*175,262*

(in thousands of Euro)	*12.31.2012*		
	Gross value	*Allowance for doubtful accounts*	*Net value*
Receivables past due:			
0-30 days	*12,631*	*(3)*	*12,628*
30-60 days	*3,981*	*(39)*	*3,942*
60-90 days	*1,783*	*(153)*	*1,630*
over 90 days	*8,938*	*(5,068)*	*3,870*
Total receivables past due	*27,333*	*(5,263)*	*22,070*
Total receivables still to fall due	*128,912*	*-*	*128,912*
TOTAL	*156,245*	*(5,263)*	*150,982*

As of December 31, 2012, gross receivables past due were Euro 250 thousand higher than at the end of the previous year. The increase is observed in the "over 90 days" bracket (+ Euro 1,893 thousand) and mainly relates to receivables from certain OE customers of the subsidiary Sogefi Rejna S.p.A.; part of these receivables had already been collected at the date of this report.
The "0-30 days" bracket has decreased (- Euro 2,871 thousand) mainly thanks to subsidiary Systèmes Moteurs S.A.S..

The impact of gross receivables past due on total receivables stands at 17.5% compared to 15% in the previous year.
Past due receivables have been written down by 19.3% of the total (19.6% as of December 31, 2011) and 56.7% (69.1% as of December 31, 2011) 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 14.6% 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.
The fact that it has a significant level of cash flow, together with 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	*(145)*	*(164)*	*(186)*	*(207)*	*(233)*	*(1,642)*	*(2,577)*
Finance lease Allevard Sogefi U.S.A. Inc.	*(341)*	*(353)*	*(365)*	*(377)*	*(389)*	*(620)*	*(2,445)*
Sogefi Filtration do Brasil Ltda loan	*(6,533)*	-	-	-	-	-	*(6,533)*
Systèmes Moteurs S.A.S. loan	*(1,694)*	*(1,710)*	*(437)*	-	-	-	*(3,841)*
Sogefi Engine Systemes Moteurs Canada Corp loan	*(373)*	*(670)*	*(710)*	*(752)*	*(730)*	-	*(3,235)*
Government financing	*(627)*	*(589)*	*(613)*	*(602)*	*(490)*	*(494)*	*(3,415)*
Other fixed rate loans	*(1,965)*	*(536)*	*(376)*	*(364)*	*(293)*	-	*(3,534)*
Future interest	*(1,006)*	*(631)*	*(465)*	*(363)*	*(258)*	*(552)*	*(3,275)*
TOTAL FIXED RATE	*(12,684)*	*(4,653)*	*(3,152)*	*(2,665)*	*(2,393)*	*(3,308)*	*(28,855)*
Floating rate							
Cash and cash equivalents	*85,209*	-	-	-	-	-	*85,209*
Financial assets	*8,214*	-	-	-	-	-	*8,214*
Assets for derivative financial instruments	*15*	-	-	-	-	-	*15*
Current financial receivables	-	-	-	-	-	-	-
Non-current financial receivables	-	-	-	-	-	-	-
Bank overdrafts and other short-term loans	*(8,377)*	-	-	-	-	-	*(8,377)*
Sogefi S.p.A. loans	*(58,123)*	*(46,531)*	*(67,290)*	*(91,584)*	*(48,016)*	-	*(311,544)*
Shangai Sogefi Auto Parts Co., Ltd loans	*(8,807)*	-	-	-	-	-	*(8,807)*
Sogefi Filtration S.A. loan	*(1,400)*	*(1,400)*	*(1,400)*	*(700)*	-	-	*(4,900)*
Systèmes Moteurs S.A.S. loan	*(3,000)*	-	-	-	-	-	*(3,000)*
Sogefi Engine Systems Canada Corp. loan	*(371)*	*(667)*	*(710)*	*(754)*	*(733)*	-	*(3,235)*
Bank loans	*(5,268)*	*(293)*	*(486)*	*(679)*	*(1,104)*	-	*(7,830)*
Finance lease Allevard Rejna Autosuspensions S.A.	*(328)*	*(344)*	-	-	-	-	*(672)*
Other floating rate loans	*(621)*	-	-	-	-	-	*(621)*
Future interest	*(10,462)*	*(8,337)*	*(7,509)*	*(5,123)*	*(2,295)*	-	*(33,726)*
Liabilities for derivative financial instruments - exchange risk hedging	*(166)*	-	-	-	-	-	*(166)*
*Future financial expences on derivative instruments - interest risk hedging **	*(3,056)*	*(3,726)*	*(3,726)*	*(3,726)*	*(2,941)*	*(1,226)*	*(18,401)*
TOTAL FLOATING RATE	*(6,541)*	*(61,298)*	*(81,121)*	*(102,566)*	*(55,089)*	*(1,226)*	*(307,841)*
Trade receivables	*155,161*	-	-	-	-	-	*155,161*
Trade and other payables	*(307,984)*	-	-	-	-	-	*(307,984)*
TOTAL FINANCIAL INSTRUMENT - ASSET	*248,599*	-	-	-	-	-	*248,599*
TOTAL FINANCIAL INSTRUMENT - LIABILITIES	*(420,647)*	*(65,951)*	*(84,273)*	*(105,231)*	*(57,482)*	*(4,534)*	*(738,118)*

* The amount is different compared to Liabilities for derivative instruments - interest risk hedging (equal to a total amount of Euro 14,553 thousands) representing not discounted cash flow.

Hedging

a) exchange risk

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 financial 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).

As of December 31, 2012, the Holding Company Sogefi S.p.A. held the following forward sale contract to hedge exchange risk on intercompany financial positions:

Forward sale	Date opened	Spot price €/currency	Date closed	Forward price €/currency
USD 7,230,000	12/20/2012	1.31780	03/20/2013	1.31910

As of December 31, 2012, the fair value of this contract was positive for Euro 2 thousand in terms of net value and was recognised in "Other financial assets – Assets for derivative financial instruments" (Euro 7 thousand) and to "Other short-term liabilities for derivative financial instruments" (Euro 5 thousand).
Fair value was calculated using the forward curve of exchange rates as of December 31, 2012.

The subsidiary Sogefi Filtration Ltd held the following forward purchase contracts to hedge the exchange risk on intercompany financial positions (EUR) and on trade positions (USD).

Forward purchase	Date opened	Spot price GBP/currency	Date closed	Forward price GBP/currency
EUR 2,500,000	12/20/2012	0.81280	03/20/2013	0.81376
USD 300,000	12/27/2012	0.61962	01/09/2013	0.61962
USD 300,000	12/27/2012	0.61962	02/06/2013	0.61966
USD 300,000	12/27/2012	0.61962	03/06/2013	0.61972

As of December 31, 2012, the fair value of these contracts amounted to Euro 8 thousand and was booked to "Other financial assets – Assets for derivative financial instruments".
The fair value of contracts denominated in USD is equal to zero.
Fair value was calculated using the forward curve of exchange rates as of December 31, 2012.

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

Forward sale	*Date opened*	*Spot price €/currency*	*Date closed*	*Forward price €/currency*
CAD 17,000,000	*12/20/2012*	*1.29720*	*03/20/2013*	*1.30060*

As of December 31, 2012, the fair value of this contract was negative for Euro 161 thousand and was booked to "Other short-term liabilities for derivative financial instruments".
Fair value was calculated using the forward curve of exchange rates as of December 31, 2012.

As of December 31, 2012, subsidiary Filtrauto S.A. held the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	*Date opened*	*Spot price €/currency*	*Date closed*	*Forward price €/currency*
USD 35,000	*12/31/2012*	*1.319000*	*01/09/2013*	*1.31907*
USD 250,000	*12/31/2012*	*1.319000*	*02/06/2013*	*1.31937*
USD 250,000	*12/31/2012*	*1.319000*	*03/06/2013*	*1.31970*

As of December 31, 2012, the fair value of these contracts calculated using the forward curve of exchange rates as of December 31, 2012 was equal to zero.

The subsidiary Allevard Springs Ltd held the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	*Date opened*	*Spot price GBP/currency*	*Date closed*	*Forward price GBP/currency*
EUR 300,000	*12/31/2012*	*0.81670*	*01/09/2013*	*0.81677*
EUR 300,000	*12/31/2012*	*0.81670*	*02/06/2013*	*0.81703*

As of December 31, 2012, the fair value of these contracts calculated using the forward curve of exchange rates as of December 31, 2012 was equal to zero.

The subsidiary Sogefi Rejna S.p.A. held the following forward purchase contracts to hedge the exchange risk on trade positions:

Forward purchase	*Date opened*	*Spot price €/currency*	*Date closed*	*Forward price €/currency*
USD 50,000	*12/27/2012*	*1.32610*	*01/09/2013*	*1.32633*
USD 100,000	*12/27/2012*	*1.32610*	*02/06/2013*	*1.32660*

As of December 31, 2012, the fair value of these contracts calculated using the forward curve of exchange rates as of December 31, 2012 was equal to zero.

b) interest risk

At the end of the year, the Holding Company Sogefi S.p.A had the following contracts in place to hedge its interest rate risk (in thousands of Euro) on financial debts drawdown:

Description of IRS	*Date opened*	*Contract maturity*	*Notional*	*Fixed rate*	*Fair value*
Hedging of Sogefi S.p.A. loan for € 100 million (09/29/2006 maturity 03/31/2014), rate: Euribor 3 months + 70 bps	*11/18/2009*	*04/30/2013*	*5,000*	*2.210%*	*(51)*
Hedging of Sogefi S.p.A. loan for € 100 million (09/29/2006 maturity 03/31/2014), rate: Euribor 3 months + 70 bps	*11/27/2009*	*04/30/2013*	*5,000*	*2.150%*	*(49)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*11/18/2009*	*05/06/2013*	*5,000*	*2.230%*	*(52)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*11/27/2009*	*05/06/2013*	*5,000*	*2.170%*	*(51)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*12/20/2010*	*05/06/2013*	*5,000*	*1.733%*	*(39)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*12/20/2010*	*05/06/2013*	*5,000*	*1.733%*	*(40)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*12/21/2010*	*05/06/2013*	*5,000*	*1.7075%*	*(38)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*12/22/2010*	*05/06/2013*	*10,000*	*1.685%*	*(76)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*03/11/2011*	*05/06/2013*	*10,000*	*2.693%*	*(127)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*03/11/2011*	*05/06/2013*	*10,000*	*2.805%*	*(133)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*03/23/2011*	*05/06/2013*	*10,000*	*2.800%*	*(132)*
Hedging of Sogefi S.p.A. loan for € 120 million (12/04/2012 maturity 12/04/2017), rate: Euribor 3 months + 425 bps	*03/23/2011*	*05/06/2013*	*5,000*	*2.445%*	*(57)*
Hedging of Sogefi S.p.A. loan for € 60 million 04/29/2011 maturity 12/31/2016), rate: Euribor 3 months + 200 bps	*05/11/2011*	*12/31/2016*	*28,000*	*2.990%*	*(1,791)*
TOTAL			*108,000*		*(2,636)*

As of December 31, 2012, the Holding Company Sogefi S.p.A. held 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 company; future indebtedness is believed to be highly probable as it is envisaged by the long-term plan approved by management.
Relating cash flows will be exchanged from 2013 onwards:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	02/10/2011	06/01/2018	10,000	3.679%	(1,386)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	02/23/2011	06/01/2018	10,000	3.500%	(1,387)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	03/11/2011	06/01/2018	10,000	3.545%	(1,407)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	03/23/2011	06/01/2018	10,000	3.560%	(1,345)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	03/27/2011	06/01/2018	10,000	3.670%	(1,470)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	05/13/2011	06/01/2018	10,000	3.460%	(1,365)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	06/24/2011	06/01/2018	10,000	3.250%	(1,261)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	06/28/2011	06/01/2018	10,000	3.250%	(1,260)
Hedging of Sogefi S.p.A. future financial indebtedness for 2013-2018	11/28/2011	06/01/2018	10,000	2.578%	(925)
TOTAL			90,000		(11,806)

As of December 31, 2012, the subsidiary Sogefi Filtration S.A. holds the following interest rate hedging instrument (in thousands of Euro) on the existing loan with Banco Sabadell:

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value
Hedging of Sogefi Filtration S.A. loan for € 7 million (05/30/2011 maturity 05/30/2016), rate: Euribor 3 months + 225 bps	08/30/2011	05/30/2016	2,450	2.6509%	(111)

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.
The aim of these contracts is to limit the risk of changes in interest rates. They have been treated in hedge accounting as hedging instruments and the related fair value is booked to equity, except for an amount of Euro 194 thousand that was booked to Income Statement under "Total financial expenses (income), net" as the ineffective portion of the hedge relationship.

Reference should be made to the paragraph on "Interest risk" for further information on the level of hedging of interest risk.

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, 2012, gearing stands at 1.37 (1.40 as of December 31, 2011).

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, 2012.
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, 2012.

(in thousands of Euro)	*Note*	*Book value 2012*	*Receivables and financial assets*	*Financial assets available for sale*	*Held-to-maturity invetments*	*Financial liabilities*	*Fair Value with changes booked in the income statement*	
							Amount	*Fair value hierarchies*
Current assets								
Cash and cash equivalents	*5*	*85,209*	*85,209*	-	-	-	-	
Securities held for trading	*6*	*15*	-	-	-	-	*15*	*1*
Held-to-maturity investments	*6*	*8,199*	-	-	*8,199*		-	
Assets for derivative financial instruments	*6*	*15*	-	-	-	-	*15*	*2*
Trade receivables	*8*	*155,161*	*155,161*	-	-	-	-	
Other receivables	*8*	*32,477*	*32,477*	-	-	-	-	
Other assets	*8*	*3,559*	*3,559*	-	-	-	-	
Non-current assets								
Other financial assets available for sale	*12*	*489*	-	*489 **		-	-	
Other non-current receivables	*13*	*17,022*	*17,022*	-	-	-	-	
Current liabilities								
Short-term financial debts	*16*	*97,973*	-	-	-	*97,973*	-	
Other short-term liabilities for derivative financial instruments	*16*	*1,011*	-	-	-	-	*1,011 ***	*2*
Trade and other payables	*17*	*307,984*	-	-	-	*307,984*	-	
Other current liabilities	*18*	*8,765*	-	-	-	*8,765*	-	
Non-current liabilities								
Medium/long-term financial debts	*16*	*276,594*	-	-	-	*276,594*	-	
Other medium/long-term liabilities for derivative financial instruments	*16*	*13,708*	-	-	-	-	*13,708 ***	*2*

** of which € 439 thousand relating to financial assets valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not avaible.*
*** of which € 14,553 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, 2011

(in thousands of Euro)	*Note*	*Book value 2011*	*Receivables and financial assets*	*Financial assets available for sale*	*Held-to-maturity invetments*	*Financial liabilities*	*Fair Value with changes booked in the income statement*	
							Amount	*Fair value hierarchies*
Current assets								
Cash and cash equivalents	5	102,461	102,461	-	-	-	-	
Securities held for trading	6	11	-	-	-	-	11	1
Held to maturity investments	6	1,893	-	-	1,893	-	-	
Asset for derivative financial instruments	8	8	-	-	-	-	8	2
Trade receivables	6	178,655	178,655	-	-	-	-	
Other receivables	8	32,141	32,141	-	-	-	-	
Other assets	8	2,800	2,800	-	-	-	-	
Non-current assets								
Other financial assets available for sale	12	490	-	490 *	-	-	-	
Other non-current receivables	13	14,102	14,102	-	-	-	-	
Current liabilities								
Short-term financial debts	16	56,789	-	-	-	56,789	-	
Other short-term liabilities for derivative financial instruments	16	632	-	-	-	-	632 **	2
Trade and other payables	17	314,841	-	-	-	314,841	-	
Other current liabilities	18	7,324	-	-	-	7,324	-	
Non-current liabilities								
Medium/long-term financial debts	16	338,378	-	-	-	338,378	-	
Other medium/long-term liabilities for derivative financial instruments	16	8,416	-	-	-	-	8,416 **	2

** of which € 439 thousand relating to a financial asset valued at cost, as permitted by IAS 39, insofar as a reliable fair value is not avaible.*
*** of which € 8,988 thousand relating to hedge instruments accounted according to the cash flow hedge method.*