

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 drawn 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 on Operations. A description of how the Group manages financial risks, including liquidity and capital risk, is provided in note 39.

2.1 Consolidation principles

The financial statements as of December 31, 2012 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IAS/IFRS, have been used for consolidation purposes.

The scope of consolidation includes subsidiaries 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., owned at 50%, has been considered as a subsidiary granted that the Group has the power to cast majority of the votes at the meetings of 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, unless it is likely that they will be recovered in the future.

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 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 subsidiaries with a different functional currency from Euro are translated into Euro using the previous year's average exchange rate in the subsidiary that paid the dividend and at the current exchange rate in the subsidiary that received the dividend; the exchange differences are charged in the currency translation reserve.

The following exchange rates have been used for translation purposes:

	2012		2011	
	Average	12.31	Average	12.31
US dollar	1.2849	1.3194	1.3904	1.2939
Pound sterling	0.8108	0.8161	0.8675	0.8353
Brazilian real	2.5023	2.7036	2.3239	2.4159
Argentine peso	5.8350	6.4863	5.7369	5.5676
Chinese renminbi	8.1064	8.2210	8.9847	8.1588
Indian rupee	68.5871	72.5689	64.7668	68.7130
New romanian Leu	4.4567	4.4444	4.2371	4.3233
Canadian dollar	1.2842	1.3137	1.3752	1.3215
Mexican peso	16.9005	17.1851	17.2444	18.0512
Hong Kong dollar	9.9671	10.2260	10.8237	10.0510

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 associates are consolidated applying the equity method, which means that the results of operations of associates and any changes in Other comprehensive income of the 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 is adjusted by booking the related loss to the 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.

Acquisition of Systemes Moteurs Group

As mentioned earlier, the determination of the fair value of identifiable assets acquired and identifiable liabilities assumed in connection with the Systemes Moteurs Group business combination occurred in July 2011, required by the acquisition method, was completed during the first half of 2012.

The following table reports the final fair values of acquired assets and liabilities assumed and details of goodwill on the “acquisition date” (July 29, 2011), as well as the corresponding provisional values reported in the consolidated financial statements at December 31, 2011:

	Definitive Fair Value	Temporary Fair Value as at December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	8,311	8,311
Other financial assets	-	-
Inventories	51,395	51,395
Trade receivables	48,193	48,193
Other receivables	3,877	5,307
Tax receivables	4,356	4,356
Other assets	334	334
TOTAL CURRENT ASSETS	116,466	117,896
NON-CURRENT ASSETS		
FIXED ASSETS		
Land	1,006	1,006
Property, plant and equipment	38,129	37,156
Other tangible fixed assets	715	715
Intangible assets	47,570	17,627
TOTAL FIXED ASSETS	87,420	56,504
OTHER NON-CURRENT ASSETS		
Investments in associates	274	274
Other receivables	24,320	952
Deferred tax assets	12,304	1,518
TOTAL OTHER NON-CURRENT ASSETS	36,898	2,744
TOTAL NON-CURRENT ASSETS	124,318	59,248
TOTAL ASSETS (A)	240,784	177,144

<i>LIABILITIES</i>	<i>Definitive Fair Value</i>	<i>Temporary Fair Value as at December 31, 2011</i>
<i>CURRENT LIABILITIES</i>		
<i>Bank overdrafts and short-term loans</i>	-	-
<i>Current portion of medium/long-term financial debts and other loans</i>	-	-
<i>TOTAL SHORT-TERM FINANCIAL DEBTS</i>	-	-
<i>Other short-term liabilities for derivative financial instruments</i>	-	-
<i>TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FIN. INSTRUMENTS</i>	-	-
<i>Trade and other payables</i>	74,517	69,653
<i>Tax payables</i>	32	32
<i>Other current liabilities</i>	2,887	2,887
<i>TOTAL CURRENT LIABILITIES</i>	77,436	72,572
<i>NON-CURRENT LIABILITIES</i>		
<i>OTHER LONG-TERM LIABILITIES</i>		
<i>Long-term provisions</i>	31,276	4,815
<i>Other payables</i>	1,359	1,359
<i>Deferred tax liabilities</i>	16,771	6,816
<i>TOTAL OTHER LONG-TERM LIABILITIES</i>	49,406	12,990
<i>TOTAL NON-CURRENT LIABILITIES</i>	49,406	12,990
<i>TOTAL LIABILITIES (B)</i>	126,843	85,562
<i>Transferred consideration for the acquisition</i>	146,501	146,501
<i>Net asset acquired (A)-(B)</i>	113,941	91,582
<i>GOODWILL</i>	32,560	54,919
<i>Transferred consideration for the acquisition</i>	146,501	146,501
<i>Cash and cash equivalents owned by the purchased group</i>	(8,311)	(8,311)
<i>CASH FLOW FOR THE ACQUISITION</i>	138,190	138,190

Below is a description of the nature and amounts of main adjustments to the fair value of acquired assets and liabilities assumed, occurred during the measurement period.

After completion of fair value determination, "Plant and machinery" was increased by Euro 973 thousand.

After completion of the determination of fair value of "Intangible assets", the following separable intangible assets were identified:

- Customer Relationship: Euro 19,215 thousand (amortised over a useful life of 20 years);*
- Patents: Euro 2,292 thousand (amortised over a useful life of 4 to 5 years);*
- "Systèmes Moteurs" trade name: Euro 8,437 thousand (amortised over a useful life of 20 years).*

After completion of the determination of the fair value of contingent liabilities connected with product warranty risks, liabilities for the amount of Euro 25,068 thousand were recognised. Of such liabilities, Euro 4,177 thousand were charged to short-term "Trade and other payables" and Euro 20,891 thousand were booked to "Long-term provisions". Such contingent liabilities actually occurred in the amount of Euro 6,020 thousand at December 31, 2012. We believe that the amount left after full or partial insurance compensation and indemnities paid by subsuppliers will be repaid by the seller of Systèmes Moteurs S.A.S.' shares. For this reason, the amount of Euro 23,368 thousand was credited as an indemnification asset to "Other non-current receivables".

"Long-term provisions" include other liabilities for the amount of Euro 7,000 thousand. The balance includes different items, among which estimated legal costs expected to be incurred in proceedings to recover "Other receivables" mentioned above.

This affected deferred tax impact and as a result goodwill decreased from Euro 54,919 thousand to Euro 32,560 thousand.

2.3 Accounting policies

The following accounting policies have been applied in the financial statements as of December 31, 2012.

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.

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:

	%
<i>Land</i>	<i>n.a.</i>
<i>Industrial buildings and light constructions</i>	<i>2.5-12.5</i>
<i>Plant and machinery</i>	<i>7-14</i>
<i>Industrial and commercial equipment</i>	<i>10-25</i>
<i>Other assets</i>	<i>10-33</i>
<i>Assets under construction</i>	<i>n.a.</i>

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

Ordinary maintenance costs are charged to the 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 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 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 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:

	%
<i>Development costs</i>	20-33
<i>Industrial patents and intellectual property rights, concessions, licences, trademarks</i>	20-33
<i>Customer relationship</i>	5
<i>Trade name</i>	5
<i>Other</i>	20-33
<i>Goodwill</i>	n.a.
<i>Assets under construction</i>	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 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

The customer relationship represents the value assigned, during the "Purchase Price Allocation" process, to Systemes Moteurs Group customers' portfolio at the data of the acquisition.

Trade name

The trade name represents the value assigned, during the "Purchase Price Allocation" process, to the name "Systemes Moteurs" at the data of the acquisition.

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 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 evaluated asset useful life is 10 years and the amortization takes effect since the full implementation in each company.

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 Engine Systems division – Fluid Filters, the Engine Systems division – Air Intake and Cooling and the Car Suspension division.

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, 2012, 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 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 associates and joint ventures

The results, assets and liabilities of associates and joint ventures are consolidated under the equity method.

Equity investments in other companies and other securities

In accordance with IAS 39, equity investments in entities other than subsidiaries 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 determined. In this case the cost method is used.

Gains and losses deriving from value adjustments are booked to a specific item in "Profit (loss) booked 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 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 Income Statement (under the item "Financial expenses (income), net").

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

- fair value hedges if they are meant to cover the risk of changes in the market value of the underlying assets or liabilities;*
- cash flow hedges 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 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, whereas any part that proves ineffective is booked to the Income Statement (under the item "Financial expenses (income), net").

The portion booked to Profit (loss) booked to Other comprehensive income will be reclassified to the 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.

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 income statement are calculated on the basis of actuarial valuations that use the projected unit credit method. The part of the accumulated net value of actuarial profits and losses in excess of the higher between 10% of the present value of the defined-benefit obligation and 10% of the fair value of plan assets at the end of the previous reporting period is amortised over the average residual working life of the employees ("corridor approach"). On first-time adoption of IFRS, the Group decided to record all accumulated actuarial profits and losses existing on January 1, 2004, even though it had chosen to use the corridor approach for subsequent actuarial profits and losses.

The liability relating to benefits to be recognised on termination of employment recorded in the statement of financial position represents the present value of the defined-benefit obligation, adjusted by the actuarial profits and losses suspended in application of the corridor approach and by costs relating to past service to be recognised in future years, less the fair value of the plan assets. Any net assets determined using this calculation method are recognised at the lowest of their value and the sum of unrecognised net actuarial losses, the cost of past service to be recognised in future years, the present value of available repayments and reductions of future contribution to the plan.

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 on a straight-line basis for the average period until such time as said benefits are acquired. 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 profit or loss relating to said reduction is immediately booked to the income statement.

All of the costs and income resulting from the measurement of funds for pension plans are booked to 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 and actuarial gain/losses included in “Other non-operating expenses (income)”.

The costs relating to defined-contribution plans are booked to the Income Statement when incurred.

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 as a cost with a corresponding entry to a provision.

Stock-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 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 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 book 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 Income Statement, except for those relating to items directly charged or credited to Other comprehensive income / Equity, in which case tax effect is recognised directly under Other comprehensive income / Equity.

Participation in CIR’s group tax filing system (applicable to Italian companies)

Each company jointing 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 transferer 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 transferer company).

Treasury shares

Treasury shares are deducted from equity. The original cost of treasury shares and the profit 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 accruals. Revenues from services rendered are recognised at the time the services are provided.

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 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.

Operating grants

These are credited to the 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.

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.

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.

Diluted 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 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 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 2013 as determined based on the budget and for 2014-2016 has determined based on the forecasts included in the 2014-2016 strategic plan. Budget and the strategic plan were prepared in line with forecasts for the automotive segment made available by the segment's most important sources. Impairment test based on 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, expected return on pension plan assets (this particular assumption concerns nearly exclusively British pension funds), future wage inflation rates, mortality and turnover rates;
- recoverability of deferred tax assets on tax losses: as of December 31, 2012, deferred tax assets on tax losses incurred 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 determined based on the fact that such losses have originated under extraordinary circumstances that are unlikely to occur again in the future.
 - derivatives: the fair value of derivatives was estimated by third-party consultants based on assessment models in accordance with industry practice;
 - with regard to the determination of the fair value of the assets acquired and liabilities assumed by Systèmes Moteurs, it should be noted that:
 - the fair value of tangible fixed assets was determined based on valuations made by third-party professionals;
 - the fair value of intangible assets was determined by third-party consultants based on assessment models in accordance with industry practice;
 - contingent liabilities arising out of product warranty risks were determined based on conservative assumptions; the associated indemnification asset arising from indemnities was recognised based on a reasonable certainty that it will be recovered.

2.4 Adoption of new accounting standards

IFRS accounting standards, amendments and interpretations applied from January 2012

The following accounting standards, amendments and interpretations were first adopted by the Group starting January 1, 2012.

On October 7, 2010, the IASB issued amendments to IFRS 7 – Financial instruments: Disclosures. The intent of these amendments is to improve the disclosure requirements for derecognised financial assets. More specifically, the amendments require more transparency of risk exposure for transactions in which an entity transfers a financial asset but retains a continuing involvement of some kind in that asset. The amendments also require additional disclosures in the event that a disproportionate amount of such transfer transactions is undertaken at the end of a reporting period. The adoption of these amendments had an impact on the disclosures on factored trade receivables without recourse, where transfer was not notified to the other party.

On December 20, 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires an entity to measure deferred tax on investment properties measured at fair value based on how the entity expects to recover the carrying amount of the asset (through continuative use or sale). Specifically, this amendment introduces a presumption that the carrying amount of investment properties measured at fair value according to IAS 40 will be recovered entirely through sale and requires deferred tax to be determined on a sale basis in jurisdictions where different tax rates apply. The adoption of this amendment had no impact on deferred tax measurement as at December 31, 2012.

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, the 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 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, 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) investor's ability 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 relevant 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 be considered, i.e. those rights that can be exercised when significant decisions concerning the investee need to be taken;
- 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 judgement on a certain number of application issues.

The standard is applicable retrospectively from January 1, 2014. The Group does not expect this new standard to impact the scope of consolidation in any way.

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. The criteria for determining joint control remains unchanged, 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 the equity method as a single method to account for interests in jointly-controlled entities in consolidated financial statements. According to IFRS 11, the existence of a separate vehicle alone is not sufficient to classify a joint arrangement as a joint venture. The new standard is applicable 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 Group does not expect this new standard to impact the scope of consolidation in any way.

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. The standard is applicable retrospectively from January 1, 2014.

On May 12, 2011, the IASB issued IFRS 13 – Fair Value Measurement, clarifying how the fair value should be measured for the purpose of the financial statements and it is applicable 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 is effective prospectively from January 1, 2013.

On December 16, 2011, the 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. As a result, such criteria are now more difficult to apply. These amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

On December 16, 2011, IASB issued certain amendments to IFRS 7 – Financial instruments: Disclosures. The amendments require disclosures about the effect or potential effect of offsetting financial assets and liabilities on an entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. The required disclosures should be provided retrospectively.

On June 16, 2011, the 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.

On June 16, 2011, the IASB issued amendments to IAS 19 – Employee Benefits that eliminates the option to defer the recognition of actuarial gains and losses, known as the “corridor method”, and requires 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 period to be reported into three items: the cost components of work performed during the reporting period must be recognised in the 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 Income Statement as net financial expenses and the actuarial gains and losses resulting from remeasurements 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 amendment also introduces the requirement for additional disclosures to be provided in the notes. The amendments are applicable retrospectively from financial periods beginning on or after January 1, 2013. Based on reasonable estimates, the effects of the application of these amendments to the balances of liabilities for “Long-term provisions” and Shareholders' equity as of December 31, 2012 amount to Euro 20,041 thousand. The Group has not yet completed the analysis of how the application of the new principle would have impacted the net result for the year 2012.

IFRIC Interpretation 20 – Stripping Costs in the Production Phase of a Surface Mine was published in October 2011. It addresses waste removal costs incurred in surface mining activities during the production phase of a mine. This Interpretation is effective for annual periods beginning on or after January 1, 2013.

On March 19, 2011, the IASB issued an amendment to IFRS 1 First-time adoption of International Financial Reporting Standards – Government Loans that changes reference to government loans accounting during transition to IFRS.

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 November 12, 2009, the 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 phase 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 Income Statement.

Phases two and three of the financial instrument project, which address financial asset impairment and hedge accounting, respectively, are still under way. IASB is also evaluating improvements to the part of IFRS 9 that addresses the Classification and measurement of financial assets.

On May 17, 2012 the 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 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 retrospective adjustments/restatements, 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.

On June 28, 2012, the 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). First and foremost, the document is aimed at clarifying the Board's intentions as to the transition rules in IFRS 10 Consolidated Financial Statements. The document clarifies that when an entity with a calendar year end first adopts IFRS 10 for the financial statements for the year ended December 31, 2013, initial application date will be January 1, 2013.

If the consolidation conclusion is the same under IAS 27 and SIC 12, as well as under IFRS 10 on the initial application date, the entity is not required to make any adjustments. Likewise, no adjustment is required when the interest was transferred during the comparative period (and is no longer held on initial application date).

The document aims to clarify how an investor should adjust the comparative period or periods retrospectively when the conclusions on the consolidation according to IAS 27/SIC 12 and IFRS 10 as at date of initial application differ. Specifically, when retrospective adjustment as outlined above is impracticable, an acquisition/transfer is accounted for at the beginning of the comparative period presented, and retained earnings are adjusted accordingly. In addition, the Board amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to likewise facilitate the presentation or modification of comparative information for periods before “the immediately preceding period” (i.e. the comparative period presented in the financial statements). A further amendment to IFRS 12 limits the requirement to present comparative information for the disclosures for structured entities not consolidated in periods preceding the application of IFRS 12.

These amendments are to be 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 through profit or loss. 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; and*
- measure and evaluate the performance of substantially all of its investments on a fair value basis.*

These amendments apply for annual periods beginning on January 1, 2014; early adoption is permitted.