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Accounting Profession in Italy, Second Edition Revised; Professional Accounting in Foreign Country Series

Reconta Ernst & Young (Italy)

Steven F. Moliterno

The Accounting Profession in Italy Second Edition, Revised
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

SECOND EDITION, REVISED

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PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA
American Institute of Certified Public Accountants

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The Accounting Profession in Italy

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

Reconta Ernst & Young (Italy)
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Series Editor

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of March 31, 1991. Changes after this date in the standards of either the United States or Italy may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Italy. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Italian auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Italy but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President,
Technical Standards and Services

Contents

1 The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. Two types of professional accountants are recognized in Italy: the Dottore Commercialista (doctor of commerce) and the Ragioniere Collegiato (accountant and commercial expert). The activities of these two groups, which are governed by two separate laws enacted in 1953, are basically similar, the main differences relating to the educational and professional background of their members. (See paragraphs 13 and 14 for a discussion of the differences.) Two of the major professional organizations associated with the two groups can be reached at the following addresses:

Consiglio Nazionale dei Dottori Commercialisti
Via Poli 29
Rome 00187

Consiglio Nazionale dei Ragionieri e Periti Commerciali
Via F. Paisiello 24
Rome 00198

2. The entire framework of business regulation in Italy is currently undergoing profound and rapid change. Traditionally, accounts in Italy were prepared for tax purposes only, and formal auditing and accounting standards were unknown. There are approximately 200 publicly listed companies on the Milan Stock Exchange (the largest stock exchange in Italy), and there has been

little pressure from shareholder groups to improve auditing and reporting standards. Although both types of limited companies—the *Società per Azioni*, or S.p.A. (corporation), and the *Società a responsabilità limitata*, or S.r.l. (limited-liability company with capital in excess of 100 million lire)—have to appoint a Collegio Sindacale (board of statutory auditors), the work of the statutory auditors is different from the work performed by an audit firm.

3. To improve public confidence in corporate reporting and to stimulate investment, a stock exchange regulatory authority, the Commissione Nazionale per le Società e la Borsa, or Consob (National Commission for Corporations and Stock Exchange), was established in 1974. Auditing requirements for listed companies, introduced by legislation that was enacted in 1975, became effective in 1982. These requirements were extended by subsequent legislation to other kinds of companies and certain state-owned enterprises. For insurance companies, a supervisory authority similar to Consob, the Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo, or ISVAP (Institute for the Control Over Insurance Companies), was established by a 1982 law that became effective in 1983.

4. Consob has recommended a number of new financial reporting and auditing standards issued by the profession, including the requirement for presenting consolidated accounts. Under the present Consob rules, audits can be performed by approximately thirty approved audit firms whose quality control and independence are monitored on a regular basis. One of the conditions for an audit firm to be included on the Consob list is that the majority of its partners or directors must be either Dottori Commercialisti or Ragionieri Collegiati with at least five years of audit experience. (Alternatively, they may qualify by passing a special Consob examination.) A Consob audit must comply with standards comparable to those recognized internationally. The auditor reports that the financial statements examined conform to the requirements of Italian commercial law and are in accordance with accepted accounting principles.

5. The Consob-approved audit firms established the Italian Association of Auditing Firms, known as Assirevi, to represent their interests and to improve professional standards. Recently, an association of smaller firms, known as Associazione Italiane Revisori (AIRE), was formed with similar objectives.

6. New audit requirements are expected when the Fourth Directive of the European Economic Community (EEC) is adopted.

Foreign Reciprocity

7. Accountants from foreign countries that grant reciprocal treatment to Italian accountants may have their foreign degrees or diplomas recognized as being equivalent to Italian credentials. Auditing qualifications and audit experience acquired in such countries may also be recognized as equivalent in Italy.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

8. In 1976 the Ordine Nazionale dei Dottori Commercialisti (National Institute of Doctors of Commerce) established two national commissions to develop proposed accounting and auditing standards for the presentation and audits of financial statements. The Consiglio Nazionale dei Ragionieri e Periti Commerciali, which had initially formed its own commission, decided in 1983 to join in the Dottori Commercialisti's efforts. The standard-setting procedure initially proposed by these commissions was later modified, particularly with respect to accounting standards, to gain more general acceptance. In 1982 Consob decided to enforce the auditing standards issued by the Ordine Nazionale dei Dottori Commercialisti and recommended that the commissions' proposed accounting standards be observed (with some exceptions, still under study, relating to audit reports and financial statement presentation).

9. The accounting standards are intended to complement the basic principles set forth in the Italian Civil Code, which is the codification of the laws, norms, etc., that govern the country's activity. At present, however, the accounting standards derive their validity not from the law but from general acceptance, as evidenced by the recognition of Consob, the accounting profession, Assirevi, and other institutions. The auditing standards have been

enforced as law under the terms provided by a Consob pronouncement of 1982; they are legally binding on the auditing firms, and are recognized as such by Assirevi.

Ethics Requirements

10. The rules of association of the Ordine Nazionale dei Dottori Commercialisti and of the Collegio Nazionale dei Ragionieri include specific ethics requirements relating to the exercise of the profession of Dottore Commercialista or Ragioniere Collegiato. These requirements have to do with the auditor's independence and professional competence.

11. Auditing Standard No. 1, *General Concepts Relative to Auditing Standards*, of the Consiglio Nazionale dei Dottori Commercialisti specifies the following ethics requirements for the auditor:

- Competence as a condition for acceptance of the auditor's work
- Exercise of due professional care in the conduct of the audit
- Integrity
- Independence

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

12. Under current law, the practice of public accounting is limited to the professions of Dottore Commercialista and Ragioniere Collegiato. Little distinction is made between the professional activities of the Dottore Commercialista and the Ragioniere Collegiato: both can participate in the administration of business enterprises, appraisals, surveys, liquidation proceedings, administrative inspections, accounting verifications and audits, tax advice, and representation of clients before the tax authorities.

13. The designation *Ragioniere Collegiato* may be obtained through admission to membership in the Collegio dei Ragionieri e Periti Commerciali by graduates of a five-year business secondary school who pass national examination dealing with the provisions and procedures of the Civil Code and with tax and accounting

problems. Two years' practical experience in the office of a Ragioniere Collegiato or a Dottore Commercialista in public practice is required for admission to the examination.

14. The designation *Dottore Commercialista* may be obtained through admission to membership in the Ordine Nazionale dei Dottori Commercialisti by graduates of a four-year university course leading to the degree of Dottore in Scienze Economiche e Commerciali (doctor of economic and commercial science) who have also passed a special state examination that may be taken immediately after obtaining the university degree. There is no requirement for practical experience.

15. The designation *Revisore Ufficiale dei Conti* (official auditor) may also be obtained by registration in the Ruolo dei Revisori Ufficiali dei Conti (official register of auditors). Such registration may be obtained by any person of Italian nationality who has served for at least five years as an active statutory auditor, as a director, as an administrative or accounting officer, or in a similar capacity in a business enterprise with a capital stock of not less than 50 million lire. This experience requirement is reduced to three years or four years, respectively, for a Dottore Commercialista or a Ragioniere Collegiato of at least five years' standing. It is not necessary that the registrant have had professional experience in examining and reporting on financial statements, as is required, for example, in the United States and the United Kingdom.

16. As noted earlier, the present law requires that in order for an audit firm to be included on the Consob list, a majority of its partners and directors must be Dottori Commercialisti or Ragionieri Collegiati who have at least five years of audit experience (or, alternatively, have passed the special Consob examination).

Rights of Membership

17. Rights deriving from membership in the Ordine Nazionale dei Dottori Commercialisti or in the Collegio Nazionale dei Ragionieri consist mainly of the right to vote in the elections of these groups' national and local representative bodies (the Consiglio Nazionale dei Dottori Commercialisti and the Collegio Nazionale dei Ragionieri), and to participate in the professional activities of the organizations.

Number of Members

18. As of December 1990, the number of Dottori Commercialisti was about 20,000 and the number of Ragionieri Collegiati was approximately 25,000.

CPE Requirements

19. There are no specific requirements regarding continuing professional education (CPE) under the rules of association of either the Ordine Nazionale dei Dottori Commercialisti or the Collegio Nazionale dei Ragionieri, although both organizations frequently conduct educational programs for their members.

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Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

20. Any corporation whose liabilities are limited by shares (*Società per Azioni* [S.p.A.]) must have a board of auditors (Collegio Sindacale), commonly referred to as "the statutory auditors," to monitor the corporation's management and to perform certain verification procedures on its annual financial statements. These include procedures designed to ensure that the financial statements are in compliance with the Civil Code. The board consists of three or five active members (*sindaci*) plus two substitute members and is appointed by the shareholders for a three-year term. However, board members can be elected for additional terms. Any limited-liability partnership (*Società a responsabilità limitata* [S.r.l.]) must also appoint a board of auditors when the partnership capital exceeds 100 million lire. The purpose of the board of auditors is to help safeguard the interests of shareholders and creditors.

21. The statutory auditors must be individuals (as opposed to firms or other entities), and they are required to do the following:

a. Review the management of the business
b. Determine that the provisions of the Italian laws and the company's articles of association are being observed
c. Determine that the company's books and accounts are in order
d. Determine that the company's annual financial statements

agree with its books and other records and that they have been prepared in conformity with the relevant provisions of the Civil Code and other governing legislation

22. No standard form of audit report is required by the Civil Code. The Code merely provides that the statutory auditors must identify, and provide justification for, any deviations from recognized accounting principles. In addition, the statutory auditors are specifically required to report on the following matters:

- The basis of valuation of shares and bonds
- The method used to account for prepaid and deferred expenses
- Accrued liabilities and deferred expenses
- The amounts of any provisions for depreciation, depletion, or amortization set aside in any asset category

23. The statutory auditors are personally liable for the accuracy and truthfulness of their statements and, with the directors, are jointly liable for the directors' actions or omissions whenever it can be shown that a loss could have been avoided if the auditors had performed their duties properly.

24. The official register of independent auditing companies (Albo delle Società di Revisione), along with the requirement that listed companies be audited by one of these companies, was established to increase investors' confidence in companies listed on the Italian stock exchanges, and thereby contribute to the development of a larger and more active market for Italian companies' shares.

25. The audit performed by such a registered audit firm does not substitute, however, for the examination performed by the board of statutory auditors, even though some procedures are the same.

Entities That Are Required to Be Audited

26. The following entities are currently required to be audited by one of the firms listed on the official register:

a. Companies traded on any of the ten Italian stock exchanges

b. Companies controlled directly or indirectly by the Ministero delle Partecipazioni Statali (Ministry of State Investments)—

companies that, due to their precarious financial condition, were acquired by the government to prevent unemployment and to develop certain industries important to the Italian economy

c. Insurance companies underwriting risks other than death

d. Companies obtaining certain government financing for the export of goods

e. Publishing companies with annual revenues of more than 10 billion lire or employing more than five journalists

f. Certain municipal enterprises and utilities

g. Certain types of banks

h. Mutual funds

Appointment and Qualifications of Auditors

27. Only those audit firms included in the official register of auditing companies are entitled to perform audits on the types of companies listed previously. Inclusion in the register is determined by Consob.

28. Appointment of auditors is by a board of directors' resolution proposing that shareholders appoint the audit firm; the shareholders have the final choice. The appointment is for a three-year term and is renewable for a maximum of two additional terms.

29. For companies listed on the stock exchanges and for all publishing companies, the selection of an audit firm from the official register is subject to ratification by Consob after the board of directors' resolution but prior to the shareholders' appointment. In reaching its decision, Consob examines the audit proposal submitted by the audit firm, including audit time, experience, levels of personnel assigned, and estimated fees.

Auditing and Reporting Responsibilities

30. The auditor's responsibility is to report on the annual financial statements prepared by the directors for submission at the annual shareholders' meeting. The auditor's report must be available at the company's registered office fifteen days before the shareholders' meeting.

31. In addition to reporting on the annual financial statements, the auditor must record in the audit book (*libro della revisione*) the principal audit procedures performed and the findings and conclusions. In this book, which is available for inspection by tax and judicial authorities, by the company's board of directors, and by its board of statutory auditors (but not by its shareholders), the auditor records the major auditing procedures performed, the opinion given on the financial statements under examination, and, if appropriate, any irregularities or illegal acts noted during the course of the examination.

32. The audit firm does not have any direct responsibility to the tax authorities, whereas the chairman of the board of statutory auditors is required to countersign the company's tax return.

33. The report of the registered audit firm must explain the procedures and test checks carried out, and must certify that the balance sheet and the profit and loss statement agree with the company's books, have been prepared in the prescribed form, and fairly reflect the operations of the business in conformity with recognized accounting principles. If the audit firm deems itself not to be in a position to provide such certification, it must explain the reasons therefor in its report and inform Consob immediately.

34. The audit firm is required to be independent of the company it audits. Its personnel must perform all work that they consider necessary to enable them to fulfill their duties as auditors; they may not accept any restrictions relating to such work.

35. Other than as noted in paragraph 26, there is no legal or governmental requirement for private (that is, unlisted) companies to be examined by independent auditors. However, voluntary audits have increased significantly over the last few years as Italian businesses become aware of the international importance of having their financial statements certified by an independent auditor. Such voluntary audits may be performed by qualified individuals or firms not included in the official register.

Filing of Reports

36. The auditor's report on the official annual financial statements is addressed to the stockholders and is presented at the

annual general meeting. As previously mentioned, the report must be available fifteen days before the shareholders' meeting.

37. If the company has a controlling interest in any subsidiaries, it is required to prepare consolidated financial statements, and, if required, an additional auditor's report must be issued on the consolidated statements. However, such consolidated statements may be prepared up to six months after the official date of the financial statements.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

38. In 1981 Assirevi resolved to approve and adopt all the existing auditing standards established by the Dottori Commercialisti. To date, out of twenty established auditing standards, seventeen have been approved by Assirevi. (See appendix A for a list of auditing standards.)

39. In addition, standards on the following subjects are being developed by the profession:

a. Irregularities and illegal acts
b. Related-party transactions
c. Auditing standards for insurance companies
d. Subsequent events
e. The statutory auditor and the auditing firms.

40. Periodically, Assirevi issues recommendations to its members to promote uniformity among accounting firms regarding auditing practices that are not covered by a standard issued by the profession.

41. There are no significant differences between Italian and U.S. auditing standards and procedures. (See appendix D for a summary comparison of U.S. and Italian auditing standards.)

General Standards

42. In general, Italian standards are similar to U.S. standards. Briefly, the Italian standards are as follows:

a. The auditor is required to have and maintain, through constant training, an adequate level of competence.
b. Due professional care is to be exercised when an audit is performed.
c. The auditor must be independent in both fact and appearance.
d. No auditor may engage in advertising of any kind.
e. Auditors must maintain good relations and cooperate with one another. (An auditor may use another auditor's services.)
f. The auditor is to be adequately compensated for services provided.

43. As far as the auditor's responsibility is concerned, the standards provide that the auditor is legally and professionally liable only when he or she fails to apply, or incorrectly applies, the required auditing standards. The auditor cannot be considered responsible for failure to detect fraud or illegal acts if the audit procedures appropriate in the circumstances have been competently performed.

44. With regard to independence, the law sets forth stringent rules and concludes by requiring that the auditor always be in such a position as never to impair his or her independence in relation to the company.

Standards of Fieldwork

45. There are no significant differences between Italian standards of fieldwork and U.S. standards. The Italian standards are as follows:

a. The audit is to be adequately planned.
b. The auditor must study and evaluate the internal control system. Should the auditor decide to rely on the company's internal controls, the nature and extent of the auditing procedures are to be determined accordingly.
c. The auditor must examine sufficient competent evidential matter to substantiate his or her professional opinion.
d. Sampling plans must provide assurance that the samples drawn are representative of the entire universe tested.

Standards of Reporting

46. Auditing Standard No. 18, *The Auditor's Opinion,* states that, as recommended by Accounting Principle No. 2, *Form and Presentation of Financial Statements for Manufacturing and Sales Companies,* the financial statements of an Italian company are intended to comprise the following items:

a. Statutory balance sheet
b. Statutory income statement
c. Reclassified balance sheet (in order of liquidity)
d. Reclassified income statement (in a form similar to that used in the United States)
e. Statement of changes in financial position
f. Statement of changes in equity accounts
g. Notes to the financial statements (in practice, included as part of the directors' report)

47. Both Consob and Assirevi have agreed that a set of financial statements should include the foregoing items. In 1983, however, in issuing its recommendation on the language of the auditor's report, Consob drastically changed the format proposed by the profession, making it much more legalistic in form (see appendix C). The auditor's report called for by Consob consists of four main paragraphs, as follows.

a. The first paragraph deals with the identification of the financial statements on which the audit firm is reporting and with the formal engagement to perform such an examination.
b. The second paragraph includes what in the United States is called the scope paragraph, and also mentions—
   - The source of the accounting principles used.
   - The parts of the directors' report that are necessary for a clear understanding of the financial statements. (In the United States such information is provided in notes to the financial statements.)
   - Any other information with which the accountant is directly associated or in connection with which the accountant wants to limit his or her responsibility.
   - Reference to the previous year's report, if any. (Contrary to common practice in the United States, the officially prescribed auditor's report in Italy does not require reporting on

comparative statements, although such reporting is recommended.)

c. The third paragraph is used for comments on any significant matters that relate to the financial statements under examination and, that the auditor believes should be brought to the reader's attention. The third paragraph is also used to identify any deviations from generally accepted accounting principles that do not materially impair the clarity and fairness of the financial statements. Any uncertainties and any instances of the use of accounting methods in accordance with the tax rules (instead of generally accepted accounting principles) to secure tax benefits that would not otherwise be available are also mentioned in this paragraph.

d. The fourth paragraph is the opinion paragraph, in which the auditor attests that (1) the financial statements agree with the transactions recorded in the accounting records and with the results of the auditing procedures performed, (2) the statements conform to the Civil Code's requirements for the presentation and content of financial statements, and (3) the accounting principles used to record the business transactions are correct. As with current U.S. practice, the consistency standard is implied but not written, unless an inconsistency is noted.

48. The auditor's report must be signed individually by the partners in the audit firm who are responsible for the engagement.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

49. The Civil Code prescribes the contents of the financial statements and the basic principles for valuing assets and liabilities. In addition, rules of valuation are frequently enforced through tax regulations. Detailed accounting principles derive from a series of statements issued in the 1970s and early 1980s by the accounting profession. (See appendix B for a list of accounting principles.) The Civil Code, which these statements of accounting principles complement, refers to the fundamental principles of consistent application of accounting policies, prudence, the accrual concept, and historical cost as the basic valuation criteria. For all matters not explicitly dealt with by Italian standards, Consob specifically requires reference to International Accounting Standards (IAS).

50. Special rules are in force for certain enterprises, such as insurance companies, banks, investment funds, publishing companies, and utilities.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

51. The Civil Code requires that a balance sheet and a statement of revenues and costs be prepared. The balance sheet follows the traditional form, with assets on the left side and liabilities and

stockholders' equity on the right side. (See appendix C for illustrative example.) The offsetting of accounts is not permitted. For example, the gross book value of fixed assets is shown on the left side of the balance sheet and accumulated depreciation on the right side.

52. The Dottori Commercialisti pronouncements provide more specific guidance, calling for—

a. A reclassified balance sheet that classifies assets and liabilities as current versus long-term, shows the working capital and equity position of the company, and nets contra asset accounts (such as accumulated depreciation and allowance for doubtful accounts) against the related assets. (This information is not readily determined from the statutory financial statements.)
b. A reclassified income statement that shows gross profit, operating income, pretax income, and extraordinary items. (This information, too, is not readily identifiable in the statutory financial statement.)
c. A statement of shareholders' equity.
d. A statement of changes in financial position.

53. The additional financial information described above is required to be included in all audited financial statements (both voluntary audits and audits required by law). This information cannot yet be considered generally accepted, since small and medium-sized Italian companies frequently file only the unaudited financial statements specifically called for by the Civil Code.

54. The directors of a company are required to submit a directors' report and the financial statements (audited by the statutory auditors and, if required, by an independent accounting firm) to the shareholders for their approval at the annual general meeting, which normally occurs within four months after the company's year-end date. Such statements must then be filed with the courts and with the tax authorities. Within three months after the end of the first semester of the fiscal year, the directors of a company listed on the stock exchange shall submit to the board of auditors a report on the future direction of the company, with particular emphasis on production, committed sales and services, revenues, and expenditures. A copy of the report is to be kept on deposit at the company's legal address for a three-month period. However,

the semiannual unaudited report must be published within four months after the applicable six-month period.

55. The annual directors' report presents the directors' views on the company's operations. The following matters are to be disclosed in the directors' report:

a. Principal activities and a discussion of the business of the company (and subsidiaries) during the year
b. Important events that occurred after the year-end and affect the company
c. The accounting principles followed, and any changes from the accounting principles followed in the previous year
d. Analyses of and comments on variations in the asset and liability accounts as compared with the previous year
e. Information on personnel matters
f. The interest expense on short- and long-term borrowing
g. The intangible assets capitalized during the year (such as research and development, advertising, and start-up costs)
h. Major transactions with the parent company or subsidiaries
i. Guarantees granted and obtained
j. Information on long-term debt
k. Contingent assets and liabilities
l. The recommended dividend distribution

56. If, for any special reason, it is necessary to depart from the bases of valuation prescribed by the Civil Code, the directors and the board of statutory auditors are required to state such reasons and to justify each individual case when reporting to the shareholders on the accounts.

57. All companies, except S.r.l.'s with a capitalization of less than 100 million lire, are required by the Civil Code to appoint a board of statutory auditors. The statutory auditors must issue their report on the financial statements presented for approval by the shareholders at least fifteen days before the annual shareholders' meeting.

58. In addition, as noted in chapter 2, certain entities are required to appoint an independent accounting firm, which must also issue an audit report at least fifteen days before the financial statements are approved by the shareholders.

Types of Statements Prepared

59. Although the current rules do not call for audited consolidated financial statements, it is nonetheless common practice to have them audited by an independent accounting firm. It is also becoming common practice for unlisted companies to publish consolidated statements.

60. The Civil Code prescribes that in the case of a group, the financial statements of the parent company must include, as an attachment, a copy of the latest approved financial statements of its subsidiaries, as well as condensed information on companies in which a minority interest is held.

61. As noted earlier, special rules, calling for different forms of financial statements, apply to companies in certain industries.

62. The Civil Code, as revised in 1974, prescribes standard formats for the balance sheet and the profit and loss statement. The Civil Code requires that items be classified under the following headings:

Assets[1]

- Stock subscriptions owed by shareholders
- Land and buildings
- Machinery and equipment
- Furniture and fixtures
- Patents and copyrights
- Trademarks and goodwill
- Inventories of raw materials and merchandise
- Cash on hand
- Cash in banks
- Bonds
- Marketable securities
- Long-term investments
- Treasury stock
- Accounts receivable from customers

[1] Although not mentioned in this classification, prepaid and deferred expenses are usually shown separately, with an appropriate description. The Civil Code recognizes the principle of allocating certain costs over a period of more than one year.

- Accounts receivable from affiliated companies
- Other receivables
- Memorandum accounts (this includes any event or transaction that does not have an impact on account balances, such as the disclosure of guarantees given or received or assets deposited with third parties)

Liabilities and Equity

- Capital stock
- Statutory (legal) reserve
- Other reserves
- Accumulated depreciation and amortization
- Accrued severance indemnities
- Liabilities for which collateral or other security has been given
- Trade accounts payable
- Amounts owing to bankers and other lenders
- Amounts owing to affiliated companies
- Bonds issued
- Other liabilities
- Memorandum account

63. The offsetting of accounts in the balance sheet is not permitted. Notes to the financial statements, such as disclosures of liabilities and material lease commitments, are rarely included.

64. As revised in 1974, the Civil Code prescribes that the profit and loss statement include all revenues and expenses of the period, classified as follows.

Revenues

- Sales and services by category
- Property investment income
- Dividends from subsidiaries and affiliated companies
- Dividends from other investments
- Interest income on fixed-income securities
- Interest income on bank accounts
- Interest income on receivables from subsidiaries and affiliated companies

- Interest income on accounts receivable
- Interest income on other receivables
- Gains from disposal of assets
- Additions to plant, equipment, and other assets by internal construction
- Other income, revenues, and gains
- Closing inventory of raw materials, work in process, and finished products

Expenses

- Opening inventory of raw materials, work in process, and finished products
- Purchases of raw materials, work in process, and finished products
- Labor and social-contribution costs
- Costs of services received
- Income and other taxes, showing separately those relating to prior years
- Interest charges on bonds
- Interest expense on accounts payable to subsidiaries and affiliated companies
- Interest expense on bank accounts
- Interest expense on other payables
- Discounts and other financial charges
- Depreciation provision in each fixed-asset category
- Provision for employee severance payments, pensions, etc.
- Provision for devaluation of marketable securities and other assets
- Provision for bad debts
- Losses on devaluation of assets
- Other expenses and losses

65. There is no requirement in the Civil Code to provide a statement of changes in financial position.

66. The Civil Code requires that annual accounts include a supporting schedule listing any holdings in subsidiaries or associated companies and disclosing the nominal and carrying values of

each such holding. A subsidiary is defined as any entity in which a majority of the voting rights is owned; if a holding exceeds 10 percent of a company's capital (5 percent if the company is listed on the stock exchange), that company is considered an affiliated or associated company. A complete set of the most recent annual accounts of each subsidiary company must be attached to the parent company's own accounts. Key financial information, including sales and results for the period, must also be given for each associated company.

67. Although the Civil Code does not require consolidated financial statements, Consob has required them from all listed companies since 1982. Prompted by Consob's action, the accounting profession has given a high priority to the development of standards for the preparation of consolidated statements. A standard on consolidation has been issued but not yet officially approved.

68. It should be noted that Italy is in the process of introducing into the Civil Code the requirements of the EEC Fourth Directive, which deals with the form and preparation of financial statements. When introduced, the requirements of the Fourth Directive will significantly change statement preparation.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Accrual Basis

69. The accrual basis of accounting is the only acceptable basis for financial statements prepared in accordance with the Civil Code.

Consolidation

70. The concept of consolidation is not mentioned in the Civil Code. Instead, the separate accounts of majority-owned subsidiaries are commonly attached to those of the parent company. For associated companies, only certain basic data (such as sales, total assets, and net income) are disclosed.

71. Consob requires companies listed on the stock exchange to present consolidated financial statements. The state-owned enterprises have also followed Consob's recommendations and are now presenting consolidated statements. These requirements have resulted in an increase in the preparation of consolidated financial statements by large private companies.

Deferred Tax Accounting

72. As a general rule, expenses deductible for tax purposes in Italy must be reflected in a company's financial statements. For example, for a company to be able to take advantage of accelerated depreciation for tax purposes, accelerated depreciation must be used for financial reporting purposes. Certain expenses, however, are subject to maximum allowable percentages that may be different from amounts recorded in the financial statements under the tax rules. In connection with doubtful accounts, for example, the Civil Code requires that receivables be stated at net realizable value, thus requiring estimation of an appropriate provision for doubtful accounts, whereas the tax laws permit only a certain percentage of total receivables to be tax-deductible in any given year. Similarly, repair and maintenance expenses are tax-deductible in any given year only up to a maximum of 5 percent of total fixed assets.

73. Deferred tax accounting for such book/tax timing differences is not prescribed by the Civil Code and is not generally practiced by privately owned companies.

74. By virtue of their endorsement of the international accounting standards, the Dottori Commercialisti have implied that the practice of deferred tax accounting should be followed. It should be noted, however, that under the existing tax laws, book/tax timing differences generally result in deferred tax assets. Italian companies are reluctant to record such deferred tax debits.

Revenue and Expense Recognition

75. Under the Civil Code, as a general rule, revenues are to be recognized only when their realization is at least reasonably certain and objectively measurable, whereas expenses are to be accounted for when they are expected to be incurred.

76. The pronouncements of the Dottori Commercialisti clearly indicate that the tax rules are not an acceptable alternative to recognized accounting principles in the preparation of financial statements.

Noncurrent Assets

77. Fixed assets must be depreciated on a systematic basis, according to their estimated useful lives. The method used to depreciate fixed assets may be determined in accordance with the specific circumstances, but in practice the straight-line method is by far the most commonly used. Intangible assets are recognized only when a cost has actually been incurred to acquire them and a future benefit is expected. Amortization is generally provided on a straight-line basis over a period of five years. The Civil Code provides that certain intangible assets can be amortized over a longer period.

Inventory

78. Under the Civil Code, inventories must be valued using the lower-of-cost-or-market method. Commonly used valuation methods (such as LIFO, FIFO, and average cost) are acceptable provided that, for tax purposes, the valuation derived from the method used is not lower than that which would result from the LIFO method.

79. The Dottori Commercialisti and Ragionieri Collegiati have provided definitions of the various types of costs that can be capitalized in inventories and the methods acceptable for their valuation. In general, all costs that contribute, directly or indirectly, to the physical formation of the inventory may be capitalized, whereas selling, administrative, and financial expenses may not.

Long-Term Contracts

80. The accounting for contracts whose completion exceeds one year is not dealt with by the Civil Code. Usually, the percentage-of-completion method is used, although the completed-contract method is an acceptable alternative. A pronouncement on this subject from the Dottori Commercialisti is pending. Losses on long-term contracts are normally recognized as soon as they are known.

Investments

81. Investments are generally carried at cost. Equity accounting is not generally practiced in Italy except when the investee has incurred operating losses. The effect of applying the equity method is disclosed, however, in the notes to the financial statements or in the directors' report.

Foreign Currency Translation

82. The Civil Code does not specifically deal with accounting for exchange gains and losses on foreign currency transactions. The predominant practice is to use the current rate at the balance sheet date if translation results in a loss and the historical rate if translation results in a gain. For tax purposes, unrealized exchange losses, net of exchange gains, are deductible provided that the amount is recorded as "provision for exchange fluctuation risk."

83. With respect to the translation of foreign subsidiaries' financial statements used in consolidation, the balance sheet and income statement generally are translated at year-end exchange rates. Translation adjustments are included as part of shareholders' equity.

Leasing

84. The existing legislation does not prescribe any accounting treatment for leases, either for lessors or for lessees. The current practice is to use the operating method for all long-term leases. For tax purposes, the lessor can depreciate the asset (net of residual value) over the life of the lease contract rather than over the useful life.

85. Although the finance method of accounting is not presently used by lessors in Italy, many companies disclose the effect of its application in notes to the financial statements or in the directors' report.

Acquisitions and Mergers

86. The primary accounting method allowed by Italian law for acquisitions and mergers is the purchase method. In certain situations, the pooling-of-interests method is also used.

Goodwill

87. Italian companies may record goodwill only if it has been purchased as part of a business acquisition. Goodwill is capitalized and amortized over its estimated useful life. In practice, goodwill is the difference between the purchase price and the value of identifiable assets. Fair value accounting is required for assets obtained in an acquisition.

Income Taxes

88. Loss carrybacks are not permitted by law, whereas losses are allowed to be carried forward and offset against income (for purposes of the national income tax only) for five years. Loss carryforward benefits are not segregated as extraordinary items when realized, and neither their availability nor their expiration date is ordinarily disclosed in financial statements.

Accounting Changes

89. All accounting changes are handled on a prospective basis. The effects of such changes must be disclosed in the financial statements. No retroactive adjustments are permitted. Corrections of errors are charged or credited to income in the year of recognition.

Inflation Accounting

90. There is no requirement that companies submit information on the effect of inflation.

Other Matters

91. A number of accounting practices observed in the United States do not have a corresponding practice in Italy.[2] The most important of these follow.

- Interim financial reporting (not commonly practiced in Italy)
- Financial reporting for segments of a business enterprise

[2]Appendix E contains a summary comparison of U.S. and Italian Accounting principles.

- Accounting by debtors and creditors for troubled-debt restructuring
- Prior-period adjustments
- Accounting for forward exchange contracts
- Financial reporting and changing prices
- Pensions

RECENT DEVELOPMENTS

92. On April 9, 1991, the Italian government approved the Fourth and Seventh EEC directives, to be introduced in 1993 and 1994, respectively. Since these new laws are not yet in effect, not all of their provisions are discussed in this book. However, six of the main provisions are as follows: First, financial statements have been defined to comprise the balance sheet, the statement of income, and the notes to the financial statements. Second, the following general principles for the preparation of the financial statements have been established:

a. The company must be presumed to be carrying on its business as a going concern.
b. The methods of valuation must be applied consistently from one period to another.
c. Valuation must be made on a prudent basis.
d. Recognition must be made of income and charges relating to the financial year, irrespective of the date on which income is received or charges are paid.
e. The components of assets and liability items must be valued separately.
f. The opening balances for each financial year must correspond to the closing balance sheet for the preceding financial year.

Third, a completely different format of the statements has been outlined as follows:

BALANCE SHEET

Assets	*Liabilities*
1. Subscriber capital unpaid	1. Capital and reserves
2. Fixed assets:	2. Provisions for liabilities and charges
a. Intangible assets	
b. Tangible assets	
c. Financial assets	
3. Current assets:	3. Creditors
a. Stock	
b. Debtors	
c. Investments	
4. Prepayments and accrued income	4. Accruals and deferred income

INCOME STATEMENT

Net sales	....
Difference between opening and closing inventory (finished goods and work in progress)	....
Less: Built-in fixed assets	....
Value of production	....
Production costs	....
Net	
Financial income and charges	....
Value adjustments with respect to financial assets	....
Extraordinary items	....
Net result before income taxes	....
Income taxes	___________
Net result	....
Items recorded due to tax regulations	___________
Net result	___________

Fourth, accounting principles for the valuation rules have been established. These rules are much more detailed than those now available in the Civil Code. Fifth, the contents of the notes to financial statements have been defined, and sixth, the contents of the report prepared by the directors on the company's business and on its financial position have been defined.

93. For the first time in Italy, the preparation of the consolidated financial statements will be compulsory for all group companies that exceed two of the following limits:

a. 10 billion lire in total net assets

b. 20 billion lire in revenue

c. 250 employed persons

The terms and the methodology for the preparation and publication of consolidated financial statements do not materially differ from international accounting practice.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

94. The Italian form of business organization that most closely resembles a U.S. corporation is the joint stock company, or *Società per Azioni* (S.p.A.). This type of entity must have a minimum capital of 200 million lire and, in order to maintain its limited-liability status, more than one shareholder. The capital may be in kind (tangible or intangible assets other than cash), in which case it is subject to various valuation and appraisal procedures. Should the capital stock be greater than 10 billion lire, its issuance is subject to approval by the Treasury Department.

95. Other types of Italian entities with corporate attributes are—

a. The *Società in accomandita per Azioni* (S.a.p.A.), which is a special form of partnership whose general partners are shareholders and directors and are liable for the partnership's obligations jointly and severally. This type of business organization is not as common as it once was.

b. The *Società a responsabilità limitata* (S.r.l.), which is similar to a limited-liability partnership in which the liability to third parties is limited to the extent of the company's assets. The capital cannot be represented by shares but may be divided into quotas or parts. The required minimum capital is 20 million lire.

96. An S.p.A. or S.r.l. must hold a general meeting at least once a year. In addition, a shareholders' meeting must be held when

amendments are to be made to the entity's bylaws or when directors and auditors are to be elected.

97. Shareholders of an S.p.A. or an S.r.l. are liable only to the extent of their capital contributions, except that, should there be only one shareholder at any time, such shareholder is liable, without limitation, for all obligations of the company arising during the period in which he or she is the sole shareholder.

98. Promoters, on the other hand, are liable jointly and severally to third parties, principally for—

a. The complete subscription of the company's capital and the payments required for the formation of the company.

b. The physical or ascertained existence of all contributions in kind.

c. Any misstatements of information disclosed to the public in connection with the formation of the company.

The promoters have no recourse against the subscribers of shares if the company is not formed.

99. The company's management may be entrusted to a single director or to a board of directors. Directors have an obligation to perform the duties set forth in the company's bylaws, as well as those in Italian company law, and may be held liable for damages deriving from failure to perform such duties. In addition, directors are liable jointly and severally should they fail to supervise the general conduct of the company's affairs or if, being aware of prejudicial acts, they did not try to prevent their occurrence or to eliminate or mitigate their harmful consequences. Directors are also liable to the company's creditors for failure to perform their duties relating to the preservation of the company's assets.

100. The Civil Code provides that corporations must have a board of statutory auditors to supervise the management of the company, to verify the regular keeping of the company's accounts and their compliance with the provisions of the law, and, in general, to safeguard the interests of the shareholders. Statutory auditors are liable, along with the directors, for the latter's conduct when injury to third parties would not have occurred had the statutory auditors properly fulfilled their duties.

101. An amount equal to 5 percent of the company's (S.p.A. or S.r.l.) aftertax profit each year must be placed in a statutory reserve

until such reserve equals 20 percent of the company's paid-in capital. This legal reserve cannot be distributed and can only be used to cover losses.

Branch of a Foreign Company

102. Foreign companies with one or more branches permanently established in Italy are subject to the provisions of Italian law regarding the filing and registration of the company's governing statutes, submission of the company's financial statements to the courts as though the branch were a separate legal entity, publication of the names of persons representing the branch on a permanent basis in Italy, and so forth. Although considered an independent entity for the fulfillment of certain tax and other official requirements, the branch is not in fact a legal entity in itself, so that foreign corporations establishing branches in Italy are liable for the acts and obligations of such branches.

Partnership Entities

103. There are several types of partnership entities in Italy that closely resemble U.S. partnerships. The two principal partnership entities are—

a. The *Società in nome collettivo* (S.n.c.), a general partnership in which all partners are liable without limit for the partnership's obligations.

b. The *Società in accomandita semplice* (S.a.s.), a partnership in which there exist general partners who are liable without limit and limited or silent partners whose liability is restricted to the amount of their contribution to the firm's capital. Should the silent partners take active roles in the management of the partnership's business, their liability becomes unlimited.

Other Forms of Business Organization

Sole Proprietorship

104. The Italian form of sole proprietorship is similar to its counterpart in the United States.

Family Enterprise

105. A special type of business organization is the "family enterprise," which may be formed through a notarized agreement made by members of a family participating in a business activity and in the sharing of the profits thereof in accordance with an understanding reached among them. Important business decisions, including the decision to dissolve the enterprise, require a majority vote of the participating family members.

Other

106. Other common types of business enterprise include cooperatives and mutual insurance companies, which may have either unlimited or limited liability.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

107. An offer to sell or underwrite new securities (shares or bonds) must be communicated to Consob and indicate the quantities and characteristics of the securities offered. All public offerings must be accompanied by a prospectus, including a description of the company (for example, its history, capital stock, board of directors, and statutory auditors), its financial statements, trends of the business, and other information. Within twenty days of the date of application, Consob may request other data to provide a complete overview of the offering to the public.

Requirements for Listing Securities on Major Stock Exchanges

108. There are ten Italian cities with stock exchanges: Bologna, Florence, Genoa, Milan, Naples, Palermo, Rome, Trieste, Turin, and Venice. The requirements for listing securities on the ten exchanges are essentially the same. The most important requirements, which are in accordance with EEC Directive 79/279, follow.

a. For the company[1]—
- Net equity is to be at least 10 billion lire for banks and at least 50 billion lire for insurance companies.
- The applying company must show profitable financial statements for the past three years.
- The financial statements of the last financial year must have been audited by a qualified accounting firm.

b. For its shares—
- Shares must be freely transferable.
- At least 25 percent of the shares must be distributed to the public. (Very few exceptions to this rule are permitted.)

c. For its bonds—
- The minimum amount of a bond issue is 10 billion lire, and at least 25 percent of the bonds must be distributed to the public.

109. For the public sale of securities, the publication of a prospectus with the same contents is required before share or bond issues are negotiated.

110. Public companies must furnish Consob with, or notify it of, the following:

a. Annual financial statements
b. Proposals for changes in the company's bylaws
c. Shareholders' meetings
d. A report on business trends of the first six months, with particular attention to production, sales, and services
e. Interim dividends
f. Investments of over 2 percent in public companies or over 10 percent in nonpublic companies
g. Any investments in the company or in other companies of the same group by its directors, statutory auditors, or managing directors
h. Any other data requested

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[1]In certain unusual cases, Consob may accept for listing a company with a net equity less than the required amount or with profitable results for less than three years, or it may permit the audit report for the last financial year to cover the balance sheet only.

SELECTED ECONOMIC DATA

111. Key demographic and social factors, based on 1989 Italian census data (unless otherwise indicated), follow.

Area (square kilometers)	301,286
Population (millions)	57.6
Annual population increase (since 1981)	0.22%
Percentage of population under age 25	32.7
Labor force (millions)	23.8
Birthrate (per population of 1,000)	9.7%
Death rate (per population of 1,000)	9.2%
Life expectancy (years):	
Male (as of 1987)	73
Female (as of 1987)	79
Literacy rate	97%
Percentage of the work force in—	
Agriculture	9.3
Industry	32.1
Other (primarily service sector)	58.6
Unemployment rate	12%
Gross domestic product ($ billions)	1,050
Internal debt ($ billions)	764
Inflation rate	6.6%

112. The major Italian trading partners (by region), as of 1989, are as follows:

	Exports (%)	*Imports (%)*
EEC	57	58
Other European countries	15	16
Africa	5	7
North America	10	6
South America	2	3
Asia	10	9
Other	1	1
	100	100

113. Italian primary export and import products, as of 1989, are approximately as follows:

	Exports ($ billions)	Imports ($ billions)
Agriculture and agricultural products	12	29
Energy-related products	3	22
Minerals	16	24
Chemicals	14	24
Equipment	60	42
Transportation	17	21
Textiles	32	12
Woodworks	21	16
	175	190

TAXES

Principal Types

114. The present Italian system of income taxation has been in effect since January 1, 1974, and was revised in 1988.

115. Income taxes are levied nationally on individuals (Imposta sul Reddito delle Persone Fisiche [IRPEF]) and on business entities (Imposta sul Reddito delle Persone Giuridiche [IRPEG]). They also may be levied locally (Imposta Locale sui Reddite [ILOR]).

116. IRPEF is levied progressively at rates that increase with the taxpayer's level of income and that range from 10 percent to 50 percent. IRPEG is levied at a rate of 36 percent on business income from all sources. ILOR is a local income tax levied on certain individuals and business entities at a rate of 16.2 percent. ILOR is deductible from IRPEF or IRPEG taxable income, resulting in an effective income tax rate of 46.37 percent for companies.

117. Income tax is withheld, at fixed rates, from most payments of interest, dividends, and royalties. For individuals such withholdings usually represent a final tax, whereas for companies they are considered payments on account of income taxes.

118. Income taxes apply to both resident companies, which are subject to tax on their worldwide income, and nonresident companies, which are subject to tax only on Italian-source income (that is, income deemed to have been produced in Italy).

119. The foreign tax credit granted under Italian law and the various treaties to which Italy is a party minimize the incidence of double taxation on foreign companies.

120. Dividends paid to resident companies, as defined by law, are subject to a withholding tax of 10 percent. Resident shareholders enjoy a tax credit for the IRPEG tax paid by the company that distributes the dividends, thus eliminating double taxation. Dividends paid to nonresident companies or individuals are subject to a final withholding tax of 32.4 percent unless existing tax treaties provide otherwise.

121. Distributions of profits earned by a company through December 31, 1982, are subject to an equalization tax of 15 percent. On distributions of income earned after that date, the equalization tax rate is 56.25 percent of the distributed amount in excess of 64 percent of the company's taxable income. The additional tax has no effect since a tax credit is granted to the receiving company.

122. The Italian government offers investors in certain areas (principally the south of Italy, or Mezzogiorno) several incentives, including tax holidays, cash grants, long-term loans at low interest rates, and reduced social insurance contributions. With respect to income taxes, the most common incentives are (*a*) exemption from the national income tax for ten years from the date of the company's formation and (*b*) total exemption from the local income tax for ten years, beginning with the first year in which business income is produced.

123. A value-added tax (Imposta sul Valore Aggiunto [IVA]) is levied at various rates, the most common of which is 19 percent. Other taxes are as follows:

- Property appreciation tax
- Registration tax
- Stamp duty
- Estate and gift tax

- Manufacturing tax on items such as spirits and petroleum products
- Social insurance contributions
- Local tax based on the amount of space occupied and the activities performed

Tax Returns

124. Income taxes are assessed and collected by tax offices located in each major municipality. The value-added tax and the registration tax are assessed and collected by different tax agents, who operate independently of the income tax authorities.

125. For income tax purposes, companies must file their tax return not later than one month after issuing their annual financial statements (usually four to six months after the end of their financial year). A set of financial statements must be included with the company's annual income tax return.

126. Advance payments of national and local income taxes, to the extent of 98 percent of the tax paid in the preceding year, are due in two installments: the first, equal to 40 percent, is due with the filing of the preceding year's tax return, and the second is due in November of each year, with the balance payable at the time the tax return is filed.

127. The statute of limitations is five years from the date of filing unless a return has not been filed, in which case it is six years.

128. Tax assessments issued by the appropriate authorities may be subject to four levels of tax jurisdiction before settlement. This is why the final settlement of tax liabilities in Italy is not quickly achieved. Tax losses may be carried forward for five years for national income tax purposes only. No carryback of losses is allowed.

129. Tax returns are prepared using forms that are issued every year by the Ministry of Finance. The following documents are to be filed with the annual tax return:

a. A copy of the report of the board of directors' meeting, with the directors' recommendations to the shareholders to approve the financial statements as prepared by them

b. A copy of the minutes of the shareholders' meeting approving the financial statements
c. A copy of the company's financial statements
d. A copy of the report of the board of statutory auditors on the company's financial statements
e. Supporting documentation relating to advance payments of national and local income taxes and to taxes withheld from dividends received

130. For tax purposes, taxable income is determined on the basis of the results that are shown in the official financial statements and modified to reflect specific tax rules. The taxpayer is free to furnish analyses and detailed schedules supporting the amounts in the financial statements. It should be noted that, historically, companies in Italy have embodied in their financial statements certain of the requirements of the tax rules to avoid differences between pretax income for the year and taxable income, since Italian tax laws generally require that tax returns be based on a company's financial accounting records. Thus, costs and expenses not included in the company's financial statements are not allowed as deductions for tax purposes.

131. The main tax rules governing the preparation of tax returns may be summarized as follows:

a. Costs and expenses are to be accounted for on the accrual basis.
b. Inventory is to be valued at cost, using a method that results in an amount not less than that which would result from using the LIFO method. (Interest charges and nonmanufacturing overhead are excluded.)
c. Interest paid on loans entered into for the purchase or construction of plant assets must be capitalized through the tax period prior to that in which such assets are used or could be used in the business.
d. Depreciation is to be computed using the straight-line method, at rates not exceeding those approved by the Ministry of Finance.
e. Accelerated depreciation, at twice the rates in item *d* for the first three years from the date of acquisition or construction, is also allowed. In any given year, depreciation rates must not be less than 50 percent of the maximum allowable rates.

f. Intangible assets may be amortized at a maximum rate of 20 percent per annum.
g. Research and development costs may be expensed entirely or amortized over a period of up to five years.
h. Advertising expenses are fully deductible in (*a*) the year in which such expenses are incurred or (*b*) equal installments over three years.
i. In general, taxes other than national income tax are fully deductible.
j. Repairs and maintenance costs are deductible to the extent of 5 percent of the average balance of depreciable assets held during the year (assets acquired or disposed of are considered for the number of months held). Any excess is deductible in equal amounts in the next five tax periods.
k. Exchange losses are deductible even if not realized to the extent they are offset by exchange gains. Unrealized losses and gains arising at the end of the year must be allocated to "provision for exchange rate fluctuation risks."
l. Capital gains realized from the sale or disposal of business assets are taxed at ordinary rates.
m. Intergroup transactions must be at an arm's-length basis.

OTHER MATTERS OF IMPORTANCE

New Issues of Stock of Mergers of Publicly Traded Companies

132. When a publicly traded company issues new capital stock, or when a public company is merged into another public company or acquires a new subsidiary, Consob imposes the following requirements: (*a*) The auditors must report on the fair value of the shares exchanged in a merger transaction and on the fair value of the issue price for new capital shares; (*b*) the directors of the company must prepare a report discussing the major features of the transaction; and (*c*) the auditors are required to evaluate the fairness of the appraised values attributed to the assets in establishing the price of the shares issued. Both the directors' and auditors' reports must be made available upon request to the shareholders.

Legal Audits

133. For audits performed in accordance with the law, the related documentation must be included in a special register, the Register of the Audit Process. The required documentation includes a detailed description of the audit procedures followed in examining the financial statements of the company, the results of the examination (including any errors or irregularities found), and a copy of the entire auditor's report.

APPENDIX A

Italian Auditing Standards

Of the twenty auditing standards issued to date by the profession in Italy, seventeen have been officially approved by Consob. The twenty standards, translated from the Italian, are listed below.

No.	Title
1	*General Concepts Relative to Auditing Standards*
2	*Ethics Rules*
3	*General Standards*
3.1	*Internal Control*
3.2	*Internal Control in the EDP Environment*
4	*Supporting Documentation*
5	*Auditing Procedures for the Examination of Financial Statements: Introduction and Accounting Records*
6	*Inventories*
7	*Accounts Receivable*
8	*Cash and Bank Accounts*
9	*Property, Plant and Equipment and Related Depreciation*
10	*Intangible Assets and Amortization*
11	*Marketable Securities and Long-Term Investments*
12	*Accounts Payable*
13	*Accrued Liabilities*
14	*Liability Reserves*
15	*Equity Accounts*
16	*Memo Accounts (Contingent Liabilities and Commitments)*
17	*Auditing Procedures Relative to the Income Statement*
18	*The Auditor's Opinion*
19	*Auditing Procedures for Banks*
20	*Auditing Procedures for Investment Companies*

APPENDIX B

Italian Accounting Statements

The statements, translated from the Italian, are listed below.

No.	Title
0	*Presentation and Introduction*
1	*Financial Statement Objectives and Underlying Assumptions*
2	*Form and Presentation of Financial Statements for Manufacturing and Sales Companies*
2 bis	*Integration of Number 2*
3	*Inventories*
4	*Fixed Assets*
5	*Bank Deposits and Overdrafts*
6	*Receivables*
7	*Current Liabilities*
8	*Consolidated Financial Statements; Investments*
9	*Translation of Foreign Currency Transactions*

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following translated financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Italian law requires.

MONTEFIBRE S.p.A.

AUDITORS' REPORT
PURSUANT TO ARTICLE 4 OF D.P.R. NO. 136 DATED MARCH 31, 1975

To the Shareholders of
Montefibre S.p.A.

1. Audit Scope

In compliance with the terms of our appointment in accordance with Article 2 of Presidential Decree No. 136, dated March 31, 1975, we have examined the financial statements (balance sheet and profit and loss account) of Montefibre S.p.A. for the year ended December 31, 1989, together with the Directors' Report and the supplementary schedules required by the fourth paragraph of Article 2424 of the Civil Code.

2. Auditing Standards, Accounting Principles, and Controls Carried Out

a. Auditing Standards

Our examination was made in accordance with the auditing standards issued by the National Councils of Dottori Commercialisti and Ragionieri and recommended by Consob (Italian Stock Exchange Commission) in Resolution No. 1079 of April 8, 1982, and accordingly included audit tests of the accounting records and of the Company's assets and liabilities that we considered necessary to comply with our appointment. We have applied our professional judgment in evaluating the system for recording transactions in the books of account and their presentation in the financial statements and also in determining the nature and extent of our tests of the books and records in order to enable us to express an opinion, with due care and on the basis of adequate documentary support, on the financial statements taken as a whole. The selection of audit tests was determined as a result of an analysis of the degree of reliability demonstrated by the accounting procedures and by the internal controls within the Company and a subsequent evaluation of the degree of risk that the financial statements, taken as a whole, could be materially affected by errors, irregularities, or fraud.

b. Accounting Principles

In expressing our opinion on the financial statements of the Company, the accounting principles referred to are, where applicable, those proposed by Consob Resolution No. 1079, April 8, 1982; those issued by the National Councils of Dottori Commercialisti and Ragionieri; and in the absence thereof, those issued by the International Accounting Standards Committee (IASC).

c. Directors' Report and Supplementary Schedules Required by Article 2424 of the Civil Code

Our examination also included the Directors' Report taken as a whole. However, considering the wide range of material included therein, our opinion covers only the data and the information necessary for the clarity and the precision of the financial statements.

The supplementary schedules required as an appendix to the financial statements by Article 2424 of the Civil Code were examined only to the extent considered necessary to enable us to express an opinion on the financial statements of Montefibre S.p.A.; and accordingly, our opinion is not applicable to the supplementary schedules.

d. Audit Report on the Prior Year's Financial Statements

The Company has presented, for comparative purposes, the financial statements for the year ended December 31, 1988. These financial statements, together with the explanatory notes thereon and the necessary supplementary information, have been audited by us, and reference should be made to our audit report dated March 28, 1989.

3. Comments

a. Investments and Consolidated Financial Statements

Investments are valued in accordance with the criteria described in the Directors' Report.

The consolidated financial statements of the Group for the year ended December 31, 1989, on which our audit report has been signed on today's date, are included as appendixes to the Directors' Report.

The reconciliation between net equity and profit for the year per the Company's financial statements and per the Group's consolidated financial statements is shown in the explanatory notes to the consolidated financial statements.

b. Exceptional Income

As also indicated in the Board of Directors' Report, net exceptional income included in the profit and loss account for a total of 62,943 million lire refers essentially to gains realized in 1989 on the sale of investments in the companies Società Industriale Cremonese S.p.A. and Industria Tessile di Vercelli S.p.A., and of the business segment "polyester polymers for technical use."

4. Conclusion

The abovementioned forming an integral part of our opinion, pursuant to Article 4 of Presidential Decree No. 136, dated March 31, 1975, we certify that the financial statements (balance sheet and profit and loss account), taken as a whole, of Montefibre S.p.A. for the year ended December 31, 1989, together with the Directors' Report to the extent indicated in paragraph 2*c*, correspond to the accounting records and to the results of audit procedures performed and comply with the regulations concerning the format and content of financial statements (balance sheet and profit and loss account) and that the underlying transactions are accurately recorded in the abovementioned accounting records on the basis of correct accounting principles.

Milan
April 13, 1990

RECONTA
di Bruno Gimpel & C. S.a.s.

Riccardo Schioppo, partner

BALANCE SHEET SUMMARY
December 31
(in millions of lire)

	1989	1988
Assets		
Current Assets		
Cash and bank balances	7,787	2,717
Marketable securities and current financial receivables	17,176	6,887
Trade receivables	182,626	183,550
Current accounts and other receivables from group companies:		
Subsidiaries and associated companies	649	15,334
Affiliated companies	26,865	426
Stock	76,928	69,426
Sundry receivables from third parties and other current assets	140,439	128,433
Total Current Assets	452,470	406,773
Noncurrent Assets		
Fixed assets:		
Nonindustrial land and buildings	4,218	4,218
Industrial land and buildings	123,880	115,943
Plant and machinery	741,399	695,538
Office furniture and equipment	5,431	5,086
Industrial patents	6,600	6,600
Fixed assets under construction	30,433	36,361
Advances to suppliers of fixed assets	1,002	1,584
	912,963	865,330
Accumulated depreciation	(372,473)	(320,157)
	540,490	545,173
Noncurrent financial assets:		
Investments	120,231	126,148
Financial receivables and guarantee deposits	565	4,490
Reserve for devaluation of investments and reserve for sundry risks	(53,760)	(37,000)
	67,036	93,638

	1989	1988
Deferred charges	15,999	16,824
Total Noncurrent Assets	623,525	655,635
Total Assets	1,075,995	1,062,408
Liabilities and Shareholders' Equity		
Current Liabilities		
Current portion of medium- and long-term debt	144,646	98,976
Sundry short-term financial debt	106,449	137,974
Trade payables	173,564	170,607
Provision for taxes	6,680	200
Other current liabilities	30,821	41,672
Total Current Liabilities	462,160	449,429
Medium- and Long-Term Debt		
Debenture loan	6,769	7,615
Secured loans	108,106	59,939
Other medium- and long-term debt	41,643	95,005
Total Medium- and Long-Term Debt	156,518	162,559
Staff Severance Fund	56,510	52,927
Total Liabilities	675,188	664,915
Shareholders' Equity		
Share capital	300,000	300,000
Reserves and retained earnings	83,707	75,486
Profit for the year	17,100	22,007
Total Shareholders' Equity	400,807	397,493
Total Liabilities and Shareholders' Equity	1,075,995	1,062,408

PROFIT AND LOSS ACCOUNT SUMMARY
(in millions of lire)

	1989	1988
Sales	744,447	714,054
Cost of Sales		
Purchases of goods and services	(612,455)	(567,976)
Labor costs	(123,573)	(123,289)
Other operating expenses	(7,990)	(8,487)
Movement in stock	7,502	(10,060)
Less costs capitalized:		
Fixed assets	53,383	60,221
Deferred charges	10,423	13,032
Total Cost of Sales	(672,710)	(636,559)
Gross Operating Profit	71,737	77,495
Depreciation and amortization:		
Fixed assets	(53,128)	(50,989)
Deferred charges	(10,779)	(9,884)
Net Operating Profit	7,830	16,622
Financial charges	(61,461)	(49,379)
Financial income	13,047	12,823
Income from investments	937	24,048
Other nonoperating income	2,787	17,906
Net exceptional income	62,943	—
Profit Before Taxation	26,083	22,020
Taxation	(8,983)	(13)
Net Profit for the Year	17,100	22,007

STATEMENT OF CHANGES IN FINANCIAL POSITION
(In millions of lire)

	1989	1988
Sources of Funds		
Internal Sources		
Net profit for the year	17,100	22,007
Depreciation and amortization	64,966	60,874
Net movement in provisions:		
Staff severance fund	3,583	2,741
Receivables risk reserve, reserve for devaluation of investments, reserve for sundry risks and provision for taxes	23,091	(11,444)
Net gain/(loss) on disposal of:		
Fixed assets	(381)	7,454
Investments	(48,833)	—
Business segments	(28,400)	—
Funds Generated From Operations	31,126	81,632
Movements in:		
Stock	(7,502)	10,060
Trade receivables	636	(36,074)
Other current assets	(7,908)	(15,465)
Trade payables	2,957	33,365
Other current liabilities	(8,555)	(3,410)
Liquid Funds Generated From Operations	10,754	70,108
Proceeds from sale of:		
Fixed assets	4,738	1,669
Investments	55,000	—
Business segments	28,400	—
Total Internal Sources	98,892	71,777
External Sources		
Industrial investment grants	2,214	4,636
Total External Sources	2,214	4,636
Total Sources of Funds	101,106	76,413

(Continued on next page.)

STATEMENT OF CHANGES IN FINANCIAL POSITION *(cont.)*

	1989	*1988*
Application of Funds		
Increase in:		
Fixed assets	52,801	61,114
Deferred charges	11,013	13,033
Noncurrent financial assets	252	(112)
	64,066	74,035
Dividends Paid	16,000	13,000
Total Applications of Funds	80,066	87,035
Increase in Net Financial Debt	21,040	(10,622)
Opening Net Financial Debt	(377,063)	(366,441)
Closing Net Financial Debt	(356,023)	(377,063)
Net Financial Position		
Opening Net Current Financial Debt	123,382	105,889
Movements in:		
Current financial debt	(33,822)	13,727
Current financial receivables	(25,703)	2,380
Cash and bank balances	(5,070)	1,386
Closing Net Current Financial Debt	58,787	123,382
Opening medium and long-term financial debt (inclusive of current portion)	253,681	260,552
Movements during the year:		
Secured loans obtained	74,892	425
Unsecured loans obtained	70,000	50,000
Repayment of unsecured loans	(69,688)	(31,404)
Repayment of secured loans	(34,730)	(29,505)
Repayment of debenture loan	(846)	(846)
Financial receivables	3,927	4,459
Closing Medium- and Long-term Financial Debt	297,236	253,681
Total Net Financial Debt at Year-End	356,023	377,063

BALANCE SHEET

	December 31, 1989 (Lire)	*December 31, 1988 (Lire)*
Assets		
Fixed Assets		
Nonindustrial land and buildings	4,217,753,000	4,217,982,000
Industrial land and buildings	123,879,605,000	115,942,919,000
Plant and machinery	741,398,790,000	695,537,932,000
Office furniture and equipment	5,431,239,000	5,085,828,000
Industrial patents	6,600,000,000	6,600,000,000
Fixed assets under construction	30,433,264,000	36,361,194,000
	911,960,651,000	863,745,855,000
Advances to Suppliers of Fixed Assets	1,002,039,048	1,584,268,677
Deferred Industrial Charges	13,674,307,868	14,030,761,239
Deferred Financial Charges	2,325,239,521	2,793,530,040
Noncurrent Financial Assets:		
Investments	120,231,015,384	126,147,824,583
Sundry financial receivables	3,927,010,000	7,854,020,000
Less: Current portion	(3,927,010,000)	(3,927,010,000)
	120,231,015,384	130,074,834,583

(Continued on next page.)

Note: There are some differences between the two sets of financial statements due to certain format requirements of the Civil Code. See paragraphs 51 and 52.

BALANCE SHEET *(cont.)*

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Current Accounts With Subsidiaries, Associated Companies, and Companies—Affiliated Receivables	27,044,758,757	11,630,043,834
Short-Term Financial Receivables	17,175,669,245	6,887,351,342
Liquid Assets		
Cash	23,772,226	31,275,506
Bank balances	7,763,445,525	2,685,799,970
	7,787,217,751	2,717,075,476
Working Capital—Assets		
Stock	76,928,481,891	69,425,513,765
Trade receivables:		
Customers	155,760,590,029	157,226,363,675
Subsidiaries, associated companies, and affiliated companies	40,513,629,897	40,121,695,803
Advances to suppliers	1,202,315,189	765,380,004
	274,405,017,006	267,538,953,247
Sundry Receivables		
Third parties	138,660,938,161	127,418,746,236
Subsidiaries, associated companies, and affiliated companies	59,992,435,707	63,653,450,645
	198,653,373,868	191,072,196,881
Guarantee Deposits	564,725,965	562,798,998
Accrued Income and Prepaid Expenses:		
Accrued income	333,433,538	15,400,000
Prepaid expenses	242,230,522	232,563,757
	575,664,060	247,963,757
Total Assets	1,575,399,679,473	1,492,885,633,074

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Memorandum Accounts		
Guarantees given by the Company	53,234,578	677,005,825
Bills receivable, discounted, or transferred	765,791,156	531,799,922
Other memorandum accounts	527,661,155	954,812,008
	1,346,686,889	2,163,617,755
Total	1,576,746,366,362	1,495,049,250,829
Liabilities and Shareholders' Equity		
Shareholders' Equity	300,000,000,000	300,000,000,000
Legal reserve	8,151,232,000	7,050,859,000
Share premium account	11,726,570,203	11,726,570,203
Reserve for industrial investments in the south of Italy	21,000,000,000	21,000,000,000
Retained earnings	35,979,081,844	31,072,000,101
Industrial investment grants	6,850,605,753	4,636,203,925
Profit for the year	17,099,683,737	22,007,454,743
	400,807,173,537	397,493,087,972
Accumulated Depreciation		
Nonindustrial buildings	505,000	505,000
Industrial buildings	30,326,572,000	27,478,265,000
Plant and machinery	333,253,408,000	284,772,986,000
Office furniture and equipment	3,565,458,000	3,237,831,000
Industrial patents	5,327,143,000	4,667,143,000
	372,473,086,000	320,156,730,000
Staff Severance Fund	56,510,144,846	52,926,755,922

(Continued on next page.)

BALANCE SHEET *(cont.)*

	December 31, 1989 (Lire)	*December 31, 1988 (Lire)*
Sundry Provisions		
Receivables risk reserve	13,649,000,000	13,798,000,000
Reserve for losses on receivables from group companies	59,523,000,000	59,523,000,000
Reserve for devaluation of investments	39,000,000,000	25,000,000,000
Reserve for exchange losses	760,000,000	—
Reserve for sundry risks	14,000,000,000	12,000,000,000
Provision for taxes	6,680,000,000	200,000,000
	133,612,000,000	110,521,000,000
Medium- and Long-Term Debt		
Debenture loan	7,614,900,600	8,461,000,500
Secured loans	133,742,789,734	93,581,097,956
Unsecured loans	159,804,682,037	159,492,816,688
Less: Current portion	(144,645,644,271)	(98,976,187,817)
	156,516,728,100	162,558,727,327
Short-Term Financial Debt		
Bank overdrafts	55,024,629,366	84,561,510,940
Other	51,425,168,071	53,411,865,554
Current portion of medium- and long-term debt	144,645,644,271	98,976,187,817
	251,095,441,708	236,949,564,311
Current Accounts With Subsidiaries, Associated Companies, and Affiliated Companies—Payables	475,142,015	2,715,357,306

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Working Capital—Liabilities		
Trade payables:		
Suppliers	123,963,253,214	124,044,815,496
Subsidiaries, associated companies, and affiliated companies	49,601,031,223	46,559,894,356
Advances from customers	—	1,938,121
	173,564,284,437	170,606,647,973
Sundry Payables		
Third parties	24,086,026,103	28,006,747,943
Subsidiaries, associated companies, and affiliated companies	750,436,317	7,912,054,071
	24,836,462,420	35,918,802,014
Accrued Expenses and Prepaid Income		
Accrued expenses	5,506,560,827	2,875,052,934
Prepaid income	60,655,583	163,907,315
	5,567,216,410	3,038,960,249
Total Liabilities and Shareholders' Equity	1,575,399,679,473	1,492,885,633,074
Memorandum Accounts		
Guarantees given by the Company	53,234,578	677,005,825
Bills receivable, discounted, or transferred	765,791,156	531,799,922
Other memorandum accounts	527,661,155	954,812,008
	1,346,686,889	2,163,617,755
Total	1,576,746,366,362	1,495,049,250,829

PROFIT AND LOSS ACCOUNT

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Expenses		
Opening Stock		
Raw Materials and Semifinished and Finished Goods	69,425,513,765	—
Raw Materials and Semifinished and Finished Goods Received on Incorporation of Subsidiaries	—	79,485,887,544
Purchases of Raw Materials and Semifinished and Finished Goods	466,076,361,156	413,622,404,587
Purchases of Services	151,982,126,256	153,917,690,005
Labor Costs and Relative Contributions	115,870,126,176	115,094,930,953
Financial Charges		
Interest payable:		
Subsidiaries, associated companies, and affiliated companies	431,124,432	579,351,629
Banks	49,111,591,798	41,186,294,746
Debenture holders	1,657,782,760	1,835,964,109
Other	864,989,179	586,556,138
Discounts payable and other financial charges	8,927,171,056	5,626,252,429
	60,992,659,225	49,814,419,051
Direct Taxes		
Current year	2,501,616,069	4,030,000
Previous years	1,831,000	1,276,466,000
	2,503,447,069	1,280,496,000

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Sundry Indirect Taxes	1,629,292,483	5,374,523,853
Losses on Receivables From Third Parties	1,965,883,414	70,930,659
Losses on Disposal of Fixed Assets	10,628,000	7,839,353,214
Losses on Investments	790,000,000	120,000,000
Other Costs and Non-operating Expenses	3,784,394,471	3,896,690,246
Depreciation and Amortization:		
Industrial buildings	2,850,679,000	3,025,562,000
Plant and machinery	49,075,117,000	46,848,481,000
Office furniture and equipment	541,443,000	455,509,000
Industrial patents	660,000,000	660,000,000
Deferred industrial charges	10,778,898,371	8,593,671,105
Deferred financial charges	1,059,492,667	1,290,225,120
	64,965,630,038	60,873,448,225
Provisions		
To staff severance fund	8,853,001,502	8,194,180,867
To receivables risk reserve	1,816,800,000	928,700,000
To reserve for sundry risks	2,000,000,000	1,285,000,000
To reserve for devaluation of investments	14,000,000,000	700,000,000
To reserve for exchange losses	760,000,000	—
To provision for taxes	6,480,000,000	—
	33,909,801,502	11,107,880,867
Profit for the Year	17,099,683,737	22,007,454,743
Total	991,005,547,292	924,506,109,947

(Continued on next page.)

PROFIT AND LOSS ACCOUNT *(cont.)*

	December 31, 1989 (Lire)	*December 31, 1988 (Lire)*
Revenues		
Sales	744,446,669,681	714,053,994,359
Internal Costs Capitalized to Fixed Assets	53,382,589,000	60,221,445,000
Capitalization of Deferred Charges		
Industrial and commercial	10,422,445,000	11,459,551,094
Financial	591,202,148	1,572,000,000
	11,013,647,148	13,031,551,094
Dividends From Investments		
Subsidiaries, associated companies, and affiliated companies	1,436,586,270	24,048,364,856
Other	2,000,000,000	—
	3,436,586,270 24,048,364,856	
Financial Income		
Interest income:		
Banks	285,677,009	196,587,811
Subsidiaries, associated companies, and affiliated companies	1,639,956,870	1,366,379,194
Other	354,852,992	251,069,957
Other financial income	10,766,567,025	11,354,808,065
	13,047,053,896	13,168,845,027
Gains on Disposal		
Fixed assets	392,099,937	385,297,219
Investments	48,833,190,801	—
	49,225,290,738	385,297,219

	December 31, 1989 (Lire)	December 31, 1988 (Lire)
Gains on Disposal of Business Segments	28,400,000,000	—
Real Estate Income	167,639,222	187,365,883
Other Income and Nonoperating Income	8,991,789,446	15,624,380,788
Transfers		
From receivables risk reserve	1,965,800,000	70,089,956
From reserve for sundry risks	—	13,022,000,000
From provision for taxes	—	1,267,262,000
	1,965,800,000	14,359,351,956
Closing Stock—Raw Materials and Semifinished and Finished Goods	76,928,481,891	69,425,513,765
Total	991,005,547,292	924,506,109,947

NOTES TO THE BALANCE SHEET

Assets

Fixed Assets

Fixed assets amount to 911,961 million lire, representing an increase of 48,215 million lire with respect to the previous year.

The movements during the year are shown below:

	(Millions of Lire)				
	Balance at 12/31/88	*Transfer From Fixed Assets Under Construction*	*Additions*	*Disposals*	*Balance at 12/31/89*
Nonindustrial land and buildings	4,218	3,740	340	(4,080)	4,218
Industrial land and buildings	115,943	3,240	4,710	(13)	123,880
Plant and machinery	695,538	23,470	23,032	(641)	741,399
Office furniture and equipment	5,086	152	441	(248)	5,431
Industrial patents	6,600	—	—	—	6,600
Fixed assets under construction	36,361	(30,602)	24,860	(186)	30,433
	863,746	0	53,383	(5,168)	911,961

Fixed assets relative to the production plants of Acerra and Porto Marghera, incorporated in 1988, are stated at the values initially attributed to them by independent appraisals carried out in 1981, in accordance with Article No. 2343 of the Civil Code, due to the constitution of the production companies. Subsequent increases are valued at cost, comprising direct cost and a part of the indirect cost of production for those assets produced internally, as well as interest for the period from payment to the starting date of the plant.

The value of fixed assets also includes a monetary revaluation carried out in accordance with Law No. 72 of March 19, 1983. The amount thereof relative to fixed assets still in existence at year-end is as follows:

	(Millions of Lire)
Land	2,277
Buildings	2,208
Plant and machinery	22,940
Office furniture and equipment	22
Industrial patents	600
	28,047

Disposals of fixed assets relate to sales and demolitions made during the year.

It should be noted that there exist guarantees and mortgages on the two production plants of Acerra and Porto Marghera in relation to secured loans stipulated with credit institutions. The residual value of these loans at year-end amounts to 133,743 million lire.

Investments

These amount to 120,231 million lire and show a net decrease of 5,917 million lire with respect to the amounts at December 31, 1988.

The movements during the year were as follows:

	(Millions of Lire)
Elimination of the investment in Società Industriale Cremonese S.p.A. following the sale thereof	(4,000)
Elimination of the investment in Industria Tessile di Vercelli S.p.A. following the sale thereof	(2,167)
Participation in the share capital increase of Torcitura di Rancio S.p.A.	250

The book values of the Company's investments, none of which are quoted on the Stock Exchange, remain unchanged from those shown in the previous year's financial statements, with the exception of the investment in Torcitura di Rancio S.p.A. following the underwriting of 50 percent of the share capital increase of 500 million lire that was resolved by the shareholders' meeting of that company. The percentage held by Montefibre S.p.A. in Torcitura di Rancio S.p.A. remains at 50 percent. The book values of the investments, net of the relative reserve for devaluation, are in line with the respective net equities valued in accordance with Group accounting principles.

Current Accounts With Subsidiaries, Associated Companies, and Affiliated Companies—Receivables

This item amounts to 27,045 million lire and concerns the following companies:

	(Millions of Lire)
Associated Companies:	
Industria Tessile S.Marco S.p.A. in liquidation	495
Other companies	16
Affiliated Companies:	
Sefimont S.p.A.	26,534

The current accounts receivable are subject to interest at market rates, with the exception of the receivables from associated companies, all dormant, which yield no interest.

Stock

This amounts to 76,928 million lire and comprises the following:

	(Millions of Lire)
Raw materials	8,620
Other materials	10,425
Semifinished goods	16,354
Finished goods	41,529
	76,928

Stock is valued at the lower of the weighted average purchase or production cost and market value.

The increase of 7,502 million lire with respect to the previous year is due principally to the adjustment of stock levels in line with the growth in activity in the polyester sector.

Trade Receivables From Customers

This item amounts to 155,761 million lire and represents a decrease of 1,465 million lire from the previous year.

The receivables are shown at nominal value and are reduced to net realizable value by means of appropriate reserves.

The accounts receivable in foreign currency are registered at the exchange rates in effect at the transaction date, and the unrealized exchange difference thereon at year-end is adequately covered by the reserve for exchange losses calculated in accordance with fiscal legislation.

Trade Receivables From Subsidiaries, Associated Companies, and Affiliated Companies

These amount to 40,514 million lire and include the following:

	(Millions of Lire)
Subsidiary Companies:	
Montefibre Hispania S.A.	8,429
Montefibre U.K. Ltd.	1,088
Associated Companies:	
Torcitura di Rancio S.p.A.	853
Others	132

	(Millions of Lire)
Affiliated Companies:	
Foreign commercial companies	26,717
Enichem Fibre S.p.A.	1,392
Montedipe S.r.l.	1,670
Industria Tessile di Vercelli S.p.A.	233

Receivables in foreign currency are treated as described previously in the note titled "Trade Receivables From Customers."

Liabilities and Shareholders' Equity

Share Capital

This amounts to 300,000 million lire, fully paid up, and comprises the following:

250,000,000 ordinary shares of par value 1,000 lire	Lire 250,000,000,000
50,000,000 savings shares of par value 1,000 lire	Lire 50,000,000,000

Legal Reserve

This item amounts to 8,151 million lire and has increased by 1,100 million lire from the previous year following the allocation of 5 percent of the 1988 profit as resolved by the Shareholders' Meeting of April 13, 1989.

Reserve for Industrial Investments in the South of Italy (Article No. 102 of DPR 218/78)

This amounts to 21,000 million lire and remains unchanged from the previous year.

Retained Earnings

This item amounts to 35,979 million lire. The increase of 4,907 million lire is the result of the transfer of the remaining profit for 1988, as resolved by the Shareholders' Meeting of April 13, 1989.

Industrial Investment Grants

This amounts to 6,851 million lire, representing an increase of 2,214 million lire from the previous year as a result of the following grants received:

	(Millions of Lire)
Grants from the "Regione Campania" for energy-saving investments in the Acerra plant	825
Additional VAT deduction on purchases for investments in the Acerra plant (Law No. 64 of 1986)	1,389

Staff Severance Fund

This amounts to 56,510 million lire and covers the indemnity matured as of December 31, 1989, by Company personnel in accordance with the provisions of Law No. 297 of May 29, 1982.

The increase of 3,583 million lire with respect to the previous year results from the following:

	(Millions of Lire)
Allocation for the year	8,853
Payments during the year	(4,388)
Decrease regarding personnel transferred to affiliated companies	(930)
Increase regarding personnel tansferred from affiliated companies	48

Provision for Taxes

This amounts to 6,680 million lire and represents an increase of 6,480 million lire from December 31, 1988, accrued to integrate those taxes already expensed during the year. The provision covers all estimated fiscal liabilities for the period up to December 31, 1989.

Debenture Loan

This item amounts to 7,615 million lire, and it represents a debenture loan made in accordance with Law No. 675 of 1977 to finance investments at the Acerra plant and was underwritten entirely by Montedison S.p.A. This loan has decreased by 846 million lire from the previous year following the repayment of the installment that matured in 1989.

The interest rate (net of government contributions) amounts to 6.32 percent per annum.

Secured Loans

This item amounts to 133,743 million lire and comprises the following:

	(Millions of Lire)
Loans at preferential interest rates from Banco di Napoli	3,043
Loans at preferential interest rates from IMI	6,085
Loans at ordinary interest rates from Crediop	1,304
Loans at ordinary interest rates from Banco di Napoli	3,570
Loans at ordinary interest rates from ISVEIMER	41,417
Loans at ordinary interest rates from IMI	42,392
Loans at ordinary interest rates from Interbanca	3,700
Loans from BNL/BEI	8,464
Loans from Interbanca/BEI	23,768
	133,743

The average annual interest rate paid on the foregoing loans, net of contributions for loans at preferential interest rates, amounts to 11.7 percent.

The repayments of the amounts shown in the balance sheet shall be made in the following years:

	(Millions of Lire)
1990	25,637
1991	13,846
1992	22,610
1993	21,557
1994	44,395
Subsequent years	5,698
	133,743

Unsecured Loans

This item amounts to 159,805 million lire and comprises the following:

	(Millions of Lire)
Loans at preferential interest rates from Ministero dell'Industria	13,005
Loans from Cassa Risparmio di Roma	46,800
Loans from Istituto San Paolo di Torino	30,000
Loans from Banca Commerciale Italiana	20,000
Loans from Credito Italiano	20,000
Loans from Banco di Sicilia	30,000
	159,805

The average annual interest rate paid on the foregoing loans amounts to 12.1 percent.

The repayments of the amount shown in the balance sheet shall be made in the following years:

	(Millions of Lire)
1990	118,162
1991	31,404
1992	1,447
1993	1,492
1994	1,537
Subsequent years	5,763
	159,805

Other Short-Term Financial Debt

This item amounts to 51,425 million lire and relates to the debt toward shareholders for dividends not yet collected (1,047 million lire), loans from banks (43,354 million lire), and other financial debt (7,024 million lire).

Memorandum Accounts

These include the following:

	(Millions of Lire)
Fidejussions and other guarantees given by the Company	53

NOTES TO THE PROFIT AND LOSS ACCOUNT

Expenses

Purchases of Raw Materials, Semifinished Goods, and Finished Goods

Purchases total 466,076 million lire, of which 86,424 million lire is from group companies, and refer to the following:

	(Millions of Lire)
Raw materials and semifinished and finished goods	361,613
Energy, methane gas, and other utilities	39,078
Technical materials and others	65,385
	466,076

The increase from the previous year amounts to 52,454 million lire and is due mainly to increases in the price of the principal raw materials.

Purchases of Services

This item amounts to 151,982 million lire, of which 33,213 million lire is from group companies, and comprises the following:

	(Millions of Lire)
Transport	30,448
Projects, construction, maintenance, and repairs	31,732
External work carried out	43,977
Sundry services	16,028
Leasing of buildings and machinery	3,392
Services of employees from other group companies	796
Sundry sales and advertising costs	5,343
Fees for patents, trademarks, etc.	1,067
Postal, telegraphic, and telephone expenses	2,647
Legal and administrative services	7,627
Travel, transfer, and other staff expense	4,173
Insurance	4,752
	151,982

Purchases of services have decreased by 1,936 million lire from the previous year.

Financial Charges

These are detailed in the profit and loss account, amount to 60,993 million lire and comprise interest charges towards the following group companies:

	(Millions of Lire)
Subsidiaries:	
Domosic Italia S.p.A.	9
Affiliated Companies:	
Sefimont S.p.A.	422

Financial charges toward banks amount to 49,112 million lire, comprising 31,591 million lire relative to medium- and long-term loans, 13,816 million lire relative to bank overdrafts, and 3,705 million Lire relative to advances in connection with export transactions.

Discounts payable and other financial charges consist mainly of charges for discounting bills receivable and factoring operations.

The increase of 11,179 million from 1988 derives from the higher level of indebtedness during the year and to the increase in average interest rates.

Losses on Investments

These amount to 790 million lire and derive from the renouncing of receivables from the dormant company Huron S.p.A., to enable Huron to meet its remaining commitments.

Depreciation and Amortization

This amounts to 64,966 million lire and is detailed in the profit and loss account.

The increase of 4,093 million lire from the previous year is due to new capital investment.

Provisions

- *To the staff severance fund:* The provision for the year amounts to 8,853 million lire and relates to the indemnity matured during the year.
- *To the receivables risk reserve:* The provision for the year of 1,817 million lire is within the limits specified by fiscal legislation and comprises 924 million lire per Article 71, first paragraph, of Income Tax Law and 893 million lire for those receivables undergoing legal proceedings per Article 66, third paragraph, of Income Tax Law.
- *To the reserve for sundry risks:* The provision of 2,000 million lire represents an integration of the existing reserve to cover the potential risks relative to legal action in process and other potential losses.
- *To the reserve for devaluation of investments:* A provision of 14,000 million lire was made during the year to align the net book value of investments with the relative net equity values. This adjustment was necessary as a result of the losses incurred during the year by Montefibre Hispania, which suffered particularly from the difficult situation in the acrylic market.

- *To the reserve for exchange losses:* The provision of 760 million lire represents the adjustment of balances in foreign currency to year-end exchange rates.
- *Provision for taxes:* The provision of 6,480 million lire represents an integration of the existing tax charge for the year.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Italy

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc.?	Yes	*1 a-c.* The primary purpose is to attest to information used by third parties.
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Italy?	Yes	
B. If so, are they published?	Yes	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
C. If auditing standards exist in Italy, are they similar to U.S. standards?	Yes				
D. If not, what are they?					
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	See Comment				3. Auditing standards are promulgated by the profession and approved by the National Association of Accountants and Consob.
4. Do auditors confirm receivables? (AU 331)	Yes. PR no. 7	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. PR no. 6	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. PR no. 4	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. PR no. 4	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. PR no. 4	✓			
B. If so, do they include a written audit program outlining proce-	Yes. PR no. 4	✓			

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.
PR = *Principi Revisione* (auditing standards).

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
dures to be performed? (AU 339)					
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. PR no. 3	✓			
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. PR no. 2	✓			
B. If so, is the communication documented? (AU 325)	Yes. PR no. 2	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. PR no. 3	✓			
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. PR no. 2	✓			
13. A. Does the auditor perform procedures to identify related-party transactions and their effect on the financial statements? (AU 334)	Yes. Civil Code	✓			13A,B. The Civil Code does not specify procedures to be performed, but does require disclosure of related parties. It is common practice to follow U.S. standards for procedures concerning related parties.

B. If so, list the procedures.				
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. PR no. 6	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance-sheet date? (AU 560)	Yes. PR nos. 4, 7, 11, 14, and 16	✓		
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. PR nos. 4, 7, 11, 14, and 16	✓		
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in Italy?	Yes		✓	
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)				
A. Must the principal auditor assume responsibility for the work of the other auditor as it	No			✓

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
relates to the principal auditor's opinion?					
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	Yes. PR no. 2	✓			
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. For required audits—Consob; for voluntary audits—PR no. 18	✓			
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. The majority of Italian companies have a Consob type of opinion because they are governed by legal rules. A legal opinion is a clean opinion with explanations; a qualified legal opinion is not permitted. For those companies not governed by legal requirements and those preparing consolidated financial statements, qualifications similar to those in the United States are permitted.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	No			✓	
B. If not, does it imply that either	Yes	✓			

consistency exists or the financial statements disclose the inconsistency?			
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	Yes. PR no. 18	✓	
B. If not, what date is used?			
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (*Code of Professional Conduct*, Rule 101 and its interpretations)	Yes. Italian Law 136 and PR no. 2	✓	
22. Please describe any standards in Italy for which there are no corresponding U.S. standards.			22. The following auditing procedures are required in Italy but not in the United States: • Payables must be confirmed. • Cash must be counted.

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Italy

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Italy? If so, are they codified?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	The profession	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes. PC no. 4	✓			
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part	Yes. PC no. 4	✓			

of the historical cost of an asset? (I67)				
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes	✓		
B. If so, define the basis.				5B. Adoption of revaluation is determined by law.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	Yes. PC no. 4		✓	6. In practice, this occurs infrequently.
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. PC no. 2	✓		
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. PC no. 2	✓		
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. PC no. 8	✓		9A. This is required for quoted companies only. However, this practice is being extended voluntarily to other large non-quoted companies.

Notes:

References are to sections in the *FASB Current Text,* unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
PC = Principi Contabili (accounting principles).
IAS = International Accounting Standards.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. PC no. 8	✓			9B. Control can also be indicated by prevalent influence.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. PC no. 8	✓			
B. If so, list them.					10B. Following are instances when an entity would not be consolidated even though control is present: • The investment is temporary. • The investment is in a foreign subsidiary that is located in a country where the investment cannot be legally transferred.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. PC no. 8		✓		11. For tax reasons, the cost method is generally used.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes. IAS No. 22			✓	12. In practice, only the purchase method is used, except that in mergers a method similar to pooling of interests is used.

13. Is the method used to account for a business combination disclosed? (B50)	Yes. IAS no. 22			✓	
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	No	✓			14A. Neither the Accounting Standards nor the Commercial Code has specified the method of accounting for business combinations.
B. If so, list the criteria.					
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. PC no. 8			✓	
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. PC no. 8			✓	15B. The amortization period is not to exceed ten years.
16. Are the following disclosures made for related-party transactions: (R36)					
a. the nature of the relationship?	Yes. IAS no. 24	✓			
b. a description of the transactions for the periods presented?	Yes. IAS no. 24	✓			
c. the amounts of the transactions for the periods presented?	Yes. IAS no. 24		✓		
d. the amounts due to or from related parties at the balance-sheet date?	Yes. IAS no. 24 and the Italian Civil Code	✓			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. PC no. 7	✓			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. PC no. 7	✓			
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. PC no. 7 and the Italian Civil Code	✓			
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)					
a. sales to outsiders and intersegment sales?	Yes. IAS no. 14	✓			
b. operating profit or loss?	Yes. IAS no. 14	✓			
c. identifiable assets and related depreciation, depletion, and amortization expense?	Yes. IAS no. 14	✓			
d. capital expenditures?	Yes. IAS no. 14	✓			
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	Yes. IAS no. 14	✓			

f. effect of a change in accounting principle?	Yes. IAS no. 14	✓		
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	Yes. IAS no. 15		✓	
B. If so, list the disclosures required.				21B. The required disclosures are listed in IAS no. 15.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. PC no. 2	✓		
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. PC no. 2	✓		
B. If not, how are noncurrent assets defined?				
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. PC no. 6	✓		
B. If so, what is the basis (for example, percentage of sales, aging of receivables, etc.) for calculating the allowance?				24B. The predominant basis is specific identification, combined with an estimate based on an aging of the receivables. A percentage of sales is the minority practice.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	Yes. PC no. 6		✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. PC no. 3 and the Italian Civil Code	✓		
B. If not, how is inventory stated?				

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
C. Is the basis disclosed?	Yes. PC no. 3	✓			
27. Does cost for inventory purposes include: (I78)					
a. materials?	Yes. PC no. 3	✓			
b. direct labor?	Yes. PC no. 3	✓			
c. factory overhead?	Yes. PC no. 3	✓			
d. if the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes. PC no. 3	✓			
28. A. Are the following cost methods permitted for reporting purposes: (I78)					28A,B. LIFO is usually adopted for tax purposes, but any other method resulting in an amount not lower than LIFO may be used.
a. first-in, first-out (FIFO)?	Yes. PC no. 3	✓			
b. last-in, first-out (LIFO)?	Yes. PC no. 3	✓			
c. average cost?	Yes. PC no. 3	✓			
B. Are the same methods permitted for tax purposes?	See Comment				
29. Is the inventory costing method used disclosed? (I78)	Yes. PC no. 3	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. PC no. 4	✓			30A. Estimated useful lives are usually based on guidelines issued by the tax authorities.
B. If so, is an accumulated depreciation account used?	Yes. PC no. 4	✓			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. PC no. 4	✓			

b. balances of major classes of depreciable assets?	Yes. PC no. 4	✓	
c. the methods used to compute depreciation for the major asset classes?	Yes. PC no. 4	✓	
d. accumulated depreciation, either by major class of assets or in total?	Yes. PC no. 4	✓	
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. IAS no. 17	✓	
B. If so, list the criteria and disclosure requirements.			32B. The criteria and disclosure requirements are listed in IAS no. 17.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. IAS no. 17	✓	33A,B. For tax purposes, only operating leases are permitted. The effect of treating a lease as a financing lease, in accordance with IAS no. 17, is disclosed only in the notes to the financial statements.
B. If so, list the criteria, type of lease, and disclosure requirements.			
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. PC nos. 5 and 7	✓	
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes. PC nos. 5 and 7	✓	
B. If not, how are noncurrent liabilities defined?			
36. For notes payable, is disclosure made of: (C32)			
a. interest rates?	Yes. PC no. 5	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
b. maturities?	Yes. PC no. 5	✓			
c. assets pledged as collateral?	Yes. PC no. 5	✓			
d. covenants to reduce debt?	Yes. PC no. 5	✓			
e. minimum working capital requirements?	Yes. PC no. 5	✓			
f. dividend restrictions?	Yes. PC no. 5	✓			
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. IAS no. 11	✓			
B. If so, what are the criteria for determining the method to be used?					37B. See IAS no. 11 and paragraph 80 of text.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. IAS no. 9	✓			
B. Are such costs disclosed?	Yes. IAS no. 9	✓			
39. A. Are development costs charged to expense when incurred? (R50)	Yes. IAS no. 9	✓			
B. Are such costs disclosed?	Yes. IAS no. 9	✓			
40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identify-	Yes. PC no. 2	✓			

ing extraordinary items exist in Italy? (I17)				
B. If not, what are the criteria?				
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. PC no. 2	✓		
42. A. Are disclosures required for:				
a. extraordinary items? (I17)	Yes. PC no. 2	✓		42*a,b*. Events that would not meet U.S. criteria for extraordinary items are treated as extraordinary in Italy.
b. material events or transactions not classified as extraordinary items? (I22)	Yes. PC no. 2	✓		
c. disposal of a segment of a business? (I13)	Yes. PC no. 2	✓		
B. Indicate the financial statement presentation of these items.				42B. Items *a* and *b* are usually shown on a separate line of the income statement. For item *c*, disclosure is not required in the income statement but note disclosure is required.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes. PC no. 7	✓	✓	43A,B. Pension plans are regulated by the government. Costs are determined by law and charged as incurred. The law also required that a severance indemnity be paid to employees leaving the company for any reason.
B. If so, do they include charges for costs assigned under the actuarial method used in years prior to the plan's inception?	Yes. PC no. 7			
44. Are specific disclosures required relating to pension plans? (P16)	Yes. PC no. 7	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. IAS no. 12		✓		45A,B. The concept of deferred taxes is only used in the preparation of consolidated financial statements.
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes. IAS No. 12		✓		
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	Yes. IAS no. 12		✓		
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I25)	No		✓		47A,B. Disclosure is required only if there is an unusual relationship between income before tax and income taxes. The reasons for the unusual relationship are also to be disclosed.
B. If so, list the requirements.					
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	No			✓	48A,B. Loss carrybacks are not allowed by law.
B. If so, are the tax effects of a loss carryback included in the income in the period?					
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. IAS no. 12	✓			

B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	No	✓	
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. IAS no. 21	✓	50. Usually, financial statements of foreign subsidiaries are translated into lire at the current rate.
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. IAS no. 21	✓	
52. A. Are translation adjustments reported separately? (F60)	Yes. PC no. 9	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. PC no. 9	✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes. PC no. 9	✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. PC no. 9	✓	
B. Is the aggregate transaction gain or loss included in deter-	Yes. PC no. 9	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
mining net income for the period disclosed in the financial statements or notes?					
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. IAS no. 21		✓		
55. What information is disclosed about foreign currency restrictions? (F60)					55. Details of restrictions, items affected, and the effect on the financial statements.
56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)	Yes. PC no. 7	✓			
57. Please list any standards in Italy for which there are no corresponding U.S. standards.					57. None

Bibliography

The information in this booklet was compiled from many sources in Italy. Significant references follow.

- Auditing standards and accounting statements issued by the accounting profession
- Italian Civil Code
- Regulations of the Commissione Nazionale per le Società e la Borsa (Consob)

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