2005

BOARD OF DIRECTORS REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

(Translation into English of the original Italian versione)

BOARD OF DIRECTORS REPORT
ON BUSINESS TRENDS IN THE 2005 FINANCIAL PERIOD

Dear Shareholders,

in 2005 the SOGEFI Group further improved its profitability, achieving net profits of € 44.7 million, and for the first time in its twenty-five years of business passed the one billion Euros of revenue milestone.

The results confirm the validity of strategic objectives pursued by SOGEFI in recent years, focused on business growth but above all on improved results and Group value, in spite of less than encouraging market conditions.

SOGEFI has achieved a position as leader on the world markets, in second place as producer of flexible car suspension components and confirmed as among the top five with regard to filter systems.

SOGEFI holds the technological records that guarantee a continued leadership role in the vehicle components industry: world leader in car stabilizer bars; European leader in stabilinks for industrial vehicle air suspension systems; European leader in the overall production of track tensioners for earth moving machinery; European leader in diesel and engine oil filter systems.

During 2005 a number of negative factors that had already characterised the previous year were confirmed: depression of the European economic framework which generated a drop in demand for new cars and weakened the replacement market; the sales crisis of the Ford client on the US market; the further increase in steel prices in the first half of the year. However, the recovery of South American markets continued, demand remaining high in the industrial vehicle and earth moving machinery sectors, and the Chinese market has regained ground after slowing in the second half of 2004.

For the European car market, the second half of 2005 saw a period of stagnating demand which in December came to a halt generating a reduction of 0.7% in new registrations with respect to the previous year, with significant negative variations for the year in Great Britain (-5%) and Italy (-1.3%), whereas other markets demonstrated an increase: France (+2.7%), Germany (+1.6%) and Spain (+0.8%).
The Brazilian market produced 10.7% more than in 2004, reaching 2.4 million vehicles of which one third destined for export.

As in the previous year, management in 2005 concentrated primarily on transferring increased raw materials costs to the market, on implementing plans to rationalise production with a view to improved efficiency and on maintaining filters replacement market shares without decreasing profitability.

Customer appreciation of the high technological level and quality of SOGEFI products has allowed the implementation of price increases which, albeit partially, have offset the increased cost of materials, particularly those with an incidence on suspension components.

Company reorganisation continued with the aim of streamlining the control chain and Group structural costs, and involving the following operations:

- *transfer of the shareholding in Sogefi Filtration S.p.A. (Italy) from Filtrauto S.A. (France) to Sogefi S.p.A.;*
- *merger of Rejna S.p.A. (Italy) and Sidergarda Mollificio Bresciano S.r.l. (Italy);*
- *merger of Allevard Rejna Autosuspensions S.A. (France) and Allevard Rejna Technologie Froid S.A. (France);*
- *transfer of the shareholding in Luhn & Pulvermacher - Dittmann & Neuhaus GmbH (Germany) from Sogefi S.p.A. to Allevard Federn GmbH (Germany);*
- *transfer of the shareholding in Filtrauto Inc. U.S.A. (now Sogefi Inc.) from Filtrauto S.A. (France) to Sogefi S.p.A..*

As part of the framework to continue improvement in Group productivity, an objective pursued by concentrating production units into a smaller number, during the year the Melfi (Italy) suspension components plant, the Coevorden (the Netherlands) precision springs plant and the Nottingham (Great Britain) filter production plant were closed.

GROUP BUSINESS TRENDS

Group business in 2005, albeit faced with stagnant demand in the leading world car markets, showed continued improvement in all economic indicators. The reclassified consolidated income statement illustrates the growth in revenue and results.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(in million Euros)	*2005*		*2004*	
	Total	*%*	*Total*	*%*
Sales revenues	*1,023.4*	*100.0*	*966.1*	*100.0*
Variable costs of sales	*657.6*	*64.3*	*614.4*	*63.6*
CONTRIBUTION MARGIN	*365.8*	*35.7*	*351.7*	*36.4*
Manufacturing and R&D overheads	*115.7*	*11.3*	*116.5*	*12.0*
Depreciations & Amortizations	*45.9*	*4.5*	*45.1*	*4.7*
Distribution, Marketing Sales Fixed Expenses	*39.4*	*3.8*	*39.5*	*4.1*
Adm. and General Expenses	*59.2*	*5.8*	*59.1*	*6.1*
OPERATING INCOME	*105.6*	*10.3*	*91.5*	*9.5*
Restructuring costs	*12.6*	*1.2*	*23.0*	*2.4*
Gain on disposals	*(0.1)*	*–*	*(7.9)*	*(0.8)*
Exchange Differences (Gains) Losses	*(0.1)*	*–*	*1.9*	*0.2*
Other non-operating Expenses	*12.2*	*1.2*	*9.5*	*1.0*
EBIT	*81.0*	*7.9*	*65.0*	*6.7*
Finan. Expenses Net	*11.6*	*1.1*	*12.3*	*1.3*
Losses (Gain) from Equity Investments	*2.3*	*0.2*	*(1.7)*	*(0.2)*
INCOME BEFORE TAXES AND MINORITY INTERESTS	*67.1*	*6.6*	*54.4*	*5.6*
Income taxes	*21.2*	*2.1*	*21.9*	*2.3*
INCOME BEFORE MINORITY INTERESTS	*45.9*	*4.5*	*32.5*	*3.3*
Loss/(Income) Attributable to Minority Interests	*(1.2)*	*(0.1)*	*(2.5)*	*(0.2)*
NET INCOME OF GROUP	*44.7*	*4.4*	*30.0*	*3.1*

*The Group **consolidated turnover** was recorded as € 1,023.4 million, a 5.9% increase over the € 966.1 million of 2004, after recognition of € 13.2 million exchange gains, mainly due to the effects of revaluation of the Brazilian Real on the Euro.*

The increased revenue was mainly achieved through the suspension components division due to adaptations of sales prices to increased steel costs and the commercial success of the stabilinks range, in spite of a further fall in the precision springs sector.

In 2005 revenue from the two divisions was therefore to a large extent, balanced as illustrated in the following table:

(in million Euros)	2005		2004	
	Total	%	Total	%
Filters	518.5	50.7	514.6	53.3
Suspension components and precision springs	504.9	49.3	451.5	46.7
TOTAL	1,023.4	100.0	966.1	100.0

Also in 2005, the SOGEFI Group confirmed the stronger revenue trend in the original equipment sector, whereas for filter maintenance products the sales mix saw an increase in original equipment supplies of manufacturers to the detriment of Group brands:

(in million Euros)	2005		2004	
	Total	%	Total	%
Original equipment (O.E.)	654.6	64.0	594.5	61.5
Independent aftermarket (I.A.M.)	236.0	23.0	240.0	24.9
Original equipment supplies (O.E.S.)	132.8	13.0	131.6	13.6
TOTAL	1,023.4	100.0	966.1	100.0

There was strong progress in sales results in the United States (+82%) where business activity in 2004 began only in the second half-year, and in South America (+41.4%):

(in million Euros)	2005		2004	
	Total	%	Total	%
France	289.6	28.3	286.4	29.7
Germany	126.6	12.4	120.7	12.5
Great Britain	125.2	12.2	125.3	13.0
Italy	111.9	10.9	123.0	12.7
Spain	66.7	6.5	69.1	7.1
Benelux	63.7	6.2	56.8	5.8
Other European countries	84.4	8.3	76.6	8.0
Mercosur	112.2	11.0	79.4	8.2
United States	29.9	2.9	16.4	1.7
China	4.4	0.4	2.8	0.3
Rest of the world	8.8	0.9	9.6	1.0
TOTAL	1,023.4	100.0	966.1	100.0

The SOGEFI Group supplies its own brand components to almost all the world vehicle manufacturers.

In the period, there were no particular changes in business volume from key clients and the more significant increases over the previous year were achieved through Volkswagen, Renault, DAF, Ford (US suspensions business) and Daimler Chrysler (stabilinks).

(in million Euros)	*2005*		*2004*	
Group	*Total*	*%*	*Total*	*%*
PSA	*143.6*	*14.0*	*137.8*	*14.3*
Renault/Nissan	*129.0*	*12.6*	*118.2*	*12.2*
Ford/Volvo	*102.1*	*10.0*	*90.8*	*9.4*
FIAT/IVECO	*84.7*	*8.3*	*88.6*	*9.2*
Daimler Chrysler	*70.0*	*6.8*	*61.3*	*6.3*
Volkswagen/Audi	*48.9*	*4.8*	*35.7*	*3.7*
DAF/Paccar	*28.4*	*2.8*	*17.4*	*1.8*
Toyota	*20.5*	*2.0*	*17.5*	*1.8*
GM	*18.2*	*1.8*	*16.1*	*1.7*
Honda	*13.7*	*1.3*	*12.9*	*1.3*
Others	*364.3*	*35.6*	*369.8*	*38.3*
TOTAL	*1,023.4*	*100.0*	*966.1*	*100.0*

With regard to the product mix, further increases in revenue were achieved from the sale of car stabilizer bars, truck stabilinks and diesel filters (over and above oil filters):

(in million Euros)	*2005*		*2004*	
	Total	*%*	*Total*	*%*
Oil filters	*260.7*	*25.5*	*277.1*	*28.7*
Stabilizer bars	*176.1*	*17.1*	*143.7*	*14.9*
Shock absorbers	*146.5*	*14.3*	*135.2*	*14.0*
Air filters	*114.8*	*11.2*	*114.1*	*11.8*
Diesel filters	*74.9*	*7.3*	*62.9*	*6.5*
Leaf springs	*74.8*	*7.3*	*68.0*	*7.0*
Petrol filters	*38.0*	*3.7*	*33.4*	*3.4*
Torsion bars	*37.0*	*3.6*	*37.4*	*3.9*
Precision springs	*35.4*	*3.5*	*37.3*	*3.9*
Stabilinks	*17.6*	*1.7*	*12.6*	*1.3*
Compartment filters	*16.1*	*1.6*	*12.5*	*1.3*
Track tensioners	*9.2*	*0.9*	*9.4*	*1.0*
Others	*22.3*	*2.3*	*22.5*	*2.3*
TOTAL	*1,023.4*	*100.0*	*966.1*	*100.0*

2005 was also characterised by increased steel prices which, after reaching 10% in the first half-year settled at year end with a +5% annual average on 2004 overall values. In the second half of the year a drop in demand on the international markets inhibited further increases, allowing a return to normal of trade relations after eighteen months of tension with both suppliers and customers.

The reversal action of increases in the main cost factors on to sales prices has allowed the achievement of a ***consolidated contribution margin*** *of € 365.8 million with an incidence of 35.7% on turnover, against € 351.7 million in the previous year (36.4% of turnover).*

Group staffing was further downsized due to the implementation of reorganisation plans, resulting in 6,171 employees as at 31 December 2005, against 6,303 at the end of 2004, a reduction therefore of 2.1% as illustrated in the following table:

	12.31.2005		12.31.2004	
	Number	%	Number	%
Filters	3,488	56.5	3,559	56.5
Suspension components and precision springs	2,657	43.1	2,720	43.1
Others	26	0.4	24	0.4
TOTAL	6,171	100.0	6,303	100.0

The analysis of staff by grades does not show particular changes with respect to the previous year, illustrated as follows:

	12.31.2005		12.31.2004	
	Number	%	Number	%
Management	93	1.5	98	1.5
Admin Staff	1,420	23.0	1,460	23.2
Manual workers	4,658	75.5	4,745	75.3
TOTAL	6,171	100.0	6,303	100.0

The incidence of labour costs on turnover was reduced to 21.8%, against 23.2% in 2004, and per capita turnover increased by 9.7% to reach € 154.5 thousand (€ 140.9 thousand in 2004).

Energy costs are shown to have increased, an inevitable consequence of petrol price trends which during the period had a 2.6% incidence on turnover (against 2.4% the previous year).

*The **consolidated operating profit** through continued efforts to contain costs, increased by 15.4%, reaching 10.3% of turnover with a total € 105.6 million against € 91.5 million in 2004 (9.5% of turnover). This result was influenced by greater costs with respect to 2004, with product guarantee costs totalling € 1.8 million, mainly in relation to settlement of a dispute with a customer.*
It should also be remembered that the previous year had been characterised by high costs and negative profitability for the production launch of US subsidiary Allevard Springs U.S.A. Inc..

In 2005, the setting aside of € 12.6 million funds as charges sustainable in future periods for further company reorganisation influenced earnings before interest and tax (EBIT) and earnings before interest, tax, depreciation and amortisation (EBITDA). The main tasks concluded in 2005 and to be implemented during 2006 are:

- *€ 3.6 million for closure of the Melfi plant and restructuring of the San Felice sul Benaco plant (Italy) in the suspension components division;*
- *€ 3 million for shock absorber production stoppages at the Douai plant (France);*
- *€ 2 million for closure of the precision springs plant in West Bromwich (Great Britain);*
- *€ 1.7 million for the centralisation of Spanish filters division plants in Barcelona (Spain);*
- *€ 1 million for staff redundancies at the leaf springs unit in Hagen (Germany).*

Funds of € 23 million were set aside in 2004 for restructuring, partly offset by capital gains from property sales (€ 7.9 million), absent in this period.

__Consolidated EBITDA__ increased by 15.3%, rising to € 126.9 million (12.4% of turnover) against € 110 million (11.4% of turnover) in 2004.

__Consolidated EBIT__ increased by 24.7%, rising to € 81 million (7.9% of turnover) against € 65 million (6.7% of turnover) in the previous year.

The __consolidated income before taxes and minority interests__ in 2005 was € 67.1 million, 23.2% higher than the € 54.4 million of 2004. The recently ended period benefited from lower financial charges with respect to the previous year, due to a reduction in the net financial position, but was penalised by a € 2.4 million devaluation of the shareholding in KS Automotive Suspensions Asia Private Ltd (a 50% holding), whilst 2004 benefited from capital gains of € 1.4 million on a shares sale.

The __consolidated net income__ increased by 48.7% with respect to 2004, reaching € 44.7 million (4.4% of turnover) against € 30 million in 2004 (3.1% of turnover). This result gained from a more contained incidence of tax charges, reduced from 40.2% in 2004 to 31.6% in 2005, mainly due to the recognition of deferred tax assets of € 1.9 million in Italian companies, rendered necessary in the light of profitability trends and expectations, as well as the effect of reduced losses in subsidiary Allevard Springs U.S.A. Inc..

__Consolidated net earnings per share (EPS)__ were recorded as € 0.406, an increase of 47.1% over the € 0.276 of 2004, with an average share quota, net of own shares, of 110,091,576 (108,888,450 shares in 2004).

The __consolidated capital structure__ was further reinforced and, as illustrated in the table below, as at 31 December 2005 recorded __consolidated shareholder equity__ for the Group as € 246.9 million, an increase of 17.4% against € 210.3 million at the end of the previous year after distribution of € 17.6 million in dividends (€ 15.8 million in 2004):

(in million Euros)	12.31.2005		12.31.2004	
	Total	%	Total	%
Short term assets	361.1		374.0	
Short term liabilities	(234.5)		(243.9)	
Net working capital	126.6	29.5	130.1	30.4
Equity investments (including treasury stock)	3.8	0.9	10.2	2.4
Tangible, intangible fixed assets and other medium and long-term assets	404.1	94.3	385.6	90.0
CAPITAL INVESTED	534.5	124.7	525.9	122.8
Other medium and long-term liabilities	(105.9)	(24.7)	(97.4)	(22.8)
CAPITAL INVESTED NET	428.6	100.0	428.5	100.0
Net financial position	167.3	39.0	204.0	47.6
Minority Interests	14.4	3.4	14.2	3.3
Shareholder equity	246.9	57.6	210.3	49.1
TOTAL	428.6	100.0	428.5	100.0

Minority interests represent 5.5% of total equity, with respect to 6.3% as at 31 December 2004.

Specific actions to constantly reduce __net working capital__ led, at the end of 2005, to an incidence of 12.4% on turnover (€ 126.6 million) against 13.5% (€ 130.1 million) at the end of 2004.

Recognised equity per share *as at 31 December 2005, after distribution of the above mentioned dividends, was € 2.233 as compared with € 1.885 at the end of the 2004 period. The number of shares at the end of the 2005 period, net of treasury stock, was 110,595,192 (109,563,792 shares as at 31 December 2004).*

The ***return on investment (ROI)*** *in 2005 was 19%, against 15.2% the previous year, and the* ***return on equity (ROE)*** *was 19.7%, as compared with 15.1% in 2004.*

In the period, the SOGEFI Group again confirmed its strong cash flow generation capacity, improving its ***net financial position*** *which was at 31 December 2005, 167.3 million, reduced of 18% with respect to the end of 2004. The composition is summarised in the table below:*

(in million Euros)	*12.31.2005*	*12.31.2004*
Cash, banks, financial receivables and marketable securities	*57.5*	*57.1*
Short term financial payables (*)	*(120.4)*	*(105.9)*
Medium and long-term financial payables	*(104.4)*	*(155.2)*
NET FINANCIAL POSITION	*(167.3)*	*(204.0)*

(*) including current portions of medium and long-term financial debts

The ***cash flow generated by operations*** *was € 100.8 million as compared with € 85.5 million in the previous twelve months, and the* ***free cash flow*** *totalled € 53.2 million, against € 36.8 million in 2004, as illustrated in the following* ***consolidated cash flow statement:***

(in million Euros)	*2005*	*2004*
SELF FINANCING	*91.9*	*88.5*
Change in net working capital	*8.0*	*(0.3)*
Other non-current assets/liabilities	*0.9*	*(2.7)*
CASH FLOW GENERATED BY OPERATIONS	***100.8***	***85.5***
Sale of equity investment	*–*	*1.4*
Net decrease from sale of fixed assets	*0.4*	*1.5*
TOTAL SOURCES	*101.2*	*88.4*
Increase in intangible fixed assets	*8.9*	*8.0*
Purchase of tangible fixed assets	*36.0*	*44.5*
TOTAL APPLICATION OF FUNDS	*44.9*	*52.5*
Net financial position of subsidiaries purchased or sold during the year	*0.1*	*(0.2)*
Exchange differences on non-current assets/liabilities and equity	*(3.2)*	*1.1*
FREE CASH FLOW	***53.2***	***36.8***
Parent Company increase in share capital	*2.4*	*2.6*
Increases in share capital of consolidated subsidiary	*–*	*0.2*
Dividends paid by Parent Company to Shareholders	*(17.6)*	*(15.8)*
Dividends paid by subsidiaries to minorities	*(1.3)*	*(1.1)*
CHANGES IN EQUITY	*(16.5)*	*(14.1)*
Change in net financial position	***36.7***	***22.7***
Net financial position at the beginning of the period	***(204.0)***	***(226.7)***
NET FINANCIAL POSITION AT THE END OF THE PERIOD	***(167.3)***	***(204.0)***

In the period it was possible to restrict the total new ***technical investments****, down to € 36 million against € 44.5 million in the previous period.*

As at 31 December 2005 there was a clear improvement in the ***net financial position/total net equity (GEARING),*** *reduced to 0.64 against 0.91 at the end of the previous period, as was the* **net financial position/EBITDA***, recorded as 1.32 against 1.85 at 31 December 2004.*

PARENT COMPANY SOGEFI S.p.A. TRENDS

In 2005, Parent company Sogefi S.p.A. achieved an extraordinarily positive ***net income*** *of € 79.5 million, against the € 22.5 million of the previous year, allowing* **net equity** *to reach € 243.2 million at the end of 2005, significantly approaching the consolidated Group equity which at the same date was recorded as € 246.9 million.*
The main determining factors of this result are summarised in the reclassified company income statement below:

(in million Euros)	*2005*	*2004*
Financial income and expenses	*24.2*	*29.8*
Adjustments to the value of financial assets	*(7.0)*	*–*
Other operating revenues	*10.5*	*7.9*
Operating costs	*(11.7)*	*(11.4)*
Other non-operating income (expenses)	*61.6*	*(3.4)*
INCOME BEFORE TAXES	*77.6*	*22.9*
Income taxes	*(1.9)*	*0.4*
NET INCOME	*79.5*	*22.5*

Particularly important are the capital gains of € 62.2 million recognised to the item "Other non-operating income (expenses)", received by the Company through the 100% sale of own shares in the German subsidiary Luhn & Pulvermacher - Dittmann & Neuhaus GmbH (LPDN) to the indirect subsidiary Allevard Federn GmbH as part of the company downsizing process in the suspension components division. The sale was concluded for a sum recommended in the assessment by an independent expert commissioned for this purpose. The aim of this transaction was to create a direct relationship between the two German subsidiaries operating in the division concerned and thus allow operating synergies.
Still in comparison with the previous year, the trend of other operating income was also positive, due to the adoption of new and more correct cost debiting methods for services provided to subsidiaries introduced as of 1 July 2004, and which have therefore shown their full effect in 2005, and not merely for a half-year as in 2004.

Less favourable, on the other hand, were the dynamics of dividends from subsidiaries which fell to € 27.2 million, against the € 31.9 million of the previous year. This drop is attributable to the decision not to weaken the asset structure of French subsidiary Allevard Rejna Autosuspensions S.A., engaged in providing financial support to development of the US subsidiary Allevard Springs U.S.A. Inc. (ASUSA), or that of Allevard Federn GmbH in acquiring LPDN.
Among the factors with a negative impact on the result, also worth mentioning is the devaluation of shares in ASUSA, recognised as € 7 million under the item "Adjustments to the value of financial assets". The balance sheet value of shares under equity for the subsidiary was adjusted, also to take into account the impact on shares currently held by Simest S.p.A., which Sogefi S.p.A. has agreed to take over on 30 June 2008 against payment of their original purchase value. The decision to proceed with this devaluation did not depend so much upon expected results of the subsidiary, which after a problematic production start-up in the second half of 2004 has shown clear signs of improvement, but rather as an opportunity to reflect the adoption of IAS/IFRS international accounting principles also in the share value: the losses recorded thus far from the shareholding, in fact, are mainly attributable to the start-up phase for which costs, according to said principles, are recognised directly to the Income Statement without allowing their capitalisation.

To complete the overall economic picture, it is worth highlighting the positive trend in income taxes, credited as € 1.9 million due to benefits from tax income originating from the deduction of charges previously carried forward as taxable and deferred tax assets totalling € 0.9 million.

*Proceeding to the **balance sheet**, the following table illustrates the main items as at 31 December 2005, compared with values recognised at the end of the previous period:*

(in million Euros)	*12.31.2005*	*12.31.2004*
Short term assets	*3.0*	*9.8*
Short term liabilities	*(6.1)*	*(4.6)*
Net working capital	*(3.1)*	*5.2*
Equity investments	*257.0*	*181.2*
Other fixed assets	*28.8*	*27.4*
CAPITAL INVESTED	*282.7*	*213.8*
Other medium and long-term liabilities	*(6.3)*	*(7.8)*
CAPITAL INVESTED NET	*276.4*	*206.0*
Net financial position	*33.2*	*23.8*
Shareholder equity	*243.2*	*182.2*
TOTAL	*276.4*	*206.0*

Apart from equity strengthened by the conspicuous profit in the period, the structure also highlights a significant increase in shares investment as during 2005 there were capital increases or financing in Sogefi Filtration S.p.A., Allevard Rejna Autosuspensions S.A. and Rejna S.p.A., considered appropriate in the framework of company reorganisation processes within the Group. A part of these operations were completed via the conversion to capital of financing already granted in 2004, reflected in a corresponding reduction under the item "Financial receivables from subsidiaries".
The reduction in short-term assets is attributable to the collection of receivables from overall parent company CIR S.p.A., amounting to a significant sum at the end of 2004, in the consolidated tax return start-up phase.

It should be specified that on 22 December the expiring € 80 million 5-year bond loan was settled, whereas the reduction in medium-long-term financial debt is due to the fact that in December 2006 a managed loan of € 80 million will expire, therefore reclassified at the end of 2005 under "Short term financial payables".
*Under the profile of overall changes in debt, as illustrated in the table below, the **net financial position** is € 9.4 million worse than at the end of 2004:*

(in million Euros)	*12.31.2005*	*12.31.2004*
Cash and banks	*19.6*	*12.3*
Short-medium term financial receivables from subsidiaries and third parties	*122.0*	*170.3*
Short term financial payables	*(128.9)*	*(79.9)*
Medium and long-term financial payables	*(45.9)*	*(126.5)*
NET FINANCIAL POSITION	*(33.2)*	*(23.8)*

*The following table analyses the **cash flow statement** of Sogefi S.p.A.:*

(in million Euros)	*2005*	*2004*
SELF FINANCING	*84.6*	*29.5*
Change in working capital	*8.4*	*–*
Other non-current assets/liabilities	*(0,6)*	*(7.2)*
CASH FLOW GENERATED BY OPERATIONS	*92,4*	*22,3*
Sale of equity investments	*6,0*	*75,5*
TOTAL SOURCES	*98,4*	*97,8*
Increase intangible fixed assets	*0,1*	*0,2*
Purchase of equity investments	*92,5*	*28,7*
TOTAL APPLICATION OF FUNDS	*92,6*	*28,9*
FREE CASH FLOW	*5,8*	*68,9*
Increase in Share capital	*2,4*	*2,6*
Dividends distributed to Shareholders	*(17,6)*	*(15,8)*
CHANGES IN EQUITY	*(15,2)*	*(13,2)*
Change in net financial position	*(9,4)*	*55,7*
Net financial position at the beginning of the period	*(23,8)*	*(79,5)*
NET FINANCIAL POSITION AT THE END OF THE PERIOD	*(33,2)*	*(23,8)*

During 2005, the net financial position was affected by significant share movements originating from the above mentioned company reorganisation, in which Sogefi S.p.A. was heavily involved, reducing the free cash flow with respect to the previous year.

DIVISION TRENDS

FILTERS DIVISION

2005 results in the filters division were negatively influenced by reduced sales on the European market, particularly in the more profitable independent aftermarket. The drop in revenue from aftermarket products sold under own brand names is attributable to several factors: the increased lifespan of original equipment products; the aggressive policy of car manufacturers to increase after sales revenue on vehicles; a reduced inclination to buy in a market as economically depressed as that of Europe; arrival on the market of low cost products from emerging Mediterranean and Asian countries.

The strong trend of the Brazilian and Argentinian markets and the positive exchange effect have in any event allowed the division to achieve a modest 0.8% increase in turnover with respect to the previous year, and to restrict the reversal of profitability, as illustrated in the following table:

(in million Euros)	*FILTERS DIVISION EUROPE*		*FILTERS DIVISION SOUTH AMERICA*		*Inter-group offset*	*FILTERS DIVISION TOTAL*	
	Total	*%*	*Total*	*%*	*Total*	*Total*	*%*
Sales Revenues	*451.9*	*100.0*	*69.2*	*100.0*	*(2.6)*	*518.5*	*100.0*
Operating income	*48.8*	*10.8*	*7.9*	*11.4*	*–*	*56.7*	*10.9*
EBIT	*43.2*	*9.6*	*6.8*	*9.8*	*–*	*50.0*	*9.6*
Income before taxes	*45.4*	*10.0*	*6.1*	*8.9*	*(4.5)*	*47.0*	*9.1*
Net income	*34.1*	*7.5*	*4.6*	*6.6*	*(4.6)*	*34.1*	*6.6*
Net financial position	*(0.7)*		*1.4*			*0.7*	
Shareholder equity	*147.9*		*21.5*		*(39.7)*	*129.7*	
Employees as at 31 December	*2,854*		*634*			*3,488*	

***Consolidated sales revenues** for the division was € 518.5 million, against € 514.6 million the previous year. The fall in the European market amounted to € 10.8 million, equal to 2.3%, whereas Mercosur achieved a sales increase of 28.4% (11.1% at constant exchange rates), in particular due to increased original equipment sales.*

*The **consolidated operating income** was € 56.7 million (10.9% of turnover), 3.5% down on the € 58.8 million (11.4% of turnover) of the previous year. In Europe, total operating profit was € 48.8 million (10.8% of turnover) and in South America € 7.9 million (11.4% of turnover).*

*In comparing **EBITDA** and **EBIT** with the 2004 period, it is important to remember that 2004 was positively influenced by € 8.2 million in capital gains from asset sales and had shown costs and provisions for reorganisation of € 12.6 million, whereas in 2005 provisions for reorganisation totalled € 2 million, mainly in relation to the concentration of business into a single plant in Catalogna (Spain).*

***Consolidated EBITDA** for the division was € 68.5 million, a reduction of 2.9% on the € 70.5 million of 2004, with a 13.2% incidence on turnover against the 13.7% of the previous twelve months.*

***Consolidated EBIT** was € 50 million, as in the previous year, but with a 9.6% incidence on turnover rather than 9.7% in the previous twelve months.*

Given the less than positive trend in profitability on the European market (EBITDA of € 59.6 million, 13.2% of turnover), the net increase in results in South America for the second year running should be emphasised. EBITDA from Brazilian and Argentinian business increased by 16.9% to € 9 million (€ 7.7 million in 2004) and EBIT reached € 6.8 million, a 15.1% improvement, against the € 43.2 million (9.6% of turnover) in Europe.

*The **consolidated net income** was € 34.1 million (6.6% of turnover), in line with the € 35.5 million (6.9% of turnover) of the previous period.*

*The **net financial position** gained from intercompany operations relating to implementation of the company reorganisation plan, with a positive € 0.7 million as at 31 December 2005 against the € 56.7 million debt at the end of 2004. Consequently, **consolidated shareholder equity** for the division increased by € 64.1 million also due to the effect of consolidation perimeter variations from company reorganisation, moving from € 65.6 million as at 31 December 2004 to € 129.7 million at the end of 2005.*

Staff employed by the companies in the filters division numbered 3,488 at the end of the period, against 3,559 as at 31 December 2004.

FLEXIBLE SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION TRENDS

For this division, 2005 was characterised by a net increase in revenues and profits after the difficulties of the previous year, influenced by negative results from the US subsidiary Allevard Springs U.S.A. Inc..
Though steel costs further increased in the first half-year, their reversal on to sales prices, improved operating results in the US and national markets and the excellent operating margins in industrial vehicle suspensions and in South American market allowed the division to achieve brilliant results, as illustrated in the table below:

(in million Euros)	*CAR AND PRECISION SPRINGS SECTOR*		*INDUSTRIAL VEHICLES SECTOR*		*Inter-group offset*	*SUSPENSIONS DIVISION TOTAL*	
	Total	*%*	*Total*	*%*	*Total*	*Total*	*%*
Sales Revenues	*413.2*	*100.0*	*92.8*	*100.0*	*(1.1)*	*504.9*	*100.0*
Operating income	*32.3*	*7.8*	*18.1*	*19.5*	*–*	*50.4*	*10.0*
EBIT	*17.8*	*4.3*	*16.7*	*18.0*	*–*	*34.5*	*6.8*
Income before taxes	*8.7*	*2.1*	*16.7*	*18.0*	*–*	*25.4*	*5.0*
Net income	*4.6*	*1.1*	*10.1*	*10.9*	*–*	*14.7*	*2.9*
Net financial position	*(140.8)*		*5.9*		*–*	*(134.9)*	
Shareholder equity	*93.9*		*21.1*		*(22.2)*	*92.8*	
Employees as at 31 December	*2,297*		*360*		*–*	*2,657*	

***Consolidated sales revenues** increased by 11.8% to reach € 504.9 million, against the € 451.6 million of 2004. All geographic areas improved their revenues, mainly due to increased prices in Europe, while significant increases in sales volume were recorded in the South American market and the stabilinks market for truck air suspensions. The reduction in precision springs business was confirmed, and will be subject to reorganisation in 2006.*

*The **consolidated operating income**, after partial reversal of increased steel prices on to sales prices, leaped to € 50.4 million (10% of turnover) from the € 36 million of the previous year (8% of turnover), which had been seriously affected by production start-up costs for the US subsidiary.*

In the period, € 2.9 million costs were sustained in penalties paid to customers for non-conformity of product quality, and new provisions of € 10.6 million were set aside for the above mentioned production reorganisation.

***Consolidated EBITDA** increased by 41.1%, rising to € 61.2 million against € 43.4 million in the previous year. The incidence on turnover rose to 12.1% against 9.6% in the previous period. Both in Europe and South America, profitability increased to reach € 51.8 million (11.3% of turnover) in the main market and € 9.4 million in the South American perimeter market (20.5% of turnover).*

Worthy of mention is the significant improvement in results of German subsidiary Luhn & Pulvermacher - Dittmann & Neuhaus GmbH, which recorded a 56.3% increase in EBITDA.

***Consolidated EBIT** for the division increased by 76.8%, leaping to € 34.5 million from the € 19.5 million of the previous twelve months and with a 6.8% incidence on turnover against the 4.3% of 2004. In the European market it was € 26.4 million (5.8% of turnover) and in Mercosur € 8.1 million (17.6% of turnover).*

*The **consolidated net income** reached € 14.7 million (2.9% of turnover), almost triple the 2004 result of € 5.3 million (1.2% of turnover).*

*The consolidated **net financial position** in the suspension components division increased after company reorganisation to reach € 134.9 million at year end, against the € 123.5 million of 31 December 2004.*

*At 31 December 2005, **consolidated shareholder equity**, including minority interests, was € 107.7 million, against the € 72.2 million of 31 December 2004. The consolidated equity at 31 December 2005 was € 92.8 million, against the € 58 million of 31 December 2004.*

Staff in the division numbered 2,657 at the end of 2005, against the 2,720 of twelve months earlier.

EXPECTED BUSINESS PROGRESS

In the current period, the SOGEFI Group can expect to benefit from a modest improvement in the European economic situation, from confirmation of the positive trend of South American markets and from regained stability in raw materials prices. Significant increases in energy costs should also be offset by improved efficiency resulting from a further concentration of production.

OTHER INFORMATION

EQUITY INVESTMENTS HELD BY MANAGING DIRECTORS, AUDITORS AND GENERAL MANAGERS

In accordance with Italian Legislative Decree 58 of 24 February 1998, adopted under Consob resolution 11971/99, the following information is supplied:

Name and surname	Share held in	No. of shares held at 2004 year and	No. of shares purchased in 2005	No. of shares sold in 2005	No. of shares held at 2005 year end
Carlo De Benedetti (1)	Sogefi S.p.A.	65,194,962	–	–	65,194,962
Emanuele Bosio (2)	Sogefi S.p.A.	935,500	221,000	–	1,156,500
	A.R.A. S.A.	18	–	5	13
	Filtrauto S.A.	1	–	–	1
	United Springs S.a.s	–	1	–	1
Pierluigi Ferrero	Sogefi S.p.A.	–	10,000	–	10,000
Giovanni Germano	Sogefi S.p.A.	2,012,000	–	–	2,012,000
(3)	Sogefi S.p.A.	1,004,312	–	–	1,004,312
Renato Ricci	Sogefi S.p.A.	670,000	–	–	670,000
	A.R.A. S.A.	54	54	–	108
Roberto Robotti	Sogefi S.p.A.	–	1,300	–	1,300

(1) indirectly held via CIR S.p.A., Strada Volpiano 53, Leinì (TO), Italy - VAT n° 00519120018.
(2) 11,000 Sogefi S.p.A. shares as at 31 December 2005 held by his wife.
(3) indirectly held via Siria S.r.l., Strada Corso Montevecchio 38, Turin, Italy - VAT n° 00486820012.

All shares are fully owned.
In relation to shares held by Emanuele Bosio, 5 shares in Allevard Rejna Autosuspensions S.A. and the Filtrauto S.A. share are not available until expiry of his term of office as Board Member.

INTERCOMPANY AND RELATED PARTY DISCLOSURES

In observance of Consob recommendations (resolutions 97001574 of 20 February 1997 and 98015375 of 27 February 1998), information is disclosed herewith regarding transactions with related parties, as defined by IAS 24.
There were no atypical or unusual transactions in reference to Consob communications on this subject.

Inter-group relations were accounted under normal market conditions, taking into account the quality and specifics of services provided. More detailed information on the more significant equity and economic relations with related parties is provided in the notes to consolidated financial statements, under the heading "Related party disclosures" and in the separate balance sheet notes.

CORPORATE GOVERNANCE

Over recent years, SOGEFI has gradually adopted the Listed Companies Code of Self-Discipline promoted by Borsa Italiana S.p.A. as its reference guidelines for effective "Corporate Governance".
The overall Corporate Governance framework of the Company is substantially adapted to the recommendations and regulations of the Code of Self-Discipline.

The Sogefi S.p.A. Corporate Governance Model is detailed in the "Corporate Governance System Annual Report", also published on the Company website and available to anyone on request, in accordance with terms established by Borsa Italiana.

It should be specified that, in relation to Italian Leg. Decree 231/2001, issued to adapt national regulations on the administrative responsibilities of legal entities to international Agreements upheld in Italy, in February 2003 the company Board of Directors adopted a Sogefi Group Code of Ethics. The code, with clarity and transparency, defined the set of values by which the Group aims to achieve its objectives and established a restrictive code of conduct for managing directors, employees and other subjects involved in relations with the Group. On 26 February 2004 the Company also adopted an "Organisation, Management and Control Model as per Italian Leg. Decree 231 of 8 June 2001", in line with measures prescribed by said Decree and with the aim of guaranteeing correctness and transparency of conduct in company business and trade relations.
The Supervisory Body was also established with the role of supervising the operability, effectiveness and observance of the Model, as specified in the above mentioned Decree.

TREASURY STOCK

As at 31 December 2005, Sogefi S.p.A. held 1,695,000 own shares purchased in previous periods (with a nominal value of € 881 thousand), representing 1.51% of share capital.

INFORMATION IN RELATION TO LEGISLATIVE DECREE 196/2003 "DATA PROTECTION"

For the purposes of the "Code of Conduct on the Protection of Personal Data", valid as of 1 January 2004, the Company has formally adapted to legal requirements, arranging the implementation of safety measures as necessary and as required by law (also in conformity with the provisions of the former Italian Legislative Decree 675/1996 on privacy). The said adaptation was implemented as a primary concern in drafting the "Security Planning Document" which describes the protection formats currently established and indicates possible actions that the Company may be required to adopt by law.
The Company has also planned further tasks useful to the continued adaptation process, in conformity with directives proposed in Italian Legislative Decree 196 of 30 June 2003.

CONTROL AND COORDINATION ACTIVITY

In observance of article 2497-bis, subsection 5 of the Italian Civil Code, it should be specified that the Company is subject to control and coordination by overall parent company CIR S.p.A..

Relations this period with the parent company are explained in the Notes to the Consolidated Financial statements under the heading "Related party disclosures".

INFORMATION IN RELATION TO ITALIAN LAW 266/2005, SECTION 469 ET SEQ

As better indicated in the notes to accounts, Sogefi S.p.A. intends to exercise the right under Italian Law 266/2005 (the so-called "Finanziaria 2006") to obtain recognition, for the purposes of IRES (corporate income tax) and IRAP (regional productivity tax), the greater of the values recognised to the balance sheet - in application of international accounting principles (IAS/IFRS) - of a number of properties specifically identified under inventory book and book of depreciable assets.
In this respect, coherent with applicable tax law, we wish to specify the following:

- *the amounts relating to the greater values recognised to the balance sheet – by effect of IAS/IFRS transition – upon which recognition for tax purposes is requested, have led to recognition of the properties to the balance sheet at their related fair values, which reflect the corresponding values realisable on the market, identified on the basis of special estimates provided by independent experts;*
- *recognition to the balance sheet of the properties concerned at their fair value was performed, in part by cancellation of the depreciation fund and in part by increasing the value of the assets themselves, in order to reach the balance sheet values – for which tax recognition is requested – aligned, in this respect, to related market realisation values;*
- *the values recognised to the balance sheet of the properties in question, calculated according to the above mentioned criteria, were approved by the Board of Auditors and, coherent to current tax law, also include the values of related proprietary land which in the annual balance sheet, in conformity with IAS/IFRS, are instead recognised separately from the buildings.*

EVENTS OCCURRING AFTER THE CLOSURE OF ANNUAL ACCOUNTS

In January 2006, an increase in Sogefi S.p.A. share capital was subscribed in the form of 222,400 shares reserved to Company and subsidiary employees as part of stock options plans.

PROPOSED NET PROFIT DISTRIBUTION THIS PERIOD

The annual report as at 31 December 2005, hereby submitted for your approval, shows net profits of € 79,561,906.27 which we propose to distribute as follows:

Net profit this period	*Euros*	*79,561,906.27*
– legal reserve	*Euros*	*150,000.00*

– Unit dividend of € 0.175 per share, with right of possession as of 1 January 2005, outstanding (treasury stock portfolio excluded)

– Remaining net profit for the 2005 period to be set aside to the "Retained earnings" Reserve

The proposed net profit distribution takes into account the provisions of art. 2357ter, section 2 of the Italian Civil Code which specifies that the right to profits on own shares is attributed in proportion to other shares.
It should be specified that the total sums for distribution as dividends and to the "Retained earnings" Reserve, will take account of the own shares portfolio as at the date of the Shareholders Meeting, together with outstanding shares, based on the possible issue on 31 March 2006 of a maximum 508,800 ordinary shares with right of possession as of 1 January 2005, given the exercising of option entitlements by beneficiaries of existing stock option plans.

Milan, 28 February 2006

BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(in thousand Euros)

ASSETS	*Notes*	*12.31.2005*	*12.31.2004*
CURRENT ASSETS			
Cash and cash equivalents	6	55,390	49,804
Securities and financial assets held for trading	7	2,116	7,098
Current portion of long-term financial assets		–	133
Working capital			
Inventories	8	107,793	112,116
Trade receivables	9	232,803	243,052
Other receivables	9	4,250	5,108
Receivables from tax authorities	9	13,824	11,313
Other current assets	9	2,438	2,397
TOTAL WORKING CAPITAL		361,108	373,986
TOTAL CURRENT ASSETS		418,614	431,021
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	10	15,972	15,699
Property, plant and equipment	10	239,249	236,871
Other tangible fixed assets	10	4,684	5,741
Of which leasing		19,605	19,580
Intangible fixed assets	11	113,878	110,250
TOTAL FIXED ASSETS		373,783	368,561
OTHER NON-CURRENT ASSETS			
Equity investments in associated companies	12	3,372	5,953
Other financial assets available for sale	13	443	4,221
Non current trade receivables		–	687
Other receivables	14	3,540	2,994
Deferred tax assets	15-20	26,779	13,445
TOTAL OTHER NON-CURRENT ASSETS		34,134	27,300
TOTAL NON-CURRENT ASSETS		407,917	395,861
TOTAL ASSETS		826,531	826,882

LIABILITIES	Notes	12.31.2005	12.31.2004
CURRENT LIABILITIES			
Bank payables	16	26,353	11,135
Current portion of long-term financial debts and other loans	16	93,876	94,761
Of which leasing		1,213	964
TOTAL SHORT TERM FINANCIAL DEBTS		120,229	105,896
Other short term financial debts for cash flow hedge	16	132	–
TOTAL SHORT TERM FINANCIAL DEBTS AND CASH FLOW HEDGE		120,361	105,896
Trade and other payables	17	224,050	229,945
Tax payables	17	7,897	10,864
Other current liabilities	18	2,558	3,080
TOTAL-CURRENT LIABILITIES		354,866	349,785
NON-CURRENT LIABILITIES			
LONG-TERM FINANCIAL DEBTS AND CASH FLOW HEDGE			
Bank payables	16	83,549	133,809
Other long-term loans	16	20,755	21,394
Of which leasing		17,199	18,237
TOTAL LONG-TERM FINANCIAL DEBTS		104,304	155,203
Other long-term financial debts for cash flow hedge	16	139	–
TOTAL LONG-TERM FINANCIAL DEBTS AND CASH FLOW HEDGE		104,443	155,203
OTHER LONG-TERM LIABILITIES			
Long term provisions	19	83,969	90,358
Other payables		21	284
Deferred tax liabilities	20	21,946	6,713
TOTAL OTHER LONG-TERM LIABILITIES		105,936	97,355
TOTAL NON-CURRENT LIABILITIES		210,379	252,558
SHAREHOLDERS' EQUITY			
Share capital	21	58,338	57,656
Reserves and retained earnings	21	143,930	122,658
Net Income (loss) this period	21	44,660	30,029
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE PARENT COMPANY		246,928	210,343
Minority interests	21	14,358	14,196
TOTAL SHAREHOLDERS' EQUITY		261,286	224,539
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		826,531	826,882

CONSOLIDATED INCOME STATEMENT

(in thousand Euros)

	2005		2004	
	Total	*%*	*Total*	*%*
Sales revenues	*1,023,421*	*100.0*	*966,148*	*100.0*
Variable costs of sales	*657,636*	*64.3*	*614,447*	*63.6*
CONTRIBUTION MARGIN	*365,785*	*35.7*	*351,701*	*36.4*
Manufacturing and R&D overheads	*115,641*	*11.3*	*116,445*	*12.0*
Depreciation & Amortization	*45,911*	*4.5*	*45,079*	*4.7*
Distribution, Marketing & Sales Fixed Expenses	*39,362*	*3.8*	*39,515*	*4.1*
Administrative and General Expenses	*59,237*	*5.8*	*59,143*	*6.1*
OPERATING INCOME	*105,634*	*10.3*	*91,519*	*9.5*
Restructuring costs	*12,637*	*1.2*	*22,987*	*2.4*
Gain on disposals	*(75)*	*–*	*(7,854)*	*(0.8)*
Exchange Differences (Gain) Losses	*(58)*	*–*	*1,876*	*0.2*
Other non-operating expenses	*12,150*	*1.2*	*9,553*	*1.0*
EBIT	*80,980*	*7.9*	*64,957*	*6.7*
Financial expenses net	*11,547*	*1.1*	*12,228*	*1.3*
Losses (Gain) from Equity Investments	*2,349*	*0.2*	*(1,701)*	*(0.2)*
INCOME BEFORE TAXES AND MINORITY INTERESTS	*67,084*	*6.6*	*54,430*	*5.6*
Income taxes	*21,179*	*2.1*	*21,905*	*2.3*
NET INCOME BEFORE MINORITY INTERESTS	*45,905*	*4.5*	*32,525*	*3.3*
Loss (Income) Attributable to Minority Interests	*(1,245)*	*(0.1)*	*(2,496)*	*(0.2)*
NET INCOME OF GROUP	*44,660*	*4.4*	*30,029*	*3.1*
Earnings per share (cents of Euros):				
Basic	*0.406*		*0.276*	
Diluted	*0.404*		*0.275*	

CONSOLIDATED CASH FLOW STATEMENT

(in thousand Euros)	*2005*	*2004*
Cash generated from operations		
Net income	44,660	30,029
Adjustments:		
– *minority interests*	1,245	2,496
– *tangible, intangible amortisation/depreciation and impairment*	49,650	45,078
– *provisions for stock options costs*	552	–
– *loss/(gains) on disposal of fixed assets*	(75)	(7,854)
– *dividends collected*	(291)	(83)
– *share of associated companies pre-tax income*	2,510	(210)
– *provisions for risks, restructuring and deferred taxes*	(3,944)	13,412
– *pensions and other benefits for employees*	(2,731)	(2,289)
– *change in net working capital*	8,023	(387)
– *other medium/long-term assets/liabilities*	917	(2,936)
– *exchange differences on assets/liabilities*	(11,929)	1,212
CASH FLOW FROM OPERATIONS	88,587	78,468
of which taxes paid *net interests paid*	23,541 10,469	22,855 11,609
INVESTMENTS		
Net financial position of companies acquired/sold this period	55	(157)
Purchase of property, plant and equipment	(35,970)	(44,508)
Purchase of intangible assets	(8,930)	(7,966)
Net change in other securities	4,838	4,941
Sale of subsidiaries (net of cash and cash equivalents)	15	1,441
Sale of property, plant and equipment	503	9,331
Sale of intangible assets	5	16
Dividends collected	291	83
NET CASH FLOW FROM INVESTMENTS	(39,193)	(36,819)
FINANCINGS		
Capital increase in subsidiaries from third parties	–	195
Net change in share capital	2,441	2,554
Dividends paid to Parent Company shareholders and third parties	(18,949)	(16,909)
Exchange differences on equity and minority interests	10,778	(798)
Issue (redemption) of bonds	(79,922)	80
Granting (repayment) of long-term loans	28,861	18,289
Granting (repayment) of leases	(2,017)	(676)
Other changes in equity	(218)	–
NET CASH FLOW FROM FINANCINGS	(59,026)	2,735
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,632)	44,384
Balance at the beginning	38,669	(5,715)
(Decrease) increase in cash and cash equivalents	(9,632)	44,384
END OF PERIOD BALANCE (including short term loan)	29,037	38,669

Note: this account report highlights the determining factors in changes in cash on hand, reflecting the specific requirements of IAS 7. For full details of the various operating components of cash flow with an indication of changes in the all-round net financial position, reference should be made to the consolidated cash flow statement in the Board of Directors Report.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Attributable to parent company shareholders				*Minority interests*	*Total*
(in thousand Euros)	*Share capital*	*Reserves and retained earnings*	*Net income this period*	*Total*		
Balances as at 1 January 2004	56,773	108,477	28,485	193,735	12,615	206,350
Paid share capital increase	*883*	*1,672*	–	*2,555*	–	*2,555*
2003 net income allocation:						
Legal reserve	–	*50*	*(50)*	–	–	–
Dividends	–	–	*(15,777)*	*(15,777)*	*(1,132)*	*(16,909)*
Retained earnings	–	*12,658*	*(12,658)*	–	–	–
Exchange differences from conversion and other movements	–	*(199)*	–	*(199)*	*(217)*	*18*
Net income this period	–	–	*30,029*	*30,029*	*2,496*	*32,525*
Balances at 31 December 2004	57,656	122,658	30,029	210,343	14,196	224,539
Adjustments for IAS 32 and 39 adaptation:						
Fair value of cash how hedging instruments	–	*(940)*	–	*(940)*	–	*(940)*
Recognition of securities at fair value	–	*25*	–	*25*	–	*25*
Treasury stock reclassification	–	*(3,762)*	–	*(3,762)*		*(3,762)*
Tax on items recognised directly to shareholders' equity	–	*302*	–	*302*	–	*302*
Balances as at 1 January 2005	57,656	118,283	30,029	205,968	14,196	220,164
Paid share capital increase	*682*	*1,759*		*2,441*		*2,441*
2004 net income allocation:						
Legal reserve	–	*200*	*(200)*	–	–	–
Dividends	–	–	*(17,599)*	*(17,599)*	*(1,350)*	*(18,949)*
Retained earnings	–	*12,230*	*(12,230)*	–	–	–
Fair value of cash flow hedging instruments	–	*702*	–	*702*	–	*702*
Other changes	–	*(99)*	–	*(99)*	–	*(99)*
Tax on items recognised directly to shareholders' equity	–	*(208)*	–	*(208)*	–	*(208)*
Nominal cost of stock options	–	*552*	–	*552*	–	*552*
Exchange differences from conversion	–	*10,511*	–	*10,511*	*267*	*10,778*
Net income this period	–	–	*44,660*	*44,660*	*1,245*	*45,905*
Balances at 31 December 2005	58,338	143,930	44,660	246,928	14,358	261,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A) GENERAL ASPECTS

SOGEFI is an Italian Group, leader in the vehicle components sector, and specialised world leader for air cabine, engine and compartment filter systems as well as flexible suspension components.

With a market presence in 4 continents and 14 countries, and with 50 plants of which 41 are productive, SOGEFI is a multinational, partner to the world's greatest vehicle manufacturers.

1. CONTENT AND FORMAT OF CONSOLIDATED FINANCIAL STATEMENTS

*This annual report, drafted in conformity to Consob recommendations in resolution 11971/1999 and later modifications, in particular those introduced by resolution 14990 of 14 April 2005, contains both the financial statements with consolidated Group notes to the accounts, and the financial statements and related notes of the Parent Company, prepared in adoption of IAS/IAFRS (*International Accounting Standards/International Financial Reporting Standards) *accounting principles and integrating related SIC* (*Standing Interpretation Committee*) *and IFRIC* (International Financial Reporting Interpretations Committee) *issued by the IASB (*International Accounting Standards Boards). *Data relating to the 2004 financial period, disclosed for comparative purposes, have been appropriated reclassified and reprocessed in accordance with international accounting principle application.*

The European directive 1606/2002 of 19 July 2002 obliges all listed companies to prepare consolidated annual reports, in full application of the above mentioned policies, as of the period closed or current as at 31 December 2005.
Italian Law 306 of 31 October 2003 (the so-called European Law 2003) delegates application of the European regulations to the government.
The entire related legislative system was acknowledged by CONSOB in the special resolution 14990 of 14 April 2005.

Attached to this annual report is a document, drafted in accordance with Consob resolution 14990 and the recommendations of accounting principle IFRS 1, in relation to the impact of conversion to IAS/IFRS accounting principles on the balance sheet at the date of transition, on the balance sheet as at 31 December 2004 and on the 2004 income statement. For the purposes of Consob Communication DEM/5025723 of 15 April 2005, balances shown in the reconciliation accounts were subjected to full audit.
Illustrated in the document are the Sogefi Group consolidated accounts report data and the separate Sogefi S.p.A. report for 2004, drafted in accordance with IAS/IFRS policies and, at the same time, the document highlights the main changes with respect to the report drafted according to accounting principles adopted in precedence.

The consolidated annual report as at 31 December 2005 was drafted in accordance with International Accounting Principles (IAS/IFRS).

The Group has taken advantage of the IFRS 1 option to apply IAS 32 and 39 as of 1 January 2005. In this respect, it must be specified that, as permitted under IFRS 1, the Group has opted not to disclose comparative data in relation to the above mentioned IAS in the following categories:
- *treasury stock portfolio (value as at 1 January 2005 of € 3.8 million to be recognised as reducing the item "Other financial assets available for sale" with a corresponding reduction in equity);*
- *fair value of IRS hedging instruments (value as at 1 January 2005 of € 1 million to be recognised as increasing financial liabilities with a corresponding reduction in equity).*

The balances used for consolidation purposes are those indicated by the Board of Directors for approval by the individual company Shareholders Meetings, appropriately reclassified and adjusted to adapt to International Accounting Principles (IAS/IFRS) and to Group criteria.

The consolidated annual report of 31 December 2005 was approved by the Board of Directors on 28 February 2006.

1.1 Format of consolidated financial statements

In relation to the consolidated financial statements format, the company has opted to disclose the following accounts:

Consolidated balance sheet
The Consolidated Balance Sheet is illustrated in balanced sections with separate indications of Assets, Liabilities and Equity.
In turn, Assets and Liabilities are illustrated in the consolidated report on the basis of their current or non-current classification.

Consolidated Income Statement
The Consolidated Income Statement is illustrated with classification by utilisation, also adopting the subdivision of cost variations as a distinctive characteristic.

For ease of understanding of the typical results of ordinary, financial and tax industrial management, the income statement illustrates the following preliminary consolidated results:
- *Contribution Margin;*
- *Operating Income;*
- *EBIT (Earnings before interest and tax);*
- *Income before tax and minority interests;*
- *Income before minority interests;*
- *Net income this period.*

The item "Operating Income" (occasionally defined in English-speaking countries as Adjusted EBIT*) has been left in evidence as SOGEFI management considers it important to maintain an "interim" result level that represents profitability generated through the characteristic management (intended as that strictly related to sales and production), substantially coherent with the definition of "Operating Income" used in past periods. This level is not in line with the "EBIT" concept (literally, "Earnings before interest and tax") which also normally reflects the impact of restructuring costs, costs not relevant to characteristic business operations and in any event non recurrent.*

Therefore, by way of example, the "Operating Income" is recorded without impact from non-recurrent charges and income (e.g. restructuring costs, capital losses and gains from disposol) or from charges and income not attributable to characteristic operations, e.g. taxes attributable to tax policy adopted by the various countries for common accounting purposes, with a mix of direct and indirect taxes (determined mainly on the basis of balance sheet parameters) based on their own socio-economic characteristics. Similarly, the "Operating Income" does not include exchange gains and losses in that these are considered more specific to currency management.

To clarify the information, such charges and income are indicated separately in the accounts and, where necessary and significant, the notes to the accounts give a clear indication of their nature and totals.

Consolidated Cash Flow Statement

The Cash Flow Statement is subdivided into cash flow generation areas as indicated by international accounting principles, considered as not completely practical for an understanding of the dynamics of an industrial Group such as SOGEFI. The Board of Directors Report therefore provides a statement highlighting self-financing generated from operations, which constitutes the layout considered most effective to understand the dynamics of cash flow generation and absorption within the Group.
It should be specified that the change in working capital cannot coincide with the difference between the year starting and ending equity position resulting from exchange effects.
As of 2005, in fact, generated cash flow is exchanged at the average rate for the period, whilst the difference in Euros between consolidated equity positions at the start and end of the period are heavily affected by exchange rate trends at the start and end of the period, and have little bearing on cash flow generation and absorption on the operating capital. The exchange differences generated by equity positions at the start and end of the period are included under the item "Exchange differences in assets/liabilities and equity" in the consolidated cash flow statement whereas "Consolidated cash flow" as indicated in IAS 7 is recognised under "Exchange differences in assets/liabilities".

Statement of Changes in Consolidated Equity

The Statement of Changes in Consolidated Equity statement is produced in accordance with international accounting principles, with separate illustration of the period result and each revenue, income, charge and expense not recognised to the Income Statement but recognised directly to Consolidated Equity on the basis of specific IAS/IFRS accounting principles.

1.2 Content of the consolidated annual report

The consolidated annual report as at 31 December 2005 includes Parent Company Sogefi S.p.A. and direct and indirect subsidiaries.

Section H of these notes lists the companies included in the consolidation and their related shareholdings.

This annual report is expressed in Euros (€) and all values are rounded to thousands of Euros except where otherwise specified.
The financial statements were prepared by applying the integral consolidation method on Parent Company Sogefi S.p.A. financial statements, together with those of Italian and foreign companies in which Sogefi has direct or indirect majority voting rights.

The following variations in the consolidation area occurred during the period:

- *100% inclusion of Sogefi Inc., formerly Filtrauto Inc., not consolidated previously and assessed using the equity methods, transferred from Filtrauto S.A. to Sogefi S.p.A. during the period, considered not significant;*
- *100% exclusion of Donit Zagreb d.o.o. sold by Sogefi Filtration d.o.o. to third parties, also not consolidated previously due to its minimum dimensions.*

Variations in the consolidation area are considered irrelevant for consolidation purposes and for comparison with the previous year.

2. CONSOLIDATION PRINCIPLES AND ASSESSMENT CRITERIA

2.1 Consolidation principles

For consolidation purposes, the financial statements as at 31 December 2005 of companies included in the consolidation area were used, prepared in accordance with Group accounting principles with reference to IAS/IFRS.
Included in the consolidation area are subsidiaries, associates and joint ventures.
The Balance Sheet items of statements expressed in foreign currency were translated to Euros by applying exchange rates at year end, and taking into account any exchange risk hedging transactions.
The Income Statement items of statements expressed in foreign currency were translated to Euros at the average rates for the period.
Differences originating from conversion of initial equity to end of year exchange rates are recognised to the currency conversion fund, together with the difference between the economic and equity results.

Exchange rates applied in the conversion processes were as follows:

	2005		2004	
	Average	31.12	Average	31.12
US dollar	1,2428	1,1797	1,2419	1,3621
GB pound sterling	0,6838	0,6853	0,6784	0,7051
Swedish krona	9,2773	9,3888	9,1241	9,0204
Brazilian real	3,0062	2,7432	3,6319	3,6728
Argentinian peso	3,6323	3,5727	3,6637	4,0381
Chinese renminbi	10,1792	9,5202	10,2817	11,2778
Slovene tolar	239,8082	239,2345	239,2344	239,8081

Consolidation of subsidiary financial statements is performed according to the integral consolidation method, including the entire sum of assets, liabilities, costs and revenues of the individual companies, regardless of the share quota, and eliminating the carrying value of consolidated shares held by the Parent Company and other companies included in the consolidation with respect to related equity.
For the recognition of subsidiaries acquired by the Group the cost method is used. The acquisition cost is intended as the fair value of assets, liabilities or equity instruments existing or presumed to exist at the date in which control is effectively transferred to the Group, increased by all costs directly attributable to the acquisition.
The excess amount between acquisition cost and the fair value of assets and liabilities identifiable as acquired is recognised to goodwill. If the acquisition cost is lower than the net assets identified as acquired, the difference is recognised to the income statement.

Shareholdings in associates are consolidated using the equity method, and consequently the economic results and any changes in equity of the associates are recognised, respectively, to the consolidated income statement and to consolidated equity. If the resulting value exceeds the recoverable value, the associated company shareholding is adjusted via recognition of the related impairment to the income statement.

All balances and intercompany transactions, including any profits not realised from inter-group relations, are completely eliminated. Unrealised losses are eliminated unless there is no possibility of their recovery at a future date.

At the time of disposal of a company with an operating currency other than the Euro, existing exchange differences in equity are recognised to the income statement.

2.2 Assessment criteria

In the balance sheet at 31 December 2005 the following assessment principles and criteria were applied.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits payable on demand and investments due to expire within three months from the date of acquisition.

Inventories

Inventories are recognised at the lesser value between the acquisition or production cost, calculated by the weighted average cost method, and the realisable value presumed from market trends.

The cost of production includes the cost of raw materials, direct costs and all costs indirectly attributed to manufacture. Obsolete or slow moving inventories are subject to write-down in relation to their possible use or realisation.

Receivables recognised to current assets

Receivables are initially recognised at fair value of the amount receivable, which for this category normally corresponds to the nominal value indicated in the invoice adjusted (if necessary) to the presumed realisable value via special nominal value adjustment allocations. Subsequently the receivables are assessed using the amortised cost method, generally corresponding to the nominal value.

Non-recourse assignment of receivables (outright transfer without risk of recourse) are recognised to the new debtor, typically factoring brokers specialised in this type of service.

Tangible fixed assets

The SOGEFI Group has opted for the cost method for this first IAS/IFRS balance sheet, as permitted by IFRS 1. For the assessment of property, plants and machinery it was therefore decided not to use the fair value accounting method. Assets are therefore recognised to the balance sheet at their original cost or, where required, at the value reassessed on the basis of previous accounting principles such as cost replacement, net of accrued amortisation.
Included in the cost are accessory charges and direct and indirect proportional costs reasonably attributed to the asset.

Any government grants relating to tangible assets are recognised with direct deduction of the asset to which they refer.

Fixed assets are systematically amortised on a monthly basis at a constant rate, based on the economic and technical rates established in relation to their residual useful life.

Amortisation is calculated as from the month in which the asset becomes available for use, or is potentially able to provide related economic benefits.

In general, the annual amortisation rates used are:

	%
Land	*n.a.*
Industrial buildings and light constructions	*2.5-10*
Plants and machinery	*5-30*
Industrial and commercial equipment	*10-33*
Other assets	*10-40*
Assets under construction	*n.a.*

Land, assets under construction and advances are not amortised.

Ordinary maintenance costs are recognised to the income statement.
Maintenance costs resulting in an increased value, function or useful life of the assets are directly attributed to the reference assets and amortised in relation to likely residual useful life.

Profit or loss deriving from disposal of assets is calculated as the difference between proceeds from the sale and the net carrying value of the asset, and is attributed to the Income Statement of the period.

Government grants related to assets are recognised to the balance sheet as the adjusted carrying value of the asset. The grant is recognised as income over the useful life of the depreciable asset through reduction of the depreciation cost.

Leasing

Two leasing types are identified: financial and operational.
Leasing is considered financial when a significant and substantial part of the risks and benefits related to ownership of the asset are transferred to the lessee.
As indicated in IAS 17, a lease is considered financial when, individually or jointly, the following indicators are present:

- *the contract transfers ownership to the lessee on conclusion of the lease;*
- *the lessee has the option to purchase the asset at a price expected to be sufficiently lower than fair value at the date in which the option may be exercised so that, at the start of the lease, it is reasonably certain that said option will be exercised;*
- *duration of the lease covers the greater part of the economic life of the asset, even if ownership is not transferred;*
- *at the start of the lease the actual value of minimum payments due is equal to at least the fair value of the leased asset;*
- *the leased assets are of such a particular nature that only the lessee can use them without the need for major modifications.*

Company assets available to Group companies through financial leasing contracts are recognised as tangible assets at their fair value at the date of acquisition; the corresponding payable to the lessor is recognised to the balance sheet as a financial liability. These are amortised throughout their expected useful life.
Lease payments are divided between the capital portion, recognised as a reduction of financial liabilities, and interest. Financial charges are recognised directly to the Income Statement for the period.
For operational leasing contracts, on the other hand, payments are recognised to the Income Statement in line with the contract duration.

Intangible fixed assets

Intangible assets are recognised for accounting purposes only if identifiable, controllable and expected to generate future economic benefits, and if their related costs can be reliably calculated.

Limited duration intangible assets are assessed at the acquisition or production cost, net of depreciation and accrued impairment value.

In general, the annual depreciation rates used are:

	%
Development costs	*20-33*
Industrial patent rights, concessions, licenses and trademarks	*20-50*
Others	*20-33*
Consolidation difference	*n.a.*
Assets under construction	*n.a.*

Amortisation is directly related to the expected useful life of the asset and begins when the asset becomes available for use.

Research and development costs
Research costs are recognised to the Income Statement when sustained, as established by IAS 38.
Consequently, development costs relating to specific projects are capitalised when their future benefit is considered reasonably certain and amortised for the entire period in which expected future revenue is demonstrated for that project.
The carrying value of the various projects is revalued annually, or more often if necessary, by active reference market analysis so as to identify any impairment.

Trademarks and licences
Trademarks and licences are assessed at cost, net of depreciation and accrued impairment. The cost is systematically amortised in the lesser period between the contractual duration and the finite useful life.

Software
Software license costs, including accessory charges, are capitalised and recognised to the balance sheet net of depreciation and any accrued impairment.

Goodwill
Goodwill represents the excess between the acquisition cost and the ownership quota of the acquirer based on fair value, in reference to the identified net values of assets and liabilities of the entity acquired.
After initial recognition, goodwill is assessed at cost, less any accrued impairment.
Goodwill existing at the date of transition to the new IAS/IFRS accounting principles are no longer amortised as of 1 January 2004.
With reference to this balance sheet there is no goodwill deriving from acquisitions later than 31 March 2004.

As goodwill does not have a finite duration, it is subject to annual impairment testing to identify any long-lasting reductions in value. Unlike for other intangible assets, value restoration is not permitted for goodwill.

In order to correctly perform an active reference market analysis of goodwill, cash generating units (CGU) benefiting from acquisition-derived effects were allocated to each unit.

Currently four such CGU exist within the SOGEFI Group: filters division, car suspension components division, industrial vehicle suspension components division and precision springs.
Existing goodwill relates only to the filters and car suspension components divisions.

Impairment of tangible and intangible fixed assets

Given the presence of potential impairment generating situations, tangible and intangible assets are subjected to impairment testing, estimating the recoverable value of the asset and comparing this with the related net carrying value. If the recoverable value is less than the carrying value, the carrying value is adjusted. This reduction constitutes impairment, which is then recognised to the Income Statement. For goodwill and intangible assets of indefinite duration, impairment testing is performed at least annually.
Should any previous devaluation no longer be reasonably maintained, the carrying value is restored to the new amount deriving from the estimate, the limit of said value not exceeding the net balance sheet value that would have applied had no devaluation been performed. The restored value is also recognised to the Income Statement.

Equity investments in associates

An associate is an entity over which the Group exerts significant control, but not with control over the financial and operating decision policies of that associate. The economic results and assets and liabilities of associates are recognised to the consolidated balance sheet using the equity method.

Joint ventures

Interests in joint ventures are consolidated according to the proportional method which involves recognition of the consolidated balance sheet, item per item, of assets, liabilities, costs and revenue proportional to the share owned in said ventures.

Equity investments in other entities and other securities

In accordance with IAS 39 and 32 principles, equity investments in entities other than subsidiaries and associates are classified as financial assets available for sale and are assessed at fair value, except situations in which the market price or fair value cannot be determined: in this case the cost method is used for assessment purposes.
Profit and loss deriving from value adjustments are recognised to a specific equity reserve.
In the event of permanent impairment or sale, profit and loss recognised under equity up to that time are instead recognised to the Income Statement.
For the purposes of a more calculated application of principles regarding financial assets, specific reference should be made to note 3 ("Financial Assets").

Financing

Financing is initially recognised at cost represented by the fair value received net of financing accessory charges.
After initial recognition, financing is recognised via the amortised cost criteria, calculated by application of the actual interest rate.
The amortised cost is calculated by taking into account the costs of issue and any discount or premium offered at the time of settlement.

Derivatives

A derivative is intended as any other kind of contract with the following characteristics:

1. *its value changes in relation to changes in interest rates, the financial instrument price, goods price, currency exchange rate, price or tax index, credit rating or other preset underlying variable;*
2. *requires no initial investment or, if required, is less than the amount that would be required for other kinds of contract from which a similar response would be expected from changes in market factors;*
3. *will be settled at a future date.*

For accounts recognition purposes, a derivative is treated as having a speculative nature and can be considered a hedging instrument. All derivates are initially recognised to the balance sheet at cost, represented by their fair value. Subsequently, all derivatives are assessed at fair value.
Changes in fair value are recognised to the Income Statement for derivatives not classed as hedges.

Hedging derivatives are classified as follows:

- fair value hedge *if subject to the risk of changes in market value of the underlying asset or liability;*
- cash flow hedge *if created to cover risk from changes in cash flow deriving from either the underlying asset or liability, or from a future transaction.*

For derivatives classed as fair value hedges, both profit and loss deriving from their fair value assessment and that deriving from fair value adjustment of the hedged asset are recognised to the Income Statement.

For derivatives classed as cash flow hedges, used for example to cover medium-long-term variable-rate financing, profit and loss deriving from their fair value assessment is recognised directly to equity for the part effectively hedging the risk for which they were created, while the non-effective part is recognised to the Income Statement.
The part attributable to equity is reclassified to the Income Statement when the hedged assets and liabilities influence the costs and revenues for the period.
It should be specified that the Group has adopted specific procedures for the management of financial instruments as part of an overall risk management policy.

Trade and other payables

Payables are initially recognised at fair value of the repayment price and normally their value is easily identified with a high degree of certainty.

Long term provisions

Provisions for risks and charges
The provisions for risks and charges relate to sums provisioned only when necessary to cover an obligation (legal or implicit) deriving from a past event and for which it is probable that resources will be consumed, the amount of which can be reliably estimated.

No provision is made for risks in cases where the likelihood of a liability is only possible. In this case, they are mentioned in the special information section on risks and obligations and no provision is allocated.
Provisions for restructuring are allocated only when approved and brought to the attention of the main parties involved.

Employment and similar benefits

In application of IAS 19, employee benefits for post-employment distribution and other long-term benefits (including the Employment Severance Indemnity applicable in Italy) are subject to actuarial devaluation which take into account a number of variables (mortality rate, expected variations in retributions, expected inflation rate, etc.).

By this methodology, liabilities recognised to the balance sheet represent the current value of the obligation, net of any benefit plan assets, adjusted to cover any actuarial profit or loss not accounted elsewhere.

In accordance with IFRS 1, the SOGEFI Group has chosen to adopt the corridor approach indicated in IAS 19, involving recognition to the Income Statement of the actuarial profit/loss exceeding by 10% the greater between the fair value of assets from defined benefit plans and the actual value of the obligation at the balance sheet date. Any excess calculated as above is amortised in the residual average useful life of benefit plan subscribers.

Deferred taxes

Deferred taxes are determined on the basis of the temporary tax differences between the balance sheet value of assets and liabilities and their taxable value, and are classified as non-current assets and liabilities.

Deferred tax assets are recognised only to the extent to which the existence of adequate future taxable amounts is probable, in consideration of which the current balance is used.

The value of deferred tax assets recognised to the balance sheet is subject to annual verification.

Deferred tax assets and liabilities are calculated on the basis of tax rates expected to be applied in the period in which deferral will be realised, considering the valid rates or those applied subsequently.

Equity

Share capital

Ordinary shares are recognised as share capital if their value corresponds to the face value.

Fair Value reserve

Includes all profit or loss not realised (net of tax) of financial assets classed as "available for sale". This reserve is used with transfer of the value to the Income Statement at the time of disposal of the financial asset or at the time in which permanent impairment is identified.

Cash flow hedge reserve

Include positive and negative income elements resulting from hedge transactions deriving from instruments which, for IAS 39 purposes, are classed as cash flow hedge.

Conversion reserve

Constitutes the consolidated equity element to adjust differences deriving from translation to Euros of subsidiary balance sheets with operating currency different from that of the Parent Company.

Retained earnings

Includes all accrued earnings net of dividends paid to shareholders. The reserve also includes transfers from other equity reserves at the time in which they become free from the restrictions to which they were subject.

The reserve also includes the cumulative effect of changes in accounting policies or the correction of any accounting errors in accordance with IAS 8.

Stock options

As of 1 January 2005, IFRS 2 "share-based payments" became effective. The transitory provisions of this principle involve the limited retrospective application of all operations in which the allocation of share options took place after 7 November 2002 and for which, at the effective date, the maturity conditions of the shares are not yet satisfied.

The SOGEFI Group has therefore adopted the nominal cost deriving from application of said principle: the fair value of the option determined at the time of allocation is recognised as a cost to the Income Statement throughout the maturity period of the benefit. As this is primarily a nominal element, the ad hoc reserve under equity is increased in the balance sheet.
Said nominal cost is determined by specialists in such situations, via special economic and actuarial models.

Recognition of revenues

Revenues from the sale of products is recognised at time of transfer of ownership, which generally coincides with shipment. This is shown net of returns, discounts and allowances.
Revenues from the supply of services is recognised at the time of supply.

Variable cost of sales

Represents the cost of sales. It includes the cost of raw materials, subsidiary materials, the goods, as well as the variable costs of production and distribution including the direct cost of production labour.

Manufacturing, Research & Development overheads

This category includes the fixed costs of production such as indirect production labour costs, maintenance costs, consumables, property rent and production machinery.
Also included are all fixed costs for research and development net of development costs capitalised in relation to their future benefits, and excluding amortisation recognised to a separate item in the Income Statement.

Distribution, Marketing Sales Fixed Expenses

These relate to negative income elements, substantially insensitive to changes in sales volume, in relation to staff, promotion and advertising, outsourced storage, rentals and other sales and distribution activity. Included under this category, therefore, are all fixed costs sustained for the storage of finished products in related warehouses and directly linked to the sale and distribution of said products.

Administrative and General Expenses

This category includes fixed costs relating to staff, telephone costs, legal and tax expenditure, rentals, cleaning and security costs and other general overheads.

Government grants

These are recognised to the Income Statement when there is reasonably certainty that the entity will respect the conditions of the grant and therefore that the grant will be received.

Restructuring costs and other non-operating expenses/income

These relate to values not linked to characteristic Group business and, as contemplated by IAS 1 effective as of 1 January 2005, are classified as ordinary items and required to be disclosed in the Notes to Accounts if the amount is significant.
The non-recurrence of restructuring costs should be identified separately, accounted as having no influence on the operating result, in line with profitability trends deriving from activities typical of Group business.

Dividends

Income from dividends is recognised when the right to collection is confirmed, normally corresponding to the Shareholders Meeting resolution on the distribution of dividends.
Approved dividends are recognised as a payable to shareholders at the time of resolution to distribute.

Current taxes

Current taxes are recognised and calculated on the basis of a realistic estimate of taxable income in conformity with current tax laws of the country, and taking into account applicable exemptions and any tax credits due.

Earnings per share

Basic earnings per share *is calculated by dividing net profit for the period attributable to holders of ordinary shares in the Parent Company by the weighted average number of ordinary shares in circulation in the period, excluding own shares.*

Diluted earnings per share *is calculated by adjustment of the weighted average of shares in circulation, to take into account all potential ordinary shares with a diluting effect.*

Conversion of items in foreign currency

Operating currency
Group companies prepare their financial statements in the currency used in their individual countries.
The Group operating currency is the Euro, representing the currency in which consolidated statements are prepared and published.

Transactions and presentation of accounts
Transactions performed in foreign currency are initially recognised at the transaction date exchange rate.
At the balance sheet date, currency assets and liabilities recognised in foreign currency are reconverted based on the exchange rate valid at that date.
Non-currency items assessed at their original cost in foreign currency are converted using the transaction date exchange rate.
Non-currency items assessed at fair value are converted using the exchange rate valid at the date of fair value assessment.

Critical estimates and assumptions

In drafting the financial statements estimates and assumptions are used in relation to the future. These represent the best estimate possible at the balance sheet date, but given their nature this may involve a significant variation in balance sheet items in future periods. The main items affected by this estimation process are goodwill, deferred taxes and the fair value of financial instruments. Reference should be made to these specific areas for greater detail.

2.3 Adoption of new accounting principles

It should be specified that the Group has chosen not to adopt in advance the following Principles, Interpretations and Updates of principles already published, which become obligatory as of 1 January 2006 or later:

- *IAS 39 - Financial Instruments: recognition and measurement. The principle indicated in section A, note 1 was modified by ruling n° 2106 of 21 December 2005. This principle, partly revised in content for the designation of inter-group hedges, will become effective as of 1 January 2006. The modifications made have no significant effect on the consolidated financial statements;*
- *IFRS6 - Exploration and evaluation of mineral resources. This principle will become effective as of 1 January 2006. The principle has no relevance to Group business;*
- *IFRS7 - Financial Instruments: disclosures and updating of IAS1. The principle introduces new information to be disclosed on financial instruments and will become effective as of 1 January 2007;*
- *IFRIC4 - Determining whether an arrangement contains a lease. The interpretation will become effective as of 1 January 2006;*
- *IFRC5 - Rights to interests from Decommissioning, Restoration and Environmental Rehabilitation Funds. This interpretation is not relevant to the Group;*
- *IFRIC6 - Liabilities arising from Participating in a Specific market: Waste electrical and Electronic Equipment. This interpretation is not relevant to the Group.*

3. FINANCIAL ASSETS

Classification

In accordance with IAS 39 and IAS 32, financial assets are classified in the following four categories:

1. *financial assets assessed at fair value and recognised directly to the income statement;*
2. *investments held to maturity;*
3. *financial loans and receivables;*
4. *financial assets available for sale.*

The classification depends on the reason for which the assets are acquired and held, and their management determines the initial classification from their initial recognition, subject to re-assessment at each period end date.

A description of the main characteristics of such assets can be summarised as follows:

Financial assets assessed at fair value and recognised directly to the income statement
This category has two sub-categories:

- *financial assets held for specific trading purposes;*
- *financial assets considered at fair value from the date of acquisition. Each category includes all financial investments, other than capital instruments, which have no active market price but for which the fair value can in any event be calculated.*

Derivatives are included in this category unless designated as hedge instruments, and their fair value is recognised to the Income Statement.
All assets under this category are classed as current if held for trading or if their realisation is expected within 12 months from the period end date.
Designation of a financial instrument to this category is considered final and may only take place at the time of initial recognition.

Investments held to maturity
Represent assets not derived from fixed or calculable payments and with fixed maturity dates which the Group intends to hold until maturity (e.g. subscribed bonds).
The assessment of willingness and ability to hold a bond to maturity must be made at the time of initial recognition and confirmed at each period end date.
In the event of advance assignment (significant and not motivated by particular events) of bonds in this asset category, the entire securities portfolio is reclassified and assessed at fair value as financial assets held for trading.

Financial loans and receivables
Represent non-derivative financial assets with fixed or calculable payments not listed on an active market and for which the Group does not intend to perform trading.
These are recognised as current assets except for the part maturing more than 12 months after the period end date, which is instead classified under non-current assets.

Financial assets available for sale
This is a residual category represented by non-derivative financial assets designated as available for sale, and which are not classified under any of the categories described previously.
They are classified as non-current assets unless management intends to dispose of them within 12 months from the period end date.

Recognition

"Financial assets held for trading and whose fair value is recognised to the income statement" (cat.1) and "financial assets available for sale" (cat. 4) are recognised at fair value increased by acquisition accessory charges.
Profit or loss in relation to financial assets held for trading are immediately recognised to the Income Statement.

Profit or loss relating to financial assets available for sale are recognised to a separate item under equity until their sale or disposal or until impairment is identified. If such events should occur, all profit or loss recognised and provisioned until that time to equity are recognised to the Income Statement.
The fair value represents the amount at which an asset may be exchanged, or a liability settled, in a free transaction between knowing and independent parties. Consequently, it is presumed that the entity is operational and that neither party is required to liquidate their own assets to complete transactions under unfavourable conditions.
In the case of securities traded on active markets, the fair value is determined with reference to the bid price on conclusion of trading at the period end date.
If a market value is not available for a given investment, fair value is determined on the basis of the current market value of another financial instrument that is substantially equal or via the use of appropriate financial techniques such as discount cash flow (DCF).
Purchases and sales under "market price" conditions are recognised according to their trading date, which corresponds to the date in which the Group undertakes to purchase or sell the asset.
If fair value cannot be reliably calculated, the financial asset is assessed at cost, with an indication in the notes to accounts of its type and related reasons.

"Investments held to maturity" (cat. 2) and "financial loans and receivables" (cat. 3) are assessed using amortised cost criteria at the effective interest rate and taking into account any discounts or premiums received at the time of purchase, and are recognised for their entire duration up to maturity. Profit or loss is recognised to the Income Statement either at the time the investment reaches maturity or when impairment is demonstrated, as they would be recognised during the normal amortisation process required under amortised cost criteria.

Financial asset investments can be derecognised only when contractual rights to receive cash flows deriving from those investments have expired (e.g. final reimbursement of subscribed bonds) or when the Group transfers the financial asset along with all its related risks and benefits.

4. FINANCIAL RISK MANAGEMENT AND CATEGORIES

As the Group operates on all world markets, its business is exposed to different kinds of financial risks among which variations (also negative) in interest rates, exchange rates, cash flow risks (for cash flow generated outside the Euro area). In order to minimise such risks the Group uses derivatives as part of risk management activities, whereas derivatives or similar are not used or held strictly for trading purposes.

The Group also has a series of financial instruments other than derivatives, e.g. bank loans, bonds, financial leases, property leases, deposits payable on demand, payables and receivables deriving from normal business operations.
The Group centrally manages the main hedging instruments. Directives have also been issued to govern risk management guidelines, and procedures have been introduced to control transactions performed on derivatives.

Interest rate risk

As is known, changes in market tax rates can affect the fair value cash flow of a financial asset or liability.
Exposure to market risk deriving from changes in interest rates is mainly linked to medium and long-term financing, including financial leases, of which 92% are variable tax loans.
In order to guarantee protection against future tax rate increases, the Group stipulates IRS hedging instruments. Currently, 35% of variable tax loans of the Group are hedged.
Following such transactions, variable tax loans represent around 59% of Group financing.

Foreign currency risk

Operating at international level, the Group is subject to the risk of changes in exchange rates with an impact on the fair value of company assets and liabilities.
Therefore, as illustrated in the Business Area Information under note 5, the Group mainly produces and sells in the Euro area but has business interests and is subject to risk especially in relation to the GB Pound, Brazilian Real, US Dollar, Argentinian Peso and Chinese Renminbi.
Overall, the Group is not particularly exposed to exchange risk and this is mainly concentrated in the conversion of subsidiary financial statements in foreign currency, as the companies normally operate a substantial convergence between asset and liability turnover currencies. To limit the risk of conversion on net results of foreign subsidiaries with currency other than the Euro, the Parent Company subscribes to derivatives of a duration of less than the current period and for amounts ranging between 50 and 80% of the expected result of the subsidiaries.

Also in relation to grants, there are policies involving the collection of funding from third parties in the currency of the company receiving the grant. Any divergence from this principle requires systematic risk hedging through normal futures transactions.

Price risk

The Group is partly exposed to price risk in that purchases are made of raw materials, e.g. steel, plastics, aluminium, cellulose products. The risk is faced and optimised via the centralised management of purchases, and via the practice of using suppliers in different parts of the world for each kind of raw material.

Credit risk

This represents the risk that one of the parties undersigning a financial contract fails to fulfil an obligation, thus provoking financial loss. This risk may derive either from strictly commercial aspects (granting and concentration of credit) or from purely financial aspects (the kind of third party involved in financial transactions).

From a commercial point of view, the Group has no excessive concentration of credit risk in that it operates through distribution channels for both the Original Equipment market and aftermarkets, and therefore does not depend heavily on individual customers. In particular, with reference to Original Equipment, most sales are effected with car and industrial vehicle manufacturers.
In relation to the aftermarket, the main Group customers are instead leading international purchase groups.
In order to minimise credit risk, however, procedures and actions are implemented to limit the impact of any customer insolvency.
With reference to intermediaries for financial resource management, the Group only makes use of institutions with a high security profile and international standing.

Liquidity risk

The SOGEFI Group is subject to only minimal liquidity risk, i.e. the need to face a situation in which financial resources are insufficient to cover commitments.
As part of its financial structuring policy the SOGEFI Group has always adopted an extremely cautious approach, with recourse mainly to medium and long-term financing, whilst short term loans are used mainly to cover peak demand.
The significant cash flow generation, together with the solid asset structure, allow the Group easy access to further financing.
It should also be mentioned that the Group is implementing a centralised treasury for all the main European subsidiaries, which will allow further optimisation of cash and cash flow management at supranational level.

B) BUSINESS AREA INFORMATION

5. INFORMATION BY BUSINESS AREA

In accordance with IAS 14, the following information is provided by business area (primary sector) and by geographic area (secondary sector).
In this respect, with reference to business areas other than the Parent Company Sogefi S.p.A., information is also provided on the filters and suspension components divisions.

Primary sector: business areas

The following table illustrated the economic and balance sheet data of the Group in relation to the two divisions for the 2004 and 2005 periods.

(in thousand Euros)	2004				
	Filters Division	*Suspension components Division*	*Sogefi S.p.A.*	*Adjustaments*	*Sogefi consolidated*
REVENUES					
Third party sales	514,571	451,280	–	–	965,851
Inter-divisional sales	–	299	6,521	(6,523)	297
TOTAL REVENUES	514,571	451,579	6,521	(6,523)	966,148
RESULTS					
EBIT	50,042	19,527	(4,276)	(336)	64,957
Net financial charges					(12,228)
Dividends from subsidiaries					1,492
Charges from subsidiaries					209
Result before taxes					54,430
Income taxes					(21,905)
Loss (income) attributable to minority interests					(2,496)
NET RESULT					30,029
BALANCE SHEET					
ASSETS					
Assets by division	329,488	360,350	384,129	(351,635)	722,332
Equity investments in associates	–	5,953	–	–	5,953
Unallocated assets	–	–	–	98,597	98,597
TOTAL ASSETS	329,488	366,303	384,129	(253,038)	826,882
LIABILITIES					
Liabilities by division	263,902	294,144	212,364	(168,067)	602,343
TOTAL LIABILITIES	263,902	294,144	212,364	(168,067)	602,343
OTHER INFORMATION					
Increases in tangible and intangible assets	16,038	36,174	262	–	52,474
Amortisation, depreciation and writedowns	20,497	23,666	492	213	44,868

(in thousand Euros)	*2005*				
	Filters Division	*Suspension components Division*	*Sogefi S.p.A.*	*Adjustament*	*Sogefi consolidated*
REVENUES					
Third party sales	*518,523*	*504,675*	*–*	*–*	*1,023,198*
Inter-divisional sales	*–*	*249*	*8,548*	*(8,574)*	*223*
TOTAL REVENUES	*518,523*	*504,924*	*8,548*	*(8,574)*	*1,023,421*
RESULTS					
EBIT	*49,970*	*34,530*	*(3,279)*	*(241)*	*80,980*
Net financial charges					*(11,547)*
Dividends from subsidiaries					*161*
Charges from subsidiaries					*(2,510)*
Result before taxes					*67,084*
Income taxes					*(21,179)*
Loss (income) attributable to minority interests					*(1,245)*
NET RESULT					*44,660*
BALANCE SHEET					
ASSETS					
Division assets	*353,629*	*430,813*	*414,911*	*(474,416)*	*724,937*
Equity investments in associates	*–*	*3,372*	*–*	*–*	*3,372*
Unallocated assets	*–*	*–*	*–*	*98,222*	*98,222*
TOTAL ASSETS	*353,629*	*434,185*	*414,911*	*(376,194)*	*826,531*
LIABILITIES					
Division liabilities	*223,953*	*326,487*	*182,184*	*(167,379)*	*565,245*
TOTAL LIABILITIES	*223,953*	*326,487*	*182,184*	*(167,379)*	*565,245*
OTHER INFORMATION					
Increases in tangible and intangible assets	*18,348*	*26,427*	*125*	*–*	*44,900*
Amortisation, depreciation and writedowns	*18,787*	*32,702*	*7,405*	*(6,733)*	*52,161*

Adjustments to "Total Revenues" refer mainly to services provided by Sogefi S.p.A. to other Group companies.
Adjustments to EBIT refer to amortisation in relation to the reassessment of assets generated from the 40% acquisition in 2000 of Sogefi Filtration S.p.A..

In the balance sheet, adjustments to "Division assets" refer to the write-down of intercompany holdings and receivables.
Adjustments to "Unallocated assets" include goodwill and asset reassessment generated during acquisition of the Allevard Resserts Automobile group, 40% of Sogefi Filtration S.p.A. and the Filtrauto group.

Secondary sector: geographic area

The following table illustrates economic and balance sheet data of the Group in relation to geographic "source" areas for the 2004 and 2005 period, i.e. in reference to the country of the company producing the revenues or which holds the assets.

The distribution of revenue by geographic "destination" area, i.e. in reference to customer nationality, is analysed in the board of directors report and in comments provided in the notes to the Income Statement.

(in thousand Euros)			*2004*		
	Europe	*South America*	*Others*	*Adjustments*	*Sogefi consolidated*
REVENUES					
Third party sales	878,481	78,734	8,636	–	965,851
Inter-divisional sales	11,709	3,919	–	(15,331)	297
TOTAL REVENUES	890,190	82,653	8,636	(15,331)	966,148
BALANCE SHEET					
ASSETS					
Division assets	1,090,459	43,650	32,199	(443,976)	722,332
Equity investments in associates	5,953	–	–	–	5,953
Unallocated assets	–	–	–	98,597	98,597
TOTAL ASSETS	1,096,412	43,650	32,199	(345,379)	826,882
OTHER INFORMATION					
Increases in tangible and intangible assets	43,973	2,492	6,009	–	52,474
Amortisation, depreciation and writedowns	40,764	2,626	1,265	213	44,868

(in thousand Euros)			*2005*		
	Europe	*South America*	*Others*	*Adjustments*	*Sogefi consolidated*
REVENUES					
Third party sales	893,675	110,746	18,777	–	1,023,198
Inter-divisional sales	12,334	4,441	63	(16,615)	223
TOTAL REVENUES	906,009	115,187	18,840	(16,615)	1,023,421
BALANCE SHEET					
ASSETS					
Division assets	1,220,823	63,226	37,497	(596,609)	724,937
Equity investments in associates	3,372	–	–	–	3,372
Unallocated assets	–	–	–	98,222	98,222
TOTAL ASSETS	1,224,195	63,226	37,497	(498,387)	826,531
OTHER INFORMATION					
Increases in tangible and intangible assets	36,944	4,729	3,227	–	44,900
Amortisation, depreciation and writedowns	53,614	3,546	1,734	(6,733)	52,161

C) NOTES TO THE MAIN ANNUAL REPORT ITEMS: BALANCE SHEET

C 1) ASSETS

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents total € 55,390 thousand against the € 49,804 thousand of 31 December 2004 and are composed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Bank and postal accounts	*55,285*	*49,585*
Cheques	*37*	*130*
Cash on hand	*68*	*89*
TOTAL	*55,390*	*49,804*

Short term bank deposits are paid at variable rate. Postal deposits are also paid at variable rate and have a less than 1 month expiry.

As at 31 December 2005 the Group has unused lines of credit for a total € 206,283 thousand in relation to which all conditions are respected and are therefore available for use on demand.

7. SECURITIES AND FINANCIAL ASSETS HELD FOR TRADING

These represent assets held for trading, are assessed at fair value identified from official sources at the time of drafting the balance sheet and represent readily mobilised securities used by the company to optimise cash management.

Said financial assets held for trading are analysed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Other securities	*2,058*	*6,895*
Receivables from financial institutions and others	*58*	*203*
TOTAL	*2,116*	*7,098*

These total € 2,116 thousand against the € 7,098 thousand of the previous year, and are mainly composed of investment fund shares in Iberica de Suspensiones S.L. (ISSA), almost immediately available for short term cash optimisation.
The reduction in this item is mainly due to the realisation of certain financial assets and has contributed to the increase in cash and cash equivalents.

8. INVENTORIES

The composition of net inventories is as follows:

	12.31.2005			12.31.2004		
(in thousand Euros)	*Gross*	*Deval.*	*Net*	*Gross*	*Deval.*	*Net*
Raw materials, ancillaries and consumables	44,501	4,915	39,586	46,752	5,641	41,111
Work in progress and semi-finished goods	14,043	464	13,579	13,278	550	12,728
Contract work in progress and advances	967	–	967	589	–	589
Finished products and goods	63,615	9,954	53,661	70,000	12,312	57,688
TOTAL	123,126	15,333	107,793	130,619	18,503	112,116

The gross value of inventories has decreased by € 7,493 thousand. This effect is the consequence of the inventories rationalisation policy implemented by the Group for some years and which from mid 2004 has led to the launch of specific reduction projects as part of the "working capital down" programme.
The drop is particularly significant if considered that on the one hand exchange rate trends have determined a € 2,853 thousand revaluation of inventories and on the other that turnover has recorded an increase of 5.9%.

Devaluation adjustments are mainly composed of provisions set aside in relation to raw material inventories no longer used in current production and finished products, goods and ancillary materials that are obsolete or slow-moving. The reduced provision is linked to the disposal of materials during the period, totalling € 5,902 thousand, partly offset by further provisioning of € 2,732 thousand recognised to the Income Statement under "Variable costs of sales".

9. TRADE AND OTHER RECEIVABLES

Receivables under current assets can be analysed as follows:

(in thousand Euros)	12.31.2005	12.31.2004
From customers	237,298	241,861
less: devaluation fund	6,195	6,450
Net from customers	231,103	235,411
From subsidiaries	120	284
From Parent Company	1,579	7,356
From associates	1	1
From tax authorities	13,824	11,313
From others	4,250	5,108
Other non-financial current assets	2,438	2,397
TOTAL	253,315	261,870

Receivables "Net from customers" are non interest bearing and have an average 74-day expiry.

In this case also, the decrease is due to greater control over receivables and to sales development in countries with less favourable average collection times. The reduction in this item was also affected by the revaluation effect generated by exchange rates totalling € 4,504 thousand.

In the period, losses on receivables of € 796 thousand were recognised to the Income Statement under "Variable costs of sales - commercial and distribution variables".

Receivables "From Parent Company" existing at 31 December 2005 represent receivables from Parent Company CIR S.p.A. deriving from the adhesion to consolidated tax return system.
For the conditions and terms relating to receivables, reference should be made to section E.

Receivables "From tax authorities" at 31 December 2005 are receivables due to Group companies. The item does not include deferred taxes which are dealt with separately.

"Other receivables" are composed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
From social security and other authorities	*853*	*736*
From employees	*296*	*270*
Advances to suppliers	*1,523*	*1,208*
From others	*1,578*	*2,894*
TOTAL	*4,250*	*5,108*

The item mainly relates to advances to suppliers, receivables from social security authorities and government authorities for amounts due from investments.
The reduction under "From others" is mainly due to the receipt of part of the government grant by Sogefi Filtration Ltd from the Welsh Development Office.

The item "Other non-financial current assets" mainly includes prepayments and accrued income from insurance premiums, indirect tax relating to production units and accrued income from the lump sum payment to Honeywell International in relation to the agreement stipulated in 2000 for use of the FRAM trademark.

10. TANGIBLE ASSETS

As at 31 December 2005 these total € 259,905 thousand against the € 258,311 thousand at the end of the previous year and are composed as follows:

(in thousand Euros)	*2004*				
	Land	*Property, plant and machinery and indust. and comm. equipment*	*Other assets*	*Assets under construction and advances*	*TOTAL*
Balance at 1 January 2004	15,665	207,090	4,434	30,872	258,061
Acquisitions this period	79	12,699	1,136	30,594	44,508
Disinvestment at net period cost	(31)	(1,379)	(34)	(33)	(1,477)
Exchange differences from conversion at period rate	(36)	(2,099)	(125)	193	(2,067)
Amortisation this period	–	(36,990)	(1,928)	–	(38,918)
Devaluation this period	–	(2,000)	–	–	(2,000)
Increase due to consolidation perimeter variation	22	207	(3)	–	226
Other movements	–	47,219	2,261	(49,502)	(22)
Balance at 31 December 2004:	15,699	224,747	5,741	12,124	258,311
Historical cost	15,699	657,127	27,938	12,124	712,888
Of which leasing - gross value	827	21,568	–	–	22,395
Depreciation fund	–	432,380	22,197	–	454,577
Of which leasing - depr. fund	–	2,815	–	–	2,815
Net value	15,699	224,747	5,741	12,124	258,311
Net leasing value	827	18,753	–	–	19,580

	2005				
Balance at 31 December 2004	15,699	224,747	5,741	12,124	258,311
Acquisitions this period	–	12,876	780	22,314	35,970
Disinvestment at net period cost	(46)	(356)	(9)	(16)	(427)
Exchange differences from conversion at period rate	319	8,696	338	447	9,800
Amortisation this period	–	(37,893)	(1,633)	–	(39,526)
Impairment this period	–	(3,735)	(3)	–	(3,738)
Increase due to consolidation perimeter variation	–	–	19	–	19
Other movements	–	16,241	(549)	(16,196)	(504)
Balance at 31 December 2005:	15,972	220,576	4,684	18,673	259,905
Historical cost	15,972	693,410	26,500	18,673	754,555
Of which leasing - gross value	827	22,302	–	–	23,129
Depreciation fund	–	472,834	21,816	–	494,650
Of which leasing - depr. fund	–	3,524	–	–	3,524
Net value	15,972	220,576	4,684	18,673	259,905
Net leasing value	827	18,778	–	–	19,605

Investments this period total € 35,970 thousand against € 44,508 thousand the previous year.
The increase in the item "Property, plant and machinery, industrial and commercial equipment" is attributable to investments in relation to automation, production process improvement and the development of new products, along with production updating and plant modernisation. The decreases are mainly linked with the disposal of assets no longer used in the production cycle. Property values were substantially amortised.
The decrease in the item "Assets under construction and advances" is due to completion of ongoing projects at the end of the previous period and subsequent reclassification of the relevant items, whereas the upward variation refers to new investment projects currently at construction stage.
The balance of "Assets under construction and advances" as at 31 December 2005 includes € 2,187 thousand advances for investments at construction stage.

Tangible assets of Italian companies included in the consolidation are recognised at their historic acquisition cost, later increased following application of monetary revaluation laws, the IFRS 1 option being adopted with respect to the IAS/IFRS transition phase. Positive revaluation balances, net of any tax where applicable, are recognised to a specific equity reserve.

Amortisation this period is recognised to the Income Statement under "Depreciation & *Amortisation".*

"Impairment this period" refers to assets no longer used in the reorganisation framework, mainly in relation to the suspension components division. In the income statement such impairment is recognised under "Restructuring costs".

Guarantees
Tangible assets at 31 December 2005 prove to be affected by mortgage restrictions or privileges to banks totalling € 5,905 thousand as guarantees for received financing.

Purchase commitments
As at 31 December 2005 there are restrictive commitments on purchases of tangible assets for € 4,574 thousand.

Leasing
The financial aspects and timing of existing lease instalments are described in note 16.

11. INTANGIBLE ASSETS

As at 31 December 2005 these total € 113,878 thousand against the € 110,250 thousand at the end of the previous year and are composed as follows:

(in thousand Euros)	*2004*				
	Development costs	*Industrial patent rights, concessions, licenses and trademarks*	*Others, assets under construction and advances*	*Consolidation difference*	*TOTAL*
Balance as at 1 January 2004	*11,099*	*4,829*	*1,962*	*90,666*	*108,556*
Acquisitions this period	*4,760*	*550*	*2,656*		*7,966*
Exchange differences from conversion at period rate	*(72)*	*(23)*	*(17)*	*–*	*(112)*
Amortisation this period	*(3,939)*	*(1,963)*	*(258)*	*–*	*(6,160)*
Other movements	*2,646*	*(79)*	*(2,567)*	*–*	*–*
Balance at 31 December 2004	*14,494*	*3,314*	*1,776*	*90,666*	*110,250*
Historical cost	*30,371*	*14,642*	*4,437*	*113,565*	*163,015*
Depreciation fund	*15,877*	*11,328*	*2,661*	*22,899*	*52,765*
Net value	*14,494*	*3,314*	*1,776*	*90,666*	*110,250*

	2004				
Balance at 31 December 2004	*14,494*	*3,314*	*1,776*	*90,666*	*110,250*
Acquisitions this period	*6,881*	*485*	*1,564*		*8,930*
Disinvestment at net period cost	*–*	*–*	*(5)*	*–*	*(5)*
Exchange differences from conversion at period rate	*762*	*138*	*143*	*–*	*1,043*
Amortisation this period	*(4,985)*	*(1,252)*	*(149)*	*–*	*(6,386)*
Other movements	*(1,270)*	*82*	*1,234*	*–*	*46*
Balance at 31 December 2005:	*15,882*	*2,767*	*4,563*	*90,666*	*113,878*
Historical cost	*37,855*	*15,536*	*8,206*	*113,565*	*175,162*
Depreciation fund	*21,973*	*12,769*	*3,643*	*22,899*	*61,284*
Net value	*15,882*	*2,767*	*4,563*	*90,666*	*113,878*

Investments this period total € 8,930 thousand against € 7,966 thousand the previous year. The main upward variations relate to "Development costs" and are due to the capitalisation of costs sustained by the companies, for the development of new products in collaboration with leading car manufacturers.

Increases under "Others, Assets under construction and Advances" are mainly due to costs sustained for the acquisition or internal production of intangible assets for which the economic utilisation process has not yet been launched.
This item does not include advances to suppliers for asset purchases.

The item "Development costs" mainly includes costs generated internally while "Patent rights, concessions, licences and trademarks" mainly includes factors generated externally.
The item "Others, Assets under construction and Advances" includes costs of € 1,519 thousand generated internally.
There are no intangible assets with an indefinite useful life.

Goodwill and impairment testing

As mentioned in the presentation of assessment principles, as of 1 January 2004 goodwill is no longer amortised, but instead is subjected on an annual basis to impairment testing.

The company has identified four Cashflow Generating Units (CGU) in which to allocate goodwill deriving from acquisitions.

- *Filters*
- *Car suspension components*
- *Industrial vehicle suspension components*
- *Precision springs*

The divisions in which it is possible to identify goodwill deriving from external acquisitions at present are only the Filters and the Car Suspension Components.
Goodwill allocated to the Filters was € 73,618 thousand and to the Car suspensions € 17,048 thousand.

Impairment testing of goodwill was performed in accordance with IAS 36 procedure. The unlevered discounted cash flow method was used, based on forecasts produced in the budgets/3-year plans for 2006-2009 approved by company management, and on a 6.3% devaluation rate based on the weighted average capital cost.
The final value was calculated using the "perpetual annuity" formula, cautiously assuming a zero growth rate and considering an operating cash flow based on the last available cash flow from the 3-year plans (2009), adjusted to project a "perpetual" stable situation, in particular using the following assumed principles:

- *balancing between investments and amortisation (logically considering an investment level necessary to "maintain" business);*
- *operating capital variations of zero (assumed to be substantially cancelled out in the medium term any improvements achievable through the operating capital reduction programme to which the Group is already committed).*

With regarded to the average weighted capital cost, this was processed as the weighted average cost of debt (considering reference rates plus a 1% spread) and the cost of own capital, constructed on the basis of parameters relating to a group of companies operating in the European car components sector, considered SOGEFI "peers" by leading financial analysts specialists in this sector.
Testing performed on the actual expected cash flows justifies goodwill much higher than that recognised to the balance sheet and therefore no devaluation was applied.

12. EQUITY INVESTMENTS IN ASSOCIATED COMPANIES

As at 31 December 2005 these total € 3,372 thousand against the € 5,953 thousand of 31 December 2004, and are assessed using the equity method except where the realisable value proves lower than the net carrying value of the associate.
The item is composed as follows:

(in thousand Euros)	*KS Automotive Suspensions Asia Private Ltd*	*Allevard Ressorts Composites S.A.S.*	*Total*
Percentage held	*50.00*	*50.00*	*–*
Balance as at 1 January 2004	*5,308*	*319*	*5,627*
Proportionate result	*108*	*73*	*181*
Exchange differences from conversion at period rate	*145*	*–*	*145*
Balance at 31 December 2004	*5,561*	*392*	*5,953*

The table below summarises information on associates as at 31 December 2004:

(in thousands Euros)	*KS Automotive Suspensions Asia Private Ltd*	*Allevard Ressorts Composites S.A.S.*	*Total*
Total assets	*5,752*	*999*	*6,751*
Total liabilities	*220*	*607*	*827*
Total revenues	*1,885*	*1,933*	*3,818*
Result this period	*108*	*73*	*181*

As at 31 December 2005 this item is composed as follows:

(in thousands Euros)	*KS Automotive Suspensions Asia Private Ltd*	*Allevard Ressorts Composites S.A.S.*	*Total*
Percentage held	*50.00*	*50.,00*	*–*
Balance at 31 December 2004	*5,561*	*392*	*5,953*
Proportionate result	*(48)*	*(20)*	*(68)*
Devaluations	*(2,442)*	*–*	*(2,442)*
Exchange differences from conversion at period rate	*(71)*	*–*	*(71)*
Balance at 31 December 2005	*3,000*	*372*	*3,372*

During the period it was decided to devaluate the shareholding in KS Automotive Asia Private Ltd, as on the basis of expected profitability which show a balanced economic trend, the fair value of the holding proves lower than the equity of the company.
From an assessment performed jointly with the equal shareholder it was concluded that it is necessary to establish a new company structure to relaunch business of this associate.
The items "Proportionate result" and "Devaluations" in the Income Statement were classified under "Losses (Gains) from Equity Investments".

The table below summarises information on associates as at 31 December 2005:

(in thousands Euros)	*KS Automotive Suspensions Asia Private Ltd*	*Allevard Ressorts Composites S.A.S.*	*Total*
Total assets	*5,722*	*888*	*6,610*
Total liabilities	*386*	*516*	*902*
Total revenue	*2,211*	*1,434*	*3,645*
Result this period	*(48)*	*(20)*	*(68)*

The list of shareholding in associates is given in section H of this document.

13. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 December 2005 these totalled € 443 thousand against the € 4,221 thousand of 31 December 2004 and are composed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Investments in other companies	*443*	*459*
Treasury stock portfolio	*–*	*3,762*
TOTAL	*443*	*4,221*

The decrease in this item with respect to the previous year is due to reclassification of the "Treasury stock portfolio" which, by the effect of adoption of IAS 39 valid from 1 January 2005, led to a reduction in equity.
The balance of "Investments in other companies" refers mainly to the company AFICO FILTERS S.A.E. assessed at fair value which corresponds to cost.

14. OTHER RECEIVABLES

The item mainly includes receivables from grants due to be received by a number of Group companies in relation to investment plans. These receivables will be collected in the coming years. The item also includes non-interest-bearing guarantee deposits and advances of the "Employee Severance Indemnity" paid to Italian tax authorities.

15. DEFERRED TAX ASSETS

The strong increase in deferred tax assets is linked substantially to the different information presentation methods, with respect to directives received from Parent Company CIR S.p.A., for which they are not longer offset by tax payables at individual subsidiary level, but are instead recognised at their overall amount without any prior offsetting. This modification therefore also explains the significant increase in "Deferred taxes" from € 6,713 thousand to € 21,946 thousand. For further details on this topic reference should be made to Note 20.

C 2) LIABILITIES

16. BANK PAYABLES AND OTHER FINANCIAL DEBTS

This item is composed as follows:

Current portion

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Bank payables	*26,353*	*11,135*
Bonds expiring within 1 year	*–*	*79,922*
Current portion long-term financial debts	*93,876*	*14,839*
Of which leasing	1,213	964
Total financing repayable within 1 year	*93,876*	*94,761*
TOTAL SHORT TERM FINANCIAL DEBTS	*120,229*	*105,896*
Other short term financial debts for cash flow hedge	*132*	*–*
TOTAL SHORT TERM FINANCIAL DEBTS AND CASH FLOW HEDGE	*120,361*	*105,896*

Non-current portion

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Medium long-term loans	*83,549*	*133,809*
Other medium long-term loans	*20,755*	*21,394*
Of which leasing	17,199	18,237
Of which purchase commitments	1,824	1,824
TOTAL LONG TERM FINANCIAL DEBTS	*104,304*	*155,203*
Other long-term financial debts for cash flow hedge	*139*	*–*
TOTAL LONG TERM FINANCIAL DEBTS AND CASH FLOW HEDGE	*104,443*	*155,203*

Bank payables
The € 15,218 thousand increase in this item is mainly due to short term loan obtained by Parent Company Sogefi S.p.A.. The loan is repaid at a variable Euribor rate plus a market spread.

Bonds expiring within 1 year
The amount of the bond loan, arranged by Caboto Holding SIM and Deutsche Bank, issued by Sogefi S.p.A. in December 2000 was settled last December.

Current portion long-term financial debts
This item mainly includes the following financing:

- *the managed loan obtained by Parent Company Sogefi S.p.A. for a total € 80 million, repayable in a lump sum in December 2006. The loan is repaid at a variable Euribor rate plus a spread of 70 basis points. The loan is not assisted by any real guarantee on company assets;*
- *the current quota of € 3,333 thousand refers to financing obtained by subsidiary Allevard Federn GmbH for a total € 30 million, repayable in annual instalments and expiring in December 2010. The loan is repaid at a variable Euribor rate plus a spread of 80 basis points until December 2008, then reducing to 70 basis points for subsequent periods;*

– *the current portion of € 5,344 thousand refers to financing obtained by subsidiary Filtrauto S.A. for a total € 9,454 thousand, repayable by September 2007. The loan is repaid at a variable Euribor rate plus a spread of 57.5 basis points. The loan is not assisted by any real guarantee on company assets.*

Also included under this item is the portion expiring within 1 year of other less significant medium-long-term financing, including financial lease quotas in accordance with IAS 17.

Other short term financial debts for cash flow hedge

This item includes the short term quota of financial instruments in accordance with IAS 32 and 39 principles. The latter refer to the fair market value of a number of interest rate swap contracts, subscribed to transform part of the medium-long-term financing from a variable to a fixed rate.
For further details on this topic reference should be made to Note 22.

Long term financial debts

This item primarily includes the use of € 40 million of the € 100 million managed loan, stipulated by Parent Company Sogefi S.p.A. at the end of 2003. The loan is for a five-year period expiring in December 2008 and is repayable at a variable interest rate of Euribor plus a spread of 60 basis points. The spread reduced in the second half of the year to 47.5 basis points as the contractual terms of the loan require that said differential is reduced on the basis of improvement in the ratio between net consolidated financial position and the consolidated EBITDA. The excellent trend of that index allowed the contract threshold to be reached.
The loan is not assisted by any real guarantee on company assets.
Also included under this item is the portion expiring beyond 1 year of financing granted to subsidiary Allevard Federn GmbH and other less significant financing, including financial lease quotas in accordance with IAS 17.

Financial leases

The Group has financial leases and rental agreements for property, plant and machinery which by their nature cover almost the entire useful life of the asset. These lease and rental agreements, in accordance with IAS 17, are recognised as if they referred to company owned assets, with all their components, historic acquisition value, financial interest component and residual debt indicated in the balance sheet.

Future payments deriving from said agreements can be summarised as follows:

(in thousand Euros)	Instalments	Capital
Within one year	2,223	1,213
Beyond one year but less than 5 years	10,996	6,847
Over 5 years	13,568	10,352
Total lease instalments	26,787	18,412
Interest	(8,375)	–
TOTAL PRESENT VALUE OF LEASE INSTALMENTS	18,412	18,412

Agreements composing this item were undersigned by subsidiaries:

• *Allevard Springs USA Inc. for a lease stipulated with the State of West Virginia in relation to the purchase and use of a complete helical spring production line.*

The agreement is due to expire in June 2019, the total of the original lease was USD 14,948 thousand whereas the remaining instalments total USD 13,253 thousand with a nominal annual interest rate of 5.5% applied by the government authority.
With respect to this agreement, the Parent Company provided the US government authority with a personal guarantee of around 50% of remaining instalments, renewed at the end of each period based on the residual sum.
There are no restrictions of any kind linked to said lease and there is no option of final purchase representing what will be the market value of the machinery.
The reason for accounting as indicated in IAS 17 is that the current value of instalments corresponds approximately to the fair value of the asset at the time of stipulation of the agreement.

- *Sogefi Filtration Ltd for a long-term rental agreement stipulated in relation to the Tredegar production unit. The agreement is due to expire in September 2022, the total of the original lease was GBP 6,258 thousand whereas the remaining instalments total GBP 5,467 thousand with an annual interest rate of 9.7% applied by the lessor.*

The Group has not provided any personal guarantee in relation to this agreement.
There are no restrictions of any kind linked to this lease, and the reason for accounting as indicated in IAS 17 is in this case also that the current value of instalments corresponds approximately to the fair value of the asset at the time of stipulation of the agreement.

- *Allevard Rejna Autosuspensions S.A. stipulated two lease agreements for the following production units:*

a) Lieusaint production unit. The agreement is due to expire in April 2012, the total of the original lease was € 4,467 thousand whereas the remaining instalments total € 3,744 thousand with an annual interest rate applied by the lessor of the 3-month Euribor +75bp. The Group has not provided any personal guarantee in relation to this agreement.
b) Fronville production unit. The agreement is due to expire in June 2012, the total of the original lease was € 6,412 thousand whereas the remaining instalments total € 3,831 thousand with an annual interest rate applied by the lessor of the 3-month Euribor +72bp. The Group has not provided any personal guarantee in relation to this agreement.
There are no restrictions of any kind linked to either lease. In this case also the current value of instalments corresponds approximately to the fair value of the asset at the time of stipulation of the agreement and is therefore considered a financial lease, as indicated in IAS 17.

Purchase commitments
Parent Company Sogefi S.p.A. has existing purchase commitments in relation to a shareholding in US associate Allevard Springs USA Inc. from SIMEST S.p.A., a development and promotion agency for Italian overseas companies, controlled by the Italian Government. In the framework of its institutional tasks, SIMEST S.p.A. provides support to Italian companies investing abroad, also via direct venture capital holdings in start-up phases of foreign companies.
Sogefi S.p.A. made use of SIMEST S.p.A. services in the initial stages of its entry on the NAFTA market and SIMEST S.p.A. subscribed and paid a quota of € 1,824 thousand, which at the recent year end was equal to 10.47% of the US company. Sogefi S.p.A. is committed to repurchase on 30 June 2008, with the option of requesting the anticipation of said transaction as from 30 June 2007.
As the commitment is certain and irrevocable, the amount was recognised as a medium term payable as required by international accounting principles.

Other long-term financial debts for cash flow hedge
This item includes the long-term quota of financial instruments in accordance with IAS 32 and 39 principles. The latter refer to the fair market value of a number of interest rate swap contracts, subscribed to transform part of the medium long-term financing from a variable to a fixed rate.
For further details on this topic reference should be made to Note 22.

17. TRADE AND OTHER PAYABLES

Amounts recognised to the balance sheet are divided into the following categories:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Trade and other payables	*224,050*	*229,945*
Income tax payables	*7,897*	*10,864*
TOTAL	*231,947*	*240,809*

Trade and other payables are composed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
To suppliers	*173,741*	*177,468*
To indirect tax authorities and others	*6,207*	*8,750*
To social security authorities	*16,130*	*15,755*
To employees	*23,263*	*22,841*
Other payables	*4,709*	*5,131*
TOTAL	*224,050*	*229,945*

"Payables to suppliers" are not subject to interest and are paid on average within 69 days. There are no concentrations of significant debts to any one or group of suppliers.
The decrease in this item is linked to the reduction in inventories due to the inventories rationalisation policy pursued by the Group for a number of years.

The item "Payables to indirect tax authorities and others" has decreased as the previous year also included "VAT payables" on the sale of the Castelfranco Veneto property in December.

The slight increase in "Payables to employees" is mainly attributable to leave not taken and to one-off provisions this period, required by renewal of employment contracts by Italian companies.

18. OTHER CURRENT LIABILITIES

"Other current liabilities" includes adjusted amounts for costs and revenue this period to guarantee the reference principle (accruals and deferred income) and advances from customers for supplies not yet delivered. The item has decreased by € 522 thousand with respect to the previous period.

19. LONG TERM PROVISIONS

The item is composed as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Pension funds	*36,422*	*37,978*
Staff leaving indemnity	*18,451*	*19,047*
Restructuring fund	*15,344*	*19,241*
Tax dispute fund	*6,850*	*5,371*
Product guarantee fund	*1,879*	*3,013*
Other risks	*2,730*	*2,964*
Business increase indemnity	*1,208*	*1,599*
Legal proceedings	*1,085*	*1,145*
TOTAL	*83,969*	*90,358*

Details of the main items are provided below.

Pension funds

The following table illustrates movements during the period:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Opening balance	*37,978*	*38,781*
Cost of benefits to the income statement	*2,668*	*3,488*
Contributions paid	*(4,751)*	*(4,329)*
Exchange differences	*527*	*38*
TOTAL	*36,422*	*37,978*

Amounts recognised to the income statement are summarised as follows:

(in thousand Euros)	*2005*	*2004*
Current service cost	*2,328*	*3,065*
Interest cost	*7,373*	*6,707*
Expected return on assets	*(6,996)*	*(6,294)*
Actuarial (profit) loss this period	*(46)*	*–*
Past service cost	*9*	*10*
TOTAL	*2,668*	*3,488*

The "Current service cost" is recognised to "Personnel costs" in the Income Statement.
"Interest cost" and "Expected return on assets" are recognised to "Net financial charges (income)".
The remaining items are recognised to "Administrative and General Expenses".

The table below illustrates the pension funds by geographic area of the subsidiaries concerned:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Great Britain	*16,012*	*18,062*
France	*16,853*	*16,254*
Germany	*3,104*	*3,168*
Others	*453*	*494*
TOTAL	*36,422*	*37,978*

Summarised below are the employment benefits existing in the geographic areas of major impact for the Group: Great Britain and France. It should be specified that pension fund actuarial assessments are performed by external companies specialised in this field.

Great Britain

In Great Britain the pension plans are mainly private, stipulated with management companies and administered independently from the company. These are classified as defined benefit plans, subject to actuarial assessment and recognised according to the corridor approach as indicated and permitted by IAS 19.

The main assumptions adopted for the actuarial assessment of these "Pension Funds" were as follows:

	12.31.2005	*12.31.2004*
Discount rate %	*4.80*	*5.50*
Expected rate of return on plan assets %	*3.25 – 6.50*	*3.75 – 7.0*
Expected salary increase rate %	*3.25 – 4.0*	*4.0*
Annual inflation rate %	*2.8*	*2.8*
Pension age	*63*	*63*

The reduction in the "Discount rate" and "Expected rate of return on plan assets" with respect to the previous year is mainly due to the downward trend recorded in 2005, peaking in the month of December, on fixed rate investments and in particular in the yield on AA-rated corporate bonds.

France

In France, pensions are based on state plans and company responsibility is limited to the payment of contributions as established by law.

In addition to the guaranteed state pension, employees have the right to additional amounts depending on service seniority and salary level, payable only if the employee reaches pension age.
The additional benefits are recognised as company liabilities and, in accordance with IAS 19, are considered defined benefit plans and subject to actuarial assessment.

The main assumptions adopted for the actuarial assessment of these "Pension Funds" were as follows:

	12.31.2005	*12.31.2004*
Discount rate %	*4.0*	*4.5*
Salary increase rate %	*2.5 – 5.2*	*2.5 – 5.2*
Annual inflation rate %	*2.0*	*2.0*
Pension age	*60 - 64*	*60 - 64*

The reduction in the "Discount rate" with respect to the previous year is mainly due to the downward trend recorded in 2005 on long-term fixed rate investments and in particular in the yield on AA-rated corporate bonds.

The following table illustrates the overall amount of pension fund commitments and the current value of plan related assets.

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Present value of defined benefit obligations	*169,177*	*136,503*
Fair value of plan assets	*(126,691)*	*(99,738)*
Deficit	*42,486*	*36,765*
Pension fund provisions	*(36,422)*	*(37,978)*
Past revenue from non-amortised service	*(2)*	*(11)*
Actuarial (profit) loss not recognised	*6,062*	*(1,224)*

The increase in "Deficit" with respect to the previous year is due to a reduction in interest rates, as described previously, which led to an increase in the current value of fund commitments and a lower yield in plan-related assets.
"Actuarial (profit) Loss not recognised" refers to the total profit and loss not recognised to the Income Statement in that it is much lower than the corridor limit, equal to 10% of the current value of fund commitments.

Staff leaving indemnity

This aspect refers only to Italian companies in the Group, where pensions are represented by state plans and company responsibility is limited to the regular monthly payment of contributions.
In addition to social security benefits every employee, on completion of service, has the right to receive a severance indemnity (TFR) which is provisioned to a special fund and is subject to annual revaluation in relation to sums set aside in previous periods. Said integrative indemnity is considered a defined benefit plans, but subject to actuarial assessment for the part relating to expected future benefits and to service already paid (which represents the part subject to annual revaluation). Any liabilities of individual companies are recognised to the Income Statement if they exceed the 10% corridor threshold.

The assumptions considered in actuarial assessment of the "Employee Severance Indemnity (TFR)" were:

- *Macroeconomic assumptions:*
  1. *expected annual salary increase rate: 3%*
  2. *discount rate: 4.25%*
  3. *annual inflation rate: 2%*
  4. *annual severance indemnity increase rate: 3%*
- *Demographic assumptions:*
  1. *voluntary resignation rate: 5% of staff;*
  2. *pension age: reaching the first valid age for obligatory general insurance purposes is assumed;*
  3. *likely mortality rate: the assumption indicated by the National Statistics Institute in 1992, updated in 1996, divided according to sex and reduced to 80% to take into account the reduced mortality rate of recent years;*
  4. *for the probability of anticipated retirement, a value of 2% is assumed each year;*
  5. *for the probability of invalidity those adopted by the INPS (Social Security) Model, divided according to sex, for the forecast to 2010 are used. These probabilities were constructed by commencing from distribution by age and sex of pensions current at 1 January 1987, valid from 1984, 1985 and 1986 of credit sector employees.*

Movements in the "Employee Severance Indemnity Fund" are as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Opening balance	*19,047*	*20,495*
Provisions this period	*2,627*	*2,163*
Indemnities paid	*(3,223)*	*(3,611)*
TOTAL	*18,451*	*19,047*

Amounts recognised to the income statement are summarised as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Current service cost	*1,576*	*1,308*
Interest cost	*874*	*891*
TOTAL	*2,450*	*2,199*

For 2005, provisions recognised to the Balance Sheet differ from the total recognised to the Income Statement by € 177 thousand, due to adjustment of the balance carried forward for provisions not recognised the previous year, which led to a reduction in equity.

In 2004 provisions for the period did not coincide with the sum recognised to the Income Statement in that they included amounts matured in that period for staff who had resigned during the year.
Actuarial loss not recognised to the Income Statement as lower than the corridor limit totalled € 308 thousand as at 31 December 2005.

Restructuring fund

These represent the main sums provisioned for restructuring operations announced and communicated to interested parties as required by accounting principles.

During the period the fund was subject to variations as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
Opening balance	*19,241*	*17,785*
Provisions this period	*9,833*	*10,228*
Utilisation	*(12,889)*	*(6,911)*
Non utilisation this period	*(1,059)*	*(1,099)*
Exchange differences	*218*	*(762)*
TOTAL	*15,344*	*19,241*

"Provisions this period" refer mainly to production reorganisation announced during the period and to be completed over the next two years. These relate to the suspension components division and mainly to the Italian subsidiary Rejna S.p.A., the French subsidiary Allevard Rejna Autosuspensions S.A. and the British subsidiary United Springs Ltd.
"Utilisation" was recognised mainly as a reduction in funds previously provisioned for restructuring of the filters division.
Movement in "Provisions this period" net of "Non-utilisation this period" totalled € 8,774 thousand, recognised to the Income Statement under "Restructuring costs".

Tax dispute fund

This item refers to tax disputes in progress of definition with local tax authorities, mainly in relation to subsidiaries Sogefi Filtration Ltd and Sogefi Filtration do Brasil Ltda, for which cautious provisions were set aside although the final result is still uncertain.

During the period the fund was subject to variations as follows:

(in thousand Euros)	12.31.2005	12.31.2004
Opening balance	5,371	4,217
Provisions this period	693	1,597
Utilisation	(518)	(423)
Exchange differences	1,304	(20)
TOTAL	6,850	5,371

Other funds

In relation to "Other funds", amounts recognised to the balance sheet represent the best possible estimate of underlying liabilities, movements in the more significant items being illustrated in the table below:

(in thousand Euros)	12.31.2004			
	Product guarantee	Other risks	Business increase indemnity	Legal proceedings
Opening balance	1,685	3,754	1,496	1,642
Provisions this period	1,507	679	103	333
Utilisation	(179)	(1,460)	–	(822)
Exchange differences	–	(9)	–	(8)
TOTAL	3,013	2,964	1,599	1,145

(in thousand Euros)	12.31.2005			
	Product guarantee	Other risks	Business increase indemnity	Legal proceedings
Opening balance	3,013	2,964	1,599	1,145
Provisions this period	336	979	6	501
Utilisation	(1,470)	(1,292)	(397)	(566)
Exchange differences	–	79	–	5
TOTAL	1,879	2,730	1,208	1,085

The item "Product Guarantee" refers to provisioning by Group companies in relation to existing guarantees under contract to customers. Such provisions are calculated on a statistical basis.
"Other risks" mainly includes provisions set aside by the German associate LPDN GmbH for environmental risk and to cover the economic impact of likely requests from employees to continue working on a part time basis, having the right to make such a request on reaching the age limit established by law.

20. DEFERRED TAX ASSETS AND LIABILITIES

In the light of measures indicated in international accounting principles on the subject of notes to the accounts, details of prepaid and deferred tax are given below:

(in thousand Euros)	*12.31.2005*		*12.31.2004*	
	Total timing differences	*Effect on tax*	*Total timing differences*	*Effect on tax*
Deferred tax assets:				
Allowance for doubtful accounts	3,181	1,045	3,302	1,075
Write down of equity investments	2,711	916	981	331
Write down of inventories	5,807	2,265	10,169	3,191
Restructuring fund	5,501	1,804	11,214	3,535
Other provisions for risks and charges	39,519	12,208	39,246	12,314
Others	21,803	7,510	18,378	6,337
Deferred tax assets on tax losses this period	817	245	–	–
Deferred tax assets on tax losses in previous periods	2,619	786	4,088	1,350
TOTAL	81,958	26,779	87,378	28,133
Deferred tax liabilities:				
Accelerated/excess amortisation	42,585	14,229	43,091	14,631
Differences in inventories assessment criteria	2,139	741	1,924	699
R&D capitalisation	13,574	4,674	11,324	3,919
Others	6,654	2,302	6,703	2,152
TOTAL	64,952	21,946	63,042	21,401
Net deferred tax assets (liabilities)		4,833		6,732
Timing differences excluded from deferred tax assets (liabilities) calculations:				
Tax losses carried forward	37,709	13,921	36,884	13,354
Restructuring fund	2,954	975	5,984	1,975
Others	–	–	2,652	875
TOTAL	40,663	14,896	45,520	16,204

The tax effect was calculated on the basis of tax rates valid in the individual countries that were in line with the previous year.
It must be specified that for this period "Deferred tax assets" and "Deferred tax liabilities" amounts were recognised to separate items under assets and liabilities, unlike the previous year in which they were offset at individual company level.
The change in "Net deferred tax assets (liabilities)" with respect to 31 December 2004 is € 1,899 thousand, a difference of € 381 thousand recognised to the Income Statement under "Income taxes - deferred tax" due to reclassification, exchange differences of changes in equity with no economic effect.
In relation to totals recognised to "Timing differences excluded from deferred tax assets (liabilities) calculations", it should be specified that prepaid tax is not included as conditions do not currently exist to be reasonably certain of their recoverability.

21. SHARE CAPITAL AND RESERVES

Share capital

Parent Company Sogefi S.p.A. share capital is fully paid up and as at 31 December 2005 was € 58,338 thousand (€ 57,656 thousand in 2004), divided into 112,187,792 ordinary shares with a face value of € 0.52 each.

Movements in circulating shares are illustrated as follows:

Shares in circulation	*2005*	*2004*
N° shares at the beginning	*110,876,792*	*110,120,192*
N° shares issued as stock options subscriptions	*1,311,000*	*756,600*
N° ordinary shares as at 31 December	*112,187,792*	*110,876,792*
Treasury Stock	*(1,695,000)*	*-*
N° shares in circulation as at 31 December	*110,492,792*	*110,876,792*

The treasury stock decrease has been included only for 2005 in the respect of the IAS 39 adoption.

Reserves and retained earnings

The item is composed as follows:

(in thousand Euros)	*Share premium reserve*	*Reserve for treasury stock*	*Treasury stock reclassification reserve*	*Conversion reserve*	*Other reserves*	*Retained earnings*	*Total*
Balance as at 1 January 2004	24,773	3,762	–	–	57,757	22,185	108,477
Paid share capital increase	*3,051*	–	–	–	*(1,379)*	–	*1,672*
2003 net income allocation:							
Legal reserve	–	–	–	–	*50*		*50*
Retained earnings	–	–	–	–	–	*12,658*	*12,658*
Exchange differences from conversion and other movements	–	–	–	*(410)*	–	*211*	*(199)*
Balances at 31 December 2004	27,824	3,762	–	(410)	56,428	35,054	122,658
Adjustments for IAS 32 39 adaptation:							
Fair value of cash flow hedging instruments	–	–		–	*(940)*	–	*(940)*
Recognition of securities at fair value	–	–		–	*25*	–	*25*
Tax on items recognised directly to shareholders' equity	–	–		–	*302*	–	*302*
Treasury stock reclassification	–	–	*(3,762)*	–	–	–	*(3,762)*
Balance as at 1 January 2005	27,824	3,762	(3,762)	(410)	55,815	35,054	118,283
Paid Share capital increase	*2,453*	–	–	–	*(694)*	–	*1,759*
2004 net income allocation:							
Legal reserve	–	–	–	–	*200*		*200*
Retained earnings	–	–	–	–	–	*12,230*	*12,230*
Shareholders resolution on purchase of treasury stock	*(13,000)*	–	–	–	*13,000*	–	–
Fair value of cash flow hedging instruments	–	–	–	–	*669*	*33*	*702*
Other changes	–	–	–	–	*(37)*	*(62)*	*(99)*
Tax on items recognised directly to equity	–	–	–	–	*(208)*	–	*(208)*
Recognised nominal cost of stock options	–	–	–	–	*552*	–	*552*
Exchange differences from conversion	–	–	–	*10,511*	–	–	*10,511*
Balances at 31 December 2005	17,277	3,762	(3,762)	10,101	69,297	47,255	143,930

Share premium reserve

The total this period was € 17,277 thousand against € 27,824 thousand of the previous year. The reduction is due to transfer of € 13,000 thousand to the "Own shares purchase reserve", offset by € 2,453 thousand from subscription of shares planned in the stock options plans.

Treasury stock reclassification reserve

The "Treasury stock reclassification reserve" corresponds to provisions for reclassification of the own shares portfolio following the adoption of IAS 39 on 1 January 2005.

Conversion reserve

This reserve was used to recognise exchange differences from the translation of foreign subsidiary statements.
Movements this period totalled € 10,511 thousand.

Other reserves

Other reserves are detailed as follows:

(in thousand Euros)	*Legal resserve*	*Treasury stock purchase reserve*	*Cash flow hedge reserve*	*Stock options reserve*	*Tax on items recognised directly to equity*	*Other reserves*	*Total other reserves*
Balance as at 1 January 2004	11,480	38,238	–	–	–	8,039	57,757
Paid share capital increase	–	–	–	–	–	(1,379)	(1,379)
2003 net income allocation:							
Legal reserve	50	–	–	–	–	–	50
Balance at 31 December 2004	11,530	38,238	–	–	–	6,660	56,428
Fair value of cash flow hedging instruments	–	–	(940)	–	–	–	(940)
Recognition of securities at fair value	–	–	–	–	–	25	25
Tax on items recognised directly to shareholders' equity	–	–	–	–	302	–	302
Balance as at 1 January 2005	11,530	38,238	(940)		302	6,685	55,815
Paid share capital increase	–	–	–	–	–	(694)	(694)
2004 net income allocation:							
Legal reserve	200	–	–	–	–	–	200
Shareholders resolution on purchase of treasury stock	–	13,000	–	–	–	–	13,000
Fair value of cash flow hedging instruments	–	–	669	–	–	–	669
Other changes	–	–	–	–	–	(37)	(37)
Tax on items recognised directly to shareholders' equity	–	–	–	–	(208)	–	(208)
Recognised nominal cost of stock options	–	–	–	552	–	–	552
Balances at 31 December 2005	11,730	51,238	(271)	552	94	5,954	69,297

Details of the main reserves are as follows:

– Cash flow hedge reserve

Movements in the reserve relate to the recognition of cash flow deriving from financial instruments which for the purposes of IAS 19 are considered "cash flow hedge".
Reserve negativity (arising from IAS/IFRS) is reduced due to the increase in short term interest rates and the reduction in cash flow hedge transactions linked to bonds reimbursed at the end of 2005.
Movements this period show an increase of € 669 thousand and their value is recognised to other reserves to give a total decrease of € 271 thousand.

– Legal reserve
This results in 11,730 thousand with an increase of € 200 thousand corresponding to the 2004 profit share allocated to this reserve by resolution of the Shareholders Meeting on 19 April 2005.

– Treasury stock purchase reserve
This refers to the resolution of the Shareholders Meeting of 19 April 2005 to purchase Treasury stock.

– Stock options reserve
The difference refers to the nominal cost value this period for stock option plans assigned to employees and subsequently authorized on 7 November 2002.

Retained earnings
This totals € 47,255 thousand and includes non distributed profits.

MINORITY INTERESTS

The total of € 14,358 thousand refers to the equity share of certain subsidiaries held by third parties.

22. FINANCIAL INSTRUMENTS

Fair value

The following table compares the carrying and fair values of all financial instruments of the Group.

(In thousand Euros)	*Carrying amount*		*Fair value*	
	31.12.2005	*31.12.2004*	*31.12.2005*	*31.12.2004*
Financial assets				
Cash and cash equivalents	*55,390*	*49,804*	*55,390*	*49,804*
Securities and financial assets held for trading	*2,116*	*7,098*	*2,116*	*7,098*
Current portion of long financial assets	*–*	*133*	*–*	*133*
Trade receivables	*232,803*	*243,052*	*232,803*	*243,052*
Other receivables	*4,250*	*5,108*	*4,250*	*5,108*
Other current assets	*2,438*	*2,397*	*2,438*	*2,397*
Other financial assets available for sale	*443*	*4,221*	*443*	*4,221*
Non current trade receivables	*–*	*687*	*–*	*687*
Other non-current receivables	*3,540*	*2,994*	*3,540*	*2,994*
Financial liabilities				
Short term financial debts and cash flow hedge	*120,361*	*105,896*	*120,361*	*105,899*
Trade and other payables	*224,050*	*229,945*	*224,050*	*229,945*
Other current liabilities	*2,558*	*3,080*	*2,558*	*3,080*
Long term financial debts and cash flow hedge	*104,443*	*155,203*	*104,285*	*155,277*

Analysis of the table show that the fair value is different from the carrying value only for long-term financial payables. This difference, in any event insignificant, is generated from fixed rate loans existing at year end, for which the related value was recalculated on the basis of current market rates.

Interest rate risk

The following table illustrates the carrying value, by expiry, of Group financial instruments exposed to interest rate risk as at 31 December 2005, contractually subjected to fixed or variable rate:

(in thousand Euros)	*less than 1 year*	*over 1 year but less than 2*	*over 2 years but less than 3*	*over 3 years but less than 4*	*over 4 years but less than 5*	*over 5 years*	*Total*
Fixed rate							
Financial lease Sogefi Filtration Ltd	(101)	(111)	(121)	(133)	(146)	(3,251)	(3,863)
Financial lease Allevard Springs U.S.A. Inc.	(409)	(432)	(456)	(482)	(510)	(5,621)	(7,910)
Government grants	(463)	(560)	(502)	(307)	(247)	(704)	(2,783)
Other fixed rate financing	(442)	–	(1,962)	–	–	–	(2,404)
TOTAL FIXED RATE	(1,415)	(1,103)	(3,041)	(922)	(903)	(9,576)	(16,960)
Variable rate							
Cash and cash equivalents	55,390						55,390
Fund shares	2,116						2,116
Current bank payables	(11,485)						(11,485)
Short term loan	(15,000)						(15,000)
Managed loan € 80 million	(79,957)						(79,957)
Managed loan € 100 million			(40,000)				(40,000)
Bank loans	(11,168)	(14,303)	(10,229)	(9,667)	(8,707)		(54,074)
Financial lease Allevard Rejna Autosuspensions S.A.	(704)	(686)	(716)	(748)	(781)	(3,005)	(6,640)
Other variable rate financing	(633)	(9)	(9)	(10)	(10)	(17)	(688)
TOTAL VARIABLE RATE	(61,441)	(14,998)	(50,954)	(10,425)	(9,498)	(3,022)	(150,338)

Hedging

a) exchange risk

As at 31 December 2005 the SOGEFI Group held the following forward sale and purchase contracts as exchange risk hedges on intercompany financial positions:

Forward sale	*Transaction opened*	*Spot price €/currency*	*Transaction closed*	*Forward price €/currency*
GBP 2,000,000	22/12/2005	0.6794	22/03/2006	0.6829
USD 10,800,000	31/10/2005	1.2130	01/02/2006	1.2192
USD 1,500,000	08/11/2005	1.1720	01/02/2006	1.1774

Forward purchase	*Transaction opened*	*Spot price Yen/USD*	*Transaction closed*	*Forward price Yen/USD*
YEN 28,400,000	10/11/2005	118.0000	17/01/2006	117.9109
YEN 21,300,000	10/11/2005	118.0000	15/02/2006	116.6900
YEN 28,400,000	10/11/2005	118.0000	15/05/2006	115.3700
YEN 21,300,000	10/11/2005	118.0000	15/09/2006	113.5300
YEN 21,300,000	10/11/2005	118.0000	17/10/2006	113.0500

Whilst forward sales were performed under intercompany exchange risk hedges in currency, forward purchases in yen were performed by the US subsidiary as hedge against the investment in Japanese machinery ordered at the end of the period and due for delivery/payment during 2006.

b) interest rate risk

At year end, the SOGEFI Group held the following interest rate risk hedges (in thousands of Euros):

IRS description	*Hedge opened*	*Hedge expiry*	*Notional*	*Fixed rate*	*Fair value*
Hedge on managed loan € 80 million (21/12/2001 exp. 21/12/2006), Euribor rate + 70 bp	*07/02/2003*	*21/12/2006*	*40.000*	*3,13%*	*(132)*
Hedge on managed loan € 100 million (22/12/2003 exp. 22/12/2008), Euribor rate +60 bp	*22/09/2004*	*22/12/2008*	*10.000*	*3,25%*	*(68)*
Hedge on managed loan € 100 million (22/12/2003 exp. 22/12/2008), Euribor rate +60 bp	*14/10/2004*	*22/12/2008*	*5.000*	*3,19%*	*(36)*
Hedge on managed loan € 100 million (22/12/2003 exp. 22/12/2008), Euribor rate +60 bp	*14/10/2004*	*22/12/2008*	*5.000*	*3,188%*	*(35)*
Hedge on financing € 15 million (25/12/2003 exp. 25/09/2007), 3-month Euribor rate +57.5 bp	*25/03/2004*	*25/09/2007*	*15.000*	*2,46%*	*33*

All hedges indicate involve Group payment of the fixed rate agreed and collected by the lender at variable rate based on the underlying financing operation. For full details of the protection against interest rate risk, reference should be made to Section A, note 4.

D) NOTES TO THE MAIN ANNUAL REPORT ITEMS: INCOME STATEMENT

23. SALES REVENUES

Revenue from sales and services

In the period the SOGEFI Group achieved a turnover of € 1,023,421 thousand against € 966,148 thousand the previous year (+5.9%); by applying the average 2004 exchange rate Group turnover would total € 1,010,204 thousand (+4.6%).

Revenues from the sale of goods and for services provided are composed as follows:

By division:

(in thousand Euros)	*2005*		*2004*	
	Total	*%*	*Total*	*%*
Filters	*518,522*	*50.7*	*514,571*	*53.3*
Suspension components and precision springs	*504,899*	*49.3*	*451,577*	*46.7*
TOTAL	*1,023,421*	*100.0*	*966,148*	*100.0*

By geographic destination area:

(in thousand Euros)	*2005*		*2004*	
	Total	*%*	*Total*	*%*
France	*289,563*	*28.3*	*286,437*	*29.7*
Germany	*126,588*	*12.4*	*120,667*	*12.5*
Great Britain	*125,236*	*12.2*	*125,261*	*13.0*
Italy	*111,883*	*10.9*	*123,008*	*12.7*
Spain	*66,718*	*6.5*	*69,149*	*7.1*
Benelux	*63,695*	*6.2*	*56,843*	*5.8*
Other European countries	*84,379*	*8.3*	*76,587*	*8.0*
Mercosur	*112,183*	*11.0*	*79,349*	*8.2*
United States	*29,878*	*2.9*	*16,421*	*1.7*
China	*4,436*	*0.4*	*2,842*	*0.3*
Rest of the world	*8,862*	*0.9*	*9,584*	*1.0*
TOTAL	*1,023,421*	*100.0*	*966,148*	*100.0*

Turnover analysis of the main geographic markets confirms the downward trend of turnover on the Italian market and shows strong development in the Brazilian, Argentinian and US markets. It should also be noted that Germany, though relatively stable in percentage terms, has become second only to France in order of importance.

24. VARIABLE COST OF SALES

Details are as follows:

(in thousand Euros)	*2005*	*2004*
Materials	*458,384*	*416,568*
Direct labour costs	*110,025*	*109,727*
Energy costs	*25,315*	*22,320*
Outsourcing	*9,813*	*11,394*
Ancillary materials	*16,932*	*16,077*
Commercial and distribution variables	*32,915*	*34,505*
Sales royalties to third parties	*4,252*	*3,856*
TOTAL	*657,636*	*614,447*

The increase in the "Variable cost of sales" is mainly due to "Materials", affected by increased costs of raw materials, particularly steel, apart from increased production volumes.

"Energy costs" include the purchase of electricity supply from associate Energia S.p.A. for € 3,651 thousand (€ 3,659 thousand in 2004) by Italian companies.

25. MANUFACTURING, RESEARCH & DEVELOPMENT OVERHEADS

Details of this item are as follows:

(in thousand Euros)	*2005*	*2004*
Labour cost	*77,961*	*77,273*
Materials and maintenance/repairs	*21,855*	*22,449*
Rentals	*4,344*	*3,878*
Services on behalf of employees	*7,331*	*7,056*
Technical consultancy	*4,308*	*4,215*
Outsourcing	*1,803*	*1,859*
Insurance	*1,806*	*1,845*
Utility costs	*1,501*	*1,203*
Capitalisation of internal constructions	*(8,218)*	*(7,406)*
Others	*2,950*	*4,073*
TOTAL	*115,641*	*116,445*

Group "Manufacturing, research and development overheads" were in line with the previous year in spite of increased production volumes and the general increase in service costs.

The increase in "Utility costs" is attributed to increased tariffs in the last quarter of 2005.
The increase in "Capitalisation of internal constructions" relates mainly to new product development.
The R&D costs total € 22,681 thousand showing a slight increase with the previous year that amounted € 22,117 thousand.

26. DEPRECIATION AND AMORTISATION

Details are as follows:

(in thousand Euros)	*2005*	*2004*
Depreciation of tangible assets	*39,525*	*38,918*
of which: financial leasing assets	669	1,038
Amortisation of intangible assets	*6,386*	*6,161*
TOTAL	*45,911*	*45,079*

The 2005 total was € 45,911 thousand against the € 45,079 thousand of the same period of the previous year, an increase of around 2%.

By far the most significant item is tangible assets, composed of industrial amortisation of € 37,892 thousand against the € 36,990 thousand of 2004.

Amortisation of intangible assets refers mainly to development costs capitalised in previous years.

27. DISTRIBUTION, MARKETING AND SALES FIXED EXPENSES

Details of this item are as follows:

(in thousand Euros)	*2005*	*2004*
Labour cost	*20,761*	*21,875*
Outsourcing	*6,694*	*6,507*
Publicity, advertising and promotions	*5,591*	*5,101*
Services on behalf of employees	*2,580*	*2,670*
Rentals	*1,855*	*1,910*
Consultancy	*921*	*830*
Others	*960*	*622*
TOTAL	*39,362*	*39,515*

The € 153 thousand decrease in "Distribution, marketing and sales fixed expenses" is due in particular to "Labour cost" with a reduction in average staff numbers in 2005 with respect to the previous period, partly offset by the increase in "Publicity, advertising and promotions" for a number of promotions undertaken in support of the aftermarket sales channel.

28. ADMINISTRATIVE AND GENERAL EXPENSES

Details of this item are as follows:

(in thousand Euros)	*2005*	*2004*
Labour cost	*25,846*	*25,746*
Services on behalf of employees	*4,990*	*4,797*
Maintenance and repairs	*4,559*	*4,475*
Office cleaning and surveillance	*3,693*	*3,701*
Consultancy	*3,649*	*4,469*
Utility costs	*3,313*	*2,956*
Rentals	*3,174*	*3,046*
Insurance	*2,489*	*2,414*
Participation des salariés	*2,130*	*2,408*
Administrative, tax and financial support provided by Parent Company	*1,795*	*1,760*
Auditing costs	*1,541*	*1,380*
Fees to company authorities	*517*	*475*
Outsourcing	*555*	*446*
Others	*986*	*1,070*
TOTAL	*59,237*	*59,143*

"Administrative and general expenses" are generally in line with the previous period albeit with certain movements within the components.

In this period, "Consultancy" benefited from lower costs with respect to the previous year, which had been affected mainly by company reorganisation of the filters division, the central cost debiting policy costs to operational subsidiaries and IT support costs for the adaptation of Group reporting to the new IAS principles.

The increase in "Utility costs" is attributed to increased tariffs, particularly in the last quarter of 2005.

The drop in "Participation des salariés" is mainly due to recapitalisation of subsidiary Allevard Rejna Autosuspensions S.A. which reduced the total distributable to "stakeholders".

Increased "Auditing costs" are mainly due to the higher fees requested for tasks relating to transition to the new IAS/IFRS principles.

"Fees to company authorities" include € 381 thousand for fees to Parent Company administrators and € 78 thousand in fees to the parent company Board of Auditors.

29. PERSONNEL COSTS

Personnel

Regardless of their destination, overall "Personnel costs" can be divided into main components as follows:

(in thousand Euros)	*2005*	*2004*
Salaries, wages and contributions	*216,439*	*217,806*
Severance indemnity and pension costs	*4,016*	*3,752*
Participation des salariés	*2,130*	*2,408*
Nominal cost of stock options	*552*	*–*
Other costs	*422*	*670*
TOTAL	*223,559*	*224,636*

The € 799 thousand reduction in "Personnel" with respect to the previous period is mainly due to the decrease in the average number of staff over the previous year:

(Number of staff)	*2005*	*2004*
Management	*98*	*100*
Admin Staff	*1,444*	*1,513*
Manual workers	*4,750*	*4,940*
TOTAL	*6,292*	*6,553*

"Salaries, wages and contributions" and "Severance indemnities and pension costs" are included in previous tables under "Personnel costs".

"Participation des salariés" is recognised to "Administrative and general expenses".

"Other costs" is partly recognised to "Administrative and general expenses" and partly to "Other non-operating expenses (income)".

"Nominal cost of stock options" are recognised to "Other non-operating expenses (income)". Details of stock option plans are detailed in the paragraph below, "Employee benefits".

Employee benefits

Stock options plans

Both currently and in previous years, Sogefi S.p.A. has activated stock option plans destined to company and subsidiary managers appointed to important roles within the Group, with the aim of gaining loyalty in their relations with the Company and to provide an incentive to increased efforts to improve company performance and the generation of long-term value.

The plans offer beneficiaries the right to exercise an option, at a set price and within a certain preset time limit, to subscribe to new issues of SOGEFI shares. The regulation also requires, as an essential condition to exercising the option, that employment relations with the Company or subsidiary continue at the time of exercising the option, except in the case of retirement, permanent invalidity or decease.

In observance of Italian law 262/05, as from 2006 stock option plans will be approved in advance by the Shareholders Meeting.

During 2005, the Board of Directors approved the following stock option plans:

- *Stock options plan reserved for Company and subsidiary managers for a maximum 1,930,000 shares (1.72% of share capital as at 31 December 2005) with a subscription price of € 3.87, exercisable between 30 September 2005 and 30 September 2015;*
- *Stock options plan reserved for Group project collaborators for a maximum 80,000 shares for the purchase of an equal number of ordinary SOGEFI shares at the price of € 3.87. The option can be exercised on 30 September 2007, 31 January 2008 and 30 June 2008;*
- *Extraordinary stock options plan reserved for Group employees with over 10 years seniority on 31 December 2004 for a maximum 1,445,000 shares (1.29% of share capital as at 31 December 2005) with a subscription price of € 4.5, exercisable from 1 October to 7 December 2008 and from 1 May to 7 July 2009.*

Other than the above, the company has not implemented any other operation involving the purchase of goods or services with share-based or other payment representing share quotas, and is therefore not required to recognise such goods or services at fair value.

In accordance with IFRS 2 principle, valid from 1 January 2005, for the purposes of initial application of said principle only plans assigned after 7 November 2002 were considered, and therefore, other than those issued in 2005, the main characteristics of plans issued in 2003 and 2004 are also provided:

- *2004 stock options plan for a maximum 1,880,000 ordinary shares (1.67% of share capital as at 31 December 2005) at € 2.64 each, exercisable at the end of each quarter from 30 September 2004 to 30 September 2014;*
- *2003 stock options plan for a maximum 1,680,000 ordinary shares (1.50% of share capital as at 31 December 2005) at € 2.04 each, exercisable at the end of each quarter from 30 September 2003 to 30 September 2013.*

In 2005, options were exercised on 746,000 ordinary shares in relation to the 2003, 2004 and 2005 ordinary plans at an average value of € 2.43 each for a total of € 1,814 thousand, collected by the Parent Company.

The fair value of shares granted as at 31 December 2005 was calculated via a binomial tree mathematical model as equal to € 552 thousand recognised to the income statement under "Other non-operating expenses (income)", in order to represent the nominal cost of said benefit.

The following table illustrates the total number of options being referring to 2003-2005 plans and average subscription price:

	2005		2004	
	Number	*Average subscription price*	*Number*	*Average subscription price*
Not exercised and exercisable at the period start date	2,912,200	2.42	1,406,600	2.04
Granted this period	3,455,000	4.13	1,880,000	2.64
Cancelled this period	(68,400)	2.54	(122,800)	2.04
Exercised this period	(746,600)	2.43	(251,600)	2.12
Not exercised and exercisable at the period end date	5,552,200	3.48	2,912,200	2.42
Exercisable at the period end date	483,600	2.67	339,800	2.23

"Not exercised and exercisable at the period end date" refers to the total options net of those exercised or cancelled in this and previous periods.
"Exercisable at the period end date" refers to the total options matured by the period end date but not yet subscribed.

In observance of indications in the transitory measures of IFRS 2 art. 44-45, significant data relating to plans existing prior to 7 November 2002 for which the principle need not be applied, are provided below.

	2000 Plan	2001 Plan	2002 Plan
N° options	1,170,000	1,380,000	1,560,000
% share capital as at 31 December 2005	1.04	1.23	1.39
Subscription price (Euros)	2.53	2.50	2.01
Expiry date	2010	2011	2012
Not exercised at the period start date	258,000	491,400	531,000
Exercised this period	(30,000)	(76,000)	(178,800)
Cancelled this period	-	-	(6,800)
Not exercised at the period end date	228,000	415,400	345,400
Exercisable at the period end date	228,000	400,000	199,200

In 2005, options were exercised on 284,800 ordinary shares in relation to the 2000, 2001 and 2002 plans at an average value of € 2.20 each for a total of € 627 thousand, collected by the Parent Company.
The total collected by the Group in 2005 on all stock options plans was € 2,441 thousand.

Details are provided below on the number of options exercisable as at 31 December 2005:

	2003-2005 plans	2000-2005 plans	Total
N° residual options exercisable at 31 December 2004	339,800	735,400	1,075,200
Options matured this period	1,008,800	507,600	1,516,400
Options exercised this period	(746,600)	(284,800)	(1,031,400)
Options cancelled	(118,400)	(131,000)	(249,400)
N° residual options exercisable at 31 December 2005	483,600	827,200	1,310,800

30. RESTRUCTURING COSTS

"Restructuring costs" have reduced by € 10,350 thousand with respect to the previous period due to less restructuring plans implemented this period. It should also be remembered that in 2004 the value was abnormally high in that, in adoption of IAS/IFRS principles, it was necessary to record restructuring costs in that period for projects defined in 2003, recognised in accordance with Italian GAAP principles.
Provisions this period mainly refer to ongoing production reorganisation in the suspension components division.
"Restructuring costs" is composed of € 8,774 thousand provisions to the "Restructuring fund" net of non-utilisation, € 3,738 thousand impairment of assets and € 125 thousand in labour costs.

31. GAIN ON DISPOSALS

This period has not benefited from capital gains as in the previous period, which had been positively influenced by the sale of the Castelfranco Veneto plant by subsidiary Sogefi Filtration S.p.A., with subsequent capital gains of € 7.2 million.

32. EXCHANGE DIFFERENCES GAIN/LOSSES

At the end of 2005, net exchange gains totalled € 58 thousand against the net exchange losses of € 1,876 thousand in the previous period, which had been influenced by unrealised exchange differences linked to weakening of the US dollar.

33. OTHER NON-OPERATING EXPENSES (INCOME)

These totalled € 12,150 thousand (against € 9,553 thousand the previous year) and mainly refer to indirect tax and tax charges different from those of the net income and from the nominal cost of stock options as explained in section 1 "Content and format of the financial statements".

Details are as follows:

(in thousand Euros)	*2005*	*2004*
Indirect taxes	*6,185*	*5,326*
Other tax charges	*4,841*	*4,388*
Nominal cost of stock options	*552*	*–*
Other non-operating expenses (income)	*572*	*(161)*
TOTAL	*12,150*	*9,553*

"Indirect taxes" represents tax charges, such as production unit tax, non-deductible VAT and professional training tax.
"Other tax charges" represent the taxe professionelle in relation to French companies and which is basically an equity tax.
Changes in "Other non-operating expenses (income)" refer mainly to lower government financing to Group companies and to lower costs not linked to operations.

34. NET FINANCIAL CHARGES (INCOME)

Financial charges are detailed as follows:

(in thousand Euros)	*2005*	*2004*
Interest on non-convertible bond loans	*2,551*	*2,594*
Interest on bank payables	*5,098*	*5,202*
Financial charges from leases	*917*	*1,143*
Financial component of pension and severance indemnity funds	*1,078*	*619*
Charges from interest rate hedges	*951*	*790*
Other interests and commissions	*2,338*	*2,878*
TOTAL FINANCIAL CHARGES	*12,933*	*13,226*

And financial income details:

(in thousand Euros)	*2005*	*2004*
Financial income from repurchase agreements	*171*	*72*
Interests on bank receivables	*674*	*428*
Other interests and commissions	*541*	*498*
TOTAL FINANCIAL INCOME	*1,386*	*998*
TOTAL NET FINANCIAL CHARGES (INCOME)	*11,547*	*12,228*

The reduction in net financial charges as a result of the reduced average debt was partially offset by the increased financial component of pension and severance indemnity funds and by interest rate increases, especially in the dollar area.

35. INCOME TAXES

(in thousand Euros)	*2005*	*2004*
Current tax	*18,899*	*24,474*
Deferred tax liabilities (assets)	*2,280*	*(2,569)*
TOTAL	*21,179*	*21,905*

At consolidated level, the period showed a reduction in taxes of € 726 thousand against earnings before tax increasing from € 54.4 million in 2004 to € 67.1 million this period. Improvement in the tax rate, from 40.2% to 31.6%, is basically due to the presence of lower non-deductible costs/losses, a number of positive effects generated by company reorganisation implemented over the last two years and to the recognition of deferred tax in Italian companies, rendered necessary in the light of profit trends and forecasts.

The following table illustrates the reconciliation between ordinary tax rate and actual tax rate for the 2005 period. The taxes were calculated at national rates applied in the individual countries. The tax rates shown in the following table therefore represent average values.

(in thousands of Euros)	*Taxable amount*	*Tax Rate %*	*Tax*
Result before taxes	*67,085*	*33*	*22,138*
Effect of upward (downward) variation with respect to the standard rate:			
Statutory goodwill amortisation	*(2,117)*	*33*	*(698)*
Net non-deductible costs	*2,583*	*33*	*852*
Utilisation of deferred tax not recognised to previous periods	*(9,763)*	*33*	*(3,222)*
Deferred tax on period losses not recognised to the balance sheet	*2,796*	*33*	*922*
Taxable portion of dividends and capital gains on equity investments	*6,462*	*33*	*2,132*
Other permanent differences and tax rate differences			*(945)*
Income tax recognised to the consolidated income statement	*67,085*	*31.6*	*21,179*

"Utilisation of deferred tax not recognised to previous periods" refers to the utilisation by certain Group companies of deferred tax not recognised previously for which changes were assumed in relation to their recoverability.
"Deferred tax on losses this period not recognised to the balance sheet" is attributable to the US subsidiary Allevard Springs USA Inc..
"Taxable portion of dividends and capital gains on equity investment" refers to the taxable element of capital gains achieved by Sogefi S.p.A. in the sale of LPDN GmbH and to the non-exempt portion of dividends collected by Group companies.

36. DIVIDENDS PAID

Dividends paid in 2005 (in relation to 2004 profit sharing, as approved by the Shareholders Meeting of 19 April 2005) total € 17,599 thousand, equal to € 0.160 per ordinary share. In the previous period, dividends paid totalled € 15,777 thousand, equal to € 0.145 per ordinary share.
The company has not issued shares other than ordinary shares, and own shares are as always excluded from the dividend.

37. EARNINGS PER SHARE

Basic earnings per share

Due to the strong increase in the net result, earnings per share have increased by 47.1% from € 0.276 to € 0.406, in spite of the 1.1% increase in the weighted average of shares in circulation.

	2005	2004
Net earnings attributable to ordinary shareholders (thousand Euros)	44,660	30,029
Weighted average of shares in circulation this period (thousands)	110,092	108,888
Basic earnings per share (Euros)	0.406	0.276

Diluted earnings per share

The company has only one potential category of ordinary shares, deriving from the potential conversion of stock options plans attributed to Group employees.

	2005	2004
Net earnings attributable to ordinary shareholders (thousand Euros)	44,660	30,029
Average number of shares in circulation this period (thousands)	110,092	108,888
Weighted average of shares potentially subject to exercising of options this period (thousands)	1,122	1,070
Number of shares that could have been issued at fair value (thousands)	(630)	(822)
Adjusted weighted average of shares in circulation this period (thousands)	110,584	109,136
Diluted earnings per share (Euros)	0.404	0.275

The "Weighted average of shares subject to exercising of options" represents the average of shares that could potentially have been put into circulation via stock options plans, for which the subscription right had matured but had not yet been exercised at the statements reference date. Such shares have a potential dilution effect on the basic earnings per share and are therefore included in the diluted earnings per share calculation.

The "Number of shares that could have been issued at fair value" represents the normalisation factor equal to the number of shares that would have been issued dividing potential receipts from subscription to stock options by the average annual fair value of ordinary Sogefi S.p.A. shares, which in 2005 was equal to € 0.404 against the € 0.275 of 2004.
The limited adjustment of 492 thousand shares, corresponding to 0.4% of the average number of shares in circulation, renders the diluted earnings per share substantially equal to the basic.

E) 38. RELATED PARTY DISCLOSURES

The Group is controlled by Parent Company CIR S.p.A., which as at 19 April 2005 held 58.35% of shares in circulation. Sogefi S.p.A. shares are listed on the Milan stock exchange.

The consolidated Group financial statements include the statements of consolidated companies the names and related holdings of which are given in section H.
Relations between Group companies are accounted at normal market conditions, taking into account the quality and specifics of services provided; Parent Company Sogefi S.p.A. charges Group companies with amounts for administrative, financial and management support services, together with commission on purchase negotiation contracts performed by central office. In addition, for subsidiaries participating in the central Group treasury, the Parent Company debits and credits interest via a market spread.

Within its business framework, Parent Company Sogefi S.p.A. makes use of services from its own Parent Company, CIR S.p.A., on matters of strategic development, sales and purchases, administrative, financial, tax and company services. Relations are governed by contracts at market conditions and the cost is commensurate to their actual value for SOGEFI in relation to the time dedicated and to specific economic benefits.

As at 31 December 2005, the total for services received by Sogefi S.p.A. from CIR S.p.A. was € 1,795 thousand (against € 1,760 thousand the previous year).

Italian companies of the SOGEFI Group have recorded receivables from CIR S.p.A. as at 31 December 2005 totalling € 1,579 thousand relating to their adhesion to tax consolidation. Receivables as at 31 December 2004 were € 7,356 thousand, collected in full during 2005.

As part of their normal business operations, Italian companies of the Group purchase gas and electricity from associate Energia S.p.A., which in turn is a subsidiary of CIR S.p.A..

As at 31 December 2005 the total value of purchases was € 3,651 thousand (of which € 2,698 thousand by the suspensions division and € 953 thousand by the filters division) and the related debt totalled € 629 thousand (€ 103 thousand filters division and € 526 thousand suspensions division).

Apart from the above, at the date of this statement no other transactions have been concluded with other related parties.

F) COMMITMENTS AND RISKS

39. OPERATING LEASES

For accounting purposes, leases and rental agreements are classified as operating leases in which:

- *a significant part of ownership-related risks and benefits are maintained by the lessor;*
- *there are no options to purchase a prices not representative of the presumed market value of the leased asset at period end;*
- *the duration of the contract does not represent the greater part of the useful life of the leased or rented asset.*

Payment of operating lease instalments are recognised to the income statement in line with their underlying contracts.

The main operating lease relates to a contract stipulated by the US subsidiary Allevard Spring U.S.A. Inc. for rent on the Prichard (West Virginia) production unit.
The contract expires on 27 October 2018 and residual instalments total USD 5,234 thousand, of which USD 386 thousand are payable in the next 12 months.
With respect to this agreement, Sogefi S.p.A. provided a personal guarantee of around 50% on remaining instalments, renewed at the end of each period based on the residual sum.
There are no restrictions of any kind linked to this lease and on termination of the contract the US company will have the right to purchase the property based on market value.

Future instalments in relation to operating lease contracts existing at 31 December 2005 are as follows:

	2005	2004
Within 1 year	*3,831*	*3,810*
Beyond one year but less than 5 years	*8,589*	*9,294*
Over 5 years	*3,487*	*4,310*
TOTAL	*15,907*	*17,414*

The reduced total of future instalments with respect to the previous year is attributable to the payment of existing contractual instalments not offset by the stipulation of new contracts.

40. INVESTMENT OBLIGATIONS

There are no further restrictive obligations on investments other than those relating to the purchase of tangible assets totalling € 4,574 thousand and already mentioned in the notes to the accounts under tangible assets. As at 31 December 2004 the total was € 3,305 thousand.

41. GUARANTEES GRANTED

Details of guarantees are as follows:

(in thousand Euros)	*12.31.2005*	*12.31.2004*
PERSONAL GUARANTEES GRANTED		
a) Personal guarantees to third parties	*2,601*	*2,389*
b) Other guarantees to third parties	*9,714*	*9,714*
TOTAL PERSONAL GUARANTEES GRANTED	*12,315*	*12,103*
REAL GUARANTEES GRANTED		
a) for payables recognised to the balance sheet	*5,905*	*6,782*
TOTAL REAL GUARANTEES GRANTED	*5,905*	*6,782*

Personal guarantees granted to third parties refer to financing received and recognised of a value equal to the existing obligation at the date of the balance sheet. These items highlight the risks, commitments and guarantees granted by Group companies to third parties.

"Other guarantees to third parties" relates to the LPDN GmbH obligation to the employees pension fund of two company divisions at the time of its acquisition in 1996; this commitment is covered by contractual obligations of the selling company which is a leading German economics agency.
The "Real guarantees" refer to restrictions or privileges granted to financing institutions in relation to financing received for the purchase of assets. The decrease with respect to the previous period is due to the settlement of a guarantee as reimbursement of the related financing.

42. OTHER RISKS

As at 31 December 2005 the Group shows third party goods and materials held by Group companies for a total € 4,211 thousand (€ 5,999 thousand at 31 December 2004).

43. SUBSEQUENT EVENTS

No significant events are reported after 31 December 2005.

G) 44. RECONCILIATION OF SOGEFI S.P.A. STATEMENTS AND CONSOLIDATED GROUP STATEMENTS AS AT 31 DECEMBER 2005 AND 2004

NET INCOME FOR THE PERIOD

(in thousand Euros)	2005	2004
Net income recognised to Sogefi S.p.A. statements	79,562	22,495
Group share of net results of subsidiaries assumed in the consolidated statements	47,462	32,758
Elimination of capital gains from intercompany equity investments disposals	(62,205)	–
Devaluation of Sogefi S.p.A. equity investments	6,977	6,695
Elimination of Parent Company dividends	(27,160)	(31,898)
Elimination of profits not yet realised from intercompany transactions and other consolidation adjustments, net of related deferred tax	24	(21)
NET INCOME RECOGNISED TO THE CONSOLIDATED GROUP STATEMENTS	44,660	30,029

SHAREHOLDERS' EQUITY

(in thousand Euros)	12.312005	12.31.2004
Shareholders' equity recognised to Sogefi S.p.A. statements	243,235	182,234
Group share of the greater value between net equity from equity investments in consolidated companies and values recognised to the Sogefi S.p.A. statements	20,458	44,898
Elimination of profits not yet realised from intercompany transactions and other consolidation adjustments, net of related deferred tax	(16,765)	(16,790)
SHAREHOLDERS' EQUITY RECOGNISED TO THE CONSOLIDATED GROUP STATEMENTS	246,928	210,342

H) EQUITY INVESTMENTS

45. LIST OF EQUITY INVESTMENTS AS AT 31 DECEMBER 2005

SUBSIDIARIES CONSOLIDATED VIA THE INTEGRAL METHOD

Direct subsidiaries	*Currency*	*Share capital*	*N. shares*	*% holding in share capital*	*Nominal value per share*	*Nominal value of the holding*
REJNA S.p.A. *Settimo Torinese (TO), Italy*	*Euro*	*5,200,000*	*7,986,134*	*99.83*	*0.65*	*5,190,987.10*
SOGEFI FILTRATION B.V. *Weesp (Netherlands)*	*Euro*	*1,125,000*	*2,500*	*100.00*	*450*	*1,125,000*
SOGEFI FILTRATION Ltd *Llantrisant (Great Britain)*	*GBP*	*5,126,737*	*5,126,737*	*100.00*	*1*	*5,126,737*
SOGEFI FILTRATION A.B. *Stockholm (Sweden)*	*SEK*	*100,000*	*1,000*	*100.00*	*100*	*100,000*
SOGEFI FILTRATION S.A. *Oyarzun (Spain)* *86.08% held by Sogefi S.p.A.* *13.92% held by Filtrauto S.A.*	*Euro*	*12,953,713.60*	*2,155,360*	*100.00*	*6.01*	*12,953,713.60*
FILTRAUTO S.A. *Guyancourt (France)*	*Euro*	*5,750,000*	*287,494*	*99.99*	*20*	*5,749,880*
ALLEVARD REJNA AUTOSUSPENSIONS S.A. *Saint Cloud (France)*	*Euro*	*36,000,000*	*1,999,747*	*99.987*	*18*	*35,995,446*
SOGEFI Inc. *Dearborn (U.S.A.)*	*USD*	*1,000*	*1,000*	*100.00*		*1,000*
SOGEFI FILTRATION S.p.A. *Sant'Antonino di Susa (TO), Italy*	*Euro*	*21,951,000*	*21,951,000*	*100.00*	*1*	*21,951,000*
ALLEVARD SPRINGS U.S.A. Inc. *Prichard (U.S.A.)* *31.41% held by Sogefi S.p.A.* *58.12% held by Allevard Rejna Autosuspensions S.A.*	*USD*	*20,055,000*	*171*	*89.53*		*17,955,000*
SENECA S.c.a.r.l. *Milan* *85.75% held by Sogefi S.p.A.* *0.50% held by Rejna S.p.A.*	*Euro*	*10,000*		*86.25*		*8,625*
SOGEFI FILTRATION d.o.o. *Medvode (Slovenia)*	*SIT*	*2,466,326,560*		*100.00*		*2,466,326,560*

Indirect subsidiaries						
	Currency	*Share capital*	*N. shares*	*% holding in share capital*	*Nominal value per share*	*Nominal value of the holding*
FILTERS DIVISION *COOPERS FILTERS Ltd* *Abergavenny (Great Britain)* *Held by Sogefi Filtration Ltd*	*GBP*	*3,000,000*	*3,000,000*	*100.00*	*1*	*3,000,000*
FILTRAUTO UK Ltd *Nottingham (Great Britain)* *Held by Sogefi Filtration Ltd*	*GBP*	*6,810,000*	*6,810,000*	*100.00*	*1*	*6,810,000*
FILTRAUTO GmbH *Ludwigsburg (Germany)* *Held by Sogefi Filtration B.V.*	*Euro*	*51,130*		*100.00*		*51,130*
SOGEFI FILTRATION DO BRASIL Ltda *São Bernardo do Campo (Brazil)* *Held by Sogefi Filtration S.A.*	*BRL*	*29,857,374*	*29,857,373*	*99.99*	*1*	*29,857,373*
SOGEFI FILTRATION ARGENTINA S.A. *Buenos Aires (Argentina)* *91.90% held by Sogefi Filtration do Brasil Ltda* *7.28% held by Filtrauto S.A.* *0.81% held by Sogefi Filtration S.p.A.*	*ARP*	*10,691,607*	*10,691,605*	*99.99*	*1*	*10,691,605*

Indirect subsidiaries

	Currency	Share capital	N. shares	% holding in share capital	Nominal value per share	Nominal value of the holding
SUSPENSION COMPONENTS DIVISION *ALLEVARD SPRINGS Ltd* Mid Glamorgan (Great Britain) Held by Allevard Rejna Autosuspensions S.A.	GBP	4,000,002	4,000,002	100.00	1	4,000,002
ALLEVARD FEDERN GmbH Volklingen (Germany) Held by Allevard Rejna Autosuspensions S.A.	Euro	1,529,030		100.00		1,529,030
LIGGETT ARGENTINA S.A. Buenos Aires (Argentina) Held by Allevard Rejna Autosuspensions S.A.	ARP	600,000	599,827	99.97	1	599,827
IBERICA DE SUSPENSIONES S.L. (ISSA) Alsasua (Spain) Held by Allevard Rejna Autosuspensions S.A.	Euro	10,529,668	5,264,834	50.00	1	5,264,834
ALLEVARD MOLAS DO BRASIL Ltda São Paulo (Brazil) Held by Allevard Rejna Autosuspensions S.A. 99.997% Held by Allevard Springs Ltd 0.003%	BRL	37,161,683	37,161,683	100.00	1	37,161,683
UNITED SPRINGS Ltd Rochdale (Great Britain) Held by Allevard Rejna Autosuspensions S.A.	GBP	6,500,000	6,500,000	100.00	1	6,500,000
UNITED SPRINGS B.V. Hengelo (the Netherlands) Held by Allevard Rejna Autosuspensions S.A.	Euro	254,979	254,979	100.00	1	254,979
SHANGHAI ALLEVARD SPRINGS Co. Ltd Shanghai (China) Held by Allevard Rejna Autosuspensions S.A.	CNY	52,746,597		60.58		31,953,888
UNITED SPRINGS S.A.S. Saint Cloud (France) Held by Allevard Rejna Autosuspensions S.A.	Euro	10,218,000	2,043,599	99.99	5	10,217,995
LUHN & PULVERMACHER - DITTMANN & NEUHAUS GmbH Hagen (Germany) Held by Allevard Federn GmbH	Euro	50,000		100.00		50,000

EQUITY INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES

Indirect subsidiaries	Currency	Share capital	N. shares	% holding in share capital	Nominal value per share	Nominal value of the holding
INTEGRAL S.A. San Luis (Argentina) 93.50% held by Filtrauto S.A. 6.50% held by Sogefi Filtration Argentina S.A.	ARP	2,515,600	2,515,600	100.00	1	2,515,600
FILTRAUTO DO BRASIL Ltda São Paulo (Brazil) Held by Filtrauto S.A.	BRL	354,600	354,600	100.00	1	354,600
LES NOUVEAUX ATELIERS MECANIQUES S.A. (*) Brussels (Belgium) 74.9% held by Sogefi S.p.A. 25.1% held by Rejna S.p.A.	Euro	2,880,000	120,000	100.00	24	2,880,000

(*) currently subject to closure

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES ASSESSED USING THE EQUITY METHOD

	Currency	Share capital	N. shares	% holding in share capital	Nominal value per share	Nominal value of the holding
ALLEVARD RESSORTS COMPOSITES S.A.S. Serrières (France) Held by Allevard Rejna Autosuspensions S.A.	Euro	300,000	60,000	50.00	2.50	150,000
KS AUTOMOTIVE SUSPENSIONS ASIA PRIVATE Ltd Singapore Held by Allevard Rejna Autosuspensions S.A.	DEM	16,200,000	8,100,000	50.00	1	8,100,000

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES ASSESSED USING THE COST METHOD

	Currency	Share capital	N. shares	% holding in share capital	Nominal value per share	Nominal value of the holding
MAKKAWI CARS & LORRIES Co. Khartoum (Sudan) Held by Rejna S.p.A.	SDP	900,000	225	25.00	1,000	225,000

EQUITY INVESTMENTS IN OTHER COMPANIES ASSESSED USING THE COST METHOD

	Currency	Share capital	N. shares	% holding in share capital	Nominal value per share	Nominal value of the holding
AFICO FILTERS S.A.E. *Cairo (Egypt)* *Held by Sogefi Filtration S.p.A.*	*EGP*	*10,000,000*	*19,000*	*19.00*	*100*	*1,900,000*

BOARD OF AUDITORS REPORT TO THE SHAREHOLDERS MEETING FOR THE PURPOSES OF ART. 153, ITALIAN LEG. DECREE 58/98 AND ART. 2429, SECTION 3, ITALIAN CIVIL CODE

Dear Shareholders,
during the 2005 period the Board of Auditors implemented supervisory tasks in accordance with law, including controls required under Italian Legislative Decree 58/98.

In particular:

1. *The more significant transactions of an economic/financial/asset nature decided by the Board of Directors in the 2005 are described in detail by the Directors in their report on business trends. From participation in the Board of Directors meetings, the Board of Auditors has seen that transactions decided were not of an imprudent or hazardous nature, or contrary to shareholders meeting resolutions, to the Statute or in any way jeopardising the integrity of company assets.*

   Also during the 2005 period, the company followed its constant improvement strategy in relation to business efficiency; this objective was achieved via company reorganisation involving mergers between Group companies, the sale of shareholdings and production pooling into a more concentrated number of plants.

   It should also be specified that the company intends to exercise its right under Italian Law 266/2005 to obtain recognition of the greater values recognised to the balance sheet on certain properties for IRES (corporate income tax) and IRAP (regional productivity tax) purposes. The Board of Auditors acknowledges estimates prepared by independent experts in reference to recognition of values of said properties to the balance sheet. These values, therefore, reflect the realisable market value, obtained by write-off of amortisation funds or by increasing the asset values.
2. *In 2005, no abnormal and/or unusual transactions were performed by Group companies and related parties; the economic relations between Sogefi and other Group companies were accounted at normal market conditions and the Board of Auditors considers that said transaction were in the interest of the company. Relations disciplined by contracts stipulated at normal market conditions refer to intercompany financing, administrative, financial, tax, company or management services.*
3. *Information relating to intercompany transactions are described in detail in the Board of Directors report on business trends and in the Notes to the Consolidated and Company accounts.*

   For this period, the Board of Directors also decided upon a Stock Options Plan reserved for company managers and managers with an important role within the company, with the aim of providing an incentive to increased efforts to improve company performance. The Notes to Accounts and Reports attached to the financial statements clearly illustrate the stock options plan resolved by the Board of Directors.
4. *Auditing company PricewaterhouseCoopers S.p.A. audited the consolidated and company annual reports. The notes to the accounts were examined by the Board of Auditors, which acknowledges the audit performed, in order to confirm regularity of company accounting records and the correct recognition of operational transactions; no problems in relation to the correctness of company accounting records were identified. The absence of negative feedback from the independent auditors allows the Board of Auditors to refrain from observations in relation to the correct recognition of operations.*
5. *No reports were submitted to the Board of Auditors in relation to art. 2408 of the Italian Civil Code.*
6. *No submissions were received and therefore no initiatives were taken in this respect.*
7. *The company assigned a further task to auditing company PricewaterhouseCoopers S.p.A. in relation to full audit of 2005 opening balances for the transition to IAS/IFRS values. The cost of this task was 100,000 Euros. Other companies in the Sogefi Group in turn assigned tasks to the auditing company for the same purposes, for a total cost of 199,000 Euros.*

During the period, costs for professional services other than audit by auditing company consultants were provided to the Sogefi Group for a total of 301,000 Euros.

8. *In the period, the Board of Auditors provided no opinions for legal purposes.*
9. *The Board of Directors held six meetings; the Board of Auditors met on six occasions.*
10. *The Board does not deem necessary any observation on the principles of correct business administration in that all decisions of the Board of Directors were made in the interests of the company.*
11. *The Board considers that the organisational structure of the company is adequate for the business activities performed, and to the extent of its responsibilities does not consider it necessary to propose improvements.*
12. *To the extent of its responsibilities, the Board consider positive the tasks performed by Internal Control and Supervisory Committees. From meetings held with the Supervisory Committee and from verification of Control Committee reports, said structure is considered adequate and therefore no corrective action is proposed.*
13. *The administrative accounting system correctly and reliably represent operations in that from the exchange of data from administration division managers and from meetings with the auditing company, the Board acknowledges the validity of the administrative accounting system.*
14. *For the purposes of art. 114, section 2 of Italian Leg.Decree 58/98, the company issues correct instructions to subsidiaries in order to receive all information necessary for the fulfilment of mandatory communications required under said law. The Board has reviewed the Group Accounting Manual in relation to its correctness and the speed of transfer of information between Sogefi S.p.A. and its subsidiaries.*
15. *During the 2005 period, the Board of Auditors has held two meetings with auditing company PricewaterhouseCoopers S.p.A. in order to exchange data and information relevant to the completion of their respective tasks; in said meetings no points emerged in relation to correct accounting.*
17. *The company has adhered to the code of self-conduct of the Corporate Governance Committee for listed companies, implementing an articulated control system and also drafting the Code of Ethics, approving the Organisation, Management and Control Model under the terms of Italian Leg.Decree 231/2001 and nominating the Supervisory Body. Since the effective date of new regulations on asset management, the company has approved updating of the Corporate Governance system, developing the new rules and modifications introduced by Italian Stock Exchange regulations.*
18. *During the course of its control tasks this period, the Board of Auditors has not identified any omissions, reprehensible facts or serious irregularities and therefore does not consider it necessary to make any comment to the Supervisory Bodies or Shareholders Meeting under the terms of art. 153, section 1 of Italian Leg.Decree 58/98.*

The financial statements as at 31.12.2005 show profits totalling 79,561,906.27 Euros, whereas the Sogefi Group consolidated statements show net profits of 44,600,000 Euros.

The Board of Auditors can identify no reason to inhibit approval of the financial statements as at 13.12.2005, and therefore seconds the proposed distribution of profits for the period as formulated by the Board of Directors.

Mantova, March 17, 2006

THE BOARD OF STATUTORY AUDITORS

Angelo Girelli Chairman
Franco Caramanti Auditor
Riccardo Zingales Auditor

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

Auditors' report in accordance with article 156 of Law Decree no. 58 dated 24 February 1998

To the shareholders of SOGEFI SpA

1. We have audited the consolidated financial statements of SOGEFI SpA and its subsidiaries ('SOGEFI Group') as of 31 December 2005, comprising the balance sheet, income statement, statement of changes in shareholders' equity, statement of cashflows and related notes. These consolidated financial statements are the responsibility of SOGEFI's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles, except for the effect of the application of IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied starting from 1 January 2005. Moreover, the section 'Transition to IAS/International Financial Reporting Standards' illustrates the effects of the transition to the IFRS as adopted by the European Union. As explained in the notes to that section, to ensure comparability with the first IFRS-compliant consolidated financial statements the directors have reclassified the disclosure of the effects of the transition to IFRS previously approved by the board of directors and published as an appendix to the interim financial reporting as of 30 June 2005, in the IFRS 1 reconciliation schedules, which we examined and on which we issued our auditors' report on 28 July 2005. We have examined the disclosures set out in the aforementioned section with

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reference to the reclassifications to the previous IFRS 1 reconciliation schedules in order to express our opinion on the consolidated financial statements as of 31 December 2005.

3. In our opinion, the consolidated financial statements of SOGEFI SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cashflows of SOGEFI Group for the year then ended.

Milan, 17 March 2006

PricewaterhouseCoopers SpA

Sergio Pizzarelli
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation