

2006

BOARD OF DIRECTORS REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

(Translation into English of the original Italian version)



REPORT OF THE BOARD OF DIRECTORS
ON OPERATIONS FOR FISCAL YEAR 2006

Shareholders,

For the SOGEFI Group, 2006 was another year of revenues in excess of 1 billion Euro, coming in at € 1,018.6 million, the fifth year running of rising profitability with consolidated net income of € 50.8 million and a further reduction in financial indebtedness to € 126.3 million.

This positive trend in results was achieved in an unfavourable market context because of falling turnover on the part of certain key customers; indeed, it was only possible thanks to the Group's ongoing ability to optimise the main cost factors and to make its structure as flexible as possible.

During 2006, SOGEFI again received important confirmation of the fact that its products and technology are both extremely valid, being highly appreciated by international vehicle manufacturers. This led to the Group's two core businesses being awarded contracts for various production platforms over the coming years and winning prizes and awards for the quality and organisation of its subsidiaries.

In the original equipment (OEM) sector, the two markets in which the Group is mainly present have had contrasting trends. In Europe, the situation of substantial stagnation that affected 2005 continued in 2006, with a very modest rise (+0.6%) in car sales, whereas in South America demand improved even more in terms of volumes, thanks to the competitiveness of Brazil and Argentina, with overall growth in output of 6.7%.

The industrial vehicle and earth-moving equipment markets, where Sogefi is principally a supplier of suspension components in the European market, have repeated the previous year's good levels of activity, but with a slight decline towards the end of the year.

After an initial part of the year when there was a downward trend in the aftermarket, in the latter months of 2006 there was an upswing, even if turnover was much the same as in 2005 in the OE segment and slightly down in the independent aftermarket (IAM).

The competitive scenario has remained as it was, as has the pressure by manufacturing customers to lower prices. In this situation, the Group's policy for some time has been one of optimising profitability, rather than increasing volumes at all costs. This has been possible thanks to the high quality and technology of our products.

The scope of consolidation shows some changes that are quite small in terms of size, but very important from a strategic point of view:

- on January 1, 2006 the French subsidiary Filtrauto S.A. increased its scope of consolidation with a plant that makes plastic components in Argentan (France), the assets of which have been purchased with a view to integrating the production of certain strategic components;
- in May the 50% investment in KS Automotive Suspensions Asia Private Ltd, based in Singapore, was sold. This is the parent company of a joint venture operating in the Chinese market for suspension springs and stabilizer bars. As a result, the Group's presence in China in the suspension component market is temporarily represented only by the torsion bar product line. One of our objectives for the coming years will be to set up a new partnership with another operator for these components;

- *in May a new joint venture with a local operator, Zhejiang Universe Filter Co. Ltd., was set up to produce and market filtration systems. The company is 70% controlled by Sogefi Filtration S.p.A. and started up production for OE and IAM customers in early 2007.*

The process of concentrating production activities continued in 2006, carrying out the following operations with a view to improving efficiency:

- *closure of the S. Felice del Benaco plant (Italy) and concentration of the activities related to truck suspension components activities at the Raffa di Puegnago site (Italy);*
- *closure of the West Bromwich site (U.K.) and concentration of the precision spring activities at the Rochdale (U.K.) site;*
- *closure of the Can Jardì and Can Rosè (Spain) locations and transfer of the Filtration activity to the new site at Cerdanyola (Spain);*
- *shut down of production of suspension springs at the Douai plant (France), which remains active only for the stabilizer bar product line;*
- *transfer of panel air filter production from Mantua (Italy) to the Medvode (Slovenia) site.*

GROUP OPERATIONS

Despite a slight decrease in revenues, the Group achieved better economic results in 2006, as shown in the following reclassified consolidated statement of income:

CONSOLIDATED INCOME STATEMENT

(in millions of Euro)	2006		2005	
	Amount	%	Amount	%
Sales revenues	1,018.6	100.0	1,023.4	100.0
Variable cost of sales	653.2	64.1	657.6	64.3
CONTRIBUTION MARGIN	365.4	35.9	365.8	35.7
Manufacturing and R&D overheads	114.3	11.2	115.7	11.3
Depreciation and amortization	45.0	4.4	45.9	4.5
Distribution and sales fixed expenses	37.7	3.7	39.4	3.8
Administrative and general expenses	61.8	6.1	59.2	5.8
OPERATING INCOME	106.6	10.5	105.6	10.3
Restructuring costs	5.2	0.5	12.6	1.2
Losses (gains) on disposal	(4.0)	(0.4)	(0.1)	-
Exchange (gains) losses	0.9	0.1	(0.1)	-
Other non-operating expenses (income)	21.0	2.1	12.2	1.2
EBIT	83.5	8.2	81.0	7.9
Financial expenses (income), net	10.2	1.0	11.6	1.1
Losses (gains) from equity investments	(1.6)	(0.2)	2.3	0.2
PROFIT BEFORE TAXES AND MINORITY INTERESTS	74.9	7.4	67.1	6.6
Income taxes	21.5	2.1	21.2	2.1
NET PROFIT BEFORE MINORITY INTERESTS	53.4	5.3	45.9	4.5
Loss (income) attributable to minority interests	(2.6)	(0.3)	(1.2)	(0.1)
GROUP NET PROFIT	50.8	5.0	44.7	4.4

Consolidated sales came to € 1,018.6 million, compared with € 1,023.4 million in 2005, a slight drop of 0.5% mainly due to lower sales to both French car manufacturers and Ford in the USA.

The most penalised by the fall in demand was the Suspension Components Division, which operates almost exclusively in original equipment, whereas the Filtration Division managed to increase its turnover, which in 2006 represented 51.7% of total Group sales.

(in millions of Euro)	2006		2005	
	Amount	%	Amount	%
Filters	527.2	51.7	518.5	50.7
Suspension components and precision springs	491.6	48.3	504.9	49.3
Intercompany eliminations	(0.2)	-	-	-
TOTAL	1,018.6	100.0	1,023.4	100.0

Despite this slight reduction, OEM is still the market where we have the largest presence.

<i>(in millions of Euro)</i>	2006		2005	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Original Equipment (O.E.)</i>	653.3	64.2	654.6	64.0
<i>Independent Aftermarket (I.A.M.)</i>	231.6	22.7	236.0	23.0
<i>Original Equipment Spares (O.E.S.)</i>	133.7	13.1	132.8	13.0
TOTAL	1,018.6	100.0	1,023.4	100.0

The sales breakdown in the Group's main markets is given in the table below, which shows: a decline in turnover in France, Italy and USA due to the fall in sales to Ford after the unsuccessful Five Hundred model; market growth in the Mercosur, Spain, Germany and Benelux.

<i>(in millions of Euro)</i>	2006		2005	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>France</i>	266.7	26.2	289.6	28.3
<i>Germany</i>	133.4	13.1	126.6	12.4
<i>Great Britain</i>	124.5	12.2	125.2	12.2
<i>Italy</i>	98.5	9.7	111.9	10.9
<i>Spain</i>	72.5	7.1	66.7	6.5
<i>Benelux</i>	70.8	7.0	63.7	6.2
<i>Other European countries</i>	89.6	8.8	84.4	8.3
<i>Mercosur</i>	123.4	12.1	112.2	11.0
<i>United States</i>	24.8	2.4	29.9	2.9
<i>China</i>	3.5	0.3	4.4	0.4
<i>Rest of the World</i>	10.9	1.1	8.8	0.9
TOTAL	1,018.6	100.0	1,023.4	100.0

Lower sales to the Group's two main customers and to FLAT/IVECO following the definitive cessation of supplies of suspension components to the industrial vehicles manufacturer have been offset by higher sales to Ford Europe, Volkswagen, Toyota, General Motors Europe, Caterpillar and Man.

<i>(in millions of Euro)</i>	2006		2005	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Group</i>				
<i>PSA</i>	130.7	12.8	143.6	14.0
<i>Renault/Nissan</i>	128.1	12.6	129.0	12.6
<i>Ford/Volvo</i>	115.5	11.3	102.1	10.0
<i>FLAT/IVECO</i>	82.0	8.0	84.7	8.3
<i>Daimler Chrysler</i>	68.6	6.7	70.0	6.8
<i>Volkswagen/Audi</i>	56.4	5.5	48.9	4.8
<i>DAF/Paccar</i>	30.0	3.0	28.4	2.8
<i>GM</i>	24.8	2.4	18.2	1.8
<i>Toyota</i>	24.0	2.4	20.5	2.0
<i>Honda</i>	10.9	1.1	13.7	1.3
<i>Caterpillar</i>	9.2	0.9	7.4	0.7
<i>Man</i>	3.4	0.3	2.5	0.2
<i>Other</i>	335.0	33.0	354.4	34.7
TOTAL	1,018.6	100.0	1,023.4	100.0

The analysis of the main product lines shows a positive trend for stabilizer bars, coil springs, air filters, diesel filters and spring groups, whereas the trend has been negative for leaf springs, torsion bars, oil filters and precision springs.

(in millions of Euro)	2006		2005	
	Amount	%	Amount	%
Oil filters	273.9	26.9	276.3	27.0
Stabilizer bars	180.2	17.7	176.1	17.2
Coil springs	153.6	15.1	150.9	14.7
Air filters	120.0	11.8	118.6	11.6
Diesel filters	63.2	6.2	59.3	5.8
Leaf springs	63.0	6.2	74.8	7.3
Petrol filters	37.7	3.7	38.0	3.7
Torsion bars	33.0	3.2	37.0	3.6
Precision springs	34.2	3.4	35.4	3.5
Stabilinks	17.4	1.7	17.6	1.7
Cabin filters	12.8	1.3	12.4	1.2
Spring groups	6.6	0.6	4.8	0.5
Other	23.0	2.2	22.2	2.2
TOTAL	1,018.6	100.0	1,023.4	100.0

After 2004 and 2005 which saw high increases in the price of steel and ferrous metals in general, the cost of raw materials was negatively affected in 2006 by the rising price of aluminium (used in filtration systems), plastic materials and certain other materials such as silicon and nickel, which form part of the alloys used in special steels for suspension components.

During the year a Group purchasing office has been opened in Shanghai to identify competitive suppliers on the Asian market.

Also energy costs, which have a particularly high incidence in the production of suspension components, increased yet again to 3.1% of sales, from 2.6% in 2005.

Labour cost went up in all countries where the Group operates, especially in Argentina. Labour cost as a proportion of sales was higher than last year (22.3% versus 21.8%), not helped by inefficiencies at the locations that are being reorganised.

The Group's workforce remained more or less the same as twelve months earlier, with 6,168 employees at December 31, 2006 compared with 6,171 at December 31, 2005:

	12.31.2006		12.31.2005	
	Number	%	Number	%
Filters	3,603	58.4	3,488	56.5
Suspension components and precision springs	2,528	41.0	2,657	43.1
Other	37	0.6	26	0.4
TOTAL	6,168	100.0	6,171	100.0

The breakdown by category shows the results of the ongoing measures to raise the efficiency of the indirect structure.

	12.31.2006		12.31.2005	
	Number	%	Number	%
Managers	87	1.4	93	1.5
Clerical staff	1,386	22.5	1,420	23.0
Direct blue collar workers	3,668	59.5	3,615	58.6
Indirect blue collar workers	1,027	16.6	1,043	16.9
TOTAL	6,168	100.0	6,171	100.0

We continued in our policy of defending price levels in line with the Group's profitability targets, achieving the following results:

- the **consolidated contribution margin** came to € 365.4 million, which is 35.9% of sales compared with € 365.8 million (35.7% of sales) in 2005;
- **consolidated operating income** improved slightly (+0.9%) to € 106.6 million compared with € 105.6 million, rising as a percentage of sales to 10.5% from 10.3%;
- both results were affected by an insurance reimbursement of € 2.3 million to cover costs incurred for a customer in 2005 due to quality problems.

Consolidated EBITDA (earnings before interest, tax, depreciation and amortization) for the year came to € 128.5 million, a 1.3% improvement on the previous year, when EBITDA was € 126.9 million. As a percentage of sales it has gone from 12.4% to 12.6%.

Consolidated EBIT rose by 3.1%, coming in at € 83.5 million versus € 81 million and rising as a percentage of sales to 8.2% from 7.9% in 2005.

EBIT and EBITDA were positively influenced by a capital gain of € 4 million which refers principally to the sale of the Rubi plant in Spain (no longer used) for € 4.5 million, realising a capital gain of € 3.6 million.

On the other hand, they suffered a negative impact from the following non-recurring factors:

- restructuring costs of € 5.2 million, of which € 2.4 million relating to the Filtration Division and € 2.8 million to the Suspension Components Division;
- writedown of the coil springs plant of the American subsidiary ASUSA for € 3.8 million (because of its prospective underutilization) and of the know-how of Shanghai Alleward Springs, the Chinese joint venture, for € 0.5 million;
- payment of extraordinary bonuses to management for a total of € 2.3 million for the results achieved by the Group in recent years and in light of the recent changes in the tax treatment of stock option plans.

Consolidated profit before taxes and minority interests amounted to € 74.9 million, 11.6% up on the prior year figure of € 67.1 million, after having benefited from:

- a € 1.4 million reduction in financial expenses compared with 2005 thanks to lower Group indebtedness;
- financial income due to a net recovery of withholding tax on foreign dividends distributed in prior years of € 1.1 million;
- a gain of € 0.7 million, due to the sale of the 50% interest in KS Automotive Suspensions Asia Private Ltd of Singapore to ThyssenKrupp Federn.

Group net profit was € 50.8 million, 13.7% up on € 44.7 million last year, which is 5% of sales compared with 4.4% in 2005. The result benefits from a lower tax burden thanks to the company reorganisations in recent years.

Earnings per share (EPS) amounts to € 0.457, a 12.6% improvement compared with € 0.406 in 2005, based on an average of 111,190,426 shares, net of treasury shares (110,091,576 in 2005).

The following table shows the changes in the **consolidated capital structure**, which at December 31, 2006 shows **consolidated group equity** of € 279.6 million, an increase of 13.2%, compared with € 246.9 million at December 31, 2005 after distributing dividends of € 19.5 million during the course of the year:

(in millions of Euro)	Note (*)	12.31.2006		12.31.2005	
		Amount	%	Amount	%
Short-term operating assets	(a)	358.1		361.1	
Short-term operating liabilities	(b)	(245.1)		(234.5)	
Net working capital		113.0	26.8	126.6	29.5
Investments	(c)	0.5	0.1	3.8	0.9
Intangible, tangible fixed assets and other medium and long-term assets	(d)	401.4	95.1	404.1	94.3
CAPITAL INVESTED		514.9	122.0	534.5	124.7
Other medium and long-term liabilities	(e)	(92.9)	(22.0)	(105.9)	(24.7)
NET CAPITAL INVESTED		422.0	100.0	428.6	100.0
Net financial position		126.3	29.9	167.3	39.0
Minority interests		16.1	3.8	14.4	3.4
Consolidated equity of the Group		279.6	66.3	246.9	57.6
TOTAL		422.0	100.0	428.6	100.0

(*) for a detailed explanation of the reasons for the reclassifications here adopted, see the notes at the end of this report.

Minority interests as a percentage of total shareholders' equity has fallen to 5.4%, compared with 5.5% at December 31, 2005.

Equity per share at the end of the year comes to € 2.505 compared with € 2.233 at December 31, 2005. The number of shares at December 31, 2006, net of treasury shares, was 111,625,592 (110,595,192 shares at the end of 2005).

Measures continued to be implemented in 2006 with a view to reducing **Working Capital** at all Group companies, resulting in a decrease of 10.8% (€ 113 million versus € 126.6 million) and lowering it as a percentage of sales from 12.4% at the end of 2005 to 11.1% at the end of 2006.

ROI, the return on investment, for the year came to 19.6% compared with 19% the previous year, whereas **ROE, the return on equity**, was 19.3% (19.7% in 2005).

The cash flow generated by Group operations in 2006 amounted to € 102 million compared with € 100.8 million the previous year. The **consolidated net financial position** as of December 31, 2006 shows an indebtedness of € 126.3 million, a 24.5% improvement on € 167.3 million at the end of 2005.

The following table gives a breakdown of net financial indebtedness:

(in millions of Euro)	12.31.2006	12.31.2005
Cash, banks, financial receivables and securities held for trading	51.7	57.5
Medium/long-term financial receivables	0.3	-
Short-term financial debts (*)	(31.9)	(120.4)
Medium/long-term financial debts	(146.4)	(104.4)
NET INDEBTEDNESS	(126.3)	(167.3)

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

Changes in cash flows in 2006 can be analysed as follows:

<i>(in millions of Euro)</i>	Note (*)	2006	2005
SELF-FINANCING	(f)	91.2	91.9
<i>Change in net working capital</i>		12.9	8.0
<i>Other medium/long-term assets/liabilities</i>	(g)	(2.1)	0.9
CASH FLOW GENERATED BY OPERATIONS		102.0	100.8
<i>Sale of equity investments</i>	(h)	3.0	-
<i>Net decrease from sale of fixed assets</i>	(i)	2.0	0.4
TOTAL SOURCES		107.0	101.2
<i>Increase in intangible assets</i>		11.1	8.9
<i>Purchase of tangible assets</i>		39.7	36.0
TOTAL APPLICATION OF FUNDS		50.8	44.9
<i>Net financial position of subsidiaries purchased/sold during the year</i>		-	0.1
<i>Exchange differences on assets/liabilities and equity</i>	(l)	2.4	(3.2)
FREE CASH FLOW		58.6	53.2
<i>Holding Company increases in capital</i>		2.6	2.4
<i>Increases in share capital of consolidated subsidiaries</i>		0.3	-
<i>Dividends paid by the Holding Company to shareholders</i>		(19.5)	(17.6)
<i>Dividends paid by subsidiaries to minority interests</i>		(1.0)	(1.3)
CHANGES IN SHAREHOLDERS' EQUITY		(17.6)	(16.5)
<i>Change in net financial position</i>	(m)	41.0	36.7
<i>Opening net financial position</i>	(m)	(167.3)	(204.0)
CLOSING NET FINANCIAL POSITION	(m)	(126.3)	(167.3)

(*) for a detailed explanation of the reasons for the reclassifications here adopted, see the notes at the end of this report.

Sogefi S.p.A. repaid its five year loan of € 80 million in December when it matured. In September, the Holding Company stipulated two loan contracts for a total of € 150 million (with a duration of 5 years that can be extended for another 2 years).

GEARING, as reflected by the **debt/equity ratio** has improved yet again, falling to 0.43 from 0.64 at December 31, 2005, as has the **debt/EBITDA ratio**, which came to 0.98 at December 31, 2006, having been 1.32 twelve months earlier.

Capital investments made by the Group during the year amounted to € 39.7 million, more than the € 36 million invested in 2005.

Research and development expenses came to € 22 million (2.2% of sales).

RECONCILIATION BETWEEN THE HOLDING COMPANY'S STATUTORY FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of the Holding Company's net profit and equity at the end of the year with the equivalent figures for the Group.

Net profit for the year

(in millions of Euro)	2006	2005
Net profit per Sogefi S.p.A. financial statements	22.3	79.5
Group share of results of subsidiary companies included in the consolidated financial statements	54.2	47.5
Elimination of capital gains on sale of equity investments between Group companies	-	(62.2)
Writedowns of equity investments in Sogefi S.p.A.	1.3	7.0
Elimination of Parent Company dividends	(27.7)	(27.1)
Consolidation adjustment of the capital gain on sale of a production site by a subsidiary	0.9	-
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	(0.2)	-
NET PROFIT PER CONSOLIDATED FINANCIAL STATEMENTS	50.8	44.7

Shareholders' equity

(in millions of Euro)	12.31.2006	12.31.2005
Shareholders' equity per Sogefi S.p.A. financial statements	250.1	243.2
Group share of excess equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. financial statements	45.6	20.5
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	(16.1)	(16.8)
SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS	279.6	246.9

PERFORMANCE OF THE HOLDING COMPANY SOGEFI S.p.A.

In 2006 the Holding Company Sogefi S.p.A. made a net profit of € 22.3 million, compared with € 79.5 million the previous year. In 2005 the Company made a capital gain of € 62.2 million on the sale of its 100% interest in the German subsidiary Luhn & Pulvermacher - Dittmann & Neubaus GmbH (LP-DN for short) to Allevard Federn GmbH, an indirect subsidiary, as part of a structural reorganization of the Suspension Components Division.

The following table contains the Company's reclassified **statement of income**:

(in millions of Euro)	2006	2005
Financial income/expenses and dividends	28.0	24.2
Adjustments to financial assets	(1.3)	(7.0)
Other operating revenues	10.0	10.5
Operating costs	(11.7)	(11.7)
Other non-operating income (expenses)	(3.1)	61.6
PROFIT BEFORE TAXES	21.9	77.6
Income taxes	(0.4)	(1.9)
NET PROFIT	22.3	79.5

“Financial income/expenses and dividends” has increased with respect to the previous year: the dividends distributed by subsidiaries went up from € 27.2 million in 2005 to € 28.7 million in 2006; financial expenses went from € 9.5 million in 2005 to € 7.6 million in 2006, above all thanks to improvements in cash pooling and lower indebtedness.

Moreover, in 2006 there was less need for writedowns of financial assets, down from € 7 million in 2005 to € 1.3 million in 2006. Once again, these provisions related to the two subsidiaries operating in the United States of America, which had to face another extremely difficult year.

To complete the comparison of the economic picture, we can say that there was a lower tax burden in 2006 thanks to the fact that the Company was able to take a tax benefit in the form of deductible charges that had been added back to income in previous years and to deferred tax assets of € 0.9 million.

Moving on to the **balance sheet**, the following table shows the main figures at December 31, 2006, compared with the end of the previous year:

(in millions of Euro)	Note (*)	12.31.2006	12.31.2005
Short-term assets	(n)	2.9	3.0
Short-term liabilities	(o)	(6.5)	(6.1)
Net working capital		(3.6)	(3.1)
Investments	(p)	256.4	257.0
Other fixed assets	(q)	28.9	28.8
CAPITAL INVESTED		281.7	282.7
Other medium and long-term liabilities	(r)	(6.5)	(6.3)
NET CAPITAL INVESTED		275.2	276.4
Net financial position		25.1	33.2
Shareholders' equity		250.1	243.2
TOTAL		275.2	276.4

(*) for a detailed explanation of the reasons for the reclassifications here adopted, see the notes at the end of this report.

In 2006, the capital structure remained stable with respect to the previous year. Of particular importance is the improvement in the net financial position at December 31, 2006 compared with the end of 2005.

As mentioned previously, in December 2006 the Company repaid a syndicated bank loan of € 80 million obtained in 2001.

As regards the total change in indebtedness, it can be seen from the following table that the net financial position has improved by € 8.1 million compared with the end of 2005:

(in millions of Euro)	12.31.2006	12.31.2005
Cash and banks	6.2	19.6
Securities and short/medium-term financial receivables from subsidiaries and third parties	139.4	122.0
Short-term financial payables to subsidiaries and third parties	(68.1)	(128.9)
Medium long-term financial debts	(102.6)	(45.9)
NET FINANCIAL POSITION	(25.1)	(33.2)

The following is the *cash flow statement* for Sogefi S.p.A.:

<i>(in millions of Euro)</i>	Note (*)	2006	2005
SELF-FINANCING	(s)	24.0	84.6
<i>Change in net working capital</i>		0.4	8.4
<i>Other medium/long term assets/liabilities</i>	(t)	0.6	(0.6)
CASH FLOW GENERATED BY OPERATIONS		25.0	92.4
<i>Sale of equity investments</i>		–	6.0
TOTAL SOURCES		25.0	98.4
<i>Purchase of tangible assets</i>		–	0.1
<i>Purchase of equity investments</i>		–	92.5
TOTAL APPLICATION OF FUNDS		–	92.6
FREE CASH FLOW		25.0	5.8
<i>Holding Company increases in capital</i>		2.6	2.4
<i>Dividends paid by the Holding Company</i>		(19.5)	(17.6)
CHANGES IN SHAREHOLDERS' EQUITY		(16.9)	(15.2)
<i>Change in net financial position</i>	(u)	8.1	(9.4)
<i>Opening net financial position</i>	(u)	(33.2)	(23.8)
CLOSING NET FINANCIAL POSITION	(u)	(25.1)	(33.2)

(*) for a detailed explanation of the reasons for the reclassifications here adopted, see the notes at the end of this report.

PERFORMANCE BY BUSINESS DIVISION

FILTRATION DIVISION

The Filtration Division improved its results compared with the previous year, recovering in the second half the lower sales volumes of the first half, especially in the aftermarket.

The results in the South American market were particularly good, benefiting from higher volumes produced by local manufacturers and a strong recovery in the Argentine spare parts market. In Europe, growth was down because of the weak trend in the Italian market.

The following table shows the positive trend in the two main areas where the Company operates:

<i>(in millions of Euro)</i>	FILTER DIVISION EUROPE		FILTER DIVISION SOUTH AMERICA		Intercomp. elimin.	TOTAL FILTER DIVISION	
	Amount	%	Amount	%		Amount	%
<i>Sales revenues</i>	454.1	100.0	76.2	100.0	(3.1)	527.2	100.0
<i>Operating income</i>	49.1	10.8	9.6	12.6	(0.6)	58.1	11.0
<i>EBIT</i>	44.1	9.7	8.3	11.0	(0.5)	51.9	9.8
<i>Result before taxes</i>	45.8	10.1	7.6	9.9	(4.0)	49.4	9.4
<i>Net profit</i>	32.6	7.2	5.8	7.6	(4.0)	34.4	6.5
<i>Net financial surplus (indebtedness)</i>	9.8		1.0		0.1	10.9	
<i>Shareholders' equity</i>	152.9		22.3		(40.3)	134.9	
<i>Number of employees at December 31</i>	2,919		672		12.0	3,603	

The Division's consolidated sales came to € 527.2 million, 1.7% up on € 518.5 million in 2005.

Consolidated operating income improved by 2.5%, stable in Europe and improving by 22.1% in Latin America. It amounts to € 58.1 million, which is 11% of sales compared with € 56.7 million (10.9% of sales) in 2005.

The 2006 result was negatively affected by increases in aluminium and steel plate costs, as well as by onerous start-ups of the product lines being reorganized in Spain, Italy and Slovenia, which limited profitability growth in Europe.

Consolidated EBITDA came to € 70.2 million, 2.5% up on € 68.5 million the previous year, coming in at 13.3% of sales compared with 13.2% in 2005.

Consolidated EBIT has improved by 3.8%, coming in at € 51.9 million (9.8% of sales) compared with € 50 million (9.6% of sales) in 2005.

Consolidated net profit amounted to € 34.4 million (6.5% of sales) having been € 34.1 million (6.6% of sales).

Consolidated equity of the Division at December 31, 2006 amounted to € 134.9 million, up on € 129.7 million at the end of last year.

The net financial position at December 31, 2006 was positive for € 10.9 million, a distinct improvement on € 0.7 million at December 31, 2005.

The Filtration Division had 3,603 employees at the end of the year compared with 3,488 at December 31, 2005, largely because of the first-time consolidation of the Argentan (France) site.

SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION

Lower volume turnover at PSA, Renault, Iveco and Ford in the USA, had a significant impact on the Division's performances, but despite the fall in sales, it still managed to increase its results compared to the previous year.

In Europe, even though there was a 3.2% drop in sales, the Division still achieved a marginal improvement in operating profitability. The South American companies and LP-DN (industrial vehicles) confirmed the high levels of profitability generated in 2005, while the American company ASUSA turned in higher losses than the previous year.

The following table shows the results of the two main lines of business:

(in millions of Euro)	CAR AND PRECISION SPRINGS		INDUSTRIAL VEHICLES		Intercomp. elimin.	TOTAL SUSPENSION DIVISION	
	Amount	%	Amount	%		Amount	%
Sales revenues	405.7	100.0	87.7	100.0	(1.8)	491.6	100.0
Operating income	32.4	8.0	18.8	21.4	-	51.2	10.4
EBIT	18.8	4.6	18.6	21.2	-	37.4	7.6
Result before taxes	15.8	3.9	18.8	21.4	(4.0)	30.6	6.2
Net profit	12.7	3.1	15.8	18.0	(4.0)	24.5	5.0
Net financial surplus (indebtedness)	(129.5)		18.2		-	(111.3)	
Shareholders' equity	105.6		32.9		(22.3)	116.2	
Number of employees at December 31	2,184		344		-	2,528	

Consolidated sales fell by 2.6%, coming in at € 491.6 million versus € 504.9 million the previous year. Sales in the car and precision springs business amounted to € 405.7 million and € 87.7 million in the industrial vehicles business, having been € 413.2 million and € 92.8 million respectively in 2005. Sales in Europe in the car and precision springs business were € 343.7 million versus € 352.7 million the previous year, whereas in South America they came to € 52.4 million compared with € 46 million in 2005.

Consolidated operating income was not affected by the considerable changes in raw material costs, but increases in energy costs were recorded during the year. **Operating income** came to € 51.2 million, having been € 50.4 million the previous year, improving as a percentage of sales to 10.4% compared with the previous figure of 10%, having benefited from the insurance reimbursement mentioned earlier.

The highest level of profitability was achieved by LP-DN (21.4% of sales) and by the South American companies (20.2% of sales), whereas the European companies in the car and precision springs business only managed 7.3%.

Consolidated EBITDA was € 63.4 million, an increase of 3.6% compared with € 61.2 million in 2005 with a percentage of sales that has gone up from 12.1% in 2005 to 12.9% in 2006.

Consolidated EBIT rose proportionately to € 37.4 million (7.6% of sales) from € 34.5 million in 2005 (6.8% of sales).

Consolidated net profit jumped to € 24.5 million from the previous level of € 14.7 million (+66.7%), thanks to lower taxation of the German subsidiaries following the corporate reorganization. As a percentage of sales, it has risen to 5% (from 2.9%).

The Division's indebtedness at the end of the year amounted to € 111.3 million, a reduction of € 23.6 million compared with € 134.9 million at December 31, 2005.

The Division's **consolidated Group equity, including minority interests** at December 31, 2006 was € 129 million, versus € 107.7 million at the end of 2005. **Consolidated Group equity** on the other hand amounted to € 116.2 million (€ 92.8 million at December 31, 2005).

The Suspension Components Division had 2,528 employees at the end of the year compared with 2,657 at December 31, 2005.

OUTLOOK FOR 2007

No particular change is expected in Sogefi's principal markets during the current year. The European market is stable, while the South American one is still expanding. There should be a positive trend in demand in those markets where the Group has a smaller presence (USA and China) thanks to orders acquired from new customers. Given that further tensions are expected in steel and energy costs, management's main thrust will be for greater efficiency and the defence of profit margins.

ADDITIONAL DISCLOSURES

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

Pursuant to Decree Law 58 of February 24, 1998 adopted by Consob resolution 11971/99, we supply the following information:

Name	Company	No. of shares held at the end of 2005	No. of shares purchased in 2006	No. of shares sold in 2006	No. of shares held at the end of 2006
Carlo De Benedetti (1)	Sogefi S.p.A.	65,194,962	–	–	65,194,962
Emanuele Bosio (2)	Sogefi S.p.A.	1,156,500	258,000	11,000	1,403,500
	A.R.A. S.A.	13	–	–	13
	Filtrauto S.A.	1	–	–	1
	United Springs S.a.s	1	–	1	–
	Alleward Springs Ltd	–	1	–	1
Pierluigi Ferrero	Sogefi S.p.A.	10,000	10,000	10,000	10,000
Giovanni Germano (3)	Sogefi S.p.A.	2,012,000	–	–	2,012,000
	Sogefi S.p.A.	1,004,312	–	–	1,004,312
Franco Girard	Sogefi S.p.A.	–	10,000	–	10,000
Renato Ricci	Sogefi S.p.A.	670,000	–	–	670,000
	A.R.A. S.A.	108	–	–	108
Roberto Robotti	Sogefi S.p.A.	1,300	800	800	1,300
Managers with strategic responsibilities	Sogefi S.p.A.	155,400	238,000	117,000	276,400
	A.R.A. S.A.	10	–	–	10
	Filtrauto S.A.	3	–	–	3
	United Springs S.a.s.	1	–	–	1

(1) held indirectly through CIR S.p.A., Strada Volpiano 53, Leini (Turin - Italy) - VAT no. 00519120018

(2) 11,000 shares in Sogefi S.p.A. are held by his wife at December 31, 2005

(3) held indirectly through Siria S.r.l. Corso Montevecchio 38, Turin (Italy) – VAT no. 00486820012

The shares held in Filtrauto S.A. are not tradable. Five shares in A.R.A. S.A. held by Emanuele Bosio and A.R.A. S.A. shares held by the Managers with strategic responsibilities are not tradable as well, until the expiration of the Directors' term in office.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

The following information on related-party transactions as defined in IAS 24 complies with Consob Recommendations Nos. 97001574 of February 20, 1997 and 98015375 of February 27, 1998.

No atypical or unusual transactions of the types mentioned in the relevant Consob Communications arose during the period.

The transactions between Group companies are regulated on an arm's length basis, taking into account the quality and type of services rendered.

Further information on the more important transactions and balances with related parties is provided in the notes to the consolidated financial statements, in the section entitled "Related Party Transactions", as well as in the notes to the statutory financial statements.

CORPORATE GOVERNANCE

Over the past few years, SOGEFI has gradually adopted the Code of Conduct for Listed Companies introduced by Borsa Italiana S.p.A., acting as its point of reference for an effective system of corporate governance.

Generally speaking, the Company's Corporate Governance is in line with the recommendations and rules contained in the Code of Conduct.

Sogefi S.p.A.'s "Corporate Governance Model" is detailed in the "Annual Report on the System of Corporate Governance" which is also shown on the company's website. It is available in hard copy to anyone who asks for it, in accordance with the rules laid down by Borsa Italiana.

As regards Legislative Decree 231/2001, which brings domestic regulations on administrative liability of legal entities into line with the international conventions signed by Italy, in February 2003 the Board of Directors adopted an Ethical Code for the Sogefi Group. The Code clearly defines the values that the Group believes in as the basis on which to achieve its objectives. It lays down rules of conduct which are binding on directors, employees and others who have ongoing relations with the Group. On February 26, 2004 the company also adopted a "Model of Organization, Management and Control as per Legislative Decree no. 231 of June 8, 2001" following the guidelines of the decree, with a view to ensuring conditions of fairness and transparency in the carrying on of the company's affairs and business activities.

A Supervisory Body was also set up with the task of monitoring the functioning, effectiveness and observance of the Model, as laid down in the decree.

TREASURY STOCK

As of December 31, 2006, Sogefi S.p.A. held 1,695,000 treasury shares (with a par value of € 881 thousand), equal to 1.5% of the share capital. These shares were purchased in prior years.

INFORMATION REQUIRED BY LEGISLATIVE DECREE NO. 196/2003 ON THE PROTECTION OF PRIVACY

In accordance with the "Personal Data Protection Code" that came into force on January 1, 2004, the Company complied with the legal requirements by implementing the security measures foreseen by the legislator (which also complied with the previous Decree 675/1996 on privacy). The implementation firstly involved preparing the "Security Planning Document" which explains the various forms of protection currently in place, also indicating any further measures that the Company ought to introduce by law.

The Company has also taken other steps to bring the situation into line with the requirements of Decree 196 of June 30, 2003.

POLICY GUIDANCE AND COORDINATION

In accordance with paragraph 5 of art. 2497-bis of the Italian Civil Code, we would point out that the Company is subject to policy guidance and coordination by its parent company, CIR S.p.A..

Dealings with the parent company during the year are explained in the notes in the section entitled "Related Party Transactions".

OTHER

Sogefi S.p.A. has its registered offices in Via Ulisse Barbieri 2, Mantua and its operating offices in Via Flavio Gioia 8, Milan.

The Sogefi stock has been listed on the Milan Stock Exchange since 1986 and has been traded on the STAR segment since January 2004.

This report, which relates to the period January 1 to December 31, 2006, was approved by the Board of Directors on February 27, 2007.

SIGNIFICANT SUBSEQUENT EVENTS

In January 2007, Sogefi S.p.A. carried out an increase in capital of 184,800 shares reserved for the employees of the Company and its subsidiaries in execution of the stock option plans. Following this operation, the share capital is made up of 113,505,392 shares with a total par value of € 59,022,803.84.

PROPOSED ALLOCATION OF NET INCOME FOR THE YEAR

The financial statements as of December 31, 2006 that we submit for your approval show net income of € 22,284,445.86.

We would like to propose:

- distributing a dividend per share of € 0.20 to each of the shares in issue with rights from January 1, 2006 (excluding the treasury shares in portfolio), using the net income for the year of € 22,284,445.86 and taking the difference from “Retained earnings”.*

The proposed allocation of net income for the year takes into consideration the provision contained in art. 2357-ter, 2 of the Italian Civil Code, which requires that the share of earnings attributable to treasury shares to be distributed proportionally to the other shares.

We would like to point out that the effective amount to be allocated as dividends and the use of retained earnings will take into account the treasury shares held by the Company at the date of the Shareholders’ Meeting, as well as the shares outstanding following the possible issue on March 31, 2007 of up to 308,200 ordinary shares with rights from January 1, 2006 as a result of the beneficiaries of the current stock option plans exercising their option rights.

Milan, February 27, 2007

THE BOARD OF DIRECTORS

ATTACHMENT: NOTES RECONCILING THE FINANCIAL STATEMENTS SHOWN IN THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS CONTAINED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND TO THE HOLDING COMPANY'S STATUTORY FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS/IFRS

Notes regarding the Consolidated Financial Statements

- (a) the heading agrees with "Total working capital" in the consolidated balance sheet;*
- (b) the heading agrees with the sum of the line items "Trade and other payables", "Tax payables" and "Other current liabilities" in the consolidated balance sheet;*
- (c) the heading agrees with the sum of the line items "Equity investments in associated companies" and "Other financial assets available for sale" in the consolidated balance sheet;*
- (d) the heading agrees with the sum of the line items "Total fixed assets", "Other receivables", "Deferred tax assets" and "Non-current assets held for sale" in the consolidated balance sheet;*
- (e) the heading agrees with the line item "Total other long term liabilities" in the consolidated balance sheet;*
- (f) the heading agrees with the sum of the line items "Net profit", "Minority interests", "Depreciation, amortization and writedowns", "Accrued costs for stock options", "Share of associated companies' pre-tax income", "Provisions for risks, restructuring and deferred taxes" and "Post-retirement and other benefits for employees" in the consolidated cash flow statement;*
- (g) the heading agrees with the sum of the line items "Other medium/long term assets/liabilities" and "Other equity movements" in the consolidated cash flow statement, excluding movements relating to financial receivables;*
- (h) the heading agrees with the sum of the line items "Loss/(gain) on sale of equity investments in associated companies" and "Sale of subsidiaries (net of cash and cash equivalents) and associated" in the consolidated cash flow statement;*
- (i) the heading agrees with the sum of the line items "Loss/(gain) on disposal of fixed assets", "Sale of property, plant and equipment" and "Sale of intangible assets" in the consolidated cash flow statement;*
- (l) the heading agrees with the sum of the line items "Exchange differences on assets/liabilities" and "Exchange differences on equity/minority interests" in the consolidated cash flow statement, excluding exchange differences on medium/long term financial receivables and payables;*
- (m) these headings differ from those shown in the consolidated cash flow statement as they refer to the total net financial position and not just to cash and cash equivalents.*

Notes regarding the Holding Company's Statutory Financial Statements

- (n) the heading agrees with "Total working capital" ("Totale attivo circolante operativo") in the Holding Company's statutory balance sheet;*
- (o) the heading agrees with the sum of the line items "Trade and other payables" ("Debiti commerciali e altri debiti"), "Tax payables" ("Debiti per imposte") and "Other current liabilities" ("Altre passività correnti") in the Holding Company's statutory balance sheet;*
- (p) the heading agrees with the sum of the line items "Equity investments in subsidiary companies" ("Partecipazioni in società controllate"), "Equity investments in associated companies" ("Partecipazioni in società collegate") and "Other financial assets available for sale" ("Altre attività finanziarie disponibili per la vendita") in the Holding Company's statutory balance sheet;*
- (q) the heading agrees with the sum of the line items "Total fixed assets" ("Totale immobilizzazioni"), "Other receivables" ("Altri crediti") and "Deferred tax assets" ("Imposte anticipate") in the Holding Company's statutory balance sheet;*
- (r) the heading agrees with the line item "Total other long term liabilities" ("Totale altre passività a lungo termine") in the Holding Company's statutory balance sheet;*
- (s) the heading agrees with the sum of the line items "Net profit" ("Utile netto d'esercizio"), "Writedowns of equity investments" ("Svalutazione partecipazioni"), "Depreciation and amortization" ("Ammortamenti immobilizzazioni materiali ed immateriali"), "Accrued costs for stock options" ("Accantonamenti costi per stock option"), "Provisions for risks" ("Variazione fondi rischi") and "Provision for employment termination indemnities" ("Variazione netta fondo trattamento fine rapporto") in the Holding Company's statutory cash flow statement;*
- (t) the heading agrees with line items "Other assets/liabilities" ("Altre attività/passività") in the Holding Company's statutory cash flow statement, excluding movements relating to financial receivables/debts;*
- (u) these headings differ from those shown in the Holding Company's statutory cash flow statements as they refer to the total net financial position and not just to cash and cash equivalents.*

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(in thousands of Euro)

ASSETS	Note	12.31.2006	12.31.2005
<i>CURRENT ASSETS</i>			
<i>Cash and cash equivalents</i>	6	51,519	55,390
<i>Securities and financial assets held for trading</i>	7	160	2,116
Working capital			
<i>Inventories</i>	8	111,709	107,793
<i>Trade receivables</i>	9	226,992	232,803
<i>Other receivables</i>	9	6,010	4,250
<i>Tax receivables</i>	9	10,952	13,824
<i>Other assets</i>	9	2,391	2,438
<i>TOTAL WORKING CAPITAL</i>		358,054	361,108
<i>TOTAL CURRENT ASSETS</i>		409,733	418,614
<i>NON-CURRENT ASSETS</i>			
<i>FIXED ASSETS</i>			
<i>Land</i>	10	15,623	15,972
<i>Property, plant and equipment</i>	10	229,176	239,249
<i>Other tangible fixed assets</i>	10	4,450	4,684
Of which: leases		18,259	19,605
<i>Intangible assets</i>	11	117,403	113,878
<i>TOTAL FIXED ASSETS</i>		366,652	373,783
<i>OTHER NON-CURRENT ASSETS</i>			
<i>Equity investments in associated companies</i>	12	101	3,372
<i>Other financial assets available for sale</i>	13	450	443
<i>Financial receivables</i>	14	301	-
<i>Other receivables</i>	14	5,305	3,540
<i>Deffered tax assets</i>	15-21	26,819	26,779
<i>TOTAL OTHER NON-CURRENT ASSETS</i>		32,976	34,134
<i>TOTAL NON-CURRENT ASSETS</i>		399,628	407,917
<i>NON-CURRENT ASSETS HELD FOR SALE</i>	16	2,646	-
<i>TOTAL ASSETS</i>		812,007	826,531

<i>LIABILITIES</i>	<i>Note</i>	<i>12.31.2006</i>	<i>12.31.2005</i>
<i>CURRENT LIABILITIES</i>			
<i>Bank overdrafts and short-term loans</i>	<i>17</i>	<i>13,278</i>	<i>26,353</i>
<i>Current portion of medium/long-term financial debts and other loans</i>	<i>17</i>	<i>18,578</i>	<i>93,876</i>
<i>Of which: leases</i>		<i>1,186</i>	<i>1,213</i>
<i>TOTAL SHORT-TERM FINANCIAL DEBTS</i>		<i>31,856</i>	<i>120,229</i>
<i>Other short-term liabilities for cash flow hedge</i>	<i>17</i>	<i>–</i>	<i>132</i>
<i>TOTAL SHORT-TERM FINANCIAL DEBTS AND CASH FLOW HEDGES</i>		<i>31,856</i>	<i>120,361</i>
<i>Trade and other payables</i>	<i>18</i>	<i>234,514</i>	<i>224,050</i>
<i>Tax payables</i>	<i>18</i>	<i>8,210</i>	<i>7,897</i>
<i>Other current liabilities</i>	<i>19</i>	<i>2,359</i>	<i>2,558</i>
<i>TOTAL CURRENT LIABILITIES</i>		<i>276,939</i>	<i>354,866</i>
<i>NON-CURRENT LIABILITIES</i>			
<i>MEDIUM/LONG-TERM FINANCIAL DEBTS AND CASH FLOW HEDGES</i>			
<i>Financial debts to bank</i>	<i>17</i>	<i>128,402</i>	<i>83,549</i>
<i>Other medium/long-term financial debts</i>	<i>17</i>	<i>18,000</i>	<i>20,755</i>
<i>Of which: leases</i>		<i>15,306</i>	<i>17,199</i>
<i>TOTALE MEDIUM/LONG-TERM FINANCIAL DEBTS</i>		<i>146,402</i>	<i>104,304</i>
<i>Other medium/long-term financial liabilities for cash flow hedge</i>	<i>17</i>	<i>–</i>	<i>139</i>
<i>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND CASH FLOW HEDGES</i>		<i>146,402</i>	<i>104,443</i>
<i>OTHER LONG-TERM LIABILITIES</i>			
<i>Long-term provisions</i>	<i>20</i>	<i>68,465</i>	<i>83,969</i>
<i>Other payables</i>		<i>–</i>	<i>21</i>
<i>Deferred taxation</i>	<i>21</i>	<i>24,478</i>	<i>21,946</i>
<i>TOTAL OTHER LONG-TERM LIABILITIES</i>		<i>92,943</i>	<i>105,936</i>
<i>TOTAL NON-CURRENT LIABILITIES</i>		<i>239,345</i>	<i>210,379</i>
<i>SHAREHOLDERS' EQUITY</i>			
<i>Share capital</i>	<i>22</i>	<i>58,826</i>	<i>58,338</i>
<i>Reserves and retained earnings (accumulated losses)</i>	<i>22</i>	<i>170,013</i>	<i>143,930</i>
<i>Group net profit (losses) for the year</i>	<i>22</i>	<i>50,767</i>	<i>44,660</i>
<i>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY</i>		<i>279,606</i>	<i>246,928</i>
<i>Minority interests</i>	<i>22</i>	<i>16,117</i>	<i>14,358</i>
<i>TOTAL SHAREHOLDERS' EQUITY</i>		<i>295,723</i>	<i>261,286</i>
<i>TOTAL LIABILITIES AND EQUITY</i>		<i>812,007</i>	<i>826,531</i>

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

	Note	2006		2005	
		Amount	%	Amount	%
Sales revenues	25	1,018,579	100.0	1,023,421	100.0
Variable cost of sales	26	653,215	64.1	657,636	64.3
CONTRIBUTION MARGIN		365,364	35.9	365,785	35.7
Manufacturing and R&D overheads	27	114,264	11.2	115,641	11.3
Depreciation and amortization	28	45,036	4.4	45,911	4.5
Distribution and sales fixed expenses	29	37,719	3.7	39,362	3.8
Administrative and general expenses	30	61,761	6.1	59,237	5.8
OPERATING INCOME		106,584	10.5	105,634	10.3
Restructuring costs	32	5,234	0.5	12,637	1.2
Losses (gains) on disposal	33	(3,969)	(0.4)	(75)	-
Exchange (gains) losses	34	843	0.1	(58)	-
Other non-operating expenses (income) - of which non-recurring	35	21,010 6,547	2.1	12,150 -	1.2
EBIT		83,466	8.2	80,980	7.9
Financial expenses (income), net	36	10,182	1.0	11,547	1.1
Losses (gains) from equity investments	37	(1,594)	(0.2)	2,349	0.2
PROFIT BEFORE TAXES AND MINORITY INTERESTS		74,878	7.4	67,084	6.6
Income taxes	38	21,543	2.1	21,179	2.1
NET PROFIT BEFORE MINORITY INTERESTS		53,335	5.3	45,905	4.5
Losses (income) attributable to minority interests		(2,568)	(0.3)	(1,245)	(0.1)
GROUP NET PROFIT FOR THE YEAR		50,767	5.0	44,660	4.4
Earnings per share (EPS) (Euro):	40				
Basic		0.457		0.406	
Diluted		0.454		0.404	

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)

	2006	2005
<i>Cash flows from operating activities</i>		
Net profit	50,767	44,660
Adjustments:		
– minority interests	2,568	1,245
– depreciation, amortization and writedowns	49,784	49,650
– accrued costs for stock options	945	552
– loss/(gain) on disposal of fixed assets	(3,969)	(75)
– loss/(gain) on sale of equity investments in associated companies	(696)	–
– dividends collected	(108)	(291)
– share of associated companies' pre-tax income	271	2,510
– provisions for risks, restructuring and deferred taxes	(7,180)	(3,944)
– post-retirement and other benefits for employees	(5,959)	(2,731)
– change in net working capital	12,925	8,023
– other medium/long term assets/liabilities	(1,752)	917
– exchange differences on assets/liabilities	3,344	(11,929)
CASH FLOW FROM OPERATING ACTIVITIES	100,940	88,587
of which: taxes paid	14,779	16,177
Net interest paid	9,294	11,017
INVESTING ACTIVITIES		
Net financial position of subsidiaries purchase/sold during the year	(12)	55
Purchase of property, plant and equipment	(39,715)	(35,970)
Purchase of intangible assets	(11,124)	(8,930)
Net change in other securities	1,936	4,838
Sale of subsidiaries (net of cash and cash equivalents) and associates	3,705	15
Sale of property, plant and equipment	5,918	503
Sale of intangible assets	28	5
Dividends collected	108	291
NET CASH FLOWS FROM INVESTING ACTIVITIES	(39,156)	(39,193)
FINANCING ACTIVITIES		
Capital increase in subsidiaries from third parties	256	–
Net change in share capital	2,647	2,441
Dividends paid to Holding Company shareholders and minority interests	(20,455)	(18,949)
Exchange differences on equity/minority interests	(1,709)	10,778
Issue (redemption) of bonds	–	(79,922)
New (repayment of) long term loans	(31,502)	28,861
New (repayment of) finance leases	(1,192)	(2,017)
Other equity movements	(625)	(218)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(52,580)	(59,026)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	9,204	(9,632)
Balance at the beginning of the period	29,037	38,669
(Decrease) increase in cash and cash equivalents	9,204	(9,632)
BALANCE AT THE END OF THE PERIOD	38,241	29,037

NB: this statement shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7. The statement of changes in financial position included in the directors' report on group operations shows the various operational components of cash flow, thereby explaining all of the changes in the entire net financial position.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in thousands of Euro)

	Attributable to the shareholders of the parent company				Minority interests	Total
	Share capital	Reserves and retained earnings (accumulated losses)	Net profit for the period	Total		
Balance at December 31, 2004	57,656	122,658	30,029	210,343	14,196	224,539
<i>Adjustments for adoption of IAS 32 and 39:</i>						
<i>Fair value measurement of cash flow hedging instruments</i>	-	(940)	-	(940)	-	(940)
<i>Fair value measurement of securities</i>	-	25	-	25	-	25
<i>Reclassification of treasury stock</i>	-	(3,762)	-	(3,762)	-	(3,762)
<i>Tax on items booked directly to equity</i>	-	302	-	302	-	302
Balance at January 1, 2005	57,656	118,283	30,029	205,968	14,196	220,164
<i>Paid share capital increase</i>	682	1,759	-	2,441	-	2,441
<i>Allocation of 2004 net profit:</i>						
<i>Legal reserve</i>	-	200	(200)	-	-	-
<i>Dividends</i>	-	-	(17,599)	(17,599)	(1,350)	(18,949)
<i>Retained earnings</i>	-	12,230	(12,230)	-	-	-
<i>Fair value measurement of cash flow hedging instruments</i>	-	702	-	702	-	702
<i>Other changes</i>	-	(99)	-	(99)	-	(99)
<i>Tax on items booked directly to equity</i>	-	(208)	-	(208)	-	(208)
<i>Imputed cost of stock options</i>	-	552	-	552	-	552
<i>Effect of translating foreign currency financial statements</i>	-	10,511	-	10,511	267	10,778
<i>Net profit for the period</i>	-	-	44,660	44,660	1,245	45,905
Balance at December 31, 2005	58,338	143,930	44,660	246,928	14,358	261,286
<i>Paid share capital increase</i>	488	2,159	-	2,647	256	2,903
<i>Allocations of 2005 net profit:</i>						
<i>Legal reserve</i>	-	150	(150)	-	-	-
<i>Dividends</i>	-	-	(19,455)	(19,455)	(1,000)	(20,455)
<i>Retained earnings</i>	-	25,055	(25,055)	-	-	-
<i>Fair value measurement of cash flow hedging instruments</i>	-	566	-	566	-	566
<i>Other changes</i>	-	(1,024)	-	(1,024)	63	(961)
<i>Tax on items booked directly to equity</i>	-	(187)	-	(187)	-	(187)
<i>Imputed cost of stock options</i>	-	945	-	945	-	945
<i>Effect of translating foreign currency financial statements</i>	-	(1,581)	-	(1,581)	(128)	(1,709)
<i>Net profit for the period</i>	-	-	50,767	50,767	2,568	53,335
Balance at December 31, 2006	58,826	170,013	50,767	279,606	16,117	295,723

*EXPLANATORY AND SUPPLEMENTARY NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS:
CONTENTS*

<i>Chapter</i>	<i>Note no.</i>	<i>DESCRIPTION</i>
<i>A</i>		GENERAL ASPECTS
	1	<i>Content and presentation of the consolidated financial statements</i>
	2	<i>Consolidation principles and accounting policies</i>
	3	<i>Financial assets</i>
	4	<i>Financial risk management</i>
<i>B</i>		SEGMENT INFORMATION
	5	<i>Information by segment</i>
<i>C</i>		NOTES ON THE MAIN BALANCE SHEET ITEMS
<i>C1</i>		ASSETS
	6	<i>Cash and cash equivalents</i>
	7	<i>Securities and financial assets held for trading</i>
	8	<i>Inventories</i>
	9	<i>Trade and other receivables</i>
	10	<i>Tangible fixed assets</i>
	11	<i>Intangible assets</i>
	12	<i>Equity investments in associated companies</i>
	13	<i>Other financial assets available for sale</i>
	14	<i>Financial and other receivables</i>
	15	<i>Deferred tax assets</i>
	16	<i>Non-current assets held for sale</i>
<i>C2</i>		LIABILITIES AND EQUITY
	17	<i>Financial debts to bank and other financing</i>
	18	<i>Trade and other current payables</i>
	19	<i>Other current liabilities</i>
	20	<i>Long-term provisions</i>
	21	<i>Deferred tax assets and liabilities</i>
	22	<i>Share capital and reserves</i>
	23	<i>Financial instruments</i>
	24	<i>Analysis of net financial position</i>
<i>D</i>		NOTES ON THE MAIN INCOME STATEMENT ITEMS
	25	<i>Sales revenues</i>
	26	<i>Variable cost of sales</i>
	27	<i>Manufacturing and R&D overheads</i>
	28	<i>Depreciation and amortization</i>
	29	<i>Distribution and sales fixed expenses</i>
	30	<i>Administrative and general expenses</i>
	31	<i>Personnel costs</i>
	32	<i>Restructuring costs</i>
	33	<i>Gains from disposals</i>
	34	<i>Exchange (gains) losses</i>
	35	<i>Other non-operating expenses (income)</i>
	36	<i>Financial expenses (income), net</i>
	37	<i>Losses (gains) from equity investments</i>
	38	<i>Income taxes for the period</i>
	39	<i>Dividends paid</i>
	40	<i>Earnings per share (EPS)</i>
<i>E</i>	41	RELATED PARTY TRANSACTIONS
<i>F</i>		COMMITMENTS AND RISKS
	42	<i>Operating leases</i>
	43	<i>Investment commitments</i>
	44	<i>Guarantees given</i>
	45	<i>Other risks</i>
	46	<i>Subsequent events</i>
<i>G</i>		GROUP COMPANIES
	47	<i>List of Group companies</i>

A) GENERAL ASPECTS

SOGEFI is an Italian Group that is market leader in the field of components for motor vehicles, specializing in engine and cabin filtration systems and suspension components.

SOGEFI is present in 4 continents and 13 countries, with 48 locations of which 40 are production sites. It is a multinational group and a partner of the world's largest motor vehicle manufacturers.

1. CONTENT AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

This report has been prepared in accordance with Consob resolution 11971/1999 and subsequent amendments, in particular those introduced by resolutions no. 14990 of April 14, 2005 and no. 15519 of July 27, 2006, and includes the accounting schedules and explanatory notes of the Group and of the Holding Company, prepared according to the IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and integrated by the interpretations of the SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee).

The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Such financial statements are reclassified and adjusted to comply with International Financial Reporting Standards (IAS/IFRS), applied consistently throughout the Group.

The consolidated financial statements as of December 31, 2006 were approved by the Board of Directors on February 27, 2007.

1.1 Presentation of the consolidated financial statements

As regards the layout of the consolidated financial statements, the company has opted to present the following types of accounting schedules:

Consolidated balance sheet

The consolidated balance sheet is presented in two sections, showing Assets on the one hand and Liabilities and Equity on the other. Assets and liabilities are in turn shown in the consolidated financial statements on the basis of their classification as current or non-current.

Consolidated income statement

The costs and revenues shown in the consolidated income statement are classified by destination, while also making a distinction between fixed and variable costs.

The income statement also provides the following intermediate aggregates in order to give a clearer understanding of the typical results of normal manufacturing activities, the financial side of the business and the impact of taxation:

- Contribution margin;*
- Operating income;*
- EBIT (Earnings before interest and taxes);*
- Profit before taxes and minority interests;*
- Net profit before minority interests;*
- Net profit for the year.*

We have maintained the aggregate “Operating income” (sometimes defined in US/UK accounting texts as Adjusted EBIT) as SOGEFI’s management and Board of Directors think that it is meaningful to retain an intermediate result that represents the profitability generated by the Group’s core business activities (i.e. the activities most closely related to the manufacturing and sales side of the business), more or less in line with the definition of operating income used in previous years. Conceptually, this is not the same as EBIT which usually comes net of restructuring costs and other expenses that do not form part of normal business activities, or in any case expenses that may be non-recurring.

In other words, by way of an example, “Operating income” is not affected by non-recurring costs and revenues (such as restructuring costs, capital gains or losses on disposal) or by charges or income that are not related to normal business activities, such as tax charges that are generated by different fiscal policies that the various countries adopt for common budgetary purposes by applying a variable mix of direct and indirect taxes depending on their own socio-economic characteristics. Similarly, “Operating income” does not include exchange gains and losses as they are considered more a part of foreign exchange (i.e. financial) management.

In the interests of more effective disclosure, these types of income and charges are shown separately in the schedule presented here and, where necessary and significant, the notes to the financial statements give a clear indication as to their nature and amount.

Consolidated Cash Flow Statement

A consolidated cash flow statement split by area of formation of the various types of cash flows indicated in the international accounting standards is included, though we are of the opinion that it is not an ideal format to understand the cash flows of an industrial group such as SOGEFI. The Directors’ Report therefore includes another statement that shows the cash flow generated from operations, which we consider to be a more effective tool for understanding how funds are generated and absorbed within the Group.

Please note that in this cash flow statement, the change in working capital may not coincide with the difference between the opening and closing balance sheet figures because of exchange differences: in fact, cash flows generated are converted using the average exchange rate for the year, while the differential between the opening and closing consolidated balance sheet figures in Euro may be influenced by the trend in exchange rates at the beginning and end of the year, which have little to do with the generation or absorption of cash flow within working capital. The exchange differences generated by opening and closing balance sheet figures are booked to “Exchange differences on assets/liabilities and equity” in the consolidated cash flow statement, whereas in the consolidated cash flow statement required by IAS 7 they are booked to “Exchange differences on assets/liabilities”.

Statement of changes in consolidated equity

A statement of changes in consolidated equity is included as required by international accounting standards, showing separately the net result for the period and any revenue, income, cost or expense that was not charged through the income statement, but directly to consolidated equity on the basis of specific IAS/IFRS.

1.2 Content of the consolidated financial statements

The consolidated financial statements as of December 31, 2006 include the financial statements of Sogefi S.p.A., the Holding Company, and of its subsidiaries.

Section G of these notes gives a list of the companies included in the scope of consolidation and the percentages held.

These financial statements are expressed in Euro (€) and all figures are rounded up or down to the nearest thousand Euro, unless specifically stated otherwise.

The consolidated financial statements (prepared on a line-by-line basis) include the financial statements of Sogefi S.p.A., the Holding Company, and of all the Italian and foreign companies in which, directly or indirectly, it holds a majority of the voting rights.

During the year there were the following changes in the scope of consolidation:

- inclusion of 70% of Shanghai Sogefi Filtration Co. Ltd, set up by Sogefi Filtration S.p.A. as a joint venture with Zhejiang Universe Filter Co. Ltd, a local operator, to manufacture and sell filtration systems. This company started manufacturing in early 2007 for OE and IAM customers;
- exclusion of the 86.25% interest in Seneca S.c.a.r.l. (held 85.75% by Sogefi S.p.A. and 0.5% by Rejna S.p.A.), as it has been sold to Sorgenia S.p.A..

This change is irrelevant for consolidation and comparison purposes.

2. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

2.1 Consolidation principles

The financial statements as of December 31, 2006 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IAS/IFRS, have been used for consolidation purposes.

The scope of consolidation includes subsidiaries, associated companies and joint ventures.

The balance sheet items coming from financial statements expressed in foreign currency are translated into Euro at year-end exchange rates, taking account of any hedging transactions.

The income statement items of financial statements expressed in foreign currency are translated into Euro at the average exchange rates for the period.

Differences arising on translation of opening equity at year-end exchange rates are booked to the translation reserve, together with any difference between the economic result and the one shown in the balance sheet.

The following exchange rates have been used for translation purposes:

	2006		2005	
	Average	12.31	Average	12.31
US dollar	1.2545	1.3170	1.2428	1.1797
Pound sterling	0.6817	0.6715	0.6838	0.6853
Swedish krona	9.2524	9.0408	9.2773	9.3888
Brazilian real	2.7292	2.8133	3.0062	2.7432
Argentine peso	3.8565	4.0450	3.6323	3.5727
Chinese renminbi	10.0040	10.2796	10.1792	9.5202
Slovenian taller	239.8082	239.8082	239.8082	239.2345

The assets, liabilities, costs and revenues of the individual companies included in the consolidation are fully consolidated on a line-by-line basis, regardless of the percentage owned, while the carrying value of consolidated investments held by the parent company and other consolidated companies is eliminated against the related share of equity.

Acquisitions of subsidiaries by the Group are accounted for at cost. The cost of an acquisition is understood as being the fair value of the assets, liabilities or equity instruments outstanding or presumed to be outstanding at the date on which control effectively passes to the Group, plus all of the costs directly attributable to the acquisition.

Any surplus between the acquisition cost and the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the acquisition cost is lower than the identifiable net assets acquired, the difference is written off to the income statement.

Equity investments in associated companies are consolidated according to the equity method, which means that the economic results of associated companies are reflected in the consolidated income statement and any changes in their equity are reflected in the consolidated equity. If the carrying value exceeds the realizable value, the carrying value of the investment is adjusted by booking the related loss to the income statement.

All intercompany balances and transactions, including unrealized profits deriving from transactions between consolidated companies, are eliminated. Unrealized losses are eliminated unless it is likely that they will be recovered in the future.

Whenever a company with a different functional currency from the Euro is disposed of, any exchange differences included in equity are charged to the income statement.

2.2 Accounting policies

The following accounting policies have been applied in the financial statements as of December 31, 2006.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and sight deposits at banks, as well as investments with maturities of less than three months from the date of purchase.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost, determined on a weighted average cost basis, and realizable value based on market trends, net of variable selling costs.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses, whereas financial expenses are excluded. Obsolete and slow-moving inventories are written down to their utilizable or realizable value.

Receivables included in current assets

Receivables are initially recognized at fair value, which usually corresponds to the nominal value shown in the invoice, adjusted (if necessary) to their estimated realizable value by making provision for doubtful accounts. Subsequently, receivables are measured at amortized cost, which generally corresponds to their nominal value.

Receivables assigned without recourse are recorded under the name of the new debtor, generally near-banking finance companies that are specialized in this kind of service.

Tangible fixed assets

Property, plant and equipment mainly relate to industrial sites. Assets are shown at historical cost, net of accumulated depreciation.

Cost includes ancillary charges, together with the direct and indirect expenses reasonably attributable to individual assets.

Property, plant and equipment are depreciated each month on a straight-line basis using rates that reflect the technical and economic residual lives of the related assets.

Depreciation is calculated from the month that the asset is available for use, or when it is potentially able to provide the economic benefits expected of it.

The average depreciation rates applied are as follows:

	%
Land	n.a.
Industrial buildings and light constructions	2.5-12.5
Plant and machinery	3-14
Industrial and commercial equipment	10-25
Other assets	10-33
Assets under construction	n.a.

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

Ordinary maintenance costs are fully expensed as incurred.

Maintenance costs that increase the value, functions or useful life of fixed assets are charged directly to the assets to which they refer and depreciated over their residual useful life.

Gains or losses on the disposal of assets are calculated as the difference between the sales proceeds and the net book value of the asset and are charged to the income statement for the period.

Capital grants are shown in the balance sheet as a reduction to the book value of the asset concerned. Grants are then recognized as income over the useful life of the asset by effectively reducing the depreciation charge each year.

Assets under lease

There are two types of leases: finance leases and operating leases.

A lease is considered a finance lease when it transfers a significant and substantial part of the risks and benefits related to ownership of the asset to the lessee.

As envisaged in IAS 17, a lease is considered a finance lease when the following elements are present, either individually or collectively:

- the contract transfers ownership of the asset to the lessee at the end of the lease contract;
- the lessee has an option to buy the asset at a price that is sufficiently lower than its fair value at the date when the option can be exercised that it is reasonably certain at the start of the lease term that it will be exercised;
- the duration of the lease covers most of the useful life of the asset, even if ownership is not transferred;
- at the start of the lease term, the present value of the minimum lease payments is equal to the fair value of the asset being leased;
- the assets being leased are of such a particular nature that only the lessee is able to use them without making important modifications.

The capital assets available to Group companies thanks to contracts that fall into the category of finance leases have been accounted for as property, plant and equipment at their fair value at the date of purchase; the corresponding liabilities to the lessor are shown in the balance sheet as financial debts. The assets are depreciated over their estimated useful life.

Lease payments are split between the principal portion, which is booked as a reduction of the financial debts, and the interest. Financial expenses are charged directly to the income statement for the period.

Operating lease contracts, on the other hand, are booked to the income statement systematically over the life of the contract.

Intangible assets

An intangible asset is only recognized if it is identifiable and verifiable, it will probably generate economic benefits in the future and its cost can reliably be determined.

Intangible assets with a definite useful life are valued at purchase or production cost, net of amortization and accumulated impairment losses.

The average amortization rates applied are as follows:

	%
<i>Development costs</i>	20-33
<i>Industrial patents and intellectual property rights, concessions, licences, trademarks</i>	20-50
<i>Other</i>	20-33
<i>Consolidation differences</i>	n.a.
<i>Assets under construction</i>	n.a.

Amortization is based on the estimated useful life and begins when the asset is available for use.

Research and development expenses

Research expenses are charged to the income statement as incurred in accordance with IAS 38.

Development expenses relating to specific projects are capitalized when their future benefit is considered reasonably certain; they are then amortized over the entire period of future profits expected to be earned by the project in question.

The carrying value of such expenses is reviewed annually – or more frequently if there are particular reasons for doing so – analyzing its fairness to see if there have been any impairment losses.

Trademarks and licences

Trademarks and licences are carried at cost, net of amortization and accumulated impairment losses. The cost is amortized over the lower of the contract term and asset's definite useful life.

Software

The costs of the software licences, including related charges, are capitalized and shown in the balance sheet net of amortization and any accumulated impairment losses.

Goodwill

Goodwill represents the excess purchase cost of the buyer's share of net equity over its fair value, based on the identifiable net values of the assets and liabilities of the entity acquired.

After initial recognition, goodwill is valued at cost less any accumulated losses in value.

Goodwill present in the balance sheet at the date of conversion to IAS/IFRS has no longer been amortized since January 1, 2004. At the balance sheet date, there is no goodwill deriving from acquisitions that took place after March 31, 2004.

Given that it does not have a definite life, goodwill is not amortized but subjected to impairment testing each year to identify any permanent losses in value.

Unlike other intangible assets, writebacks are not allowed for goodwill.

In order to analyze the fairness of its value, goodwill was allocated to each of the Cash Generating Units (CGU) due to benefit from the acquisition.

Four CGU's were identified with the SOGEFI Group: the Filtration Division, the Car Suspension Components Division, the Industrial Vehicle Suspension Components Division and the Precision Springs Division.

The goodwill currently on the books only concerns the Filtration Division and the Car Suspension Components Division.

Impairment of tangible and intangible fixed assets

If there are specific signs of losses in value, property, plant and equipment and intangible fixed assets are subjected to impairment testing, estimating the asset's recoverable value and comparing it with its net book value. If the recoverable value is less than the book value, the latter is reduced accordingly. This reduction constitutes an impairment loss, which is booked to the income statement.

For goodwill and any other intangible fixed assets with indefinite lives, impairment testing is carried out at least once a year.

Except in the case of goodwill, if a previous writedown is no longer justified, a new estimated book value is recorded providing it is not higher than what the net book value would have been if the writedown had never taken place. This writeback is also booked to the income statement.

Equity investments in associated companies

An associated company is one in which the Group is able to exert a significant influence, but without being able to control its financial and operating policies. The results, assets and liabilities of associated companies are reflected in the consolidation under the equity method.

Joint ventures

Joint ventures are consolidated under the proportional method, which involves line-by-line recognition in the consolidated financial statements of the Group's portion of the JV's assets, liabilities, costs and revenues.

Equity investments in other companies and other securities

In accordance with IAS 32 and 39, equity investments in companies other than subsidiaries and associated companies are classified as available-for-sale financial assets which are measured at fair value, except in situations where the market price or fair value cannot be determined; in which case, cost is used.

Gains and losses deriving from value adjustments are booked to a specific equity reserve.

In the case of impairment losses or in the event of a sale, the gains and losses recognized up to that moment as part of equity are transferred to the income statement.

For a more complete discussion of the principles regarding financial assets, reference should be made to the note specifically prepared on this matter (paragraph 3 "Financial assets").

Non-current assets held for sale

Following IFRS 5 principle "Non-current Assets Held for Sale and Discontinued Operations", providing the relevant requirements are met, non-current assets whose book value will be recovered principally by selling them rather than by using them on a continuous basis have to be classified as being held for sale and measured at the lower of book and fair value, net of any selling costs; depreciation on them has to be suspended.

Loans

Loans are initially recognized at cost, represented by the fair value received, net of related borrowing costs.

After this initial recognition, loans are recorded at their amortized cost by applying the effective interest rate.

The amortized cost is calculated taking account of the issue costs and any discount or premium envisaged at the time of settlement.

Derivatives

A derivative is understood as being any contract of a financial nature with the following characteristics:

- 1. its value changes in relation to changes in an interest rate, the price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or interest rate index, a credit rating or any other predefined underlying variable;*

2. *it does not require an initial net investment or, if required, it is less than what would be required for other types of contracts likely to provide a similar reaction to changes in market factors;*
3. *it will be settled at some future date.*

For accounting purposes, its treatment depends on whether it is speculative in nature or whether it can be considered a hedge.

All derivatives are initially recognized in the balance sheet at cost as this represents their fair value. Subsequently, all derivatives are measured at fair value.

Any changes in the fair value of derivatives that are not designated as hedges are booked to the income statement.

Hedging derivatives are classified as:

- fair value hedges if they are subject to the risk of changes in the fair value of the underlying assets or liabilities;*
- cash flow hedges if they are taken out to hedge the risk of variations in the cash flows deriving from an existing asset or liability, or from a future transaction.*

For derivatives classified as fair value hedges, the gains and losses that arise on determining their market value and the gains and losses that derive from adjusting them to the fair value of the element underlying the hedge are booked to the income statement.

For those classified as cash flow hedges, used, for example, to protect medium/long-term loans at floating rates, gains and losses that arise from their valuation at market value are booked directly to equity for the part that effectively hedges the risk for which they were taken out, whereas any part that proves ineffective is booked to the income statement.

The portion booked to equity is reclassified to the income statement when the assets and liabilities being hedged have an impact on the costs and revenues for the period.

Note that the Group has adopted a specific procedure for managing financial instruments as part of an overall risk management policy.

Trade and other payables

Payables are initially recognized at fair value and subsequently at amortized cost, which generally corresponds to the nominal value.

Long-term provisions

Provisions for risks and charges

Provisions for risks and charges relate to provisions that are only set aside when it is felt necessary to provide for a liability (that may be legal or implicit) deriving from a past event and for which resources that can be estimated with a reasonable degree of accuracy will probably have to be used.

On the other hand, no provision is made in the case of risks for which there is only a possibility that a liability may arise. In this case, mention is made in the notes on commitments and risks without making any provision.

Provisions relating to corporate reorganizations are only set aside once they have been approved and officially announced to the parties involved.

Post-retirement benefits

Under IAS 19, post-retirement and other long-term employee benefits (including the employment termination indemnities currently applicable in Italy) are subject to actuarial valuations that have to take into account a series of variables (such as mortality, forecast future pay rises, the expected rate of inflation, etc.).

Following this approach, the amount shown in the balance sheet reflects the present value of the liability, net of any plan servicing assets and adjusted for any actuarial gains or losses unrecognised.

In accordance with IFRS 1, the SOGEFI Group has opted for the “corridor approach” envisaged in IAS 19. This provides for booking

to the income statement actuarial gains and losses in excess of 10% of the fair value of any plan servicing assets or the present value of the liability at the balance sheet date, whichever is higher. Any excess is amortized over the average remaining working life of the pension plan participants.

Deferred taxation

Deferred taxes are calculated on the taxable temporary differences between the book values of assets and liabilities and their value for tax purposes, and classified under non-current assets and liabilities.

Deferred tax assets are accounted for only to the extent that there is likely to be sufficient taxable income in the future against which they can be utilized.

The value of the deferred tax assets shown in the financial statements is subject to an annual review.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply in the period when the relevant differences reverse, considering current rates and those known to be applicable in the future.

Shareholders' equity

Share capital

The share capital consists of ordinary shares shown at par value.

Fair value reserve

This includes unrealized gains and losses (net of tax) on financial assets classified as "available for sale". This reserve is used to transfer the value to the income statement at the time the financial asset is sold or at the time an impairment loss is recognized.

Cash flow hedging reserve

This includes the positive and negative revenue components that derive from hedging financial flows from instruments that for the purposes of IAS 39 are designated as cash flow hedges.

Translation reserve

This is the consolidated equity item that adjusts the differences that arise on translation into Euro of subsidiaries' financial statements expressed in currencies other than that used by the parent company.

Retained earnings (Accumulated losses)

This reflects the accumulated results, net of dividends paid to shareholders. This reserve also contains transfers from other equity reserves whenever they are freed from any restrictions to which they are subject.

It also contains the cumulative effect of changes in accounting principles or any corrections of errors accounted for under IAS 8.

Stock options

January 1, 2005 saw the introduction of IFRS 2 "Share-based payment". This standard contains transitional dispositions which provide for retrospective application only for those plans that involved stock options granted after November 7, 2002 and which had not yet vested at the effective date of the IFRS.

The SOGEFI Group has therefore calculated the imputed cost of applying this standard: the fair value of the option at the grant date is charged to the income statement as a cost over the vesting period of the benefit. Given that this is an imputed element, an ad hoc equity reserve in the balance sheet has been increased. Imputed cost is measured by specialists with the help of suitable economic and actuarial models.

Revenues recognition

Revenues from the sale of products are recognized at the time ownership passes, which is generally upon shipment to the customer. They are shown net of returns, discounts and allowances.

Revenues from services rendered are recognized at the time the services are provided.

Variable cost of sales

This represents the cost of goods sold. It includes the cost of raw and ancillary materials and goods for resale, as well as variable manufacturing and distribution costs, including the direct labour cost of production.

Manufacturing and R&D overheads

This category includes manufacturing overheads such as indirect labour cost of production, maintenance costs, consumable materials, building rents, and industrial equipment involved in production.

Also included are R&D overheads, net of any development costs that are capitalized because of their future benefits and excluding amortization which is booked to a separate item in the income statement.

Distribution, marketing and sales fixed expenses

These are costs that are more or less insensitive to changes in sales volumes, being related to personnel, promotion and advertising, external warehousing rentals and other sales and distribution activities. This category, therefore, includes all fixed costs identified as being incurred after finished products have been stocked in the relevant warehouse and directly related to their sale and distribution.

Administrative and general expenses

This category includes fixed labour costs, telephone expenses, legal and tax advisory fees, rents and hires, cleaning, security and other general expenses.

Operating grants

These are credited to income statement when there is a reasonable certainty that the company will comply with the conditions for obtaining the grant and that the grants will be received.

Restructuring costs and other non-operating costs/revenues

These are figures that do not relate to the Group's normal business activities or refer to non-recurring activities and as laid down in IAS 1 ruling from January 1, 2005 they are classified as ordinary items and disclosed in the notes if they are of a significant amount.

The non-recurring nature of restructuring costs makes it opportune for them to be disclosed separately, booking them in such a way that does not affect the operating result deriving from the Group's normal business activities.

Dividends

Dividend income is recorded when the right to receive it arises. This is normally at the time of the shareholders' resolution that approves distribution of the dividends.

Dividends to be distributed are recognized as a liability immediately after they have been approved.

Current taxes

Current taxes are booked on the basis of a realistic estimate of taxable income calculated according to current tax legislation in the country concerned, taking account of any exemptions and tax credits that may be due.

Earnings per share (EPS)

Basic earnings per share are calculated by dividing net profit for the period attributable to the ordinary shareholders of the Holding Company by the weighted average number of ordinary shares outstanding during the period, net of treasury stock.

Diluted earnings per share are obtained by adjusting the weighted average number of shares outstanding to take account of all potential ordinary shares that could have a dilutive effect.

Translation of foreign currency items

Functional currency

Group companies prepare their financial statements in the local currency of the country concerned.

The Group's functional currency is the Euro and this is the currency in which the consolidated financial statements are prepared and published.

Accounting for foreign currency transactions

Foreign currency transactions are initially translated at the exchange rate ruling on the transaction date.

At the balance sheet date, monetary assets and liabilities expressed in foreign currency are translated at the period-end exchange rate.

Non-monetary foreign currency items valued at historical cost are translated at the exchange rate ruling on the transaction date.

Non-monetary items carried at fair value are translated at the exchange rate ruling on the date this value was determined.

Critical estimates and assumptions

Various estimates and assumptions regarding the future have to be made when preparing financial statements. They are the best estimates possible at the balance sheet date, but given their nature, they could lead to a material difference in balance sheet items in future years.

The main items affected by this process of estimation are goodwill, deferred taxation and the fair value of financial instruments. Reference should be made to these specific areas for further details.

2.3 Adoption of new accounting standards

Note that in 2006 the Group considered and, where feasible, adopted the following Standards, Interpretations and Updates to existing standards:

- IAS 39 - Financial instruments: recognition and measurement. This standard was amended by Regulation 2106 of December 21, 2005 which in effect partially revised the designation of intercompany hedging transactions;*
- IFRS 6 - Exploration for and Evaluation of Mineral Resources. This standard is not relevant to the Group's activity;*
- IFRIC 4 - Determining whether an Arrangement contains a Lease;*
- IFRIC 5 - Rights to interests from Decommissioning, Restoration and Environmental Rehabilitation Funds. This interpretation is not relevant to the Group;*
- IFRIC 6 - Liabilities arising from Participating in a Specific market: Waste electrical and Electronic Equipment. This interpretation is not relevant to the Group.*

The Group did not elect for early adoption of the following Standards, Interpretations and Updates to existing standards, which will become obligatory in future periods:

- IFRIC 7 - Applying the Restatement Approach under IAS 29. This interpretation will become effective for annual financial statements subsequent to March 1, 2006. This interpretation is not relevant to the Group;*
- IFRIC 8 - Scope of IFRS 2. This interpretation will become effective for annual financial statements subsequent to May 1, 2006. This interpretation is not relevant to the Group;*
- IFRIC 9 - Reassessment of Embedded Derivatives. This interpretation will become effective for annual financial statements subsequent to June 1, 2006. This interpretation is not relevant to the Group;*
- IFRIC 10 - Interim Financial Reporting and Impairment. This interpretation will become effective for annual financial statements subsequent to November 1, 2006;*
- IFRS 7 - Financial instruments: Disclosures. This standard introduces new information to be disclosed on financial instruments and will become effective from January 1, 2007.*

3. FINANCIAL ASSETS

Classification

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

- 1. financial assets at fair value through profit and loss;*
- 2. held to maturity investments;*
- 3. loans and receivables;*
- 4. available for sale financial assets.*

Classification depends on the purpose for which assets are bought and held; management has to decide on their initial classification at the time that they are first booked, subsequently checking that it still applies at each balance sheet date.

The main characteristics of the assets mentioned above are as follows:

Financial assets at fair value through profit and loss

This is made up of two sub-categories:

- financial assets held specifically for trading purposes;*
- financial assets to be considered at fair value since they were purchased. This category also includes all financial investments, other than equity instruments, that do not have a price quoted on an active market, but for which the fair value can be determined.*

Derivatives are included in this category unless they are designated as hedge instruments and their fair value is recognized, booking adjustments to the income statement.

All of the assets in this category are classified as current if they are held for trading purposes or if they are expected to be sold within 12 months of the balance sheet date.

Designation of a financial instrument to this category is considered definitive and can only be done on initial recognition.

Held to maturity investments

These are non-derivative assets with fixed or determinable payments and fixed maturities which the Group intends to hold to maturity (e.g. subscribed bonds).

The intention and ability to hold the security to maturity has to be evaluated on initial recognition and confirmed at each balance sheet date.

In the case of early disposal of securities belonging to this category (for a significant amount and not motivated by particular events), the entire portfolio is reclassified to financial assets held for trading and restated at fair value.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and in which the Group does not intend to trade.

They are included in current assets except for the part maturing beyond 12 months from the balance sheet date, which is classified as non-current.

Available for sale financial assets

This is a residual category represented by non-derivative financial assets that are designated as available for sale and which have not been assigned to one of the previous categories.

They are classified as non-current assets, unless management intends to dispose of them within 12 months from the balance sheet date.

Accounting treatment

“Financial assets at fair value through profit and loss” (cat. 1) and “available for sale financial assets” (cat. 4) are recorded at their fair value including related purchase costs.

Gains and losses on financial assets held for trading are immediately booked to the income statement.

Gains and losses on “available for sale financial assets” are booked to a separate equity item until they have been sold or cease to exist, or until it has been ascertained that they have suffered an impairment loss. When such events take place, all gains or losses recognized and booked to equity up to that moment are transferred to the income statement.

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Consequently, it is assumed that the firm is a going concern and that none of its parts needs to liquidate its assets in a forced sale at unfavourable conditions.

In the case of securities traded on regulated markets, fair value is determined with reference to the bid price at the close of trading on the balance sheet date.

In cases where no market valuation is available for an investment, fair value is determined either on the basis of the current market value of another very similar financial instrument or by using appropriate financial techniques (such as DCF analysis).

Purchases or sales regulated at “market prices” are recognized on the day of trading, which is the day on which the Group takes a commitment to buy or sell the asset.

In situations where fair value cannot be determined with any accuracy, the financial asset is valued at cost, with disclosure in the notes of its type and the reasons for valuing it at cost.

“Held to maturity investments” (cat. 2) and “Loans and receivables” (cat. 3) are valued at their “amortized cost”; amortized using the effective interest rate and taking account of any discounts or premiums obtained at the time of acquisition so that they can be recognized over the entire period until their maturity. Gains or losses are booked to the income statement either at the time that the investment reaches maturity or when an impairment arises, in the same way that they are recognized during the normal process of amortization that is part of the “amortized cost” method.

Investments in financial assets can only be derecognised once the contractual rights to receive the cash flows deriving from such investments have expired (e.g. final redemption of bonds) or if the Group transfers the financial asset and all of the risks and benefits attached to it.

4. FINANCIAL RISK MANAGEMENT

Given that the Group operates on world markets, its activity is exposed to various kinds of financial risks, including fluctuations, up or down, in interest and exchange rates, and cash flow risks (for cash flows generated outside of the eurozone). In order to minimize these risks, the Group uses derivatives as part of its risk management activities, whereas it does not use or hold derivatives or similar instruments purely for trading purposes.

The Group also has available a whole series of financial instruments other than derivatives, such as bank loans, bonds, finance leases, rentals, sight deposits, and payables and receivables deriving from normal operating activities.

The Group handles its main hedging operations centrally. Precise instructions have also been issued to lay down the principles of risk management, while procedures have been introduced to control all transactions in derivatives.

Interest risk

As is generally known, changes in market interest rates can have an impact on the fair value of the cash flows from a financial asset or liability.

Market risk exposure deriving from changes in interest rates is principally linked to medium/long-term loans, including finance leases, which are made up 90% of floating-rate loans.

In order to hedge the risk of future increases in interest rates, the Group stipulates interest rate swaps. At present, hedging transactions cover around 16% of the Group's floating-rate loans.

After such transactions, floating-rate loans represent around 76% of the Group's total loans.

Foreign currency risk

By operating at an international level, the Group is subject to the risk that changes in exchange rates could have an impact on the fair value of its assets or liabilities.

Moreover, as can be seen from the segment information given in note 5, the Group produces and sells mainly in countries of the eurozone, but it has business interests and is subject to risks above all versus the Pound sterling, Brazilian real, US dollar, Argentine peso and Chinese renminbi.

Generally speaking, the Group is not particularly exposed to exchange risk, which is mainly concentrated in the translation of foreign subsidiaries' financial statements, as the currencies in which the foreign operating companies bill and those in which they are invoiced tend to be much the same. In order to limit the translation risk when converting the net results of the foreign subsidiaries with currencies other than the Euro, the Holding Company takes out derivatives with a duration of less than a year for amounts that fall into a range of 50-80% of the subsidiaries' expected results.

In terms of loans, there are also policies stating that any funds raised from third parties have to be in the same currency as that of the company obtaining the loan. If any exception is made to this principle, then systematic hedging of the risk is used by buying forward equivalent amounts of currency.

Price risk

The Group is partially exposed to price risk as it makes purchases of various raw materials such as steel, plastics, aluminium, cellulose products, etc.

The risk is handled in the best way possible thanks to centralized purchasing and a policy of having various suppliers for each kind of raw material operating in different parts of the world.

Credit risk

This is the risk that one of the parties signing a contract of a financial nature defaults on an obligation, thereby provoking a financial loss. This risk can derive from strictly commercial aspects (granting and concentration of loans), as well as from purely financial aspects (choice of counterparties used in financial transactions).

From a commercial point of view, the Group does not have excessive concentrations of credit risk as it operates on distribution channels, both Original Equipment and the Independent Aftermarket, that make it possible not to depend too much on individual customers. In particular, Original Equipment sales are largely to car and industrial vehicle manufacturers.

The main customers in the independent aftermarket, on the other hand, are important international purchasing groups.

In order to minimize credit risk, however, procedures have in any case been implemented to limit the impact of any customer insolvencies. As regards counterparties for the management of financial resources, the Group only has recourse to partners that have a safe profile and a high international standing.

Liquidity risk

The SOGEFI Group is subject to a minimum amount of liquidity risk, namely having to cope with a situation where it is not able to raise sufficient funds to meet its liabilities.

The SOGEFI Group has always taken an extremely prudent approach to its financial structure, using mainly medium/long-term funding, whereas forms of short-term financing are generally used only to cope with moments of peak requirement.

The fact that it has a significant level of cash flow, together with its solid capital structure, makes it relatively easy for the Group to find additional sources of financing.

It should also be mentioned that the Group has implemented a cash pooling system for all of the main European subsidiaries, which makes possible to optimize liquidity and cash flow management at a supranational level.

B) SEGMENT INFORMATION

5. INFORMATION BY SEGMENT

Information on the Group's business areas (primary segment) and geographical areas (secondary segment) is provided below in compliance with IAS 14.

Information by business area is also provided for the two divisions, Filtration and Suspension Components, as well as for the Holding Company Sogefi S.p.A..

Primary segment: business areas

The following table gives key figures for the Group's two divisions relating to 2005 and 2006:

(in thousands of Euro)	2005				
	Filtration Division	Suspension Components Division	Sogefi S.p.A.	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	518,523	504,675	-	-	1,023,198
Intersegment 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
Financial expenses, net					(11,547)
Income from equity investments					161
Losses (gains) from equity investments					(2,510)
Profit before taxes					67,084
Income taxes					(21,179)
Loss (profit) attributable to minority interests					(1,245)
NET PROFIT					44,660

BALANCE SHEET

ASSETS					
Segment assets	353,629	430,813	414,911	(474,416)	724,937
Equity investments in associated companies	-	3,372	-	-	3,372
Unallocated assets	-	-	-	98,222	98,222
TOTAL ASSETS	353,629	434,185	414,911	(376,194)	826,531
LIABILITIES					
Segment 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

Increase in tangible and intangible fixed assets	18,348	26,427	125	-	44,900
Depreciation, amortization and writedowns	18,787	32,702	7,405	(6,733)	52,161

<i>(in thousands of Euro)</i>	2006				
	<i>Filtration Division</i>	<i>Suspension Components Division</i>	<i>Sogefi S.p.A.</i>	<i>Adjustments</i>	<i>Sogefi Group consolidation</i>
REVENUES					
<i>Sales to third parties</i>	527,050	491,378	–	–	1,018,428
<i>Intersegment sales</i>	121	226	8,376	(8,572)	151
TOTAL REVENUES	527,171	491,604	8,376	(8,572)	1,018,579
RESULTS					
EBIT	51,852	37,430	(5,582)	(234)	83,466
<i>Financial expenses, net</i>					(10,182)
<i>Income from equity investments</i>					1,865
<i>Losses (gains) from equity investments</i>					(271)
<i>Profit before taxes</i>					74,878
<i>Income taxes</i>					(21,543)
<i>Loss (profit) attributable to minority interests</i>					(2,568)
NET PROFIT					50,767
BALANCE SHEET					
ASSETS					
<i>Segment assets</i>	360,414	442,208	418,275	(501,777)	719,120
<i>Equity investments in associated companies</i>	–	101	–	–	101
<i>Unallocated assets</i>	–	–	–	92,786	92,786
TOTAL ASSETS	360,414	442,309	418,275	(408,991)	812,007
LIABILITIES					
<i>Segment liabilities</i>	225,303	313,313	178,957	(201,289)	516,284
TOTAL LIABILITIES	225,303	313,313	178,957	(201,289)	516,284
OTHER INFORMATION					
<i>Increase in tangible and intangible fixed assets</i>	19,400	31,403	32	4	50,839
<i>Depreciation, amortization and writedowns</i>	18,374	31,014	970	(303)	50,055

The adjustments to “Total revenues” mainly refer to services provided by Sogefi S.p.A. to other Group companies. The adjustments to “EBIT” refer principally to depreciation on the fixed asset revaluations that arose on the acquisition of 40% of Sogefi Filtration S.p.A. in the year 2000 and the adjustment made at consolidated level for the capital gain that arose on the sale of the production site of the Spanish subsidiary, Sogefi Filtration S.A.. It also reflects the contribution made to the Group results by Sogefi Inc. U.S.A., which does sales and marketing on behalf of both divisions.

In the balance sheet, the adjustments to “Segment assets” refer to the reversal of equity investments and intercompany loans and receivables.

The adjustments to “Unallocated assets” are mainly goodwill and the revaluations of fixed assets that took place at the time of the acquisitions of the Allevard Ressorts Automobile group, 40% of Sogefi Filtration S.p.A. and the Filtrauto group.

Secondary segment: geographical areas

The following table gives a breakdown of the Group's income statement and balance sheet figures by geographical area "of origin" during 2005 and 2006, based on the country of the company which made the sales or which owns the assets.

The breakdown of revenues by geographical area "of destination", in other words with regard to the nationality of the customer, is analyzed in the directors' report and in the notes to the income statement.

(in thousands of Euro)	2005				
	Europe	South America	Other	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	893,675	110,746	18,777	-	1,023,198
Intersegment 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					
Segment assets	1,220,823	63,226	37,497	(596,609)	724,937
Equity investments in associated companies	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					
Increase in tangible and intangible fixed assets	36,944	4,729	3,227	-	44,900
Depreciation, amortization and writedowns	53,614	3,546	1,734	(6,733)	52,161

(in thousands of Euro)	2006				
	Europe	South America	Other	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	877,234	124,804	16,390	-	1,018,428
Intersegment sales	16,635	3,768	220	(20,472)	151
TOTAL REVENUES	893,869	128,572	16,610	(20,472)	1,018,579
BALANCE SHEET					
ASSETS					
Segment assets	1,240,705	70,360	36,857	(628,802)	719,120
Equity investments in associated companies	101	-	-	-	101
Unallocated assets	-	-	-	92,786	92,786
TOTAL ASSETS	1,240,806	70,360	36,857	(536,016)	812,007
OTHER INFORMATION					
Increase in tangible and intangible fixed assets	39,890	6,249	5,844	(1,144)	50,839
Depreciation, amortization and writedowns	49,264	4,012	5,878	(9,099)	50,055

C) NOTES ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS: BALANCE SHEET

C 1) ASSETS

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to € 51,519 thousand versus € 55,390 thousand at December 31, 2005 and are made up as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
Bank and post office deposits	51,366	55,285
Cheques	70	37
Cash and cash equivalents on hand	83	68
TOTAL	51,519	55,390

Short-term bank deposits and post office deposits are paid interest at a floating rate.

At December 31, 2006 the Group had unutilized lines of credit of € 302,774 thousand; all of the conditions are respected, which means that these lines are available for use on request.

7. SECURITIES AND FINANCIAL ASSETS HELD FOR TRADING

These are held-for-trading assets that are shown at fair value based on official sources at the time the financial statements are drawn up. They represent readily marketable securities which are used by the company to optimize cash management.

Held-for-trading financial assets can be analyzed as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
Other securities	128	2,058
Due from financial institutions and others	32	58
TOTAL	160	2,116

They amount to € 160 thousand compared with € 2,116 thousand the previous year and are made up principally of units in the investment funds of the Brazilian company Sogefi Filtration do Brasil Ltda, used to optimize short-term cash management. The reduction in this item is mainly due to the fact that certain financial assets were sold during the year.

8. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of Euro)	12.31.2006			12.31.2005		
	Gross	Writedowns	Net	Gross	Writedowns	Net
Raw, ancillary and consumable materials	45,291	4,994	40,297	44,501	4,915	39,586
Work in progress and semifinished products	13,482	449	13,033	14,043	464	13,579
Contract work in progress and advances	1,718	-	1,718	967	-	967
Finished goods and goods for resale	65,375	8,714	56,661	63,615	9,954	53,661
TOTAL	125,866	14,157	111,709	123,126	15,333	107,793

The gross value of inventories has gone up by € 2,740 thousand mainly because of the finished goods and goods for resale of the Filtration Division. Higher inventories were in fact built up at the end of 2006 to cope with stronger demand from the independent aftermarket. There was also a build-up of certain finished products on the assumption that production was going to be shut down, but it was then decided to delay this move. These excess stocks will be reabsorbed during the first few months of 2007.

Writedowns mainly consist of provisions for raw materials that can no longer be used for current production, and for obsolete or slow-moving finished products, goods for resale and ancillary materials. The reduction in the provision is related to the demolition of products in stock during the year, for € 1,652 thousand, partially offset by a further provision of € 476 thousand, which in the income statement is shown under "Variable cost of sales".

9. TRADE AND OTHER RECEIVABLES

Current receivables are analyzed as follows:

(in thousands of Euro)	12.31.2006	12.31.2005
Trade receivables	231,269	237,298
Less: allowance for doubtful accounts	6,040	6,195
Trade receivables, net	225,229	231,103
Due from Parent Company	1,673	1,579
Due from associated companies	90	121
Tax receivables	10,952	13,824
Other receivables	6,010	4,250
Other assets	2,391	2,438
TOTAL	246,345	253,315

"Trade receivables, net" are non-interest bearing and have an average due date of 70 days.

The decrease is due to the steps taken to improve credit control and to develop sales in countries with more favourable average collection times. The reduction was also affected by falling exchange rates for € 994 thousand.

Bad debts of € 713 thousand were written off during the year in “Variable cost of sales - variable sales and distribution costs”.

“Due from Parent Company” as of December 31, 2006 is the amount receivable from CIR S.p.A., Sogefi’s parent company, in connection with the Group tax filing system.

See chapter E for the terms and conditions governing these receivables.

“Tax receivables” at December 31, 2006 are tax credits due to various Group companies. It does not include deferred taxes which are treated separately. The reduction is due to the reclassification to medium/long-term receivables of the flat-rate substitute tax on the revaluation of properties recognized by Sogefi S.p.A. at the end of the previous year.

“Other receivables” are made up as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
<i>Amounts due from social security institutions</i>	1,177	853
<i>Amounts due from employees</i>	284	296
<i>Advances to suppliers</i>	1,739	1,523
<i>Due from others</i>	2,810	1,578
TOTAL	6,010	4,250

“Other receivables” mainly include advances to suppliers, amounts due from social security institutions and grants due from government entities for investments made.

The increase in “Amounts due from social security institutions” mainly refers to advances paid on their behalf by the Italian subsidiary Rejna S.p.A. to employees on redundancy benefits.

The increase in “Due from others” is largely the result of reclassifying from medium/long-term receivables an amount of € 880 thousand that the Spanish subsidiary Issa is due by the Valencia Region public administration for production investments made in previous years.

“Other assets” mainly consist of accrued income and prepaid expenses on insurance premiums, indirect taxes on buildings and the prepaid portion of a one-off payment to Honeywell International in connection with an agreement made in 2000 for the use of the FRAM trademark.

Capital investment during the year amounted to € 39,715 thousand compared with € 35,970 thousand in the previous year. Of the larger projects, those worthy of particular mention include investments worth € 3.4 million for a new hot line for the production of springs at Allevard Springs U.S.A. Inc., € 2.1 million for new cold technology at Allevard Federn GmbH and at the Liensaint plant of Allevard Rejna Autosuspensions S.A., € 1.7 million for the plan to concentrate production at the Raffa plant of Rejna S.p.A. and for the expansion of the second bars line, € 1 million for starting up Sogefi Filtration S.A.'s new production plant in Barcelona, € 1 million for a new filter production line for Sogefi Filtration S.p.A. and € 0.6 million for a new assembly line at Filtrauto S.A.. In addition, there are numerous other smaller investments made during the year for the maintenance and upgrade of production plants and for the development of new products, as well as improvements to buildings.

Net disposals during the period amount to € 1,948 thousand and mainly refer to the sale by the Spanish subsidiary Sogefi Filtration S.A. of the plant that it owned in Rubi near Barcelona; it was freed up as a result of the restructuring process previously carried out.

Additions to "Assets under construction and payments on account" refer to numerous smaller investments underway at the end of the year. The more important investments include € 1.8 million for works at the Raffa plant of Rejna S.p.A., € 1.1 million for new cold technology at Allevard Springs Ltd, € 1.6 million for new production and assembly lines, as well as new machinery for Sogefi Filtration do Brasil Ltda and Sogefi Filtration S.p.A..

The decrease in "Assets under construction and payments on account" is due to the completion of projects that were underway at the end of the previous year and their reclassification to the pertinent headings.

The balance of "Assets under construction and payments on account" as of December 31, 2006 includes € 1,084 thousand of advances for investments that are currently in progress.

Tangible fixed assets of the Italian companies included in the scope of consolidation are recorded at historical purchase cost, as adjusted in accordance with special monetary revaluation laws, taking advantage of the possibility offered by IFRS 1 during the transition to IAS/IFRS. Revaluation surpluses, net of applicable taxes, are recorded in a specific equity reserve.

The depreciation charge for the period has been recorded in the income statement "Depreciation and amortization".

"Writedowns during the year" relate mainly to the writedown of the coil springs plant of Allevard Springs U.S.A. Inc.. This writedown came about by submitting the asset to an impairment test, in accordance with IAS/IFRS, which showed that the discounted cash flows generated by the line were not sufficient to recover its net book value. In the income statement, these writedowns have been booked to "Other non-operating expenses (income)" as they are non-recurring.

The line "Reclassification of assets held for sale" refers to a building owned by the Filtration Division's British subsidiary situated in Nottingham, which has been reclassified to "Non-current assets held for sale", given that it has become available for disposal following the reorganization. It is expected to be sold during 2007.

Guarantees

Tangible fixed assets as of December 31, 2006 are encumbered by mortgages and liens totalling € 5,681 thousand to guarantee loans from financial institutions.

Purchase commitments

At December 31, 2006 there are binding commitments to buy property, plant and equipment for € 1,014 thousand.

Leasing

The financial aspects of the lease instalments and their due dates are explained in note 17.

“Writedowns during the year” relate mainly to the know how contributed when setting up the torsion bar factory for the Shanghai Alleward Springs joint venture in 1996, as this know how is obsolete by now. In the income statement, these writedowns have been booked to “Other non-operating expenses (income)” as they are non-recurring.

“Development costs” principally include costs generated internally, whereas “Industrial patents and intellectual property rights, concessions, licences and trademarks” consist of costs that are largely acquired externally.

“Others, assets under construction and payments on account” include € 1,702 thousand of costs generated internally.

There are no intangible assets with an indefinite useful life except for goodwill.

Goodwill and impairment test

From January 1, 2004 goodwill is no longer amortized, but subjected each year to impairment testing.

The Company has identified four CGUs (Cash Generating Units) to which the goodwill deriving from acquisitions could be allocated:

- *filtration*
- *car suspension components*
- *industrial vehicle suspension components*
- *precision springs*

For the moment, it is possible to identify goodwill deriving from external acquisitions in only two of these sectors: filtration and car suspension components.

The goodwill specific of the filtration division amounts to € 73,618 thousand, while the one of the car suspension components division is € 17,048 thousand.

Impairments tests have been carried out in accordance with the procedure laid down in IAS 36 to check whether there have been any losses in the value of this goodwill. We used the method that involves discounting unlevered cash flows, based on forecasts for the period 2007-2010, as approved by management, and on a discount rate of 7.3%, which reflects the average cost of capital.

The terminal value was calculated using the “perpetual annuity” approach, assuming a growth rate of zero for prudence sake and considering an operating cash flow on the basis of the latest cash flow taken from the Company’s long-term forecasts (the year 2010), adjusted to project a stable situation “in perpetuo”, based on the following main assumptions:

- *equilibrium between capital investment and depreciation (according to the logic of considering a certain level of investment needed to “maintain” the business);*
- *zero change in working capital (assuming in effect that the benefits of the working capital reduction plan that the Group is currently implementing will run out in the medium-term).*

The average cost of capital is the result of a weighted average of the cost of debt (taking into consideration the benchmark interest rates plus a spread of 1%) and the Company’s own cost of capital, based on parameters for a group of firms operating in the European car components sector which are considered by the leading sector analysts to be Sogefi’s peers.

The test based on the present value of the expected cash flows justifies a level of goodwill that is considerably higher than the amount shown in the balance sheet, so no writedown has been posted.

12. EQUITY INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2006 these amount to € 101 thousand compared with € 3,372 thousand at December 31, 2005 and are carried at equity, except where the recoverable value of an investment is lower than its book value.

This item is analyzed as follows:

<i>(in thousands of Euro)</i>	<i>KS Automotive Suspensions Asia Private Ltd</i>	<i>Allevard Ressorts Composites S.a.S.</i>	<i>Total</i>
<i>% held</i>	50.00	50.00	
Balance at January 1, 2005	5,561	392	5,953
<i>Share of result</i>	(48)	(20)	(68)
<i>Writedowns</i>	(2,442)	–	(2,442)
<i>Effect of translating foreign currency financial statements</i>	(71)	–	(71)
Balance at December 31, 2005	3,000	372	3,372

The following table summarises the information of associated companies at December 31, 2005:

<i>(in thousands of Euro)</i>	<i>KS Automotive Suspensions Asia Private Ltd</i>	<i>Allevard Ressorts Composites S.a.S.</i>	<i>Total</i>
<i>Total assets</i>	5,722	888	6,610
<i>Total liabilities</i>	386	516	902
<i>Total revenues</i>	2,211	1,434	3,645
<i>Net profit for the year</i>	(48)	(20)	(68)

The breakdown at December 31, 2006 is as follows:

<i>(in thousands of Euro)</i>	<i>KS Automotive Suspensions Asia Private Ltd</i>	<i>Allevard Ressorts Composites S.a.S.</i>	<i>Total</i>
<i>% held</i>	–	50.00	
Balance at January 1, 2006	3,000	372	3,372
<i>Share of result</i>	–	–	–
<i>Writedowns</i>	–	(271)	(271)
<i>Sale</i>	(3,000)	–	(3,000)
Balance at December 31, 2006	–	101	101

The decrease in “Equity investments in associated companies” is due to the sale of the 50% interest in KS Automotive Suspensions Asia Private Ltd to the other shareholder, ThyssenKrupp Federn GmbH, in May for € 3.7 million.

During the year, we decided to write down our investment in Allevard Resorts Composites S.a.S. as based on the estimated future earnings, the fair value of the investment was lower than the Group's share of the company's net equity.

"Writedowns" in the income statement are included in "Losses (gains) from equity investments".

The following table summarises the information of the associated company Allevard Resorts Composites S.a.S. at December 31, 2006:

(in thousands of Euro)	12.31.2006
Total assets	939
Total liabilities	587
Total revenues	1,426
Net profit for the year	88

A list of equity investments in associated companies is provided in section G of this document.

13. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

As of December 31, 2006 these totalled € 450 thousand, compared with € 443 thousand as of December 31, 2005. They are analyzed as follows:

(in thousands of Euro)	12.31.2006	12.31.2005
Equity investments in other companies	450	443
TOTAL	450	443

The balance of "Equity investments" refers principally to Afico Filters S.A.E. measured at fair value which corresponds to its cost.

14. FINANCIAL AND OTHER RECEIVABLES

"Financial receivables" amount to € 301 thousand and relate to the long-term portion of financial instruments in accordance with IAS 32 and 39. The latter relate to the fair market value of certain interest rate swap contracts stipulated to transform part of the loans from floating to fixed rate. At December 31, 2005 the fair value was negative and was included in financial payables.

"Other receivables" are analyzed as follows:

(in thousands of Euro)	12.31.2006	12.31.2005
Substitute tax	2,171	-
Other receivables	3,134	3,540
TOTAL	5,305	3,540

The increase is due to the reclassification from current receivables of the flat-rate substitute tax on the revaluation of properties recognized by Sogefi S.p.A. at the end of the previous year.

This item mainly includes grants receivable by various Group companies for their investment plans. These receivables will be collected over the coming years. It also includes non-interest bearing guarantee deposits and the advance tax paid by Italian companies on “employment termination indemnities”.

15. DEFERRED TAX ASSETS

At December 31, 2006 this item amounts to € 26,819 thousand compared with € 26,779 thousand at December 31, 2005. This amount relates to the benefits due on deductible temporary differences, booked to the extent that they are likely to be recovered. Reference should be made to note 21 for a further discussion of this matter.

16. NON-CURRENT ASSETS HELD FOR SALE

This includes the net value of a building belonging to the Filtration Division’s British subsidiary of Nottingham, which is available for sale.

C 2) LIABILITIES AND EQUITY

17. FINANCIAL DEBTS TO BANK AND OTHER FINANCING

These are analyzed as follows:

Current portion

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
Bank overdrafts and short-term loans	13,278	26,353
Current portion of medium/long-term financial debts	18,578	93,876
of which: leases	1,186	1,213
of which: purchase commitments	1,824	-
Total loans maturing within one year	18,578	93,876
TOTAL SHORT-TERM FINANCIAL DEBTS	31,856	120,229
Other short-term liabilities for cash flow hedge	-	132
TOTAL SHORT-TERM FINANCIAL DEBTS AND CASH FLOW HEDGES	31,856	120,361

Non-current portion

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
Financial debts to banks	128,402	83,549
Other medium/long-term financial debts	18,000	20,755
of which: leases	15,306	17,199
of which: purchase commitments	-	1,824
TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS	146,402	104,304
Other medium/long-term financial liabilities for cash flow hedge	-	139
TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND CASH FLOW HEDGES	146,402	104,443

Bank overdrafts and short-term loans

The decrease in this item relates to the trend in treasury management and cash flows in the latter part of the year.

Current portion of medium/long-term financial debts

The decrease is principally due to reimbursement of the syndicated loan of € 80 million by the Holding Company Sogefi S.p.A. in a one-off payment during the month of December 2006.

At December 31, 2006, this item principally includes the following loans:

- the current portion (€ 6,667 thousand) of the loan obtained by Allevard Fedem GmbH of € 30 million repayable in annual instalments expiring in December 2010. The residual amount as of December 31, 2006 totals € 26.6 million. This loan bears floating-rate interest at Euribor plus a spread of 80 basis points up until December 2008, after which it falls to 70 basis points for the subsequent periods. This loan is not supported by any security on the subsidiary's assets;
- the current portion (€ 4,119 thousand) of the loan obtained by Filtrauto S.A. of € 9,454 thousand repayable by September 2007. This loan bears floating-rate interest at Euribor plus a spread of 57.5 basis points. The loan is not secured by any of the company's assets;

- the commitment to buy a stake in the American affiliate Allevard Springs U.S.A. Inc. from SIMEST S.p.A. for € 1,824 thousand as explained below. This commitment is contractually scheduled for June 30, 2008, but it is Sogefi S.p.A.'s intention to anticipate the deadline to June 30, 2007, as is its right;
- the current portion of other minor medium-term loans, including financial lease instalments in accordance with IAS 17.

Other short-term liabilities for cash flow hedge

This includes the current portion of financial instruments in compliance with IAS 32 and 39. The latter relate to the fair market value of certain interest rate swap contracts stipulated to transform part of the loans from floating to fixed rate. At December 31, 2006 the fair value is positive and has been booked to "Financial receivables".

Reference should be made to note 23 for a further discussion of this matter.

Medium/long-term financial debts

The item includes:

- a € 40 million drawdown of the syndicated loan of € 100 million stipulated by the Holding Company Sogefi S.p.A. at the end of 2003. The loan has a duration of five years and falls due in December 2008, paying floating-rate interest of Euribor plus a spread of 60 basis points. The spread for 2006 amounts to 47.5 basis points. The loan is not secured by any of the company's assets;
- a € 29.9 million drawdown of the loan of € 50 million stipulated during the year by the Holding Company Sogefi S.p.A.. The loan has a duration of five years and falls due in September 2011, paying floating-rate interest of Euribor plus a spread of 22.5 basis points. The spread for 2006 amounts to 22.5 basis points. The loan is not secured by any of the company's assets;
- a € 29.8 million drawdown of the loan of € 100 million stipulated by the Holding Company Sogefi S.p.A. during the year. The loan has a duration of five years and falls due in September 2011, paying floating-rate interest of Euribor plus a spread of 22.5 basis points. The spread for 2006 amounts to 22.5 basis points. The loan is not secured by any of the company's assets;
- non-current portions of the loan granted to Allevard Federn GmbH.

The item "Other medium/long-term financial debts" includes the current portion of other minor loans, including finance lease payments in accordance with IAS 17.

Finance leases

The Group has finance leases as well as rental and hire contracts for property, plant and machinery that, according to their type, cover almost the entire useful life of the asset concerned. These leasing, rental and hire contracts are booked in accordance with IAS 17 as though they were fixed assets owned by the company, disclosing their historical cost, depreciation, the financial interest element and the residual liability.

Future payments deriving from these contracts can be summarized as follows:

(in thousands of Euro)	Instalments	Capital
Within 12 months	2,173	1,186
Between 1 and 5 years	8,685	5,415
Beyond 5 years	13,039	9,891
Total lease payments	23,897	16,492
Interests	(7,405)	–
TOTAL PRESENT VALUE OF LEASE PAYMENTS	16,492	16,492

The contracts included this caption were made by the following subsidiaries:

- *Alleward Springs U.S.A. Inc. for a lease contract with the West Virginia Economic Development Agency (WVEDA) relating to the purchase and use of a complete line for the production of spiral springs.
The contract expires in June 2019 and the original total amount of the lease was USD 14,948 thousand, whereas future instalments not yet due amount to USD 12,265 thousand and the annual nominal rate of interest applied by the government entity is 5.55%.
The Holding Company has given the US government entity a guarantee for this contract of around 50% of the residual instalments not yet due; this guarantee is renewed at the end of each year based on the residual amount.
During the course of the year, this contract was renegotiated with the result that the subsidiary now has the right to buy this line ahead of schedule at its capital value on the date it decides to exercise the option.*
- *Sogefi Filtration Ltd for a long-term rental contract for the Tredegar production site. The contract expires in September 2022 and the original total amount of the contract was GBP 6,258 thousand, whereas future instalments not yet due amount to GBP 5,141 thousand and the annual nominal rate of interest applied by the lessor is 9.7%.
The Group has not given any guarantees for this contract.
This contract, which is merely a lease, has been accounted in line with IAS 17 only for the fact that the present value of the instalments corresponds approximately to the fair value of the asset at the time the contract was made.*
- *Alleward Rejna Autosuspensions S.A. has made two lease contracts for the following production sites:
a) Lieusaint. The contract, that expires in April 2012, had an original total amount of € 4,467 thousand, whereas future instalments not yet due amount to € 3,626 thousand and the annual nominal rate of interest applied by the lessor is 3-month Euribor plus a spread of 75 basis points. The Group has not given any guarantees for this contract.
b) Fronville. The contract expires in June 2012 and the original total amount of the contract was € 6,412 thousand, whereas future instalments not yet due amount to € 3,305 thousand and the annual nominal rate of interest applied by the lessor is 3-month Euribor plus a spread of 72 basis points. The Group has not given any guarantees for this contract.
There are no restrictions of any kind on these leases. At the expiring date for the contract, there is an option to buy these assets for, respectively, € 1,462 thousand for Lieusaint and € 305 thousand for Fronville. As the option seems to be reasonably exercisable, due to the fact that the purchasing price is expected to be sufficiently lower to the fair value at the date the option may be exercisable, these contracts were considered as finance leases in accordance with IAS 17.*

Purchase commitments

Sogefi S.p.A. has a commitment of € 1,824 thousand to repurchase an interest in the US affiliate Alleward Springs U.S.A. Inc. from SIMEST S.p.A., a company controlled by the Italian Government which develops and promotes Italian companies abroad.

Sogefi S.p.A. used the services of SIMEST S.p.A. during the early phases of its entry into the NAFTA market; at December 31, 2006 SIMEST's stake in the American company remained the same as at the end of the previous period (10.47%).

Sogefi S.p.A. has a commitment to repurchase this stake on June 30, 2008, with the chance to ask for it to be anticipated from June 30, 2007.

Given that this commitment is certain and irrevocable and that we wish to take advantage of the early repayment faculty, these amounts have been booked as a short-term liability, as required by IAS/IFRS.

Other medium/long-term financial liabilities for cash flow hedge

This includes the non-current portion of financial instruments in compliance with IAS 32 and 39. The latter relate to the fair value of certain interest rate swap contracts made to transform part of medium/long-term loans from floating to fixed rate. At December 31, 2006 the fair value is positive and has been booked to "Financial receivables".

Reference should be made to note 23 for a further discussion of this matter.

18. TRADE AND OTHER CURRENT PAYABLES

The amounts shown in the financial statements can be split into the following categories:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
<i>Trade and other payables</i>	234,514	224,050
<i>Tax payables</i>	8,210	7,897
TOTAL	242,724	231,947

Details of trade and other payables are as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
<i>Due to suppliers</i>	182,129	173,741
<i>Due to the Parent Company</i>	201	-
<i>Due to tax authorities for indirect and other taxes</i>	6,163	6,207
<i>Due to social security institutions</i>	15,715	16,130
<i>Due to employees</i>	23,313	23,263
<i>Other payables</i>	6,993	4,709
TOTAL	234,514	224,050

The amounts “Due to suppliers” are not subject to interest and on average are settled in 78 days. There is no significant concentration of payables due to any one supplier or small group of suppliers.

The increase in the amounts due to suppliers is principally because of the rise in average payment terms and the growth in inventories to cope with customer demand over the coming months.

The amounts “Due to the Parent Company” at December 31, 2006 are payables to CIR S.p.A., Sogefi’s Parent Company, in connection with the Group tax filing system.

See chapter E for the terms and conditions governing these payables.

The increase in “Other payables” is mainly due to the extraordinary bonuses to management for the results achieved by the Group in recent years and in light of the recent changes in the tax treatment of stock option plans.

19. OTHER CURRENT LIABILITIES

“Other current liabilities” includes adjustments to costs and revenues of the year to ensure compliance with the accrual principle (accrued expenses and deferred income) and advances received from customers for supplies still to be delivered. This item has fallen by € 199 thousand compared with the previous year.

20. LONG-TERM PROVISIONS

These are made up as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
<i>Pension funds</i>	31,999	36,422
<i>Provision for employment termination indemnities</i>	17,160	18,451
<i>Provision for restructuring</i>	5,905	15,344
<i>Provision for disputes with tax authorities</i>	6,119	6,850
<i>Provision for product warranties</i>	1,865	1,879
<i>Other risks</i>	3,132	2,730
<i>Agents' termination indemnities</i>	844	1,208
<i>Lawsuits</i>	1,441	1,085
TOTAL	68,465	83,969

Details of the main items are given below.

Pension funds

The amount of € 31.999 thousand represents the allowance at the end of the year of the Group companies against the various pension funds liabilities.

The following table shows the movement in this item during the year:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
<i>Opening balance</i>	36,422	37,978
<i>Cost of benefits charged to income statement</i>	2,067	2,668
<i>Contributions paid</i>	(7,282)	(4,751)
<i>Other changes</i>	548	-
<i>Exchange differences</i>	244	527
TOTAL	31,999	36,422

The substantial increase in "Contributions paid" is due to an extraordinary contribution of around GBP 2 million paid in December to reduce the deficit.

"Other changes" refers to the acquisition of the Argentin plant in Normandy (France) as part of the strategy to verticalise in-house production of plastic components.

The amounts charged to the income statement can be summarised as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Current service cost</i>	2,158	2,731
<i>Interest cost</i>	7,971	7,373
<i>Expected return on plan assets</i>	(7,814)	(6,996)
<i>Actuarial (gains) losses recognized during the year</i>	37	(46)
<i>Past service cost</i>	105	9
<i>Settlements/curtailments</i>	(390)	(403)
TOTAL	2,067	2,668

The decrease of the caption "Current service cost" is mainly due to the subsidiary Sogefi Filtration Ltd for the closing of Nottingham site, that relevantly contributed to the allowances of the previous years, and to the subsidiary Filtrauto S.A. for the higher number of employees that voluntarily resigned without the benefits of the amounts previously set aside.

The captions "Current service cost" and "Past service cost" are included in the various lines devoted to "Labour cost" in the income statement.

"Interest cost" and "Expected return on plan assets" are included in "Financial expenses (income), net".

The other lines are included in "Administrative and general expenses" and "Other non-operating expenses (income)".

The "Pension funds" dynamics operating in the geographical areas of the companies concerned are as follows:

(in thousands of Euro)	12.31.2006	12.31.2005
Great Britain	10,754	16,012
France	17,718	16,853
Germany	3,174	3,104
Other	353	453
TOTAL	31,999	36,422

The drop in Great Britain is subsequent to the extraordinary payment of GBP 2 millions, carried on during the year.

The following is an explanation of the pension systems in the areas that affect the Group the most: Great Britain and France.

Note that the actuarial valuations of the "Pension funds" are carried out by external specialists.

Great Britain

In Great Britain, pension plans are mainly private and are stipulated with asset management companies and administered independently from the company.

They are classified as defined-benefits plans subject to actuarial valuation and accounted for according to the corridor approach as provided for IAS 19.

The main assumptions used in the actuarial valuation of these "Pension funds" were as follows:

	12.31.2006	12.31.2005
Discount rate %	5.10-5.25	4.8
Expected rate of return on plan assets %	4.0-7.0	3.25-6.50
Expected annual wage rise %	3.55-4.0	3.25-4.0
Annual inflation rate %	3.0-3.1	2.8
Retirement age	63	63

The increase in the "Discount rate" and in the "Expected rate of return on plan assets" compared with the previous year is mainly due to the upward trend in returns on fixed-income investments during 2006, particularly on AA-rated corporate bonds.

France

Pensions in France are essentially based on state pension plans and the responsibility of the company is limited to paying the contributions laid down by law.

In addition to this basic assistance guaranteed by the State, employees are also entitled to other amounts that depend on their period of service and salary level, which are only paid if the employee reaches retirement age.

These additional benefits are recognised as a liability for the company and, in accordance with IAS 19, they are considered as defined-benefit plans subject to actuarial valuation.

The main assumptions used in the actuarial valuation of these “Pension funds” were as follows:

	12.31.2006	12.31.2005
Discount rate %	4.5	4.0
Expected annual wage rise %	2.5-3.5	2.5-5.2
Annual inflation rate %	2.0	2.0
Retirement age	60-64	60-64

The increase in the “Discount rate” compared with the previous year is mainly due to the upward trend in returns on fixed-income investments during 2006, particularly on AA-rated corporate bonds.

The following table shows all of the obligations deriving from “Pension funds” and the present value of the assets servicing plan.

(in thousands of Euro)	12.31.2006	12.31.2005
Present value of defined benefit obligations	181,830	169,177
Fair value of the plan assets	(147,016)	(126,691)
Deficit	34,814	42,486
Pension fund provisions	(31,999)	(36,422)
Past (revenue) cost from not amortised service	9	(2)
Unrecognized actuarial (gains) losses	2,824	6,062

The reduction in the “Deficit” is related to the rise in the fair value of the plan assets, which benefited not only from higher yields on the assets, but also from an extraordinary payment of GBP 2 million to the pension fund by the UK subsidiary of the Filtration Division. The “Unrecognised actuarial (gains) losses” relate to the sum of the gains and losses not booked to the income statement as they are substantially lower than the corridor limit, namely 10% of the present value of the fund obligations.

Provision for employment termination indemnities

This aspect only concerns the Group’s Italian companies, where pensions are represented by State plans and the company’s responsibility is limited to regular payment of social contributions each month.

In addition to public sector social security, employees entitle to a termination indemnity when they leave the company or retire. This is put aside in a specific provision and the amounts accrued in previous years are subject to annual revaluation. This supplementary indemnity is considered as a defined-benefit fund, but subject to actuarial valuation for the part relating to the expected future benefits in respect of past service (which is the part subject to annual revaluation). Any actuarial losses due by the individual companies are booked to the income statement if they exceed the 10% limit of the corridor.

The assumptions taken into consideration when carrying out the actuarial valuation of the “Provision for employment termination indemnities” were as follows:

– Macroeconomic assumptions:

1. expected annual wage rise: 3%
2. discount rate: 4.50%
3. annual inflation rate: 2%
4. annual increase in termination indemnity: 3%

– Demographic assumptions:

1. rate of voluntary resignations: 1% - 10% of the workforce;
2. retirement age: it was assumed that employees would reach the first of the requirements valid for obligatory general social security;
3. probability of death: ISTAT's 2000 survival table for the Italian population was used;
4. an annual rate of 2% - 4% was taken for the probability of an earlier death;
5. INPS' table split by age and gender was used for the probability of disability.

The provision has changed as follows during the period:

(in thousands of Euro)	12.31.2006	12.31.2005
Opening balance	18,451	19,047
Accruals for the period	2,125	2,627
Contributions paid	(3,416)	(3,223)
TOTAL	17,160	18,451

The amounts charged to the income statement can be summarised as follows:

(in thousands of Euro)	2006	2005
Current service cost	1,129	1,576
Interest cost	787	874
TOTAL	1,916	2,450

For the year 2006, the provisions booked to the balance sheet differ from the amounts charged to the income statement by € 209 thousand because of the utilisation of a provision for restructuring set aside by Rejna S.p.A. during the previous year.

The unrecognised actuarial losses, being those lower than the corridor limit, amount to € 1,429 thousand at December 31, 2006, (€ 308 thousand at December 31, 2005).

Provision for restructuring

These are amounts set aside for restructuring operations that have been officially announced and communicated to those concerned, as required by IAS/IFRS.

The provision has changed as follows during the period:

(in thousands of Euro)	12.31.2006	12.31.2005
Opening balance	15,344	19,241
Accruals for the period	5,488	9,833
Utilizations	(14,388)	(12,889)
Provisions not used during the period	(553)	(1,059)
Exchange differences	14	218
TOTAL	5,905	15,344

“Accruals for the period” relate principally to production reorganizations of both divisions announced during the course of the year and due for completion over the next couple of years.

Utilizations have been booked mainly as reductions of provisions previously set aside for restructurings planned and initiated in previous years and completed or being completed by the two divisions during the course of the current year.

Movements in the “Accruals for the period” net of the “Provisions not used during the period” amount to € 4,935 thousand; this figure is recorded in the income statement under “Restructuring costs”.

Provisions for disputes with tax authorities

This item refers to fiscal disputes currently being settled with the local tax authorities, mainly relating to the subsidiaries Sogefi Filtration S.p.A. and Sogefi Filtration do Brasil Ltda, for which suitable accruals were made, even if the final outcome is not certain.

The provision has changed as follows during the period:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
Opening balance	6,850	5,371
Accruals for the period	707	693
Utilizations	(1,298)	(518)
Exchange differences	(140)	1,304
TOTAL	6,119	6,850

Utilizations during the period refer principally to Sogefi Filtration Ltd, which settled its dispute in the so-called “Hoechst case” by paying the required amount.

Other provisions

As regards the “Other provisions”, the amounts shown in the financial statements are the best possible estimate of the underlying liabilities. The following table shows the movements in the more important items:

<i>(in thousands of Euro)</i>	12.31.2005			
	<i>Provision for product warranties</i>	<i>Other risks</i>	<i>Agents’ termination indemnities</i>	<i>Lawsuits</i>
Opening balance	3,013	2,964	1,599	1,145
Accruals for the period	336	979	6	501
Utilizations	(1,470)	(1,292)	(397)	(566)
Exchange differences	–	79	–	5
TOTAL	1,879	2,730	1,208	1,085

<i>(in thousands of Euro)</i>	12.31.2006			
	<i>Provision for product warranties</i>	<i>Other risks</i>	<i>Agents’ termination indemnities</i>	<i>Lawsuits</i>
Opening balance	1,879	2,730	1,208	1,085
Accruals for the period	138	1,100	75	562
Utilizations	(152)	(693)	(439)	(200)
Exchange differences	–	(5)	–	(6)
TOTAL	1,865	3,132	844	1,441

The caption “Provision for product warranties” relates to accruals made by Group companies to cover customers’ contractual warranty rights. The amounts provided are calculated on a statistical basis.

“Other risks” mainly include the accruals made by the German subsidiary LPDN GmbH for environmental risks and to cover the economic impact of probable requests for part time work by those employees who are entitled to it by law, having reached the required age limit. A new accrual of € 380 thousand was made by the French subsidiary Allevard Rejna Autosuspensions S.A. for a risk relating to railway carriage springs supplied at the end of the ‘90s.

The reduction in “Agents’ termination indemnities” refers to the departure of various agents from Sogefi Filtration S.p.A.
The increase in “Lawsuits” relates mainly to a further accrual made by Sogefi Filtration d.o.o. for a legal dispute with a supplier.

21. DEFERRED TAX ASSETS AND LIABILITIES

The following details of deferred tax assets and liabilities are provided in light of the IFRS disclosure requirements.

(in thousands of Euro)	12.31.2006		12.31.2005	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Deferred tax assets:				
Allowance for doubtful accounts	2,048	679	3,181	1,045
Writedowns of equity investments	859	323	2,711	916
Inventory writedowns	7,932	2,860	5,807	2,265
Provisions for restructuring	3,926	1,274	5,501	1,804
Other allowances for risks and charges	32,415	10,074	39,519	12,208
Other	24,136	8,099	21,803	7,510
Deferred tax assets for tax losses incurred during the year	761	228	817	245
Deferred tax assets for tax losses incurred during prior years	8,105	3,282	2,619	786
TOTAL	80,182	26,819	81,958	26,779
Deferred tax liabilities:				
Accelerated/excess depreciation and amortization	47,453	15,862	42,585	14,229
Difference in inventory valuation methods	1,420	442	2,139	741
Capitalization of R&D costs	17,137	5,857	13,574	4,674
Other	6,745	2,317	6,654	2,302
TOTAL	72,755	24,478	64,952	21,946
Deferred tax assets (liabilities), net		2,341		4,833
Temporary differences excluded from the calculation of deferred tax assets (liabilities):				
Tax losses carried forward	25,189	9,990	37,709	13,921
Provisions for restructuring	2,567	847	2,954	975
TOTAL	27,756	10,837	40,663	14,896

The tax effect is calculated using the tax rates applicable in the various countries, which are in line with the previous year.

The change in “Deferred tax assets (liabilities), net” compared with December 31, 2005 amounts to € 2,492 thousand and differs by € 565 thousand from the amount shown in the income statement under “Income taxes - Deferred taxation” because of reclassifications, exchange differences or movements in balance sheet items that do not have any economic effect.

As regards the figures shown under “Temporary differences excluded from the calculation of deferred tax assets (liabilities)”, certain deferred tax assets were not booked as there was not a reasonable certainty that they would be recovered. The reduction compared with the previous year is mainly due to the German subsidiaries of the Suspension Components Division for the utilisation of losses arising in prior tax periods in determining the amount of current and deferred taxes of the current year. The reduction in “Provisions for restructuring” is attributable to Rejna S.p.A. because of its use of amounts set aside the previous year on which no deferred tax assets were booked because of there was not a reasonable certainty that they could be recovered.

22. SHARE CAPITAL AND RESERVES

Share capital

The share capital of the Holding Company Sogefi S.p.A. is fully paid in and at December 31, 2006 amounts to € 58,826 thousand (€ 58,338 thousand at December 31, 2005), split into 113,127,592 ordinary shares of par value € 0.52 each.

Movements in shares outstanding are as follows:

<i>Shares outstanding</i>	<i>2006</i>	<i>2005</i>
No. shares at start of period	112,187,792	110,876,792
No. shares issued for subscription of stock options	939,800	1,311,000
No. of ordinary shares as of December 31	113,127,592	112,187,792
Treasury stock	(1,695,000)	(1,695,000)
No. of shares outstanding as of December 31	111,432,592	110,492,792

Reserves and retained earnings (accumulated losses)

These are made up as follows:

<i>(in thousands of Euro)</i>	<i>Share premium reserve</i>	<i>Reserve for treasury stock</i>	<i>Reserve for reclassification of treasury stock</i>	<i>Translation reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at December 31, 2004	27,824	3,762	–	(410)	56,428	35,054	122,658
<i>Adjustments for adoption of IAS 32 and 39:</i>							
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	–	–	(940)	–	(940)
<i>Fair value measurement of securities</i>	–	–	–	–	25	–	25
<i>Tax on items booked directly to equity</i>	–	–	–	–	302	–	302
<i>Reclassification of treasury stock</i>	–	–	(3,762)	–	–	–	(3,762)
Balance at January 1, 2005	27,824	3,762	(3,762)	(410)	55,815	35,054	118,283
<i>Paid share capital increase</i>	2,453	–	–	–	(694)	–	1,759
<i>Allocation of 2004 net profit:</i>							
<i>Legal reserve</i>	–	–	–	–	200	–	200
<i>Retained earnings</i>	–	–	–	–	–	12,230	12,230
<i>Shareholders' resolution for purchase of treasury stock</i>	(13,000)	–	–	–	13,000	–	–
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	–	–	669	33	702
<i>Other changes</i>	–	–	–	–	(37)	(62)	(99)
<i>Tax on items booked directly to equity</i>	–	–	–	–	(208)	–	(208)
<i>Imputed cost of stock options</i>	–	–	–	–	552	–	552
<i>Effect of translating foreign currency financial statements</i>	–	–	–	10,511	–	–	10,511
Balance at December 31, 2005	17,277	3,762	(3,762)	10,101	69,297	47,255	143,930
<i>Paid share capital increase</i>	1,975	–	–	–	184	–	2,159
<i>Allocation of 2005 net profit:</i>							
<i>Legal reserve</i>	–	–	–	–	150	–	150
<i>Retained earnings</i>	–	–	–	–	–	25,055	25,055
<i>Reclassification</i>	51,238	–	–	–	(51,238)	–	–
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	–	–	566	–	566
<i>Other changes</i>	–	–	–	–	(15)	(1,009)	(1,024)
<i>Tax on items booked directly to equity</i>	–	–	–	–	(187)	–	(187)
<i>Imputed cost of stock options</i>	–	–	–	–	945	–	945
<i>Effect of translating foreign currency financial statements</i>	–	–	–	(1,581)	–	–	(1,581)
Balance at December 31, 2006	70,490	3,762	(3,762)	8,520	19,702	71,301	170,013

Share premium reserve

This amounts to € 70,490 thousand compared with € 17,277 thousand last year. The increase is due to the transfer from the “Treasury stock purchase reserve” of € 51,238 thousand, as approved by the Shareholders’ Meeting of April 6, 2006, relating to the mandate granted to the directors to buy treasury shares and the subscription of shares as part of the stock option plans.

Reserve for reclassification of treasury stock

The “Reserve for reclassification of treasury stock” corresponds to the reserve made on reclassification of the Company’s own shares held in portfolio following the adoption of IAS 39 from January 1, 2005.

Translation reserve

This reserve is used to record the exchange differences arising on the translation of foreign subsidiaries’ financial statements. The changes during the period amount to € 1,581 thousand.

Other reserves

“Other reserves” are analyzed below:

<i>(in thousands of Euro)</i>	<i>Legal reserve</i>	<i>Treasury stock purchase reserve</i>	<i>Reserve for cash flow hedges</i>	<i>Reserve for stock options</i>	<i>Tax on items booked directly to equity</i>	<i>Other reserves</i>	<i>Total other reserves</i>
Balance at December 31, 2004	11,530	38,238	–	–	–	6,660	56,428
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	(940)	–	–	–	(940)
<i>Fair value measurement of securities</i>	–	–	–	–	–	25	25
<i>Tax on items booked directly to equity</i>	–	–	–	–	302	–	302
Balance at January 1, 2005	11,530	38,238	(940)	–	302	6,685	55,815
<i>Paid share capital increase</i>	–	–	–	–	–	(694)	(694)
<i>Allocation of 2004 net profit:</i>							
<i>Legal reserve</i>	200	–	–	–	–	–	200
<i>Shareholders’ resolution for purchase of treasury stock</i>	–	13,000	–	–	–	–	13,000
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	669	–	–	–	669
<i>Other changes</i>	–	–	–	–	–	(37)	(37)
<i>Tax on items booked directly to equity</i>	–	–	–	–	(208)	–	(208)
<i>Imputed cost of stock options</i>	–	–	–	552	–	–	552
Balance at December 31, 2005	11,730	51,238	(271)	552	94	5,954	69,297
<i>Paid share capital increase</i>	–	–	–	–	–	184	184
<i>Allocation of 2005 net profit:</i>							
<i>Legal reserve</i>	150	–	–	–	–	–	150
<i>Reclassification</i>	–	(51,238)	–	–	–	–	(51,238)
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	566	–	–	–	566
<i>Other changes</i>	–	–	–	–	–	(15)	(15)
<i>Tax on items booked directly to equity</i>	–	–	–	–	(187)	–	(187)
<i>Imputed cost of stock options</i>	–	–	–	945	–	–	945
Balance at December 31, 2006	11,880	–	295	1,497	(93)	6,123	19,702

Details of the main reserves are as follows:

– Reserve for cash flow hedges

The reserve has changed as a result of accounting for the financial flows deriving from instruments that for IAS 39 purposes are designated as “cash flow hedges”.

The movements during the period show an increase of € 566 thousand with a positive balance at December 31, 2006 of € 295 thousand.

– Legal reserve

This totals € 11,880 thousand and is € 150 thousand higher as a result of allocating a portion of the 2005 net profit to this reserve, as approved by the ordinary shareholders’ meeting held on April 6, 2006.

– Treasury stock purchase reserve

The Shareholders’ Meeting of April 6, 2006 resolved to transfer the balance of the “Treasury stock purchase reserve” to the “Share premium reserve”.

– Reserve for stock options

The reserve refers to the value of the imputed cost during the year of stock option plans assigned to employees and project workers and resolved after November 7, 2002, including the portion relating to the latest stock option plan approved on April 6, 2006.

Retained earnings

These total € 71,301 thousand and include amounts of net income that have not been distributed. The reduction of € 1,009 thousand relates principally to the adjustment of the prior year figures.

MINORITY INTERESTS

The balance amounts to € 16,117 thousand and refers to the portion of shareholders' equity pertaining to minority interests.

23. FINANCIAL INSTRUMENTS

Fair value

The following table shows a comparison between the book value of the Group's financial instruments and their fair value.

An analysis of the table shows that the fair value is different from the book value only in the case of short-term and long-term financial payables. This difference, in any event insignificant, is generated by the fixed-rate loans outstanding at the balance sheet date, for which the value has been recalculated at current market rates.

(in thousands of Euro)

	Book value		Fair value	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
Financial assets				
<i>Cash and cash equivalents</i>	51,519	55,390	51,519	55,390
<i>Securities and financial assets held for trading</i>	160	2,116	160	2,116
<i>Trade receivables</i>	226,992	232,803	226,992	232,803
<i>Other receivables</i>	6,010	4,250	6,010	4,250
<i>Other assets</i>	2,391	2,438	2,391	2,438
<i>Other financial assets available for sale</i>	450	443	450	443
<i>Financial receivables</i>	301	-	301	-
<i>Other non-current receivables</i>	5,305	3,540	5,305	3,540
Financial liabilities				
<i>Short-term financial debts and cash flow hedges</i>	31,856	120,361	32,189	120,361
<i>Trade and other payables</i>	234,514	224,050	234,514	224,050
<i>Other current liabilities</i>	2,359	2,558	2,359	2,558
<i>Medium/Long-term financial payables and cash flow hedges</i>	146,402	104,443	145,884	104,285

Interest rate risk

The following table gives a breakdown by maturity of the book value of the Group's financial instruments, receivable and payable, which are exposed to interest rate risk at December 31, 2006, split according to whether they are contractually at a fixed or floating rate.

<i>(in thousands of Euro)</i>	<i>within 12 months</i>	<i>between 1 and 2 years</i>	<i>between 2 and 3 years</i>	<i>between 3 and 4 years</i>	<i>between 4 and 5 years</i>	<i>Beyond 5 years</i>	<i>Total</i>
Fixed rate							
<i>Finance lease Sogefi Filtration Ltd</i>	(113)	(124)	(136)	(149)	(164)	(3,151)	(3,837)
<i>Finance lease Allevard Springs U.S.A. Inc.</i>	(387)	(409)	(432)	(457)	(483)	(4,551)	(6,719)
<i>Government financing</i>	(527)	(628)	(509)	(514)	(621)	(625)	(3,424)
<i>Other fixed-rate loans</i>	(1,969)	-	-	-	-	-	(1,969)
TOTAL FIXED-RATE	(2,996)	(1,161)	(1,077)	(1,120)	(1,268)	(8,327)	(15,949)
Floating rate							
<i>Cash and cash equivalents</i>	51,519	-	-	-	-	-	51,519
<i>Fund shares</i>	160	-	-	-	-	-	160
<i>Bank overdrafts and other current loans</i>	(13,278)	-	-	-	-	-	(13,278)
<i>Sogefi S.p.A. loans</i>	-	-	(11,000)	(18,667)	(29,965)	-	(59,632)
<i>Syndicated loan € 100 mn</i>	-	(40,000)	-	-	-	-	(40,000)
<i>Bank loans</i>	(14,312)	(10,203)	(9,640)	(8,678)	-	-	(42,833)
<i>Finance lease Allevard Rejna Autosuspensions S.A.</i>	(686)	(716)	(748)	(782)	(816)	(2,188)	(5,936)
<i>Other floating-rate loans</i>	(587)	(9)	(10)	(10)	(14)	-	(630)
TOTAL FLOATING RATE	22,816	(50,928)	(21,398)	(28,137)	(30,795)	(2,188)	(110,630)

Hedging

a) exchange risk

At December 31, 2006, the Sogefi Group had the following forward sale contracts to hedge the exchange risk on intercompany financial positions:

<i>Forward sale</i>	<i>Date opened</i>	<i>Spot price €/currency</i>	<i>Date closed</i>	<i>Forward price €/currency</i>
<i>GBP 2,000,000</i>	<i>12/22/2006</i>	<i>0.6705</i>	<i>03/22/2007</i>	<i>0.6731</i>
<i>GBP 1,000,000</i>	<i>12/16/2006</i>	<i>0.6725</i>	<i>03/22/2007</i>	<i>0.6752</i>
<i>GBP 1,300,000</i>	<i>12/20/2006</i>	<i>0.6710</i>	<i>03/22/2007</i>	<i>0.6735</i>
<i>USD 750,000</i>	<i>12/22/2006</i>	<i>1.3210</i>	<i>03/22/2007</i>	<i>1.3264</i>
<i>USD 20,050,000</i>	<i>12/20/2006</i>	<i>1.3228</i>	<i>03/22/2007</i>	<i>1.3282</i>

b) interest risk

At the end of the year, the Sogefi Group had the following contracts to hedge its interest rate risk (in thousands of Euro):

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	09/22/2004	12/22/2008	10,000	3.25%	141
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	10/14/2004	12/22/2008	5,000	3.19%	79
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	10/14/2004	12/22/2008	5,000	3.188%	81
Hedging of loan of € 15 million (12/25/2003 maturity 09/25/2007), rate: 3-month Euribor + 57.5 bp	03/25/2004	09/25/2007	15,000	2.46%	28

All of the hedging contracts indicated here provide for payment by the Group of an agreed fixed rate and receipt from the counterparty of the floating rate that is the basis of the underlying loan. Reference should be made to chapter A note 4 for further information on the degree of hedging coverage of interest risk.

24. ANALYSIS OF THE NET FINANCIAL POSITION

The following table provides details of the net financial position as required by Consob in its communication no. DEM/6064293 of July 28, 2006 with a reconciliation of the net financial position table included in the report on operations.

	12.31.2006	12.31.2005
A. Cash	51,519	55,390
B. Other cash at bank and on hand (details)	-	-
C. Financial instruments held for trading	160	2,116
D. Liquid funds (A) + (B) + (C)	51,679	57,506
E. Current financial receivables	-	-
F. Current payables to banks	13,278	26,353
G. Current portion of non-current indebtedness	18,578	93,876
H. Other current financial payables	-	132
I. Current financial indebtedness (F) + (G) + (H)	31,856	120,361
J. Current financial indebtedness (I) - (E) - (D)	(19,823)	62,855
K. Non-current payables to banks	128,403	83,549
L. Bonds issued	-	-
M. Other non-current payables	18,000	20,894
N. Non-current financial indebtedness (K) + (L) + (M)	146,403	104,443
O. Net indebtedness (J) + (N)	126,580	167,298
Long term financial receivables	301	-
Financial indebtedness, net including non-current financial receivables (as per the "Net financial position" included in the director's report on operations)	126,279	167,298

Here below is reported a description of the covenants related to the existing financial debts at the end of the year (see note 17 for further details):

- syndicated loan of € 100 million obtained by the Holding Company Sogefi S.p.A.: ratio of consolidated net financial position to consolidated EBITDA of not more than 3; ratio of EBITDA to net financial interest of not less than 5;*
- loan of € 50 million obtained by the Holding Company Sogefi S.p.A.: ratio of consolidated net financial position to consolidated EBITDA of less than or equal to 3.5;*
- loan of € 100 million obtained by the Holding Company Sogefi S.p.A.: ratio of consolidated net financial position to consolidated EBITDA of less than 4.*

At December 31, 2006 the Company was in full compliance with these covenants.

D) NOTES ON THE MAIN INCOME STATEMENT ITEMS

25. SALES REVENUES

Revenues from the sale of goods and services

During the period, the SOGEFI Group had sales of € 1,018,579 thousand compared with € 1,023,421 thousand the previous year (-0.5%); applying the same average exchange rates of 2005, sales would have amounted to € 1,011,977 thousand (-1.1%).

Revenues from the sale of goods and services are analyzed as follows:

By business sector:

(in thousands of Euro)	2006		2005	
	Amount	%	Amount	%
Filters	527,171	51.7	518,522	50.7
Suspension components and precision springs	491,605	48.3	504,924	49.3
Intercompany eliminations	(197)	-	(25)	-
TOTAL	1,018,579	100.0	1,023,421	100.0

By geographical area of "destination":

(in thousands of Euro)	2006		2005	
	Amount	%	Amount	%
France	266,720	26.2	289,563	28.3
Germany	133,391	13.1	126,588	12.4
Great Britain	124,498	12.2	125,236	12.2
Italy	98,498	9.7	111,883	10.9
Spain	72,496	7.1	66,718	6.5
Benelux	70,828	7.0	63,695	6.2
Other European countries	89,576	8.8	84,379	8.3
Mercosur	123,453	12.1	112,183	11.0
United States	24,759	2.4	29,878	2.9
China	3,536	0.3	4,436	0.4
Rest of the World	10,824	1.1	8,862	0.9
TOTAL	1,018,579	100.0	1,023,421	100.0

The breakdown of sales in the main geographical markets shows a decline in the French market, mainly because of the problems being experienced by the French manufacturers, lower sales in the Italian OE market, for a decrease of the activity with IVECO, a drop in the North American market, because of problems with Ford, and a contraction in the Chinese market. On the other hand, sales grew in Latin America, Germany, Spain, Benelux and Other European Countries. The latter refers principally to sales in the Czech Republic, Hungary and Romania.

26. VARIABLE COST OF SALES

This caption is analyzed as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Materials</i>	449,995	458,384
<i>Direct labour cost</i>	114,848	110,025
<i>Energy costs</i>	29,518	25,315
<i>Sub-contracted work</i>	8,111	9,813
<i>Ancillary materials</i>	17,082	16,932
<i>Variable sales and distribution costs</i>	29,242	32,915
<i>Royalties paid to third parties on sales</i>	4,419	4,252
TOTAL	653,215	657,636

The decrease in “Variable cost of sales” is mainly due to “Materials”, following a slight decline in the cost of steel thanks to an aggressive policy of supplier rotation, despite steady market prices. Also worth mentioning is the impact of applying a policy of vertical integration of production processes in the Filtration Division with the acquisition of the Argentan plant and the start-up of wider procurement in the Far East following the inauguration of a new purchasing office in Shanghai.

“Variable sales and distribution costs” have benefited from an insurance reimbursement of € 2.3 million relating to quality problems with a customer; a provision was set up last year for this matter as it was unsure whether compensation would be received from the insurance company.

This reduction in costs was partially offset by increases in “Energy costs” and “Direct labour cost”; this last item was affected by pay rises and by an increase in the number of employees as a result of acquiring the business to integrate the plastics processing side of the Filtration Division for € 1,350 thousand.

The increase in “Energy costs” is due to a substantial increase in energy prices which penalised almost all of the countries where the Group operates. This line includes the purchase of electricity from the affiliate Sorgenia S.p.A. for € 6,319 thousand (€ 3,651 thousand in 2005) by the Italian companies.

27. MANUFACTURING AND R&D OVERHEADS

Details of this item are as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Labour cost</i>	78,897	77,961
<i>Materials, maintenance and repairs</i>	21,233	21,855
<i>Rental and hire charges</i>	4,666	4,344
<i>Personnel services</i>	7,366	7,331
<i>Technical consulting</i>	5,030	4,308
<i>Sub-contracted work</i>	1,606	1,803
<i>Insurance</i>	1,529	1,806
<i>Utilities</i>	1,681	1,501
<i>Capitalization of internal construction costs</i>	(9,615)	(8,218)
<i>Other</i>	1,871	2,950
TOTAL	114,264	115,641

This item has fallen by € 1,377 thousand (-1.2%), mainly thanks to a careful reduction in fixed costs in the presence of falling business volumes in Europe and the United States, especially in maintenance and repairs, external processing and insurance premiums.

The increase in "Labour cost" is almost entirely attributable to the acquisition of the Argentan plant.

The increase in "Technical consulting" is due to the rise in development work on new products, principally at Filtrauto S.A.; these costs have been booked to "Capitalization of internal construction costs", so they have not had any effect on the income statement for the year.

The "Research and development expenses" amount to € 22,024 thousand, lower than the previous year when they amounted to € 22,681 thousand, remaining stable at 2.2% of sales.

28. DEPRECIATION AND AMORTIZATION

Details are as follows:

<i>(in thousands of Euro)</i>	2006	2005
Depreciation of tangible fixed assets	38,410	39,525
of which: assets under finance leases	618	669
Amortization of intangible assets	6,626	6,386
TOTAL	45,036	45,911

In 2006, this item amounts to € 45,036 thousand compared with € 45,911 thousand in the same period the previous year, a decrease of 2%.

The decrease is principally due to the absence of depreciation for the Melfi plant, which was closed at the end of the previous year, and for the San Felice plant, which was closed during 2006, both belonging to the subsidiary Rejna S.p.A..

The largest item is industrial depreciation which amounts to € 36,829 thousand compared with € 37,892 thousand in 2005.

Amortization of intangible assets refers principally to development costs capitalized in previous years.

29. DISTRIBUTION AND SALES FIXED EXPENSES

Main components of this item are as follows:

<i>(in thousands of Euro)</i>	2006	2005
Labour cost	20,035	20,761
Sub-contracted work	6,752	6,694
Advertising, publicity and promotion	4,590	5,591
Personnel services	2,736	2,580
Rental and hire charges	1,789	1,855
Consulting	765	921
Other	1,052	960
TOTAL	37,719	39,362

The decrease in "Distribution and sales fixed expenses" of € 1,643 thousand is due to "Advertising, publicity and promotion" expenses which were cut back compared with the previous year, when they were particularly high to promote after market sales, as well as "Labour cost", because of a reduction in the average number of personnel in 2006 compared with the previous year.

30. ADMINISTRATIVE AND GENERAL EXPENSES

This is analyzed as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Labour cost</i>	25,898	25,846
<i>Personnel services</i>	5,395	4,990
<i>Maintenance and repairs</i>	4,691	4,559
<i>Cleaning and security</i>	3,833	3,693
<i>Consulting</i>	3,906	3,649
<i>Utilities</i>	2,948	3,313
<i>Rental and hire charges</i>	3,243	3,174
<i>Insurance</i>	2,508	2,489
<i>Participation des salaires</i>	2,295	2,130
<i>Administrative, financial and tax-related services provided by Parent Company</i>	1,850	1,795
<i>Audit fees</i>	1,392	1,541
<i>Directors' and statutory auditors' remuneration</i>	556	517
<i>Sub-contracted work</i>	643	555
<i>Other</i>	2,603	986
TOTAL	61,761	59,237

The increase in "Administrative and general expenses" is substantially attributable to the absence in 2006 of certain income elements, which reduced this caption, that benefited 2005, which were included in "Other".

The growth in "Personnel services" relates principally to higher training costs incurred by the Group compared with the previous year in connection with the "Working capital down" project, as well as higher costs for travel and missions by employees.

The increase in "Consulting" is essentially to do with the expenses incurred by Filtrauto S.A. for the plant acquisition.

The decrease in "Utilities" is thanks to the greater attention given to costs by all Group companies, while the decline in "Audit fees" is due to the higher fees charged in 2005 for the transition to IFRS.

"Directors' and statutory auditors' remuneration" includes € 381 thousand and € 93 thousand respectively for the Directors and Statutory Auditors of the Holding Company.

31. PERSONNEL COSTS

Personnel

Quite apart from their allocation, "Personnel costs" in their entirety can be broken down as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Wages, salaries and contributions</i>	219,706	216,439
<i>Employment termination indemnities and pension costs</i>	3,803	4,016
<i>Participation des salaries</i>	2,295	2,130
<i>Imputed cost of stock options</i>	945	552
<i>Other</i>	466	422
<i>TOTAL recurring cost</i>	227,215	223,559
<i>Extraordinary bonuses to management (non-recurring cost)</i>	2,288	-
<i>TOTAL</i>	229,503	223,559

The increase in "Personnel costs" has already been commented on above. "Personnel costs" as a percentage of sales went from 21.8% in 2005 to 22.3% in 2006; the percentage rises to 22.5% if we also include the non-recurring costs for the extraordinary bonuses paid to management for the results achieved by the Group in recent years and in light of the recent changes in the tax treatment of stock option plans.

Average employment is shown below by grade:

<i>(Number of employees)</i>	2006	2005
<i>Managers</i>	89	98
<i>Clerical staff</i>	1,408	1,444
<i>Blue collar workers</i>	4,758	4,750
<i>TOTAL</i>	6,255	6,292

"Wages, salaries and contributions" and "Employment termination indemnities and pension costs" are included in the preceding tables under "Labour cost".

The reduction in "Employment termination indemnities and pension costs" is mainly due to the presence of fewer personnel in the Italian companies and to a different trend in the variables used in the actuarial valuation.

"Participation des salaries" is included in "Administrative and general expenses".

"Other" costs are included partly in "Administrative and general expenses" and partly in "Other non-operating expenses (income)".

The "Imputed cost of stock options" is included in "Other non-operating expenses (income)". The following paragraph "Personnel benefits" provides details of the stock option plans.

The "Extraordinary bonuses to management" are included in "Other non-operating expenses (income)".

Personnel benefits

Stock option plans

The Sogefi Group has implemented in previous years stock option plans for managers of the company and of subsidiaries that hold important positions of responsibility within the Group. The purpose is to create greater loyalty to the company and to provide an incentive that will raise their commitment to improve the company's long-term performance and value generation.

The plan provides participants with the chance to exercise an option to subscribe to newly-issued SOGEFI shares at a set price and within a particular period of time. Under the plan an essential condition for exercising the option is that the person is still employed by the Company or one of its subsidiaries at the exercise date, except in the case of retirement, permanent invalidity or death.

In compliance with Law 262/05, in 2006 stock option plans were first approved by the Shareholders' Meeting.

In 2006 the Board of Directors decided the following stock option plans:

- stock option plan restricted to the managers of the Company and its subsidiaries for a maximum of 1,770,000 shares (1.56% of the share capital at December 31, 2006) with a subscription price of € 5.87, to be exercised between September 30, 2006 and September 30, 2016;*
- 2006 stock option plan reserved the Group's project workers for a maximum of 80,000 rights to purchase an equivalent number of SOGEFI ordinary shares at a price of € 5.87. The options can be exercised on September 30, 2007, January 31, 2008 and June 30, 2008.*

Except for those mentioned above, the company has not carried out any other transaction that involves the purchase of goods or services with payments based on shares or any other kind of instrument representing portions of equity.

As laid down in IFRS 2, which took effect from January 1, 2005, for the purposes of first-time application of this standard, we have taken into consideration only those plans that were assigned after November 7, 2002; so in addition to those issued in 2006, also those issued in 2003, 2004 and 2005, the main characteristics of which are as follows:

- 2003 stock option plan for a maximum of 1,680,000 shares (1.49% of share capital at December 31, 2006) at a price of € 2.04 per share, with a right to exercise them at the end of each quarter starting on September 30, 2003 and ending on September 30, 2013;*
- 2004 stock option plan for a maximum of 1,880,000 shares (1.66% of share capital at December 31, 2006) at a price of € 2.64 per share, with a right to exercise them at the end of each quarter starting on September 30, 2004 and ending on September 30, 2014;*
- 2005 stock option plan restricted to the managers of the Company and its subsidiaries for a maximum of 1,930,000 shares (1.71% of the share capital at December 31, 2006) with a subscription price of € 3.87, to be exercised between September 30, 2005 and September 30, 2015;*
- 2005 stock option plan reserved the Group's project workers for a maximum of 80,000 rights to purchase an equivalent number of SOGEFI ordinary shares at a price of € 3.87. The options can be exercised on September 30, 2007, January 31, 2008 and June 30, 2008;*
- 2005 extraordinary stock option plan reserved for Group employees with over 10 years of service at December 31, 2004 for a maximum of 1,445,000 shares (1.28% of share capital at December 31, 2006) at a subscription price of € 4.5 with a right to exercise them from October 1 to December 7, 2008 and from May 1 to July 7, 2009.*

In 2006 options were exercised on 826,600 ordinary shares relating to the 2003, 2004 and 2005 ordinary plans at an average value of € 2.70 each, generating proceeds for the Holding Company of € 2,234 thousand.

The fair value of the options granted as of December 31, 2006, calculated with the help of a binomial tree model and amounting to € 945 thousand, has been booked to the income statement in the line "Other non-operating expenses (income)", to reflect the imputed cost of this benefit.

The following table shows the total number of options existing with reference to the 2003-2006 plans and their average strike price:

	2006		2005	
	Number	Average price of the year	Number	Average price of the year
Not exercised/not exercisable at the start of the year	5,552,200	3.48	2,912,200	2.42
Granted during the year	1,850,000	5.87	3,455,000	4.13
Cancelled during the year	(1,362,000)	4.15	(68,400)	2.54
Exercised during the year	(826,600)	2.70	(746,600)	2.43
Not exercised/not exercisable at the end of the year	5,213,600	4.28	5,552,200	3.48
Exercisable at the end of the year	985,600	3.40	483,600	2.67

The line "Not exercised/not exercisable at the end of the year" refers to the total number of options, net of those exercised or cancelled during the current and previous years.

The line "Exercisable at the end of the year" refers to the total amount of options matured at the end of the year and not yet subscribed. Note that the high number of options cancelled during the year 2006 is partly due to a lack of participation in the 2005 extraordinary plan on the part of the beneficiaries, and partly to cancellation of the options relating to beneficiaries who resigned during the year.

In order to comply with the transitional rules laid down in arts. 44-45 of IFRS 2, the following are the key figures for the plans in existence prior to November 7, 2002 (the standard does not have to be applied to them).

	2000 plan	2001 plan	2002 plan
No. of options	1,170,000	1,380,000	1,560,000
% share capital at December 31, 2006	1.03	1.22	1.38
Strike price (Euro)	2.53	2.50	2.01
Date of maturity	2010	2011	2012
Not exercised at the start of the year	228,000	415,400	345,400
Exercise during the year	-	(7,700)	(196,100)
Cancelled during the year	-	-	(2,000)
Not exercised at the end of the year	228,000	407,700	147,300
Exercisable at the end of the year	228,000	400,000	131,200

In 2006 options were exercised on 203,800 ordinary shares relating to the 2000, 2001 and 2002 plans at an average value of € 2.03 each, generating proceeds for the Holding Company of € 413 thousand.

The total amount collected by the Group in 2006 under all stock option plans comes to € 2,647 thousand.

Details of the number of options exercisable at December 31, 2006 are given below:

	2003 - 2006 plans	2000 - 2002 plans	Total
Number of exercisable options remaining at December 31, 2005	483,600	827,200	1,310,800
Options matured during the year	1,459,200	161,700	1,620,900
Options exercised during the year	(826,600)	(203,800)	(1,030,400)
Options cancelled during the year	(130,600)	(25,900)	(156,500)
Number of exercisable options remaining at December 31, 2006	985,600	759,200	1,744,800

32. RESTRUCTURING COSTS

“Restructuring costs” have fallen by € 7,403 thousand compared with the previous year as fewer plans were started up during the year. The accrual for the year refers principally to production reorganizations currently underway at both divisions.

“Restructuring costs” are made up of the accrual to the “Provision for restructuring” net of the provisions set aside and not used in the previous years, € 4,935 thousand, fixed asset writedowns, € 250 thousand, and other costs incurred during the year for which the previous year’s provision was not sufficient to cover.

33. GAINS FROM DISPOSALS

These amount to € 3,969 thousand and mainly refer to the gains from the sale of the plant located in Barcelona by the Spanish subsidiary Sogefi Filtration S.A..

34. EXCHANGE GAINS/LOSSES

Exchange losses at December 31, 2006 amount to € 843 thousand compared with net exchange gains of € 58 thousand in the same period last year and are due to the differing trends in the US dollar during the two years, as well as to the “implicit” cost of the hedges taken out against the pound sterling, the Brazilian real and the Argentine peso.

35. OTHER NON-OPERATING EXPENSES (INCOME)

These amount to € 21,010 thousand compared with € 12,150 thousand the previous year; the following table shows the main elements:

<i>(in thousands of Euro)</i>	2006	2005
Indirect taxes	5,134	4,841
Other fiscal charges	5,928	6,185
Imputed cost of stock options	945	552
Other non-operating expenses	9,003	572
TOTAL	21,010	12,150

“Indirect taxes” include tax charges such as ICI (property tax), non-deductible VAT and taxes on professional training.

“Other fiscal charges” consist of the *taxe professionnelle* paid by the French companies, which is fundamentally a capital tax.

The significant growth in “Other non-operating expenses” is attributable to the following elements:

of which non-recurring

- writedown of the coil springs plant of Alleward Springs U.S.A. Inc. as a result of the impairment test carried out in accordance with IAS/IFRS for € 3,762 thousand;
- accrual for the extraordinary bonuses paid to management for the results achieved by the Group in recent years and in light of the recent changes in the tax treatment of stock option plans for € 2,288 thousand;
- writedown of the know how contributed when setting up the torsion bar factory for the Shanghai Alleward Springs joint venture in 1996, for € 497 thousand;

of which recurring

- accrual for legal disputes, € 1,487 thousand;
- pension costs for employees no longer on the books of Allevard Federn GmbH, € 351 thousand;
- costs relating to the Nottingham plant, which is no longer operative, included in “Non-current assets held for sale”, € 219 thousand.

36. FINANCIAL EXPENSES (INCOME), NET

Financial expenses are as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Interest on non-convertible bonds</i>	–	2,551
<i>Interest on amounts due to banks</i>	7,046	5,098
<i>Financial charges under lease contracts</i>	1,006	917
<i>Financial component of pension funds and termination indemnities</i>	795	1,078
<i>Costs of interest-rate hedging contracts</i>	189	951
<i>Other interest and commissions</i>	2,690	2,338
TOTAL FINANCIAL EXPENSES	11,726	12,933

Financial income is as follows:

<i>(in thousands of Euro)</i>	2006	2005
<i>Financial income from financial assets</i>	110	171
<i>Interest on amounts due from banks</i>	1,095	674
<i>Other interest and commissions</i>	339	541
TOTAL FINANCIAL INCOME	1,544	1,386
TOTAL FINANCIAL EXPENSES (INCOME), NET	10,182	11,547

Net financial expenses show a reduction of € 1,365 thousand even though there has been an increase in interest rates, thanks to the lower level of debt and the positive effect of the Group’s centralised treasury function.

A benefit was also obtained from a reduction in the financial component of the pension funds and the provision for employment termination indemnities.

37. LOSSES (GAINS) FROM EQUITY INVESTMENTS

This item includes the following elements:

- financial income due to a recovery of withholding tax on foreign dividends distributed in previous years (€ 1,061 thousand);
- a gain of € 696 thousand due to the sale of the non consolidated 50% interest in KS Automotive Suspensions Asia Private Ltd to ThyssenKrupp Federn GmbH for € 3.7 million;
- writedown of the investment in Allevard Resorts Composites S.a.S. by € 271 thousand as based on expected earnings, the fair value of the investment was lower than the Group’s share of its net equity;
- dividends received from Allevard Resorts Composites S.a.S., € 108 thousand.

38. INCOME TAXES

<i>(in thousands of Euro)</i>	2006	2005
Current taxes	19,616	18,899
Deferred tax liabilities (assets)	1,927	2,280
TOTAL	21,543	21,179

The effective tax rate in 2006 (28.8%) was a good deal better than in 2005 (31.6%), thanks above all to the use of tax losses carry forward for which no deferred tax had been accounted for, € 11 million. It is worth mentioning that as a result of the German companies filing for tax on a consolidated basis, around € 8 million of tax losses carry forward have been booked as deferred tax assets. This positive trend in the tax rate was brought about by the tax-exempt proceeds of selling the plant belonging to Sogefi Filtration S.A. for some € 3.6 million.

Below there is a reconciliation between the standard tax rate and the effective tax rate for 2006. Taxes have been calculated at the domestic rates applicable in the various countries. The tax rates shown in the following table are therefore average rates.

<i>(in thousands of Euro)</i>	Taxable amount	Tax rate %	Tax
Profit before taxes	74,878	33%	24,710
Effect of increases (decreases) with respect to the standard rate			
Statutory amortization of goodwill	(1,456)	33%	(480)
Non-deductible costs, net	2,224	33%	734
Use of deferred tax assets not recorded in prior years	(19,114)	33%	(6,308)
Deferred tax assets on losses for the year not recorded in the financial statements	11,062	33%	3,650
Taxed portion of dividends	4,149	33%	1,369
Other permanent differences and tax rate differentials			(2,132)
Income taxes in the consolidated income statement	74,878	28.8%	21,543

The caption "Use of deferred tax assets not recorded in prior years" refers to the recording by Group companies of deferred tax assets that were not previously taken into consideration thanks to a change in the assumptions regarding their recoverability.

The "Deferred tax assets on losses for the year not recorded in the financial statements" is mainly attributable to the American subsidiary Allevard Springs U.S.A. Inc..

The "Taxed portion of dividends" refers to the portion of dividends received by Group companies that is not tax-exempt.

"Other permanent differences and tax rate differentials" includes, among other things, the tax saving on the exempt proceeds on sale of the plant belonging to Sogefi Filtration S.A. mentioned previously.

39. DIVIDENDS PAID

The dividends paid in 2006 (distributing 2005 earnings, as approved at the shareholders' meeting on April 6, 2006) amount to € 19,455 thousand, or € 0.175 per ordinary share.

Treasury shares have obviously been excluded from the distribution.

Last year, dividends paid amounted to € 17,599 thousand, or € 0.160 per ordinary share.

40. EARNINGS PER SHARE (EPS)

Basic EPS

Thanks to the strong rise in net profit, EPS has gone from € 0.406 to € 0.457 with an increase of 12.6% despite a 0.9% increase in the weighted average number of shares outstanding.

	2006	2005
<i>Net profit attributable to the ordinary shareholders (in thousands of Euro)</i>	50,767	44,660
<i>Weighted average number of shares outstanding during the year (thousands)</i>	111,190	110,092
Basic EPS (Euro)	0.457	0.406

Diluted EPS

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

	2006	2005
<i>Net profit attributable to the ordinary shareholders (in thousands of Euro)</i>	50,767	44,660
<i>Average number of shares outstanding during the year (thousands)</i>	111,190	110,092
<i>Weighted average number of shares potentially under option during the year (thousands)</i>	1,467	1,122
<i>Number of shares that could have been issued at fair value (thousands)</i>	(724)	(630)
<i>Adjusted weighted average number of shares outstanding during the year (thousands)</i>	111,933	110,584
Diluted EPS (Euro)	0.454	0.404

The “Weighted average number of shares potentially under option during the year” represents the average number of shares that could have been potentially outstanding because of stock option plans for which the subscription right had matured but was not yet exercised as of the balance sheet date. These shares had a potentially dilutive effect on Basic EPS and are therefore taken into consideration in the calculation of Diluted EPS.

The “Number of shares that could have been issued at fair value” represents the factor of normalisation, being the number of shares that would have been issued dividing the proceeds that would have been received from subscription of the stock options by the average annual fair value of the Sogefi S.p.A. ordinary shares, which in 2006 amounted to € 5.4643, whereas in 2005 it was € 4.3572.

The limited size of the adjustment, namely 743 thousand shares, equal to 0.7% of the average number of shares outstanding, makes diluted EPS substantially the same as basic EPS.

E) 41. RELATED PARTY TRANSACTIONS

See IAS 24 and the related communications from Consob for the definition of related party transactions.

The Group is controlled by CIR S.p.A., the ultimate Holding Company, which at April 6, 2006 held 57.76% of the outstanding shares. Sogefi S.p.A.’s shares are quoted on the Milan Stock Exchange.

The consolidated financial statements include the financial statements of the companies listed in chapter G along with the interests held by the Group.

The relationships between Group companies are regulated on an arm’s length basis, taking into account the quality and type of services rendered; Sogefi S.p.A., the Holding Company, charges Group companies fees for administrative, financial and management support

services, as well as commissions on procurement contracts negotiated at head office. The Holding Company also debits and credits interest at a market spread to those subsidiaries that have signed up for the Group's cash pooling system.

As part of its activity, Sogefi S.p.A. makes use of the services provided by CIR S.p.A., the ultimate Holding Company, in areas such as strategic development, disposals and acquisitions, and services of an administrative, financial, fiscal and corporate nature. This relationship is regulated by contracts at arm's-length conditions and the cost is commensurate to the effective value of such services to Sogefi in terms of the time devoted to them and the specific economic advantages obtained as a result.

In 2006 Sogefi S.p.A. used the services of CIR S.p.A., paying € 1,850 thousand for them (versus € 1,795 thousand the previous year). At December 31, 2006 the Italian companies of the Sogefi Group have receivables of € 1,673 thousand and payables of € 201 thousand due from/to CIR S.p.A. in connection with the Group tax filing system. At December 31, 2005 the receivable amounted to € 1,579 thousand, all of which was collected in 2006.

As part of their normal operating activities, the Italian companies in the Group buy gas and electricity from the affiliate Sorgenia S.p.A., which is controlled by CIR S.p.A..

At December 31, 2006 the total of these purchases amounted to € 6,319 thousand (of which € 4,043 thousand for the Suspension Components Division and € 2,276 for the Filtration Division), while the related liability amounted to € 1,338 thousand (€ 927 thousand for the Suspension Components Division and € 411 thousand for the Filtration Division).

As regards transactions with the Directors, Statutory Auditors and Managers with strategic responsibilities, reference should be made to the table in the report on operations which gives a list of investments held in Group companies. For the compensation paid to them in 2006, see the table below.

The compensation of Managers with strategic responsibilities in 2006 amounted to € 1,336 thousand.

Apart from those mentioned above and shown in the financial statements, we are not aware of any other related party transactions.

The following table summarises related party transactions:

<i>(in thousands of Euro)</i>	2006	2005
Receivables		
– for the Group tax filing from Cir S.p.A.	1,673	1,579
Payables		
– for the Group tax filing to Cir S.p.A.	201	–
– for energy/gas purchases to Sorgenia S.p.A.	1,338	629
Cost		
– for services received from Cir S.p.A.	1,850	1,795
– for purchases of energy/gas from Sorgenia S.p.A.	6,319	3,651
Compensation of directors and statutory auditors		
– directors	402	419
– statutory auditors	154	98
Extraordinary compensation of directors	1,416	–

F) COMMITMENTS AND RISKS

42. OPERATING LEASES

For accounting purposes, leases and rental contracts are classified as operating when:

- a significant part of the risks and benefits of ownership are retained by the lessor;
- there are no purchase options at prices that do not represent the presumable market value of the asset being leased at the end of the period;
- the duration of the contract does not reflect most of the useful life of the asset leased or rented.

Operating lease instalment payments are booked to the income statement in line with the underlying contracts.

The main operating lease is a contract stipulated by the US subsidiary Allevard Springs U.S.A. Inc. for the rent of its plant at Prichard (West Virginia).

The contract expires on October 27, 2018 and the remaining payments amount to USD 4,792 thousand, of which USD 386 thousand within 12 months.

For this contract SOGEFI S.p.A. has provided a guarantee that covers around 50% of the remaining payments; this guarantee is renewed each year based on the residual amount due.

There are no restrictions of any kind on this type of lease and at the end of the contract the US company will be able to purchase the building at its market value.

Future lease payments under operating leases outstanding at December 31, 2006 are as follows:

	2006	2005
Within 12 months	4,265	3,831
Between 1 and 5 years	11,594	8,589
Beyond 5 years	3,148	3,487
TOTAL	19,007	15,907

The increase in the amount of future lease payments compared with the previous year refers principally to the renewal and extension of certain property leases already in existence, machine rental contracts for the new plant at Argentan and the stipulation of new machine rental contracts.

43. INVESTMENT COMMITMENTS

There are no binding commitments for capital expenditure other than those relating to the purchase of property, plant and equipment (€ 1,014 thousand) already disclosed in the notes. At December 31, 2005 the equivalent figure amounted to € 4,574 thousand.

44. GUARANTEES GIVEN

Details of guarantees are as follows:

<i>(in thousands of Euro)</i>	12.31.2006	12.31.2005
PERSONAL GUARANTEES GIVEN		
a) Sureties to third parties	3,008	2,601
b) Other personal guarantees in favour of third parties	9,714	9,714
TOTAL PERSONAL GUARANTEES GIVEN	12,722	12,315
REAL GUARANTEES GIVEN		
a) against liabilities shown in the balance sheet	5,681	5,905
TOTAL REAL GUARANTEES GIVEN	5,681	5,905

The sureties given in favour of third parties relate to loans received and guarantees given to certain customers and are shown at a value equal to the outstanding commitment at the balance sheet date. These accounts indicate risks, commitments and guarantees provided by Group companies to third parties.

The “Other personal guarantees in favour of third parties” relate to the commitment of LPDN GmbH to the pension fund of the staff belonging to the two business areas at the time it was acquired in 1996. This commitment is covered by the contractual obligations of the seller (a leading German business).

“Real guarantees given” refer to encumbrances or liens granted to banks to obtain loans for the purchase of fixed assets. The decrease compared with the previous year is due to the cancellation of a guarantee following repayment of the related loan.

45. OTHER RISKS

The Group at December 31, 2006 has third-party goods and materials held at Group companies for € 4,700 thousand (€ 4,211 thousand at December 31, 2005).

46. SUBSEQUENT EVENTS

There are no significant subsequent events that took place after December 31, 2006.

G) GROUP COMPANIES

47. LIST OF GROUP COMPANIES AT DECEMBER 31, 2006

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

<i>Direct subsidiaries</i>						
	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
<i>REJNA S.p.A. Settimo Torinese (Turin - Italy)</i>	<i>Euro</i>	<i>5,200,000</i>	<i>7,986,992</i>	<i>99.84</i>	<i>0.65</i>	<i>5,191,544.80</i>
<i>SOGEFI FILTRATION B.V. Weesp (Netherlands)</i>	<i>Euro</i>	<i>1,125,000</i>	<i>2,500</i>	<i>100.00</i>	<i>450</i>	<i>1,125,000</i>
<i>SOGEFI FILTRATION Ltd Llantrisant (Great Britain)</i>	<i>GBP</i>	<i>5,126,737</i>	<i>5,126,737</i>	<i>100.00</i>	<i>1</i>	<i>5,126,737</i>
<i>SOGEFI FILTRATION A.B. Stockholm (Sweden)</i>	<i>SEK</i>	<i>100,000</i>	<i>1,000</i>	<i>100.00</i>	<i>100</i>	<i>100,000</i>
<i>SOGEFI FILTRATION S.A. Oyarzun (Spain) Held by Sogefi S.p.A.: 86.08% Held by Filtrauto S.A.: 13.92%</i>	<i>Euro</i>	<i>12,953,713.60</i>	<i>2,155,360</i>	<i>100.00</i>	<i>6.01</i>	<i>12,953,713.60</i>
<i>FILTRAUTO S.A. Guyancourt (France)</i>	<i>Euro</i>	<i>5,750,000</i>	<i>287,494</i>	<i>99.99</i>	<i>20</i>	<i>5,749,880</i>
<i>ALLEVARD REJNA AUTOSUSPENSIONS S.A. Saint Cloud (France)</i>	<i>Euro</i>	<i>36,000,000</i>	<i>1,999,747</i>	<i>99.987</i>	<i>18</i>	<i>35,995,446</i>
<i>SOGEFI Inc. Dearborn (U.S.A.)</i>	<i>USD</i>	<i>1,000</i>	<i>1,000</i>	<i>100.00</i>		<i>1,000</i>
<i>SOGEFI FILTRATION S.p.A. Mantua</i>	<i>Euro</i>	<i>21,951,000</i>	<i>21,951,000</i>	<i>100.00</i>	<i>1</i>	<i>21,951,000</i>
<i>ALLEVARD SPRINGS U.S.A. Inc. Prichard (U.S.A.) Held by Sogefi S.p.A.: 31.41% Held by Allevard Rejna Autosuspensions S.A.: 58.12%</i>	<i>USD</i>	<i>20,055,000</i>	<i>171</i>	<i>89.53</i>		<i>17,955,000</i>
<i>SOGEFI FILTRATION d.o.o. Medvode (Slovenia)</i>	<i>SIT</i>	<i>2,466,326,560</i>		<i>100.00</i>		<i>2,466,326,560</i>

<i>Indirect subsidiaries</i>	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
FILTRATION DIVISION <i>COOPERS FILTERS Ltd (*)</i> <i>Abergavenny (Great Britain)</i> <i>Held by Sogefi Filtration Ltd</i>	<i>GBP</i>	<i>3,000,000</i>	<i>3,000,000</i>	<i>100.00</i>	<i>1</i>	<i>3,000,000</i>
<i>FILTRAUTO UK Ltd (*)</i> <i>Nottingham (Great Britain)</i> <i>Held by Sogefi Filtration Ltd</i>	<i>GBP</i>	<i>6,810,000</i>	<i>6,810,000</i>	<i>100.00</i>	<i>1</i>	<i>6,810,000</i>
<i>FILTRAUTO GmbH (*)</i> <i>Ludwigsburg (Germany)</i> <i>Held by Sogefi Filtration B.V.</i>	<i>Euro</i>	<i>51,130</i>		<i>100.00</i>		<i>51,130</i>
<i>SOGEFI FILTRATION DO BRASIL Ltda</i> <i>São Bernardo do Campo (Brazil)</i> <i>Held by Sogefi Filtration S.A.</i>	<i>BRL</i>	<i>29,857,374</i>	<i>29,857,373</i>	<i>99.99</i>	<i>1</i>	<i>29,857,373</i>
<i>SOGEFI FILTRATION ARGENTINA S.A.</i> <i>Buenos Aires (Argentina)</i> <i>Held by Sogefi Filtration do Brasil Ltda: 91.90%</i> <i>Held by Filtrauto S.A.: 7.28%</i> <i>Held by Sogefi Filtration S.p.A.: 0.81%</i>	<i>ARP</i>	<i>10,691,607</i>	<i>10,691,605</i>	<i>99.99</i>	<i>1</i>	<i>10,691,605</i>
<i>SHANGHAI SOGEFI FILTRATION Co., Ltd</i> <i>Shanghai (China)</i> <i>Held by Sogefi Filtration S.p.A.: 70%</i>	<i>USD</i>	<i>3,600,000</i>	<i>2,520,000</i>	<i>70.00</i>		<i>2,520,000</i>

() in liquidation*

<i>Indirect subsidiaries</i>	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
SUSPENSION COMPONENTS DIVISION						
<i>ALLEVARD SPRINGS Ltd Mid Glamorgan (Great Britain) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>GBP</i>	<i>4,000,002</i>	<i>4,000,002</i>	<i>100.00</i>	<i>1</i>	<i>4,000,002</i>
<i>ALLEVARD FEDERN GmbH Völklingen (Germany) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>50,000</i>		<i>100.00</i>		<i>50,000</i>
<i>ALLEVARD REJNA ARGENTINA S.A. Buenos Aires (Argentina) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>ARP</i>	<i>600,000</i>	<i>599,827</i>	<i>99.97</i>	<i>1</i>	<i>599,827</i>
<i>IBERICA DE SUSPENSIONES S.L. (ISSA) Alsasua (Spain) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>10,529,668</i>	<i>5,264,834</i>	<i>50.00</i>	<i>1</i>	<i>5,264,834</i>
<i>ALLEVARD MOLAS DO BRASIL Ltda São Paulo (Brazil) Held by Allevard Rejna Autosuspensions S.A.: 99.997% Held by Allevard Springs Ltd: 0.003%</i>	<i>BRL</i>	<i>37,161,683</i>	<i>37,161,683</i>	<i>100.00</i>	<i>1</i>	<i>37,161,683</i>
<i>UNITED SPRINGS Ltd Rochdale (Great Britain) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>GBP</i>	<i>6,500,000</i>	<i>6,500,000</i>	<i>100.00</i>	<i>1</i>	<i>6,500,000</i>
<i>UNITED SPRINGS B.V. Hengelo (Netherlands) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>254,979</i>	<i>254,979</i>	<i>100.00</i>	<i>1</i>	<i>254,979</i>
<i>SHANGHAI ALLEVARD SPRINGS Co. Ltd Shanghai (China) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>5,335,308</i>		<i>60.58</i>		<i>3,231,919.16</i>
<i>UNITED SPRINGS S.A.S. Saint Cloud (France) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>10,218,000</i>	<i>2,043,599</i>	<i>99.99</i>	<i>5</i>	<i>10,217,995</i>
<i>LUHN & PULVERMACHER - DITTMANN & NEUHAUS GmbH Hagen (Germany) Held by Allevard Federn GmbH</i>	<i>Euro</i>	<i>50,000</i>		<i>100.00</i>		<i>50,000</i>

EQUITY INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES

<i>Indirect subsidiaries</i>	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
<i>INTEGRAL S.A. San Luis (Argentina) Held by Filtrauto S.A.: 93.50% Held by Sogefi Filtration Argentina S.A.: 6.50%</i>	<i>ARP</i>	<i>2,515,600</i>	<i>2,515,600</i>	<i>100.00</i>	<i>1</i>	<i>2,515,600</i>
<i>FILTRAUTO DO BRASIL Ltda São Paulo (Brazil) Held by Sogefi Filtration do Brasil Ltda: 99% Held by Filtrauto S.A.: 1%</i>	<i>BRL</i>	<i>354,600</i>	<i>354,600</i>	<i>100.00</i>	<i>1</i>	<i>354,600</i>
<i>LES NOUVEAUX ATELIERS MECANIQUE S.A. (*) Brussels (Belgium) Held by Sogefi S.p.A.: 74.9% Held by Rejna S.p.A.: 25.1%</i>	<i>Euro</i>	<i>2,880,000</i>	<i>120,000</i>	<i>100.00</i>	<i>24</i>	<i>2,880,000</i>

(*) being closed down

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES CARRIED AT EQUITY

	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
<i>ALLEVARD RESSORTS COMPOSITES S.A.S. Serrieres (France) Held by Allevard Rejna Autosuspensions S.A.</i>	<i>Euro</i>	<i>300,000</i>	<i>60,000</i>	<i>50.00</i>	<i>2.50</i>	<i>150,000</i>

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES CARRIED AT COST

	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
<i>MAKKAWI CARS & LORRIES Co. Khartoum (Sudan) Held by Rejna S.p.A.</i>	<i>SDP</i>	<i>900,000</i>	<i>225</i>	<i>25.00</i>	<i>1,000</i>	<i>225,000</i>

EQUITY INVESTMENTS IN OTHER COMPANIES VALUED AT COST

	<i>Currency</i>	<i>Share capital</i>	<i>Number of shares</i>	<i>% held</i>	<i>Par value per share</i>	<i>Par value of interest held</i>
<i>AFICO FILTERS S.A.E. Cairo (Egypt) Held by Sogefi Filtration S.p.A.</i>	<i>EGP</i>	<i>10,000,000</i>	<i>19,000</i>	<i>19.00</i>	<i>100</i>	<i>1,900,000</i>

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING AS PER ART. 153 OF DECREE 58/98 AND ART. 2429.3 OF THE ITALIAN CIVIL CODE

Shareholders,

During 2006, we carried out the type of supervision required of us by law, implementing the audit checks laid down in Decree 58/98. In particular:

1. Major transactions from an economic, financial and capital point of view approved by the Board of Directors during the year are described in full by the Directors in their report on operations. By means of direct observation and participation at Board meetings, we have ensured that the Company complied with the law and with the articles of association, and are of an opinion that the transactions carried out were not imprudent, risky, contrary to shareholders' resolutions or such as to compromise the integrity of the Company's equity.

In 2006 the Company continued its strategy of improving corporate efficiency by setting up joint ventures in South-East Asia and concentrating production in fewer locations.

The Company also amended its articles of association to implement various changes introduced by the Law on Savings.
2. There is no suggestion of any atypical or unusual transactions in the Directors' report on operations or in the other information prepared by the Board of Directors, including intercompany or related party transactions.

Intercompany transactions are described in detail in the notes and in the report on operations; these are services rendered by Sogefi S.p.A. to its subsidiaries for administrative, financial and operational support. There are intercompany loans and the Company has developed a cash pooling system.

Intercompany transactions are settled at normal market conditions and we have reviewed the service contracts during our periodic visits to ensure that they are correctly formalised.

We have also reviewed dealings with the parent company, CIR S.p.A.

The Board has authorised stock option plans for managers and other members of staff of the Company and of subsidiaries that hold key positions within the Group. We are of the opinion that the Company has provided adequate disclosure.
3. We would like to inform you that PriceWaterhouseCoopers S.p.A., the independent auditors, have issued their reports (dated 03.22.2007) on the statutory and consolidated financial statements for the year ended 12.31.2006. Both these reports are unqualified, so we conclude that the financial statements give a true and fair view of the assets and liabilities, financial position and results of the Company and of the Group. We would also remind you that their second three-year audit mandate expires at the next shareholders' meeting to approve the financial statements; the Board has decided to make a proposal to the shareholders' meeting to extend their engagement for another three years, 2007-2009, so as to complete the nine-year period foreseen by art. 159 of Decree 58/98 (as amended). In this connection, reference should be made to the opinion that we expressed regarding the extension of their engagement.
4. No complaints based on art. 2408 of the Civil Code have been received.
5. No complaints have been received so we have not taken any action in this regard.
6. Fees were paid during the year for professional services rendered to the Sogefi Group by entities related to the independent auditors for a total of Euro 332,890.
7. We have not issued any opinions during the year as sometimes required by law.
8. The Board of Directors met 7 times during the year and we were present at all of these meetings; we held 6 meetings and took part in the meetings of the Internal Control Committee.
9. We do not consider it necessary to make any comments about the principles of good management, as all of the resolutions passed by the Board of Directors were undoubtedly in the Company's interest.
10. Within the ambit of our responsibilities, we gained an awareness of the Company's organisational structure, which appears to us to be adequate considering the size and type of business. The Board of Directors has 12 members, 2 of them executive and 10 non-executive. No improvements need to be proposed in our opinion.

11. *We approve of the work carried out by the Internal Control Committee and of the Person in charge of Internal Control. The Company has also taken the steps needed to comply with the revised Code of Conduct, appointing a person in charge of Internal Control, who is not responsible for any area of operations. The Internal Control Committee is made up of 3 members, all of them independent directors. Our meetings with the Person in charge and our participation at meetings of the Internal Control Committee, which met 4 times, lead us to conclude that this structure is adequate. So no corrective action needs to be taken in our opinion.*
12. *The accounting system represents Company transactions correctly in our opinion. Based on the information obtained from the various office managers and meetings with the Independent Auditors, it appears to us that the accounting system functions properly.*
13. *In accordance with point 2. of art. 114 of Decree 58/98, the Company issues correct instructions in order to obtain all of the information that it needs to comply with its legal obligations in the field of corporate communications. We have not received any input from the statutory auditors of other subsidiaries or associates regarding transactions that are imprudent, contrary to shareholders' resolutions or not in compliance with the principles of good management. The Group accounting manual and the use of integrated software by all Group companies makes it possible to transfer data between Sogefi S.p.A. and its subsidiaries in real time.*
14. *During 2006 we had 2 meetings with PriceWaterhouseCoopers S.p.A. to exchange important information to help us perform our respective duties. No cases of misconduct arose during these exchanges of information that would have to be mentioned in this report. The audit work performed during the Independent Auditors' quarterly visits is adequate for the size and complexity of Sogefi.*
15. *The Company has opted to apply the Code of Conduct for the Corporate Governance of Listed Companies; it has introduced an Ethical Code, approved the Organisational Model of Management and Control as per Decree 231/2001 and appointed a Supervisory Body consisting of 3 members; the Company also updates its system of Corporate Governance on an ongoing basis in accordance with the rules introduced by the Reform of Savings and the amendments made to Decree 58/98. In particular, as regards our responsibilities, the Company has given notice of the positive outcome of our periodic review to ensure that we maintain our requisites of independence as members of the Board of Statutory Auditors.
The Company has also set up a Remuneration Committee and adopted a procedure for the handling of confidential information, with particular attention to the way that price sensitive information is made public. Sogefi adopted the new Code of Conduct on Internal Dealing on 04.01.2006.*
16. *The audit checks that we performed during the year did not highlight any omissions, cases of misconduct or serious irregularities. There are no matters that have to be reported to the Shareholders' Meeting in accordance with art. 153.1 of Decree 58/98, nor do we have any proposals to make regarding the financial statements and their approval.*

The financial statements for the year ended December 31, 2006 show net income of Euro 22,284,445.86, whereas the consolidated financial statements of the Sogefi Group show net income of Euro 50,767,000.

We have found no reason why you should not approve the financial statements as of 12.31.2006. We therefore agree with the Board of Directors' invitation for you to approve them, together with the allocation of net income for the year.

Mantua, 03.23.2007

THE BOARD OF STATUTORY AUDITORS
Angelo Girelli *Chairman*
Franco Caramanti *Auditor*
Riccardo Zingales *Auditor*

**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 2006, comprising the consolidated balance sheet, income statement, cash flow statement, changes in shareholders' equity 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.

- 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.

For the opinion on the prior year's consolidated financial statements, which are presented for comparative purposes, reference should be made to the report issued by us dated 17 March 2006.

- 3 In our opinion, the consolidated financial statements of Sogefi SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the consolidated financial position, results of operations, changes in shareholders' equity and cashflows of Sogefi Group for the year then ended.

Milan, 22 March 2007

PricewaterhouseCoopers SpA

Sergio Pizzarelli
(Partner)

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