

**REPORT OF THE BOARD OF DIRECTORS ON  
OPERATIONS FOR THE QUARTER  
OCTOBER-DECEMBER 2005**



SOCIETA' PER AZIONI - SHARE CAPITAL EURO 58,506,547.84  
MANTUA COMPANY REGISTER AND TAX CODE 00607460201  
COMPANY SUBJECT TO THE ACTIVITY AND COORDINATION OF CIR S.p.A.  
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**BOARD OF DIRECTORS MANAGEMENT REPORT**  
**FOR THE QUARTER**  
**OCTOBER-DECEMBER 2005**

In spite of the fact that the latter part of the 2005 financial year was characterised by a continuing weakness of the replacement market and a reduced demand from two key clients, in the last quarter the Sogefi Group still managed to achieve an increase in proceeds and income.

In the IV Quarter 2005, the European car market showed signs of a decrease (-3.5%), but the industrial vehicles sector proved active, as did South American markets in which the Group is present.

**The consolidated turnover** for the quarter was € 248.9 million, an increase of 1% (-2% at balanced exchange rates) over the € 246.6 million in the same quarter 2004.

In the quarter, a drop in income for the filters division was counteracted by increased sales in the high-income “stabilinks” product range, by stabilisation of steel prices and by improved results (albeit still negative) in the controlled US company Allevard Springs U.S.A. and Italian business in the suspension sector.

**The consolidated EBITDA**, Earnings Before Interest, Tax, Depreciation and Amortization, increased by 7.9% to € 29.5 million (11.8% of turnover) against the € 27.3 million in the IV quarter 2004 (11.1% of turnover).

**The consolidated operating profit** increased by 17.4% to reach € 29.2 million (11.7% of turnover) against the € 24.8 million in the same quarter of the previous year (10.1% of turnover). Income in the IV Quarter 2005 benefited from an agreement stipulated with a customer in settlement of a dispute concerning quality, allowing a reduction of € 1.4 million in the fund set aside previously for that purpose.

**The consolidated EBIT**, earnings before tax and interest, increased by 10.5% to reach € 18.7 million (7.5% of turnover) against € 17 million (6.9% of turnover) in the same quarter of the previous year.

These results were achieved in the presence of provisions for costs expected in future periods totalling € 7.4 million, deriving from the following production reorganisations:

- shut down of a shock absorber production line in Douai (France) and redundancies at ARA S.A. (France) for € 3.5 million;
- closure of the precision springs unit in West Bromwich (UK) and, for the same produce range, managerial reorganisation in France for a total of € 2.5 million;
- redundancies at the leaf springs unit in Hagen (Germany) for € 1 million.

In the same period in 2004, reallocation funds were set aside for a total of € 12.3 million, counterbalanced in part by proceeds from property sales of € 7.8 million.

**Profits before tax and the third-party shareholder quota** was € 13.4 million against € 14 million in the same period of the previous year.

In the IV quarter 2004, the shareholding in KS Automotive Suspensions Asia Private Ltd (50% owned) was devalued by € 2.3 million to adapt to market values.

**The consolidated net profit** increased by 4.4% with respect to the same period in 2004, reaching € 11.3 million (4.5% of turnover) against € 10.8 million in the IV quarter 2004 (4.4% of turnover). This result benefited from a particularly contained incidence of taxes (8.8%), mainly due to the accounting of deferred tax assets in the Italian companies, necessary in the light of trends and prospective income highlighted in their development plans.

The favourable cash generation trend allowed a further reduction in the **net financial debt** which at 31 December 2005 was € 167.3 million, against € 204 million at 31 December 2004 (-36.7 million) and € 190.6 million at 30 September 2005 (-23.3 million).

On 22 December 2005, the parent company Sogefi S.p.a. settled the matured bond loan of €80 million from available lines of credit.

**The consolidated equity, including the quota held by third-party shareholders**, at 31 December 2005 was € 261.3 million, an increase of € 36.7 million over the € 224.6 million at 31 December 2004 and of € 12.4 million over the € 248.9 million at 30 September 2005.

At 31 December 2005, the **consolidated Group equity** was € 247 million, against € 210.4 million at 31 December 2004 and € 235.5 million at 30 September 2005.

Staff numbers, following restructuring processes, are decreasing. At 31 December 2005 the number of employees was 6,171 compared to 6,303 at 31 December 2004.

## FILTRATION DIVISION TRENDS

The last quarter of the financial period confirmed weak sales in the independent replacement sector, representing 45% of filtration revenue. All leading markets have shown a decline, regardless of individual brand names and in line with general trends in the *aftermarket* sector. In addition to this phenomenon, in the two month period November-December, there was a reduction in primary assembly volume, in particular for the two French constructors, key Group clients.

**The consolidated turnover** decreased by 0.9% (-4.4% at balanced exchange rates) to € 125.2 million with respect to € 126.3 million in the same quarter 2004.

**The consolidated EBITDA** reduced with respect to the same period in 2004, to € 17.4 million (13.9% of turnover) against the € 19.5 million (15.5% of turnover) in the IV quarter 2004.

**The consolidated operating profit** passed from € 15.8 million (12.5% of turnover) in the IV quarter 2004 to € 13.6 million (10.9% of turnover) in the same period of 2005 due to a reduced sales volume in the sector with improved margins and to increased research and development costs.

**The consolidated EBIT** of € 12.7 million (10.2% of turnover) reduced with respect to the € 14.9 million in the same quarter of the previous year (11.8% of turnover).

With the aim of reinforcing the divisional management structure, as of the start of this financial period, Keith Drew, former Managing Director of Sogefi Filtration Ltd (UK), was nominated Managing Director of Operations.

## SUSPENSION AND PRECISION SPRING COMPONENTS DIVISION TRENDS

In the IV quarter 2005 there was marked progress in income with respect to the corresponding period in 2004 which was characterised by less than brilliant results.

On termination of the effect of price adjustment due to increased raw material costs, the **consolidated turnover** increased by 2.9% (+0.4% at balanced exchange rates), due to a lively demand for *stabilinks* and demand on the South American market. With regard to suspensions also, the two key clients reduced purchase volumes and the weakness of the precision spring sector was confirmed.

Action to improve results in controlled companies with negative income: Allevard Springs U.S.A. Inc. and Rejna S.p.a. (the latter having closed its Melfi plant in October) have allowed significant profitability progress to be made in this division.

**The consolidated EBITDA**, albeit influenced by a new provision of € 7.6 million in funds to cover further restructuring costs for accounting in future periods (€ 4.2 million in the same quarter 2004), has shown a 46.8% improvement, reaching € 12.1 million (9.8% of turnover) against € 8.2 million (6.8% of turnover) in the IV quarter 2004.

**The consolidated operating profit** increased by 64.5% reaching €15.3 million (12.4% of turnover) against € 9.3 million (7.7 % of turnover) in the same quarter of the previous year. The IV quarter 2005 benefited from a € 1.4 million reduction in provisions previously set aside for settlement of quality disputes, an agreement having been reached with the customer.

**The consolidated EBIT** reached 5% of turnover, a total of € 6.2 million against € 2.5 million (2.1% of turnover) in the IV quarter 2004; an increase therefore of 143.4%.

For a more efficient division management, as of January 2006 the role of General Manager of Operations was assigned to Didier Mainard, former industrial manager of the ARA Group, and the role of General Manager of Business Development to Pierangelo Rota, former commercial manager in the filters aftermarket.

## **PRELIMINARY RESULTS OF THE 2005 FINANCIAL PERIOD**

The trend for the entire 2005 period will be covered in the report to be examined at the Board of Directors Meeting to be held on 28 February, but it can already be confirmed that the recent financial period has shown further improvement in all the main economic indicators of the Group.

**The consolidated turnover**, for the first time in the 25 year history of the Group, has passed the 1 billion Euros milestone, reaching € 1,023.4 million, an increase of 5.9% (+4.6% on balanced exchange rates) against € 966.1 million in 2004.

**The consolidated EBITDA**, i.e. earnings before interest, tax, depreciation and amortization, increased by 15.3% to € 126.9 million (12.4% of turnover) against € 110 million in previous year (11.4% of turnover).

**The consolidated operating profit** increased by 15.4%, from € 91.5 million in 2004 (9.5% of turnover) to € 105.6 million (10.3% of turnover).

**The consolidated EBIT**, i.e. earnings before tax and interest, increased by 24.7% to € 81 million (7.9% of turnover) against € 65 million in 2004.

**The consolidated operating profit** in the period was € 44.7 million (4.4% of turnover), an increase of 48.9% on the € 30 million (3.1% of turnover) of 2004.

In the period, the **parent company Sogefi S.p.a.** produced net profits of € 79.5 million against the € 22.2 million of 2004. This result is mainly due to capital gains from the sale of shares in LPDN GmbH to controlled company Allevard Federn GmbH as part of the restructuring of suspension division shares.

## **BUSINESS PROGRESS**

Sales in January totalled € 81.7 million, an increase of 4.9% over the same month in 2005.

Though critical factors still persist in the car market, 2006 should see an increase in the propensity to buy, originating from a positive development in the European economic framework, and economic development in South America and China should also be confirmed.

No turbulence is forecast with respect to the main raw materials markets, whereas the significant increase in energy costs should be offset by further improvement in the production efficiency of the Group.

## CONSOLIDATED INCOME STATEMENT IV QUARTER 2005

(in millions of Euros)

|   | Period<br>1.10 – 31.12.2005 |             | Period<br>1.10 – 31.12.2004 |             | Variation    |              |
|---|-----------------------------|-------------|-----------------------------|-------------|--------------|--------------|
|   | Total                       | %           | Total                       | %           | Total        | %            |
| Sales Revenues                                    | 248.9                       | 100.0       | 246.6                       | 100.0       | 2.3          | 1.0          |
| Variable costs of sales                           | 157.0                       | 63.1        | 159.9                       | 64.9        | (2.9)        | (1.8)        |
| <b>CONTRIBUTION MARGIN</b>                        | <b>91.9</b>                 | <b>36.9</b> | <b>86.7</b>                 | <b>35.1</b> | <b>5.2</b>   | <b>6.1</b>   |
| Manufacturing and R&D overheads                   | 28.7                        | 11.5        | 28.7                        | 11.6        | -            | -            |
| Depreciations and Amortizations                   | 10.7                        | 4.3         | 10.4                        | 4.2         | 0.3          | 3.6          |
| Distribution, Marketing and Sales Fixed Expenses  | 9.9                         | 4.0         | 9.5                         | 3.8         | 0.4          | 4.3          |
| Administrative and General Expenses               | 13.4                        | 5.4         | 13.3                        | 5.4         | 0.1          | 1.7          |
| <b>OPERATING INCOME</b>                           | <b>29.2</b>                 | <b>11.7</b> | <b>24.8</b>                 | <b>10.1</b> | <b>4.4</b>   | <b>17.4</b>  |
| Restructuring costs                               | 7.4                         | 3.0         | 12.3                        | 5.0         | (4.9)        | (40.1)       |
| Losses (gains) on Disposals                       | -                           | -           | (7.8)                       | (3.2)       | 7.8          | 100.2        |
| Exchange Differences (Gain) Losses                | 0.2                         | 0.1         | 1.1                         | 0.5         | (0.9)        | (82.6)       |
| Other Non Operating Expenses (Income)             | 2.9                         | 1.1         | 2.2                         | 0.9         | 0.7          | 31.8         |
| <b>EBIT</b>                                       | <b>18.7</b>                 | <b>7.5</b>  | <b>17.0</b>                 | <b>6.9</b>  | <b>1.7</b>   | <b>10.5</b>  |
| Financial Expenses (Income), Net                  | 3.0                         | 1.2         | 2.8                         | 1.1         | 0.2          | 10.2         |
| Losses (Gain) from Equity Investments             | 2.3                         | 0.9         | 0.2                         | 0.1         | 2.1          | -            |
| <b>INCOME BEFORE TAXES AND MINORITY INTERESTS</b> | <b>13.4</b>                 | <b>5.4</b>  | <b>14.0</b>                 | <b>5.7</b>  | <b>(0.6)</b> | <b>(4.7)</b> |
| Income Taxes                                      | 1.2                         | 0.5         | 2.5                         | 1.0         | (1.3)        | (53.1)       |
| <b>INCOME BEFORE MINORITY INTERESTS</b>           | <b>12.2</b>                 | <b>4.9</b>  | <b>11.5</b>                 | <b>4.7</b>  | <b>0.7</b>   | <b>5.9</b>   |
| Loss/ (Income) Attributable to Minority Interests | (0.9)                       | (0.4)       | (0.7)                       | (0.3)       | (0.2)        | (30.0)       |
| <b>NET INCOME OF GROUP</b>                        | <b>11.3</b>                 | <b>4.5</b>  | <b>10.8</b>                 | <b>4.4</b>  | <b>0.5</b>   | <b>4.4</b>   |

**SOGEFI GROUP CONSOLIDATED INCOME STATEMENT 1.1.2005 TO 31.12.2005 (PRELIMINARIES)**

(in millions of Euros)

|   | Period<br>1.1 – 31.12.2005 |             | Period<br>1.1 – 31.12.2004 |             |
|---|----------------------------|-------------|----------------------------|-------------|
|   | Total                      | %           | Total                      | %           |
| Sales Revenues                                    | 1,023.4                    | 100.0       | 966.1                      | 100.0       |
| Variable costs of sales                           | 657.6                      | 64.3        | 614.5                      | 63.6        |
| <b>CONTRIBUTION MARGIN</b>                        | <b>365.8</b>               | <b>35.7</b> | <b>351.6</b>               | <b>36.4</b> |
| Manufacturing and R&D overheads                   | 115.7                      | 11.3        | 116.4                      | 12.0        |
| Depreciations and Amortizations                   | 45.9                       | 4.5         | 45.1                       | 4.7         |
| Distribution, Marketing and Sales Fixed Expenses  | 39.4                       | 3.8         | 39.5                       | 4.1         |
| Administrative and General Expenses               | 59.2                       | 5.8         | 59.0                       | 6.1         |
| <b>OPERATING INCOME</b>                           | <b>105.6</b>               | <b>10.3</b> | <b>91.6</b>                | <b>9.5</b>  |
| Restructuring costs                               | 12.6                       | 1.2         | 23.0                       | 2.4         |
| Losses (gains) on Disposals                       | (0.1)                      | -           | (7.9)                      | (0.8)       |
| Exchange Differences (Gain) Losses                | (0.1)                      | -           | 1.9                        | 0.2         |
| Other Non Operating Expenses (Income)             | 12.2                       | 1.2         | 9.6                        | 1.0         |
| EBIT  | 81.0                       | 7.9         | 65.0                       | 6.7         |
| Financial Expenses (Income), Net                  | 11.6                       | 1.1         | 12.2                       | 1.3         |
| Losses (Gain) from Equity Investments             | 2.3                        | 0.2         | (1.7)                      | (0.2)       |
| <b>INCOME BEFORE TAXES AND MINORITY INTERESTS</b> | <b>67.1</b>                | <b>6.6</b>  | <b>54.5</b>                | <b>5.6</b>  |
| Income Taxes                                      | 21.2                       | 2.1         | 22.0                       | 2.3         |
| <b>INCOME BEFORE MINORITY INTERESTS</b>           | <b>45.9</b>                | <b>4.5</b>  | <b>32.5</b>                | <b>3.3</b>  |
| Loss/ (Income) Attributable to Minority Interests | (1.2)                      | (0.1)       | (2.5)                      | (0.2)       |
| <b>NET INCOME OF GROUP</b>                        | <b>44.7</b>                | <b>4.4</b>  | <b>30.0</b>                | <b>3.1</b>  |

**SOGEFI GROUP NET FINANCIAL POSITION (PRELIMINARIES)**

(in millions of Euros)

|  | Position at<br>31.12.2005 | Position at<br>30.9.2005 | Position at<br>31.12.2004 |
|--|---------------------------|--------------------------|---------------------------|
| Cash, banks, financial receivables and marketable securities | 57.5                      | 66.4                     | 57.1                      |
| Short term borrowings (*)                                    | (120.6)                   | (94.2)                   | (105.9)                   |
| Medium/long term debt  | (104.2)                   | (162.8)                  | (155.2)                   |
| <b>NET FINANCIAL INDEBTEDNESS</b>                            | <b>(167.3)</b>            | <b>(190.6)</b>           | <b>(204.0)</b>            |

(\*) includes current medium and long term financial payables



## CONTENT AND FORMAT OF CONSOLIDATED ACCOUNTS REPORTS

The consolidated balance sheet for the period 1 January-31 December 2005 was drafted in accordance with International Accounting Principles (IAS/IFRS), and for this purpose consolidated affiliate balance sheet data was duly reclassified and adjusted.

It should be noted that the main characteristics of the adopted accounting principles are illustrated in the Group report for the first half-year 2005.

## COMMENTS ON THE ACCOUNTS REPORTS (PRELIMINARY DATA)

Sales totalled € 1,023.4 million with respect to € 966.1 million in the 2004 period.

The turnover by business sectors was as follows:

| (in millions of Euros) | 2005 financial period |              | 2004 financial period |              | Variation  |
|------------------------|-----------------------|--------------|-----------------------|--------------|------------|
|                        | Total                 | %            | Total                 | %            | %          |
| Filters                | 518.5                 | 50.7         | 514.6                 | 53.3         | 0.8        |
| Suspension components  | 469.5                 | 45.9         | 414.1                 | 42.9         | 13.3       |
| Precision springs      | 35.4                  | 3.4          | 37.4                  | 3.8          | (5.1)      |
| <b>TOTAL</b>           | <b>1,023.4</b>        | <b>100.0</b> | <b>966.1</b>          | <b>100.0</b> | <b>5.9</b> |

The sales by geographic area are shown in the table below:

| (in millions of Euros)   | 2005 financial period |              | 2004 financial period |              | Variation  |
|--------------------------|-----------------------|--------------|-----------------------|--------------|------------|
|                          | Total                 | %            | Total                 | %            | %          |
| France                   | 289.6                 | 28.3         | 286.4                 | 29.7         | 1.1        |
| Germany                  | 126.6                 | 12.4         | 120.7                 | 12.5         | 4.9        |
| United Kingdom           | 125.2                 | 12.2         | 125.3                 | 13.0         | -          |
| Italy                    | 111.9                 | 10.9         | 123.0                 | 12.7         | (9.0)      |
| Spain                    | 66.7                  | 6.5          | 69.1                  | 7.1          | (3.5)      |
| Other European countries | 148.1                 | 14.5         | 133.4                 | 13.8         | 11.0       |
| Mercosur                 | 112.2                 | 11.0         | 79.4                  | 8.2          | 41.4       |
| United States            | 29.9                  | 2.9          | 16.4                  | 1.7          | 82.0       |
| China                    | 4.4                   | 0.4          | 2.8                   | 0.3          | 56.1       |
| Rest of the world        | 8.8                   | 0.9          | 9.6                   | 1.0          | (7.5)      |
| <b>TOTAL</b>             | <b>1,023.4</b>        | <b>100.0</b> | <b>966.1</b>          | <b>100.0</b> | <b>5.9</b> |

Employees of the Group at 31 December 2005 numbered 6,171, with respect to 6,303 at 31 December 2004, and are subdivided as follows:

|                | Position at 31.12.2005 | Position at 31/12/2004 |
|----------------|------------------------|------------------------|
| Management     | 93                     | 98                     |
| Admin Staff    | 1,420                  | 1,460                  |
| Manual workers | 4,658                  | 4,745                  |
| <b>TOTAL</b>   | <b>6,171</b>           | <b>6,303</b>           |

Milan, 14 February 2006

BOARD OF DIRECTORS