

**REPORT OF THE BOARD OF DIRECTORS ON  
OPERATIONS FOR THE QUARTER  
OCTOBER-DECEMBER 2006**



SOCIETA' PER AZIONI - SHARE CAPITAL EURO 58,926,707.84  
MANTUA COMPANY REGISTER AND TAX CODE 00607460201  
COMPANY SUBJECT TO THE ACTIVITY AND COORDINATION OF CIR S.p.A.  
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## **DIRECTORS' REPORT ON OPERATIONS IN THE FOURTH QUARTER OCTOBER-DECEMBER 2006**

In the fourth quarter, the Sogefi Group managed to repeat the good levels of profitability and cash flow achieved in the first nine months of the year, even if the operating results are lower than for the same period in 2005, which benefited from various non-recurring factors.

Revenues for the quarter show a recovery in sales by the Filtration Division, particularly in the Independent Aftermarket (IAM), whereas demand slipped in the Suspension Components Division.

In the Original Equipment Market (OEM), demand from the two French car manufacturers was weak and there was a further reduction in activity in the USA on behalf of Ford. Sales in the Industrial Vehicles sector were stable, as the fourth quarter marked the beginning of a not particularly favourable period for this specific market.

The good level of activity in the South American market has been confirmed, both in OEM and in IAM, with high levels of profitability that are better than those earned in Europe.

**Consolidated sales** in the fourth quarter came to 253.1 million euro, a 1.7% improvement compared with 248.9 million in the same period of 2005.

Operating profitability in the fourth quarter reached 10.5% of sales, slightly better than the 10.4% posted in the first nine months, but still lower than the figure for the last quarter of 2005 (11.7%), a period that benefited from the reduction in the risk provision set up previously to cover the costs of a dispute with a customer, as well as from retroactive increases in selling prices.

**Consolidated net operating income (EBIT)** amounted to 26.6 million euro compared with 29.2 million in the same period of the previous year.

**Consolidated EBITDA** (earnings before interest, tax, depreciation and amortization) came to 25.7 million euro (10.2% of sales), which compares with 29.5 million (11.8%) in the fourth quarter of 2005.

During the period under review, a number of non-recurring factors had a negative impact on EBITDA, such as the 2.3 million euro of extraordinary personnel costs as a result of setting up

a provision for the remuneration of management to reward the performances achieved by the Group in recent years, also in light of recent developments in the tax treatment of stock option plans. Then there was the 3.8 million euro impairment charge against the value of the shock absorber spring machinery owned by the US subsidiary Asusa, given the probability of a further reduction in its production volumes. Additional restructuring costs of 1.9 million euro were also incurred during the quarter.

**Consolidated EBIT** (earnings before interest and tax) came to 15.5 million euro (6.1% of sales), whereas in the same period of the previous year it amounted to 18.7 million (7.5% of sales).

**Income before taxes and minority interests** amounted to 12.8 million euro, thanks to slightly lower financial expenses, compared with 13.4 million in the fourth quarter of 2005, having been penalised by the writedown of an investment.

**Consolidated net income** comes to 11.5 million euro (4.5% of sales), compared with 11.3 million in the fourth quarter of 2005, an increase of 1.8% thanks to lower tax charges following the company reorganization carried out the previous year.

**Net financial indebtedness** at December 31, 2006 was 126.3 million euro, a reduction of 17.8 million euro during the quarter and one of 41 million (-24.5%) compared with 167.3 million at December 31, 2005.

At the end of 2006, the Parent Company repaid the syndicated loan of 80 million euro obtained in 2001.

**Consolidated equity, including minority interests**, at December 31, 2006 amounted to 295.7 million euro, an increase of 13.2% on 261.3 million at December 31, 2005 and one of 4.1% compared with 284 million at September 30, 2006.

At December 31, 2006, **consolidated equity of the Group** amounted to 279.6 million euro compared with 246.9 million at December 31, 2005 and 268.5 million at September 30, 2006.

The Group's overall workforce at the end of 2006, consisted of 6,168 people, in line with the 6,171 at December 31, 2005 and 20 more than at September 30, 2006.

## **RESULTS OF THE FILTRATION DIVISION**

In the latter part of the year, the Filtration Division made a distinct improvement in sales

compared with the first nine months of 2006 and the same quarter of 2005, with volumes recovering well in the Independent Aftermarket.

**Consolidated sales** rose as a result by 7.6%, coming in at 134.7 million euro, compared with 125.2 million in the fourth quarter of 2005.

**Net operating income (EBIT)** has improved considerably as a result of selling products with a higher profit margin, reaching a total of 15.6 million euro (11.6% of sales) compared with 13.6 million (10.9% of sales) in the last three months of 2005.

Despite the higher personnel expenses, as explained previously, as well as higher reorganization costs, **consolidated EBITDA** amounted to 17.4 million euro (12.9% of sales), the same as the figure for the same period of the previous year of 17.4 million (13.9%).

**Consolidated EBIT** amounted to 12.8 million euro (9.5% of sales), which is also in line with the figure for the last three months of 2005, namely 12.7 million (10.2%).

## **RESULTS OF THE SUSPENSION COMPONENTS DIVISION**

Compared with the first nine months of the year, the negative trend in demand on the part of the French manufacturers, the drop in sales of leaf springs to a German customer and the drastic reduction in sales in the USA accentuated the decline in sales compared with 2005.

**Consolidated sales** came to 118.5 million euro, down by 4.2% compared with 123.7 million in the last three months of 2005.

**Net operating income** was affected by the lower turnover and by inefficiencies at certain Italian and French locations where production was being reorganized; as a result, net operating income came in at 11.8 million euro (9.9% of sales), having been 15.3 million (12.4%) in the last quarter of 2005.

**Consolidated EBITDA** for the period was 11.6 million euro compared with 12.1 million in the fourth quarter of 2005, during which significant restructuring costs were incurred. At 9.8% of sales, it was in line with that of the same period in 2005.

In the same way, **EBIT** amounted to 6.2 million euro, substantially the same as the previous year. The proportion of sales was 5.1% (5% in 2005).

## **PRELIMINARY RESULTS FOR THE WHOLE OF 2006**

The directors' report and the results for the entire year will be reviewed at the board meeting to be held on February 27, 2007. In light of the results shown above, the following preliminary Group results can be presented for 2006.

**Consolidated sales** are still over 1 billion euro, but they are slightly down on the previous year, coming in at 1,018.6 million euro compared with 1,023.4 million (-0.5%) in 2005.

**Consolidated net operating income (EBIT)** confirms the rising trend of recent years, coming in at 106.6 million euro (10.5% of sales) compared with 105.6 million (10.3% of sales) in 2005.

**Consolidated EBITDA** is up by 1.3% at 128.5 million euro (126.9 million in 2005). The percentage of sales has also improved to 12.6%, having been 12.4% in 2005.

**Consolidated EBIT** has improved by 3.1% to 83.5 million euro compared with 81 million in 2005, as has the percentage of sales, rising to 8.2% (7.9% in 2005).

**Consolidated net income**, 50.8 million euro, increased by 13.7% compared with the 2005 result (44.7 million euro) with the percentage of sales up to 5% (4.4% the previous year).

## **OUTLOOK FOR GROUP OPERATIONS**

Significant changes in the conditions of the Group's main markets are not expected during the first half of 2007.

Given that there are still tensions on the prices of certain raw materials, while the rise in energy costs continues, in order to achieve better results, the Group will carry on its policy of containing structure costs and improving efficiency in all sectors.

**CONSOLIDATED BALANCE SHEET (PRELIMINARY FIGURES)**

(in millions of euro)

<b>ASSETS</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	51.5	55.4
Securities and financial assets held for trading	0.2	2.1
Current portion of long term financial assets	-	-
<i>Working capital</i>		
Inventories	111.7	107.8
Trade receivables	227.0	232.8
Other receivables	6.0	4.3
Receivables from tax authorities	10.9	13.8
Other current assets	2.4	2.4
<b>TOTAL WORKING CAPITAL</b>	<b>358.0</b>	<b>361.1</b>
<b>TOTAL CURRENT ASSETS</b>	<b>409.7</b>	<b>418.6</b>
<b>NON-CURRENT ASSETS</b>		
<b>Fixed assets</b>		
Land	15.6	16.0
Property, plant and equipment	229.3	239.2
Other tangible fixed assets	4.5	4.7
<i>Of which: leasing</i>	<i>18.3</i>	<i>19.6</i>
Intangible assets	117.4	113.9
<b>TOTAL FIXED ASSETS</b>	<b>366.8</b>	<b>373.8</b>
<b>OTHER NON-CURRENT ASSETS</b>		
Equity investments in associated companies	0.1	3.4
Other financial assets available for sale	0.4	0.4
Long term trade receivables	-	-
Other receivables	5.6	3.5
Deferred tax assets	26.8	26.8
<b>TOTAL OTHER NON-CURRENT ASSETS</b>	<b>32.8</b>	<b>34.1</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>399.6</b>	<b>407.9</b>
<b>NON-CURRENT ASSETS HELD FOR SALE</b>	<b>2.6</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>812.0</b>	<b>826.5</b>

<b>LIABILITIES</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
CURRENT LIABILITIES		
Current bank overdrafts	13.3	26.4
Current portion of medium/long term financial debt and other loans	18.6	93.9
<i>Of which: leasing</i>	1.2	1.2
TOTAL SHORT TERM FINANCIAL DEBT	31.9	120.3
Other short term liabilities for <i>cash flow hedge</i>	-	-
TOTAL SHORT TERM FINANCIAL DEBT AND <i>CASH FLOW HEDGES</i>	31.9	120.3
Trade and other payables	234.3	224.1
Tax payables	8.4	7.9
Other current liabilities	2.4	2.6
<b>TOTAL CURRENT LIABILITIES</b>	<b>277.0</b>	<b>354.9</b>
NON-CURRENT LIABILITIES		
MEDIUM/LONG TERM FINANCIAL DEBT AND <i>CASH FLOW HEDGES</i>		
Financial debt to bank	128.4	83.6
Other medium/long term financial debts	18.0	20.7
<i>Of which: leasing</i>	15.3	17.2
TOTAL MEDIUM/LONG TERM FINANCIAL DEBT	146.4	104.3
Other medium/long term financial liabilities for <i>cash flow hedge</i>	-	0.1
<b>TOTAL MEDIUM/LONG TERM FINANCIAL DEBT AND <i>CASH FLOW HEDGES</i></b>	<b>146.4</b>	<b>104.4</b>
OTHER LONG TERM LIABILITIES		
Long term provisions	68.4	83.9
Other long term payables	-	-
Deferred taxation	24.5	22.0
<b>TOTAL OTHER LONG TERM LIABILITIES</b>	<b>92.9</b>	<b>105.9</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>239.3</b>	<b>210.3</b>
SHAREHOLDERS' EQUITY		
Share capital	58.8	58.3
Reserves and retained earnings (accumulated losses)	170.0	143.9
Net income (loss) for the period	50.8	44.7
<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>279.6</b>	<b>246.9</b>
Minority interests	16.1	14.4
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>295.7</b>	<b>261.3</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>812.0</b>	<b>826.5</b>

## CONSOLIDATED INCOME STATEMENT FOR THE FOURTH QUARTER OF 2006

(in millions of euro)

	Period 10.01 – 12.31.2006		Period 10.01 – 12.31.2005		Variation	
	Amount	%	Amount	%	Amount	%
Sales revenues	253.1	100.0	248.9	100.0	4.2	1.7
Variable cost of sales	165.0	65.2	157.0	63.1	8.0	5.1
<b>CONTRIBUTION MARGIN</b>	<b>88.1</b>	<b>34.8</b>	<b>91.9</b>	<b>36.9</b>	<b>(3.8)</b>	<b>(4.1)</b>
Manufacturing and R&D overheads	26.9	10.6	28.7	11.5	(1.8)	(6.3)
Depreciation and amortization	10.2	4.0	10.7	4.3	(0.5)	(4.7)
Distribution and sales fixed expenses	9.2	3.6	9.9	4.0	(0.7)	(7.1)
Administrative and general expenses	15.2	6.0	13.4	5.4	1.8	13.4
<b>OPERATING INCOME</b>	<b>26.6</b>	<b>10.5</b>	<b>29.2</b>	<b>11.7</b>	<b>(2.6)</b>	<b>(8.9)</b>
Restructuring costs	1.9	0.8	7.4	3.0	(5.5)	(74.3)
Losses (gains) on disposal	(0.1)	(0.1)	-	-	(0.1)	-
Exchange (gains) losses	0.2	0.1	0.2	0.1	-	-
Other non-operating expenses (income)	9.1	3.6	2.9	1.1	6.2	213.8
<b>EBIT</b>	<b>15.5</b>	<b>6.1</b>	<b>18.7</b>	<b>7.5</b>	<b>(3.2)</b>	<b>(17.1)</b>
Financial expenses (income), net	2.5	1.0	3.0	1.2	(0.5)	(16.7)
Losses (gains) from equity investments	0.2	0.1	2.3	0.9	(2.1)	(91.3)
<b>INCOME BEFORE TAXES AND MINORITY INTERESTS</b>	<b>12.8</b>	<b>5.0</b>	<b>13.4</b>	<b>5.4</b>	<b>(0.6)</b>	<b>(4.5)</b>
Income taxes for the period	0.7	0.3	1.2	0.5	(0.5)	(41.7)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>12.1</b>	<b>4.7</b>	<b>12.2</b>	<b>4.9</b>	<b>(0.1)</b>	<b>(0.8)</b>
Loss (income) attributable to minority interests	(0.6)	(0.2)	(0.9)	(0.4)	0.3	(33.3)
<b>GROUP NET INCOME</b>	<b>11.5</b>	<b>4.5</b>	<b>11.3</b>	<b>4.5</b>	<b>0.2</b>	<b>1.8</b>



**SOGEFI GROUP CONSOLIDATED STATEMENT OF INCOME FROM 1.01.2006 TO 31.12.2006**
**(PRELIMINARY FIGURES)**

(in millions of euro)

	Period 01.01 – 12.31.2006		Period 1.01 – 12.31.2005		Variation	
	Amount	%	Amount	%	Amount	%
Sales revenues	1,018.6	100.0	1,023.4	100.0	(4.8)	(0.5)
Variable cost of sales	653.2	64.1	657.6	64.3	(4.4)	(0.7)
<b>CONTRIBUTION MARGIN</b>	<b>365.4</b>	<b>35.9</b>	<b>365.8</b>	<b>35.7</b>	<b>(0.4)</b>	<b>(0.1)</b>
Manufacturing and R&D overheads	114.3	11.2	115.7	11.3	(1.4)	(1.2)
Depreciation and amortization	45.0	4.4	45.9	4.5	(0.9)	(1.9)
Distribution and sales fixed expenses	37.7	3.7	39.4	3.8	(1.7)	(4.2)
Administrative and general expenses	61,8	6,1	59,2	5,8	2,6	4,3
<b>OPERATING INCOME</b>	<b>106.6</b>	<b>10.5</b>	<b>105.6</b>	<b>10.3</b>	<b>1.0</b>	<b>0.9</b>
Restructuring costs	5.2	0.5	12.6	1.2	(7.4)	(58.6)
Losses (gains) on disposal	(3.9)	(0.4)	(0.1)	-	(3.8)	-
Exchange (gains) losses	0.8	0.1	(0.1)	-	0.9	-
Other non-operating expenses (income)	21.0	2.1	12.2	1.2	8.8	72.9
<b>EBIT</b>	<b>83.5</b>	<b>8.2</b>	<b>81.0</b>	<b>7.9</b>	<b>2.5</b>	<b>3.1</b>
Financial expenses (income), net	10.2	1.0	11.6	1.1	(1.4)	(11.8)
Losses (gains) from equity investments	(1.6)	(0.2)	2.3	0.2	(3.9)	(167.8)
<b>INCOME BEFORE TAXES AND MINORITY INTERESTS</b>	<b>74.9</b>	<b>7.4</b>	<b>67.1</b>	<b>6.6</b>	<b>7.8</b>	<b>11.6</b>
Income taxes for the period	21.5	2.1	21.2	2.1	0.3	1.7
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>53.4</b>	<b>5.3</b>	<b>45.9</b>	<b>4.5</b>	<b>7.5</b>	<b>16.2</b>
Loss (income) attributable to minority interests	(2.6)	(0.3)	(1.2)	(0.1)	(1.4)	106.3
<b>GROUP NET INCOME</b>	<b>50.8</b>	<b>5.0</b>	<b>44.7</b>	<b>4.4</b>	<b>6.1</b>	<b>13.7</b>

**NET FINANCIAL POSITION OF THE SOGEFI GROUP (PRELIMINARY FIGURES)**

(in millions of euro)

	Position as 12.31.2006	Position as 12.31.2005
A. Cash and banks	51.5	55.4
B. Securities and other liquid funds	-	-
C. Financial instruments held for trading	0.2	2.1
<b>D. Liquid funds (A) + (B) + (C)</b>	<b>51.7</b>	<b>57.5</b>
<b>E. Current financial receivables</b>	<b>-</b>	<b>-</b>
F. Current bank overdrafts	(13.3)	(11.5)
G. Current portion of non-current indebtedness	(18.6)	(108.9)
H. Other current financial payables	-	-
<b>I. Current financial indebtedness (F) + (G) + (H)</b>	<b>(31.9)</b>	<b>(120.4)</b>
<b>J. Net current financial position (I) + (E) + (D)</b>	<b>19.8</b>	<b>(62.9)</b>
K. Non-current financial debt to banks	(128.4)	(83.7)
L. Bond issues	-	-
M. Other non-current financial debts	(17.7)	(20.7)
<b>N. Non-current financial indebtedness (K) + (L) + (M)</b>	<b>(146.1)</b>	<b>(104.4)</b>
<b>O. Net financial position (J) + (N)</b>	<b>(126.3)</b>	<b>(167.3)</b>

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS.

### 1. INTRODUCTION

The consolidated financial statements for the period January 1 – December 31, 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) and to this end the financial statement figures of the Group companies included in the consolidation have been suitably reclassified and adjusted.

### 2. CONSOLIDATION POLICIES

The consolidation has been carried out on a line-by-line basis. The principles adopted for the application of this method are the same as those used at December 31, 2005.

### 3. ACCOUNTING PRINCIPLES

The accounting principles adopted in the preparation of the financial statements at December 31, 2006 are consistent with those applied in the financial statements at December 31, 2005.

### COMMENTS ON THE ACCOUNTING SCHEDULES (PRELIMINARY FIGURES)

Changes in the equity of the Group and in total equity in December 31, 2006 were as follows:

(in millions of euro)	Consolidated shareholders' equity - Group	Capital and reserves pertaining to minority interests	Total Group and minority shareholders' equity
Balances as at 12.31.2005	246.9	14.4	261.3
Paid share capital increase	2.6	-	2.6
Dividends	(19.5)	(1.0)	(20.5)
Exchange differences and other variations	(1.2)	0.1	(1.1)
Net income for the period	50.8	2.6	53.4
Balances as at 12.31.2006	279.6	16.1	295.7

Sales amounted to 1,018.6 million euro compared with 1,023.4 million euro in 2005.

The breakdown of sales by business sector is as follows:

(in millions of euro)	Year 2006		Year 2005		Variation	
	Amount	%	Amount	%	Amount	%
Suspension components and precision springs	491.5	48.3	504.9	49.3	(13.4)	(2.6)
Filters	527.1	51.7	518.5	50.7	8.6	1.6
TOTAL	1,018.6	100.0	1,023.4	100.0	(4.8)	(0.5)

The breakdown of sales by geographical area is as follows:

(in millions of euro)	Year 2006		Year 2005		Variation	
	Amount	%	Amount	%	Amount	%
France	266.8	26.2	289.6	28.3	(22.8)	(7.8)
Germany	133.4	13.1	126.6	12.4	6.8	5.4
Great Britain	124.5	12.2	125.2	12.2	(0.7)	(0.6)
Italy	98.5	9.7	111.9	10.9	(13.4)	(12.0)
Spain	72.5	7.1	66.7	6.5	5.8	8.7
Benelux	65.5	6.4	63.7	6.2	1.8	2.8
Other European countries	94.9	9.3	84.4	8.3	10.5	12.5
Mercosur	123.5	12.1	112.2	11.0	11.3	10.0
United States	24.8	2.4	29.9	2.9	(5.1)	(17.1)
China	3.5	0.4	4.4	0.4	(0.9)	(20.3)
Rest of the world	10.7	1.1	8.8	0.9	1.9	20.8
<b>TOTAL</b>	<b>1,018.6</b>	<b>100.0</b>	<b>1,023.4</b>	<b>100.0</b>	<b>(4.8)</b>	<b>(0.5)</b>

At December 31, 2006 the Group had 6,168 employees compared with 6,171 at December 31, 2005 broken down as follows:

	Situation as at 12.31.2006	Situation as at 12.31.2005
Management	87	93
Admin staff	1,386	1,420
Manual workers	4,695	4,658
<b>TOTAL</b>	<b>6,168</b>	<b>6,171</b>

Milan, February 13, 2007

THE BOARD OF DIRECTORS