

**2007**

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 2007

Shareholders,

*the Sogefi Group's 2007 results are very positive, with a significant increase in revenues and an improvement in profitability compared with the previous year.*

*After a flat period in 2006, a healthy increase in business volumes made it possible to achieve consolidated sales of € 1,071.8 million, with consolidated net profit rising to € 52.2 million.*

*The competitive scenario in the original equipment market (OEM) did not change during the year, with Sogefi still a world leader in its two business sectors, whereas spare parts manufacturers in countries with low labour costs stepped up supplies in both original equipment (OES) and in the independent aftermarket (IAM).*

*During the year, the Group continued to demonstrate its ability to offset the negative effect of rising raw material costs by passing them on – even though only partially – to selling prices and constantly raising efficiency in production processes and overheads.*

*As regards the three main automobile markets, all now in a state of maturity, 2007 saw substantial stability in Western Europe (+0.2%), a modest increase in Japan (+1%) and a decline in volumes in the North American market. In other words, overall growth was solely thanks to emerging markets, namely China, with a rise of 21.8%, Mercosur with +14% and India with +14.2%.*

*In particular, Sogefi benefited in terms of both sales and profitability from its strong presence in Mercosur, where investments were made during the year to expand production capacity and the product range, mainly for suspension components.*

*In Europe, after an uncertain first half, the French auto market began to show a positive trend with an increase of 3.2% year on year, whereas in Germany an increase in VAT triggered off a 9.2% drop compared with 2006. The other main markets ended the year in expansion, with Italy up 7.1% and Great Britain up 2.5%, with the exception of Spain, where there was a decline of 1.2%. Of the new markets in Eastern Europe, Poland and Romania turned in excellent results, with new car registrations up by more than 25% on 2006, the equivalent of more than 600,000 new vehicles.*

*The commercial and industrial vehicles sector, in which the Group operates mainly in Europe supplying suspension components, also had a good year with rising volumes. The high speed railway segment, in which Sogefi is a specialist suspension supplier, also turned in a similar trend.*

## GROUP OPERATIONS

*There have been improvements in all of the main income statement and balance sheet aggregates:*

### CONSOLIDATED INCOME STATEMENT

<i>(in millions of Euro)</i>	2007		2006	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Sales revenues</i>	1,071.8	100.0	1,018.6	100.0
<i>Variable cost of sales</i>	699.4	65.3	653.2	64.1
<b>CONTRIBUTION MARGIN</b>	372.4	34.7	365.4	35.9
<i>Manufacturing and R&amp;D overheads</i>	115.2	10.7	114.3	11.2
<i>Depreciation and amortization</i>	44.7	4.2	45.0	4.4
<i>Distribution and sales fixed expenses</i>	38.4	3.6	37.7	3.7
<i>Administrative and general expenses</i>	60.5	5.6	61.8	6.1
<b>OPERATING PROFIT</b>	113.6	10.6	106.6	10.5
<i>Restructuring costs</i>	7.6	0.7	5.2	0.5
<i>Losses (gains) on disposal</i>	(4.6)	(0.4)	(4.0)	(0.4)
<i>Exchange (gains) losses</i>	0.9	0.1	0.9	0.1
<i>Other non-operating expenses (income)</i>	19.8	1.8	21.0	2.1
<b>EBIT</b>	89.9	8.4	83.5	8.2
<i>Financial expenses (income), net</i>	9.4	0.9	10.2	1.0
<i>Losses (gains) from equity investments</i>	(0.1)	-	(1.6)	(0.2)
<b>PROFIT BEFORE TAXES AND MINORITY INTERESTS</b>	80.6	7.5	74.9	7.4
<i>Income taxes</i>	25.4	2.4	21.5	2.1
<b>NET PROFIT BEFORE MINORITY INTERESTS</b>	55.2	5.1	53.4	5.3
<i>Loss (income) attributable to minority interests</i>	(3.0)	(0.2)	(2.6)	(0.3)
<b>GROUP NET PROFIT</b>	52.2	4.9	50.8	5.0

*Consolidated sales came to € 1,071.8 million with an increase of 5.2% compared with the previous year, when they amounted to € 1,018.6 million. In 2007, the Group benefited from the favourable trend in the Brazilian and Argentine markets, increased demand from French car manufacturers and higher market shares in the industrial vehicles sector.*

*The positive trend in sales was generated principally by the Suspension Components Division, up 6.7% on the previous year, while the Filtration Division, which remains the most important in terms of revenues, achieved a 4% increase in sales.*

<i>(in millions of Euro)</i>	2007		2006	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Filters</i>	548.2	51.2	527.2	51.7
<i>Suspension components and precision springs</i>	524.6	48.9	491.6	48.3
<i>Intercompany eliminations</i>	(1.0)	(0.1)	(0.2)	-
<b>TOTAL</b>	1,071.8	100.0	1,018.6	100.0

The year saw a further strengthening of the Group's presence in OEM, with sales up by 6.9%, with a lower proportion of activity in OES (+3.9%) and IAM (+1.3%) due to the fact that these markets are opening up more and more to producers in low cost countries.

<i>(in millions of Euro)</i>	2007		2006	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Original Equipment (O.E.)</i>	698.3	65.1	653.3	64.2
<i>Independent Aftermarket (I.A.M.)</i>	234.6	21.9	231.6	22.7
<i>Original Equipment Spares (O.E.S.)</i>	138.9	13.0	133.7	13.1
<b>TOTAL</b>	<b>1,071.8</b>	<b>100.0</b>	<b>1,018.6</b>	<b>100.0</b>

In 2007, the Group managed to increase sales in all of its principal markets with the exception of France, which declined by 5.9%, even if it still remains the Group's no. 1 market. Growth was particularly positive in China (+69.1%), Mercosur (+20.3%), Italy (+7.4%) and Germany (+6%).

<i>(in millions of Euro)</i>	2007		2006	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>France</i>	250.9	23.4	266.7	26.2
<i>Germany</i>	141.4	13.2	133.4	13.1
<i>Great Britain</i>	126.7	11.8	124.5	12.2
<i>Italy</i>	105.8	9.9	98.5	9.7
<i>Spain</i>	75.1	7.0	72.5	7.1
<i>Benelux</i>	71.4	6.7	70.8	7.0
<i>Other European countries</i>	108.5	10.1	89.6	8.8
<i>Mercosur</i>	148.5	13.9	123.4	12.1
<i>United States</i>	26.0	2.4	24.8	2.4
<i>China</i>	6.0	0.6	3.5	0.3
<i>Rest of the World</i>	11.5	1.0	10.9	1.1
<b>TOTAL</b>	<b>1,071.8</b>	<b>100.0</b>	<b>1,018.6</b>	<b>100.0</b>

The Renault/Nissan group became our leading customer in 2007 with a 9.7% increase in sales, while sales to the Ford group, which has become our second largest customer, went up by 3.7%, exceeding those to PSA (-10.1%), which is now no. 3, having been no. 1 in 2006.

(in millions of Euro)	2007		2006	
	Amount	%	Amount	%
Group				
Renault/Nissan	140.4	13.1	128.1	12.6
Ford/Volvo	119.8	11.2	115.5	11.3
PSA	117.5	11.0	130.7	12.8
FIAT/IVECO	88.7	8.3	82.0	8.0
Daimler	65.6	6.1	66.6	6.5
Volkswagen/Audi	61.0	5.7	56.4	5.5
DAF/Paccar	36.8	3.4	30.0	3.0
GM	32.2	3.0	24.8	2.4
Toyota	19.9	1.9	24.0	2.4
Honda	11.1	1.0	10.9	1.1
Caterpillar	9.1	0.8	9.2	0.9
Chrysler	7.0	0.7	2.0	0.2
Man	6.3	0.6	3.4	0.3
Other	356.4	33.2	335.0	33.0
TOTAL	1,071.8	100.0	1,018.6	100.0

There have not been any major changes in our principal product lines: engine oil filters are still the highest seller in the Filtration area, while stabilizer bars are the product most sold in Suspension Components, with growth of 14.9%; sales of coil springs and torsion bars, on the other hand, are down.

(in millions of Euro)	2007		2006	
	Amount	%	Amount	%
Oil filters	286.2	26.7	273.9	26.9
Stabilizer bars	207.0	19.3	180.2	17.7
Coil springs	144.2	13.5	153.6	15.1
Air filters	123.6	11.5	120.0	11.8
Diesel filters	80.2	7.5	63.2	6.2
Leaf springs	72.4	6.8	63.0	6.2
Precision springs	33.3	3.1	34.2	3.4
Torsion bars	30.7	2.9	33.0	3.2
Petrol filters	22.8	2.1	37.7	3.7
Stabilinks	18.7	1.7	17.4	1.7
Cabin filters	17.9	1.7	12.8	1.3
Spring groups	6.3	0.6	6.6	0.6
Other	28.5	2.6	23.0	2.2
TOTAL	1,071.8	100.0	1,018.6	100.0

2007 was another year of rising costs for steel, energy and oil-based materials and components. On the other hand, there have been reductions in the cost of aluminium components.

Labour costs have gone up in line with inflation rates in the individual countries where the Group operates, with particularly hefty rises in South America and China. Labour cost as a percentage of sales went down (21.4% compared with 22.3% in 2006), despite a modest increase in the workforce, which at the end of the year numbered 6,208 compared with 6,168 at December 31, 2006.

	12.31.2007		12.31.2006	
	Number	%	Number	%
Filters	3,629	58.5	3,603	58.4
Suspension components and precision springs	2,544	41.0	2,528	41.0
Other	35	0.5	37	0.6
<b>TOTAL</b>	<b>6,208</b>	<b>100.0</b>	<b>6,168</b>	<b>100.0</b>

Their breakdown by category has not changed much in the meantime.

	12.31.2007		12.31.2006	
	Number	%	Number	%
Managers	86	1.4	87	1.4
Clerical staff	1,401	22.5	1,386	22.5
Direct blue collar workers	3,722	60.0	3,668	59.5
Indirect blue collar workers	999	16.1	1,027	16.6
<b>TOTAL</b>	<b>6,208</b>	<b>100.0</b>	<b>6,168</b>	<b>100.0</b>

The production rationalisations carried out in 2006 enabled us to improve the main profitability indicators in absolute terms, despite the impact of inflation on certain cost factors:

- the **consolidated contribution margin** came to € 372.4 million (34.7% of sales), an increase of 1.9% compared with € 365.4 million (35.9% of sales) in 2006;
- **consolidated operating profit** came to € 113.6 million, an improvement of 6.6% compared with € 106.6 million in 2006, rising as a percentage of sales to 10.6% from 10.5%;
- **consolidated EBITDA** (earnings before interest, tax, depreciation and amortization) rose to € 134.6 million compared with € 128.5 million in 2006, remaining the same as a percentage of sales (12.6%);
- **consolidated EBIT** (earnings before interest and tax) has risen to € 89.9 million (8.4% of sales) compared with € 83.5 million (8.2% of sales) of the previous year.

**EBITDA** and **EBIT** were both affected by non-recurring income and expenses during the year:

- costs of € 5.3 million were incurred in connection with strategic acquisitions that were not completed;
- provisions of € 6.1 million were set aside for costs to be incurred in 2008 for production reorganizations and structural cuts, on top of the € 1.5 million incurred for the same reasons in 2007;
- in April, a capital gain of € 4.6 million was realized on the sale of an industrial site in Nottingham (UK) which is no longer used by the Filtration Division;
- the year benefited from a positive adjustment of € 1.8 million to the liability for the British companies' pension funds.

**Profit before taxes and minority interests** amounted to € 80.6 million, an increase of 7.6% compared with € 74.9 million the previous year, partly thanks to lower financial expenses for € 0.8 million following a reduction in net indebtedness. 2006 benefited from financial income of € 1.6 million generated by the management of equity investments.

**Consolidated net profit** came to € 52.2 million, an increase of 2.8% compared with € 50.8 million, even though 2006 benefited from a lower tax burden. As a percentage of sales it has gone from 5% to 4.9%.

**EPS (earnings per share)** comes to € 0.465, which compares with € 0.457 the previous year, based on a higher average number of shares outstanding (112,152,816 versus 111,190,426 in 2006), net of treasury shares.

The consolidated capital structure shows consolidated equity of € 310.9 million, 11.2% up on € 279.6 million at December 31, 2006, after distributing € 22.4 million of dividends.

(in millions of Euro)	Note (*)	12.31.2007		12.31.2006	
		Amount	%	Amount	%
Short-term operating assets	(a)	352.5		358.1	
Short-term operating liabilities	(b)	(243.6)		(245.1)	
Net working capital		108.9	26.0	113.0	26.8
Investments	(c)	0.6	0.1	0.5	0.1
Intangible, tangible fixed assets and other medium and long-term assets	(d)	395.6	94.4	401.4	95.1
CAPITAL INVESTED		505.1	120.5	514.9	122.0
Other medium and long-term liabilities	(e)	(86.0)	(20.5)	(92.9)	(22.0)
NET CAPITAL INVESTED		419.1	100.0	422.0	100.0
Net financial position		92.4	22.0	126.3	29.9
Minority interests		15.8	3.8	16.1	3.8
Consolidated equity of the Group		310.9	74.2	279.6	66.3
TOTAL		419.1	100.0	422.0	100.0

(\*) see the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

The Group made further improvements to its **working capital** during the year, reducing it to € 108.9 million (10.2% of sales) from € 113 million (11.1% of sales) at the end of 2006.

**ROI**, the return on investment, for the year came to 21.4% compared with 19.6% in 2006, whereas **ROE**, the return on equity, was 17.7% (19.3% in 2006).

The Group again achieved a good level of cash flow, with operations in 2007 generating € 97.9 million (€ 102 million in the previous twelve months). The **consolidated net financial position** at the end of the year shows indebtedness of € 92.4 million, which is 26.9% lower than the € 126.3 million at December 31, 2006, made up as follows:

(in millions of Euro)	12.31.2007	12.31.2006
Cash, banks, financial receivables and securities held for trading	64.7	51.7
Medium/long-term financial receivables	-	0.3
Short-term financial debts (*)	(26.6)	(31.9)
Medium/long-term financial debts	(130.5)	(146.4)
NET FINANCIAL POSITION	(92.4)	(126.3)

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

Minority interests as a percentage of total equity have fallen to 4.8%, compared with 5.4% at December 31, 2006.

**Book equity per share** at December 31, 2007 amounts to € 2.753, which compares with € 2.505 at the end of 2006, based on a higher number of shares (net of treasury shares): 112,917,192 versus 111,625,592 at December 31, 2006.

The following table shows the changes in cash flow during the year.

(in millions of Euro)	Note (*)	2007	2006
<b>SELF-FINANCING</b>	(f)	94.8	91.2
Change in net working capital		4.9	12.9
Other medium/long-term assets/liabilities	(g)	(1.8)	(2.1)
<b>CASH FLOW GENERATED BY OPERATIONS</b>		<b>97.9</b>	<b>102.0</b>
Sale of equity investments	(h)	–	3.0
Net decrease from sale of fixed assets	(i)	2.9	2.0
<b>TOTAL SOURCES</b>		<b>100.8</b>	<b>107.0</b>
Increase in intangible assets		11.1	11.1
Purchase of tangible assets		35.9	39.7
<b>TOTAL APPLICATION OF FUNDS</b>		<b>47.0</b>	<b>50.8</b>
Net financial position of subsidiaries purchased/sold during the year		–	–
Exchange differences on assets/liabilities and equity	(l)	2.1	2.4
<b>FREE CASH FLOW</b>		<b>55.9</b>	<b>58.6</b>
Holding Company increases in capital		3.6	2.6
Increases in share capital of consolidated subsidiaries		0.3	0.3
Dividends paid by the Holding Company to shareholders		(22.4)	(19.5)
Dividends paid by subsidiaries to minority interests		(3.5)	(1.0)
<b>CHANGES IN SHAREHOLDERS' EQUITY</b>		<b>(22.0)</b>	<b>(17.6)</b>
<b>Change in net financial position</b>	(m)	<b>33.9</b>	<b>41.0</b>
<b>Opening net financial position</b>	(m)	<b>(126.3)</b>	<b>(167.3)</b>
<b>CLOSING NET FINANCIAL POSITION</b>	(m)	<b>(92.4)</b>	<b>(126.3)</b>

(\*) see the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

**GEARING**, as reflected in the debt/equity ratio, went down at December 31, 2007 to 0.28 from 0.43 at the end of the previous year, while the **ratio of net debt to EBITDA** fell to 0.69 compared with 0.98 at December 31, 2006.

During 2007, the Group invested € 35.9 million in property, plant and equipment to boost production capacity and raise the level of process automation. This compares with the previous year's figure of € 39.7 million.

Research activities for the development of new technologies and innovation of the product range involved costs of € 21.7 million (2.0% of sales), in line with 2006 (€ 22 million).



## 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)	2007	2006
Net profit per Sogefi S.p.A. financial statements	26.0	22.3
Group share of results of subsidiary companies included in the consolidated financial statements	57.3	54.2
Writedowns of equity investments in Sogefi S.p.A.	5.2	1.3
Elimination of intercompany dividends received by Sogefi S.p.A.	(34.5)	(27.7)
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	(1.8)	(0.2)
<b>NET PROFIT PER CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>52.2</b>	<b>50.8</b>

### Shareholders' equity

(in millions of Euro)	12.31.2007	12.31.2006
Shareholders' equity per Sogefi S.p.A. financial statements	258.2	250.1
Group share of excess equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. financial statements	70.6	45.6
Elimination of unrealized gains deriving from intercompany transactions and other consolidation adjustments, net of the related deferred taxation	(17.9)	(16.1)
<b>SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>310.9</b>	<b>279.6</b>

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

Sogefi S.p.A., the Holding Company, closed 2007 with net profit of € 26 million, 16.8% higher than the previous year's figure of € 22.3 million.

The main revenue and expense items are shown in the Company's reclassified income statement:

(in millions of Euro)	2007	2006
Financial income/expenses and dividends	34.1	28.0
Adjustments to financial assets	(5.2)	(1.3)
Other operating revenues	8.2	10.0
Operating costs	(10.9)	(11.7)
Other non-operating income (expenses)	(6.8)	(3.1)
<b>PROFIT BEFORE TAXES</b>	<b>19.4</b>	<b>21.9</b>
Income taxes	(6.6)	(0.4)
<b>NET PROFIT</b>	<b>26.0</b>	<b>22.3</b>

The increase in net profit is principally due to “Financial income/expenses and dividends”, which rose by € 6.1 million compared with 2006 to € 34.1 million, mainly thanks to the dividends distributed by subsidiaries for a total of € 34.5 million compared with € 28.7 million the previous year.

However, the result also had to absorb higher writedowns of financial assets, mainly to adjust the values of the two US subsidiaries to their net equity, as well as a reduction in “Other non-operating income (expenses)”, which include € 5.3 million of consulting fees in connection with two unsuccessful acquisition projects.

As a result, “Profit before taxes” of € 19.4 million is 11.1% down on the previous year.

Hefty tax recoveries of € 6.6 million, thanks to the fact that the Company files for tax on a group basis together with its parent company CIR S.p.A., made it possible to close the year with higher net income than in 2006.

Turning to the **balance sheet**, one of the main features of 2007 was the increase in net capital invested of around € 12.5 million, rising to € 287.7 million as shown in the following table:

(in millions of Euro)	Note (*)	12.31.2007	12.31.2006
Short-term assets	(n)	5.4	2.9
Short-term liabilities	(o)	(4.4)	(6.5)
Net working capital		1.0	(3.6)
Investments	(p)	260.6	256.4
Other fixed assets	(q)	27.5	28.9
CAPITAL INVESTED		289.1	281.7
Other medium and long-term liabilities	(r)	(1.4)	(6.5)
NET CAPITAL INVESTED		287.7	275.2
Net financial position		29.5	25.1
Shareholders' equity		258.2	250.1
TOTAL		287.7	275.2

(\*) see the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

During the year, “Net working capital” turned positive again for € 1 million, mainly as a result of higher tax receivables due from the parent company CIR S.p.A., whereas the higher outlay on equity investments is the consequence of the financial support given by the Holding Company as part of the project to rationalise the Sogefi Group’s presence in the US market. Further details are given on this matter in the notes to the Company’s statutory financial statements.

Lastly, it is worth mentioning the reduction in “Other medium and long-term liabilities” generated by the reversal of deferred tax liabilities for € 4.4 million on recognition of the fair value measurement of investment properties for tax purposes from January 1, 2008.

Consequently, the **net financial position**, as summarized below,

(in millions of Euro)	12.31.2007	12.31.2006
Cash and banks	3.9	6.2
Securities and short/medium-term financial receivables from subsidiaries and third parties	121.9	139.4
Short-term financial payables to subsidiaries and third parties	(53.6)	(68.1)
Medium long-term financial debts	(101.7)	(102.6)
NET FINANCIAL POSITION	(29.5)	(25.1)

shows a slight deterioration, coming in at € 29.5 million, with a € 4.4 million increase in net debt.

<i>(in millions of Euro)</i>	Note (*)	2007	2006
<b>SELF-FINANCING</b>	(s)	29.3	24.0
<i>Change in net working capital</i>		(4.6)	0.4
<i>Other medium/long-term assets/liabilities</i>	(t)	-	0.6
<b>CASH FLOW GENERATED BY OPERATIONS</b>		<b>24.7</b>	<b>25.0</b>
<i>Sale of equity investments</i>		-	-
<b>TOTAL SOURCES</b>		24.7	25.0
<i>Purchase of tangible assets</i>		0.2	-
<i>Purchase of equity investments</i>		10.1	-
<b>TOTAL APPLICATION OF FUNDS</b>		10.3	-
<b>FREE CASH FLOW</b>		<b>14.4</b>	<b>25.0</b>
<i>Holding Company increases in capital</i>		3.6	2.6
<i>Dividends paid by the Holding Company</i>		(22.4)	(19.5)
<b>CHANGES IN SHAREHOLDERS' EQUITY</b>		(18.8)	(16.9)
<i>Change in net financial position</i>	(u)	(4.4)	8.1
<i>Opening net financial position</i>	(u)	(25.1)	(33.2)
<b>CLOSING NET FINANCIAL POSITION</b>	(u)	<b>(29.5)</b>	<b>(25.1)</b>

(\*) see the notes at the end of this report for a detailed explanation of the reasons for the reclassifications that we have made.

The above **cash flow statement** highlights the principal changes during the year. The decline in free cash flow was due to the various factors mentioned previously, together with the additional outlay for the payment of dividends, which rose to € 22.4 million, an increase of 15% compared with the € 19.5 million distributed in 2006.

## PERFORMANCE BY BUSINESS DIVISION

### FILTRATION DIVISION

The Filtration business achieved a 4% increase in revenues compared with 2006, thanks to a positive trend in demand for original equipment (+10.2%), as well as growth in original equipment spares (+0.8%) and in the independent aftermarket (+1.2%).

The main contributor to these higher revenues was South America (+13.2%), while Europe made more modest progress (+2%).

The Division was less profitable than in 2006; the following table shows the performance of the two main areas of activity:

(in millions of Euro)	FILTER DIVISION EUROPE		FILTER DIVISION SOUTH AMERICA		Intercomp. elimin.	TOTAL FILTER DIVISION	
	Amount	%	Amount	%		Amount	Amount
Sales revenues	463.0	100.0	86.2	100.0	(1.0)	548.2	100.0
Operating profit	48.0	10.4	11.1	12.8	(1.4)	57.7	10.5
EBIT	41.6	9.0	9.0	10.4	(1.5)	49.1	9.0
Profit before taxes	44.0	9.5	8.2	9.5	(4.9)	47.3	8.6
Net profit	32.3	7.0	5.7	6.7	(4.7)	33.3	6.1
Net financial surplus (indebtedness)	18.8		6.5		0.6	25.9	
Shareholders' equity	158.5		25.4		(41.0)	142.9	
Number of employees at December 31	2,846		753		30.0	3,629	

**Consolidated sales** came to € 548.2 million, which compared with last year's figure of € 527.2 million, with better sales in the Mercosur and in Northern European markets, whereas revenues fell in Italy and Spain, mainly because of the trend in the IAM.

**Consolidated operating profit** of € 57.7 million (10.5% of sales) suffered a modest reduction compared with € 58.1 million (11% of sales) in 2006. The result in Europe has fallen by 2.2%, mainly because of a deterioration in the profitability of the Italian subsidiary, while in the Mercosur operating profit has improved by 15.3% thanks to the increase in sales.

The Division achieved a **consolidated EBITDA** of € 67.8 million (12.4% of sales) which is lower than the previous year's figure of € 70.2 million (13.3% of sales), partly because of the negative impact of the provisions for reorganizations to be carried out in 2008, as mentioned previously.

**Consolidated EBIT** amounted to € 49.1 million (9% of sales) compared with € 51.9 million (9.8% of sales) in 2006.

The Division's **consolidated net profit** for the year came to € 33.3 million (6.1% of sales) compared with € 34.4 million (6.5% of sales) in 2006.

**Consolidated equity** rose to € 142.9 million, having been € 134.9 million at December 31, 2006.

The **net financial position** at December 31, 2007 also improved, showing a surplus of € 25.9 million compared with € 10.9 million at the end of 2006.

At the end of the year, the Division had 3,629 employees, an increase of 0.7% compared with 3,603 in 2006.

## SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION

The Suspension Components business in 2007 achieved significant growth in revenues, mainly thanks to the improvement in market shares in South America and in the European industrial vehicles market, as well as higher demand from French and Italian car manufacturers.

*Profitability improved considerably because of the increase in selling prices to recoup part of the increase in steel costs, combined with higher production efficiency. The Division's performance in its two main sectors is as follows:*

<i>(in millions of Euro)</i>	<i>CAR AND PRECISION SPRINGS</i>		<i>INDUSTRIAL VEHICLES</i>		<i>Intercomp. elimin.</i>	<i>TOTAL SUSPENSION DIVISION</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>		<i>Amount</i>	<i>%</i>
<i>Sales revenues</i>	428.4	100.0	96.5	100.0	(0.3)	524.6	100.0
<i>Operating profit</i>	38.3	8.9	20.4	21.2	0.1	58.8	11.2
<i>EBIT</i>	30.1	7.0	20.2	21.0	-	50.3	9.6
<i>Profit before taxes</i>	38.4	9.0	20.8	21.5	(16.0)	43.2	8.2
<i>Net profit</i>	28.1	6.6	13.3	13.7	(15.9)	25.5	4.9
<i>Net financial surplus (indebtedness)</i>	(105.1)		15.6		-	(89.5)	
<i>Shareholders' equity</i>	126.0		30.2		(22.2)	134.0	
<i>Number of employees at December 31</i>	2,197		347		-	2,544	

*Consolidated sales* rose by 6.7% to € 524.6 million, compared with € 491.6 million in 2006. Sales were increased in all markets: Mercosur +22.8%, North America +42.9%, Europe +1.4% and industrial vehicles +10.1%.

Despite the price hikes in steel and energy, **consolidated operating profit** improved on the previous year thanks to the increase in selling prices, coming in at € 58.8 million (€ 51.2 million in 2006). This is 11.2% of sales (10.4% in the previous year).

**Consolidated EBITDA** amounted to € 75.8 million (14.4% of sales), with an increase of 19.4% compared with € 63.4 million (12.9% of sales) the previous year.

**Consolidated EBIT** has grown to € 50.3 million (9.6% of sales) compared with € 37.4 million (7.6% of sales) in 2006.

The Division's **consolidated net profit** has improved to € 25.5 million from last year's € 24.5 million, despite a higher tax burden than in 2006, which benefited from non-recurring circumstances - the reorganizations - that resulted in more favourable taxation.

The Division's **consolidated net financial position** as of December 31, 2007 shows an indebtedness of € 89.5 million, which is lower than the € 111.3 million at the end of 2006.

The Division's **consolidated equity** came to € 134 million at the end of the year, an improvement on € 116.2 million twelve months earlier.

The workforce employed in the Suspension Components Division at December 31, 2007 numbered 2,544 employees, slightly up on 2,528 at the end of 2006.

## OUTLOOK FOR OPERATIONS

The negative trend in the world economic scenario in 2008 is also likely to affect the automotive market in which Sogefi operates, though we ought to be able to cope with any dips in the European market thanks to further growth expected in South America and more planned production reorganizations.

## OTHER INFORMATION

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

We provide the following information pursuant to Legislative Decree 58 of February 24, 1998 adopted by Consob resolution 11971/99:

Name	Company	No. of shares held at the end of 2006	No. of shares purchased in 2007	No. of shares sold in 2007	No. of shares held at the end of 2007
Carlo De Benedetti <sup>(1)</sup>	Sogefi S.p.A.	65,194,962	–	–	65,194,962
Emanuele Bosio	Sogefi S.p.A.	1,403,500	666,000	–	2,069,500
	A.R.A. S.A.	13	–	–	13
	Filtrauto S.A.	1	–	–	1
	Alleward Springs Ltd	1	–	–	1
Pierluigi Ferrero	Sogefi S.p.A.	10,000	5,000	–	15,000
Giovanni Germano <sup>(2)</sup>	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	–	–	1,300
Managers with strategic responsibilities	Sogefi S.p.A.	176,000	229,000	249,200	155,800
	A.R.A. S.A.	10	14	–	24
	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) held indirectly through Siria S.r.l., Corso Montevecchio 38, Turin (Italy) - VAT no. 00486820012

The shares held in Filtrauto S.A. are non-transferable. Five of the shares held by Emanuele Bosio in A.R.A. S.A. and the shares held by the managers with strategic responsibilities in A.R.A. S.A. are also non-transferable until the end of the term of office of the directors concerned.

## INTERCOMPANY AND RELATED PARTY TRANSACTIONS

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. Dealings between Group companies are conducted at arm’s length, taking into account the quality and type of services rendered.

We point out that no transactions have been carried out with related parties that, according to the definition used by Consob, are atypical or unusual, do not relate to the normal business activity or are such as to have a significant impact on the Group’s results, balance sheet or financial position.

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

## CORPORATE GOVERNANCE

*Note that the text of the “Annual Report on Corporate Governance” for 2007 was approved at the meeting of the Board of Directors that was called to approve the financial statements for the year ended December 31, 2007 and will be available for anyone who requests a copy, in accordance with the instructions issued by Borsa Italiana and Consob Resolution 11971/99 for its diffusion to the general public. The report will also be available on the Company’s website ([www.sogefi.it](http://www.sogefi.it) in the “Shareholders and Investors” section).*

*The Report contains also the information on ownership structures (art. 123 bis Legislative Decree no. 58/1998) and the information on compliance with the codes of conduct that the Company has adopted (art. 89 bis Consob Resolution 11971/99). Generally speaking, the Company’s Corporate Governance is in line with the recommendations and rules contained in the Code of Conduct.*

*As regards Legislative Decree 231/2001, which brings domestic regulations on administrative liability of legal persons 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 SHARES

*As of December 31, 2007, Sogefi S.p.A. held 1,695,000 treasury shares (with a par value of € 881 thousand), equal to 1.48% 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 Legislative 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 identifying 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 Legislative Decree no. 196 of June 30, 2003.*

## 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, 2007, was approved by the Board of Directors on February 26, 2008.*

## *SIGNIFICANT SUBSEQUENT EVENTS*

*On January 31, 2008, 118,800 Sogefi S.p.A. shares were issued after the beneficiaries of current stock option plans exercised their options. Following this operation, the share capital is made up of 114,730,992 shares with a total par value of € 59,660,115.84.*

*On the subject of treasury shares, we point out that under the shareholders' authorization to buy treasury shares granted at the meeting of April 20, 2007, starting from January 7, 2008 up to February 25, 2008 the Company bought 341,000 shares at an average price of € 4.55 each.*

*On January 31, 2008, the Company also sold 80,000 treasury shares at a price of € 3.87 each in execution of the 2005 stock option plan reserved for one of the Company's project workers.*

*As a result, at February 25, 2008, the Company has 1,956,000 treasury shares, equal to 1.7% of the share capital.*



## PROPOSED ALLOCATION OF NET PROFIT FOR THE YEAR AND DISTRIBUTION OF RESERVES

The statutory financial statements as of December 31, 2007 that we submit for your approval show net profit of € 26,034,190.61. We would like to propose:

- allocating € 300,000.00 to the legal reserve (thereby reaching one-fifth of the share capital);
- distributing a dividend per share of € 1.40 to each of the shares in issue with rights from January 1, 2007 (excluding the treasury shares in portfolio), using the net profit for the year of € 25,734,190.61 and taking the difference from the following reserves:

### Income reserves

- Retained earnings (distributable portion) € 69,383,813.89

### Equity reserves

- Dividend equalisation € 2,422,182.86
- Share premium reserve for the rest

The proposed allocation of net profit for the year and the distribution of reserves take into account the provision of art. 2357 ter, 2 of the Italian Civil Code, which establishes that the dividend rights of the treasury shares are to be attributed proportionally to the other shares.

We point out that the effective amount to be allocated to dividends and distributed out of reserves will take account of the treasury shares held in portfolio and of the ordinary shares effectively outstanding at the date of the Shareholders' Meeting, including the possible issuance of new shares if the beneficiaries of current stock option plans exercise their options.

The dividend being proposed to the Ordinary Shareholders' Meeting is made up of € 0.22 per share from the distribution of net profit for the year 2007 and € 1.18 per share from the distribution of income and equity reserves.

Milan, February 26, 2008

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 THE HOLDING COMPANY'S STATUTORY FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS/IAS*

***Notes relating to 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 employee benefits" 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 "Losses/(gains) 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 "Losses/(gains) on disposal of fixed assets and non-current assets held for sale", "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 relating to the Holding Company's Statutory Financial Statements***

- (n) the heading agrees with "Total working capital" ("Totale 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 subsidiaries" ("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 e immateriali"), "Accrued costs for stock options" ("Accantonamenti costi per stock options"), "Change in provisions for risks" ("Variazione fondi rischi") and "Net change in provision for employment termination indemnities" ("Variazione netta fondo trattamento fine rapporto") in the Holding Company's statutory cash flow statement;*
- (t) the heading is included in the line item "Other assets/liabilities" ("Altre attività/passività") in the Holding Company's statutory cash flow statement, excluding movements relating to financial receivables/payables;*
- (u) these headings differ from those shown in the Holding Company's statutory cash flow statement 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)

<i>ASSETS</i>	<i>Note</i>	<i>12.31.2007</i>	<i>12.31.2006</i>
<i>CURRENT ASSETS</i>			
<i>Cash and cash equivalents</i>	5	63,753	51,519
<i>Other financial assets</i>	6	956	160
<i>Working capital</i>			
<i>Inventories</i>	7	113,168	111,709
<i>Trade receivables</i>	8	220,097	226,992
<i>Other receivables</i>	8	5,982	6,010
<i>Tax receivables</i>	8	10,730	10,952
<i>Other assets</i>	8	2,551	2,391
<b>TOTAL WORKING CAPITAL</b>		<b>352,528</b>	<b>358,054</b>
<b>TOTAL CURRENT ASSETS</b>		<b>417,237</b>	<b>409,733</b>
<i>NON-CURRENT ASSETS</i>			
<i>FIXED ASSETS</i>			
<i>Land</i>	9	11,354	15,623
<i>Property, plant and equipment</i>	9	224,284	229,176
<i>Other tangible fixed assets</i>	9	4,406	4,450
<i>Of which: leases</i>		12,653	18,259
<i>Intangible assets</i>	10	118,674	117,403
<b>TOTAL FIXED ASSETS</b>		<b>358,718</b>	<b>366,652</b>
<i>OTHER NON-CURRENT ASSETS</i>			
<i>Equity investments in associated companies</i>	11	101	101
<i>Other financial assets available for sale</i>	12	497	450
<i>Financial receivables</i>	13	-	301
<i>Other receivables</i>	13	4,974	5,305
<i>Deferred tax assets</i>	14-20	25,167	26,819
<b>TOTAL OTHER NON-CURRENT ASSETS</b>		<b>30,739</b>	<b>32,976</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>389,457</b>	<b>399,628</b>
<i>NON-CURRENT ASSETS HELD FOR SALE</i>	15	6,756	2,646
<b>TOTAL ASSETS</b>		<b>813,450</b>	<b>812,007</b>

<i>LIABILITIES</i>	<i>Note</i>	<i>12.31.2007</i>	<i>12.31.2006</i>
<i>CURRENT LIABILITIES</i>			
<i>Bank overdrafts and short-term loans</i>	16	12,418	13,278
<i>Current portion of medium/long-term financial debts and other loans</i>	16	13,696	18,578
<i>Of which: leases</i>		1,340	1,186
<i>TOTAL SHORT-TERM FINANCIAL DEBTS</i>		26,114	31,856
<i>Other short-term liabilities for derivative financial instruments</i>	16	469	-
<i>TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</i>		26,583	31,856
<i>Trade and other payables</i>	17	228,858	234,514
<i>Tax payables</i>	17	11,821	8,210
<i>Other current liabilities</i>	18	2,984	2,359
<i>TOTAL CURRENT LIABILITIES</i>		270,246	276,939
<i>NON-CURRENT LIABILITIES</i>			
<i>MEDIUM/LONG-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</i>			
<i>Financial debts to bank</i>	16	118,005	128,402
<i>Other medium/long-term financial debts</i>	16	12,492	18,000
<i>Of which: leases</i>		9,133	15,306
<i>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS</i>		130,497	146,402
<i>Other medium/long-term financial liabilities for derivative financial instruments</i>	16	-	-
<i>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</i>		130,497	146,402
<i>OTHER LONG-TERM LIABILITIES</i>			
<i>Long-term provisions</i>	19	58,765	68,465
<i>Other payables</i>		-	-
<i>Deferred tax liabilities</i>	20	27,228	24,478
<i>TOTAL OTHER LONG-TERM LIABILITIES</i>		85,993	92,943
<i>TOTAL NON-CURRENT LIABILITIES</i>		216,490	239,345
<i>SHAREHOLDERS' EQUITY</i>			
<i>Share capital</i>	21	59,595	58,826
<i>Reserves and retained earnings (accumulated losses)</i>	21	199,093	170,013
<i>Group net profit (loss) for the year</i>	21	52,200	50,767
<i>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE HOLDING COMPANY</i>		310,888	279,606
<i>Minority interests</i>	21	15,826	16,117
<i>TOTAL SHAREHOLDERS' EQUITY</i>		326,714	295,723
<i>TOTAL LIABILITIES AND EQUITY</i>		813,450	812,007

# CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)

	Note	2007		2006	
		Amount	%	Amount	%
Sales revenues	23	1,071,765	100.0	1,018,579	100.0
Variable cost of sales	24	699,415	65.3	653,215	64.1
<b>CONTRIBUTION MARGIN</b>		<b>372,350</b>	<b>34.7</b>	<b>365,364</b>	<b>35.9</b>
Manufacturing and R&D overheads	25	115,151	10.7	114,264	11.2
Depreciation and amortization	26	44,695	4.2	45,036	4.4
Distribution and sales fixed expenses	27	38,440	3.6	37,719	3.7
Administrative and general expenses	28	60,497	5.6	61,761	6.1
<b>OPERATING PROFIT</b>		<b>113,567</b>	<b>10.6</b>	<b>106,584</b>	<b>10.5</b>
Restructuring costs	30	7,558	0.7	5,234	0.5
Losses (gains) on disposal	31	(4,622)	(0.4)	(3,969)	(0.4)
Exchange losses (gains)	32	943	0.1	843	0.1
Other non-operating expenses (income) – of which non-recurring	33	19,821 6,116	1.8	21,010 6,547	2.1
<b>EBIT</b>		<b>89,867</b>	<b>8.4</b>	<b>83,466</b>	<b>8.2</b>
Financial expenses (income), net	34	9,418	0.9	10,182	1.0
Losses (gains) from equity investments	35	(108)	–	(1,594)	(0.2)
<b>PROFIT BEFORE TAXES AND MINORITY INTERESTS</b>		<b>80,557</b>	<b>7.5</b>	<b>74,878</b>	<b>7.4</b>
Income taxes	36	25,390	2.4	21,543	2.1
<b>NET PROFIT BEFORE MINORITY INTERESTS</b>		<b>55,167</b>	<b>5.1</b>	<b>53,335</b>	<b>5.3</b>
Loss (income) attributable to minority interests		(2,967)	(0.2)	(2,568)	(0.3)
<b>GROUP NET PROFIT FOR THE YEAR</b>		<b>52,200</b>	<b>4.9</b>	<b>50,767</b>	<b>5.0</b>
Earnings per share (EPS) (Euro):	38				
Basic		0.465		0.457	
Diluted		0.461		0.454	

# CONSOLIDATED CASH FLOW STATEMENT

(in thousands of Euro)

	2007	2006
<i>Cash flows from operating activities</i>		
Net profit	52,200	50,767
Adjustments:		
– minority interests	2,967	2,568
– depreciation, amortization and writedowns	44,018	49,784
– accrued costs for stock options	866	945
– losses/(gains) on disposal of fixed assets and non-current assets held for sale	(4,622)	(3,969)
– losses/(gains) on sale of equity investments in associated companies	–	(696)
– dividends collected	(108)	(108)
– share of associated companies' pre-tax income	–	271
– provisions for risks, restructuring and deferred taxes	5,643	(7,180)
– post-retirement and other employee benefits	(10,897)	(5,959)
– change in net working capital	4,878	12,925
– other medium/long-term assets/liabilities	(1,866)	(1,752)
– exchange differences on assets/liabilities	4,571	3,344
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>97,650</b>	<b>100,940</b>
of which: taxes paid	(18,842)	(14,779)
Net interest paid	(8,680)	(9,294)
<b>INVESTING ACTIVITIES</b>		
Net financial position of subsidiaries purchase/sold during the year	–	(12)
Purchase of property, plant and equipment	(35,848)	(39,715)
Purchase of intangible assets	(11,145)	(11,124)
Net change in other securities	27	1,936
Sale of subsidiaries (net of cash and cash equivalents) and associated	–	3,705
Sale of property, plant and equipment	7,400	5,918
Sale of intangible assets	120	28
Dividends collected	108	108
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(39,338)</b>	<b>(39,156)</b>
<b>FINANCING ACTIVITIES</b>		
Capital increase in subsidiaries from third parties	315	256
Net change in capital	3,557	2,647
Dividends paid to Holding Company shareholders and minority interests	(25,866)	(20,455)
Exchange differences on equity/minority interests	(3,027)	(1,709)
New (repayment of) long-term loans	(14,718)	(31,502)
New (repayment of) finance leases	(5,448)	(1,192)
Other equity movements	(31)	(625)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(45,218)</b>	<b>(52,580)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>13,094</b>	<b>9,204</b>
Balance at the beginning of the period	38,241	29,037
(Decrease) increase in cash and cash equivalents	13,094	9,204
<b>BALANCE AT THE END OF THE PERIOD</b>	<b>51,335</b>	<b>38,241</b>

NB: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7. The cash flow statement 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, 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>Allocation 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>Currency translation differences</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
<i>Paid share capital increase</i>	769	2,788	-	3,557	315	3,872
<i>Allocation of 2006 net profit:</i>						
<i>Legal reserve</i>	-	-	-	-	-	-
<i>Dividends</i>	-	(82)	(22,284)	(22,366)	(3,500)	(25,866)
<i>Retained earnings</i>	-	28,483	(28,483)	-	-	-
<i>Fair value measurement of cash flow hedging instruments</i>	-	(41)	-	(41)	-	(41)
<i>Other changes</i>	-	1	-	1	-	1
<i>Tax on items booked directly to equity</i>	-	19	-	19	-	19
<i>Imputed cost of stock options</i>	-	866	-	866	-	866
<i>Currency translation differences</i>	-	(2,954)	-	(2,954)	(73)	(3,027)
<i>Net profit for the period</i>	-	-	52,200	52,200	2,967	55,167
Balance at December 31, 2007	59,595	199,093	52,200	310,888	15,826	326,714

*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 format of the consolidated financial statements</i>
	2	<i>Consolidation principles and accounting policies</i>
	3	<i>Financial assets</i>
<i>B</i>		SEGMENT INFORMATION
	4	<i>Information by segment</i>
<i>C</i>		NOTES ON THE MAIN BALANCE SHEET ITEMS
<i>C1</i>		ASSETS
	5	<i>Cash and cash equivalents</i>
	6	<i>Other financial assets</i>
	7	<i>Inventories</i>
	8	<i>Trade and other receivables</i>
	9	<i>Tangible fixed assets</i>
	10	<i>Intangible assets</i>
	11	<i>Equity investments in associated companies</i>
	12	<i>Other financial assets available for sale</i>
	13	<i>Financial receivables and other receivables</i>
	14	<i>Deferred tax assets</i>
	15	<i>Non-current assets held for sale</i>
<i>C2</i>		LIABILITIES AND EQUITY
	16	<i>Financial debts to banks and other financing creditors</i>
	17	<i>Trade and other current payables</i>
	18	<i>Other current liabilities</i>
	19	<i>Long-term provisions</i>
	20	<i>Deferred tax assets and liabilities</i>
	21	<i>Share capital and reserves</i>
	22	<i>Analysis of the net financial position</i>
<i>D</i>		NOTES ON THE MAIN INCOME STATEMENT ITEMS
	23	<i>Sales revenues</i>
	24	<i>Variable cost of sales</i>
	25	<i>Manufacturing and R&amp;D overheads</i>
	26	<i>Depreciation and amortization</i>
	27	<i>Distribution and sales fixed expenses</i>
	28	<i>Administrative and general expenses</i>
	29	<i>Personnel costs</i>
	30	<i>Restructuring costs</i>
	31	<i>Gains on disposal</i>
	32	<i>Exchange losses (gains)</i>
	33	<i>Other non-operating expenses (income)</i>
	34	<i>Financial expenses (income), net</i>
	35	<i>Losses (gains) from equity investments</i>
	36	<i>Income taxes</i>
	37	<i>Dividends paid</i>
	38	<i>Earnings per share (EPS)</i>
<i>E</i>	39	FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
<i>F</i>	40	RELATED PARTY TRANSACTIONS
<i>G</i>		COMMITMENTS AND RISKS
	41	<i>Operating leases</i>
	42	<i>Investment commitments</i>
	43	<i>Guarantees given</i>
	44	<i>Other risks</i>
	45	<i>Subsequent events</i>
<i>H</i>		GROUP COMPANIES
	46	<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 FORMAT 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) and supplemented by the interpretations of the SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) issued by IASB (International Accounting Standards Board).*

*The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Those 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, 2007 were approved by the Board of Directors on February 26, 2008.*

#### **1.1 Format of the consolidated financial statements**

*As regards the format 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 one side 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 profit;*
- EBIT (earnings before interest and tax);*
- Profit before taxes and minority interests;*
- Net profit before minority interests;*
- Net profit for the year.*

*We have maintained the aggregate “Operating profit” (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 profit” 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 profit” is not affected by non-recurring costs and revenues (such as restructuring costs, gains or losses on disposal) or by charges or income that are not related to normal business activities, such as tax charges that are the result of 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 profit” does not include exchange gains and losses as they are considered more a part of foreign exchange (i.e. financial) management.*

*For the sake 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 flow 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 by 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 difference between the opening and closing consolidated balance sheet figures in Euro may be influenced by changes 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 sheets 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, 2007 include the financial statements of Sogefi S.p.A., the Holding Company, and of its subsidiaries.*

*Section H 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:

- exclusion of 100% of Filtrauto UK Ltd, a wholly-owned subsidiary of Sogefi Filtration Ltd, after the process of winding up this company was completed;
- inclusion of 100% of Filtrauto do Brasil Ltda, held 99% by Sogefi Filtration do Brasil Ltda and 1% by Filtrauto S.A., which has started operating again, albeit marginally to begin with, as part of the Filtration Division's marketing strategies in Brazil.

These changes are irrelevant for consolidation and comparison purposes.

## 2. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

### 2.1 Consolidation principles

The financial statements as of December 31, 2007 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 consolidation perimeter 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 result of operations reported in the income statement and that shown on the balance sheet.

The following exchange rates have been used for translation purposes:

	2007		2006	
	Average	12.31	Average	12.31
US dollar	1.3687	1.4721	1.2545	1.3170
Pound sterling	0.6842	0.7333	0.6817	0.6715
Swedish krona	9.2515	9.4411	9.2524	9.0408
Brazilian real	2.6625	2.6108	2.7292	2.8133
Argentine peso	4.2622	4.6369	3.8565	4.0450
Chinese renminbi	10.4134	10.7527	10.0040	10.2796
Slovenian taller (*)	N/A	N/A	239.8082	239.8082

(\*) Slovenia adopted the Euro from January 1, 2007

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 Holding 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 excess of the acquisition cost over 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 taken to the income statement.

*Equity investments in associated companies are consolidated according to the equity method, which means that the results of operations 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 recoverable amount, 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, 2007.*

### ***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 on 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***

*Tangible fixed assets mainly relate to industrial sites. Assets are shown at historical cost, net of accumulated depreciation. Cost includes related charges, together with the direct and indirect expenses reasonably attributable to individual assets.*

*Tangible fixed assets are depreciated each month on a straight-line basis using rates that reflect the technical and economic remaining lives of the related assets.*

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

The annual average depreciation rates applied are as follows:

	%
Land	n.a.
Industrial buildings and light constructions	2.5-12.5
Plant and machinery	7-14
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 recorded directly as increase in the value of 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.

Grants are shown in the balance sheet as a reduction of 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 incident 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 in combination:

- the contract transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that it is reasonably certain, at the inception of the lease, that it will be exercised;
- the duration of the lease covers most of the useful life of the asset, even if title is not transferred;
- at the inception of the lease 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 a specialised nature such that only the lessee is able to use them without making major modifications.

Assets available to Group companies under contracts that fall into the category of finance leases have been accounted for as tangible fixed assets 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 financial debts, and interest. Financial expenses are charged directly to the income statement for the period.

Payments under operating lease contracts, on the other hand, are charged to the income statement on a straight-line basis over the life of the contract.

## ***Intangible assets***

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

*Intangible assets with a defined duration are valued at purchase or production cost, net of amortization and accumulated impairment losses.*

*The annual 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 valued at cost, less amortization and accumulated impairment losses. The cost is amortized over the shorter of the contract term and the finite useful life of the asset.*

### **Software**

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

*After initial recognition, goodwill is valued at cost less any accumulated impairment losses.*

*Goodwill present in the balance sheet at the date of conversion to IAS/IFRS is no longer amortized from 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 finite life, goodwill is not amortized but subjected to impairment testing each year to identify any permanent losses in value.*

*Unlike other intangible assets, reversal of an impairment loss is 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 Precision Springs Division.

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

### **Impairment losses of tangible and intangible fixed assets**

If there are indications of possible losses in value, tangible and intangible fixed assets are subjected to impairment testing, estimating the asset's recoverable amount and comparing it with its net book value. If the recoverable amount 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 life, impairment testing is carried out at least once a year.

With the exception of goodwill, if a previous writedown is no longer justified, a new recoverable amount is estimated, providing it is not higher than what the carrying value would have been if the impairment loss had never taken place. This reversal 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 share of the JV's assets, liabilities, costs and revenues.

### **Equity investments in other companies and other securities**

In accordance with IAS 32 and 39 and IFRS 7, 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**

Under IFRS 5 "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 valued at the lower of book or fair value, net of any selling costs; depreciation on them has to be suspended.

### **Borrowings**

Borrowings are initially recognized at cost, represented by the fair value received, net of related loan origination charges.

After initial recognition, loans are measured at amortized cost by applying the effective interest rate method.

The amortized cost is calculated taking account of issuing 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 pre-established underlying variable;*
- 2. it does not require an initial net investment or, if required, this is less than what would be requested for other types of contract likely to provide a similar reaction to changes in market factors;*
- 3. it will be settled at some future date.*

*For accounting purposes, a derivative's 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 market value of the underlying assets or liabilities;*
- cash flow hedges if they are taken out to hedge the risk of fluctuations 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 underlying item 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 will be reclassified to the income statement in the period when the assets and liabilities being hedged 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***

*Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an out flow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.*

*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, the risk is disclosed 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 and similar employee 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 unrecognised actuarial gains or losses.*

*In accordance with IFRS 1, the Sogefi Group has opted for the “corridor approach” envisaged in IAS 19. This provides for taking to the income statement actuarial gains and losses in excess of 10% of the higher of the fair value of any plan servicing assets or the present value of the liability at the balance sheet date, whichever is the higher. Any excess is amortized over the average residual working life of the pension plan participants.*

## Deferred taxation

*Deferred taxes are calculated on the taxable temporary differences between the book value of assets and liabilities and their tax bases, 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 utilised.*

*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 differences reverse, considering current rates and those known to be applicable in the future.*

## Shareholders' equity

### Share capital

*Share capital consists of ordinary shares shown at par value.*

### Fair value reserve

*This includes unrealized gains and losses (net of taxes) on financial assets classified as “available for sale”. This reserve is used to transfer the value to the income statement at the time that the financial asset is sold or 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 Holding 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 eminently imputed element, the ad hoc equity reserve in the balance sheet has been increased. This 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 accruals.*

*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 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, 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 consulting fees, rents and hires, cleaning, security and other general expenses.*

### ***Operating grants***

*These are credited to the 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 appropriate 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 EPS is 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 shares.*

*Diluted EPS is 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 retranslated 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**

*The Group has taken note of and, where applicable, adopted in 2007 the following Standards, Interpretations and Revisions to existing accounting standards:*

- IFRIC 7 - Applying the Restatement Approach under IAS 29. This interpretation is not relevant to the Group;*
- IFRIC 8 - Scope of IFRS 2. This interpretation is not relevant to the Group;*
- IFRIC 9 - Reassessment of Embedded Derivatives. This interpretation is not relevant to the Group;*
- IFRIC 10 - Interim Financial Reporting and Impairment;*
- IFRS 4 - Insurance contracts. This standard is not relevant to the Group;*
- IFRS 7 - Financial instruments: Disclosures. This standard has led to more disclosure in the Notes.*

Furthermore, the Group has not elected for early adoption of the following Standards, Interpretations and Revisions to the existing standards ratified by the European Union which will become obligatory in future periods:

- IFRIC 11 - IFRS 2: Group and Treasury Share Transactions. This interpretation will become effective for annual reporting periods starting after March 1, 2007. This interpretation is not relevant to the Group;
- IFRS 8 - Operating segments. This standard will become effective for annual reporting periods starting after January 1, 2009. This standard replaces IAS 14 (Segment Reporting) and introduces a new approach, under which segments have to be identified in the same way as for the purposes of internal reporting to top management. The Sogefi Group is evaluating the impact of introducing this standard.

### 3. FINANCIAL ASSETS

#### *Classification*

In accordance with IAS 32 and 39 and IFRS 7, 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 on initial recognition, 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 measured at fair value ever since they are 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 portion falling due 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 at fair value through profit and loss” 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 for which an asset could be exchanged, or a liability extinguished, in an arm’s length transaction between knowledgeable, willing parties. 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 measured at their “amortized cost” 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 derecognized 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.*

## B) SEGMENT INFORMATION

### 4. 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 2006 and 2007:

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

<i>(in thousands of Euro)</i>	2007				
	<i>Filtration Division</i>	<i>Suspension Components Division</i>	<i>Sogefi S.p.A.</i>	<i>Adjustments</i>	<i>Sogefi Group consolidation</i>
<b>REVENUES</b>					
<i>Sales to third parties</i>	547,698	523,947	–	–	1,071,645
<i>Intersegment sales</i>	527	632	7,890	(8,929)	120
<b>TOTAL REVENUES</b>	<b>548,225</b>	<b>524,579</b>	<b>7,890</b>	<b>(8,929)</b>	<b>1,071,765</b>
<b>RESULTS</b>					
<i>EBIT</i>	49,141	50,327	(9,325)	(276)	89,867
<i>Financial expenses, net</i>					(9,418)
<i>Income from equity investments</i>					108
<i>Losses from equity investments</i>					–
<i>Profit before taxes</i>					80,557
<i>Income taxes</i>					(25,390)
<i>Loss (profit) attributable to minority interests</i>					(2,967)
<b>NET PROFIT</b>					<b>52,200</b>
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
<i>Segment assets</i>	347,016	445,007	405,249	(476,452)	720,820
<i>Equity investments in associated companies</i>	–	101	–	–	101
<i>Unallocated assets</i>	–	–	–	92,529	92,529
<b>TOTAL ASSETS</b>	<b>347,016</b>	<b>445,108</b>	<b>405,249</b>	<b>(383,923)</b>	<b>813,450</b>
<b>LIABILITIES</b>					
<i>Segment liabilities</i>	203,805	295,619	160,825	(173,513)	486,736
<b>TOTAL LIABILITIES</b>	<b>203,805</b>	<b>295,619</b>	<b>160,825</b>	<b>(173,513)</b>	<b>486,736</b>
<b>OTHER INFORMATION</b>					
<i>Increase in tangible and intangible fixed assets</i>	21,001	25,764	203	25	46,993
<i>Depreciation, amortization and writedowns</i>	18,609	24,754	5,586	(4,931)	44,018

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. 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.

On 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 2006 and 2007, 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)	2006				
	Europe	South America	Others	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

(in thousands of Euro)	2007				
	Europe	South America	Others	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	900,382	148,812	22,451	-	1,071,645
Intersegment sales	15,573	1,762	483	(17,698)	120
TOTAL REVENUES	915,955	150,574	22,934	(17,698)	1,071,765

### BALANCE SHEET

ASSETS					
Segment assets	1,199,043	95,920	38,285	(612,428)	720,820
Equity investments in associated companies	101	-	-	-	101
Unallocated assets	-	-	-	92,529	92,529
TOTAL ASSETS	1,199,144	95,920	38,285	(519,899)	813,450

### OTHER INFORMATION

Increase in tangible and intangible fixed assets	34,602	20,918	1,256	(9,783)	46,993
Depreciation, amortization and writedowns	41,856	4,414	(553)	(1,699)	44,018



## C) NOTES ON THE MAIN BALANCE SHEET ITEMS

### C 1) ASSETS

#### 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to € 63,753 thousand versus € 51,519 thousand at December 31, 2006 and are made up as follows:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Bank and post office deposits	62,976	51,366
Cheques	206	70
Cash and cash equivalents on hand	571	83
<b>TOTAL</b>	<b>63,753</b>	<b>51,519</b>

Short-term bank deposits and post office deposits earn interest at a floating rate. The increase of € 12,234 thousand in this item relates to the trend in treasury management and cash flows in the latter part of the year.

At December 31, 2007 the Group had unutilized lines of credit of € 311,982 thousand; all of the conditions are respected, which means that these funds are available for use on demand.

#### 6. OTHER FINANCIAL ASSETS

“Other financial assets” can be analyzed as follows:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Securities held for trading	59	128
Assets for derivative financial instruments	897	32
<b>TOTAL</b>	<b>956</b>	<b>160</b>

“Securities held for trading” 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 Group to optimize cash management.

“Assets for derivatives financial instruments” amount to € 897 thousand and relate to the fair market value of forward forex contracts and interest rate swaps in accordance with IAS 32 and 39 and IFRS 7.

## 7. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of Euro)	12.31.2007			12.31.2006		
	Gross	Writedowns	Net	Gross	Writedowns	Net
Raw, ancillary and consumable materials	47,055	4,264	42,791	45,291	4,994	40,297
Work in progress and semi-finished products	14,659	372	14,287	13,482	449	13,033
Contract work in progress and advances	2,597	-	2,597	1,718	-	1,718
Finished goods and goods for resale	61,359	7,866	53,493	65,375	8,714	56,661
<b>TOTAL</b>	<b>125,670</b>	<b>12,502</b>	<b>113,168</b>	<b>125,866</b>	<b>14,157</b>	<b>111,709</b>

The gross value of inventories is stable compared with the previous year. If we exclude the exchange effect, the gross value of inventories has gone up by € 2,118 thousand, mainly due to the subsidiaries LPDN GmbH, for an increase in output to cope with the order backlog in the first part of the subsequent year, and Rejna S.p.A., as it built up stocks to handle a reorganization of its activities among the various production sites.

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 € 1,694 thousand, better stock turnover for € 1,649 thousand, and a negative exchange effect for € 156 thousand, partially offset by a further provision of € 1,844 thousand, which in the income statement is shown under "Variable cost of sales".

## 8. TRADE AND OTHER RECEIVABLES

Current receivables are analyzed as follows:

(in thousands of Euro)	12.31.2007	12.31.2006
Trade receivables	222,280	231,269
Less: allowance for doubtful accounts	5,706	6,040
Trade receivables, net	216,574	225,229
Due from Parent Company	3,406	1,673
Due from associated companies	117	90
Tax receivables	10,730	10,952
Other receivables	5,982	6,010
Other assets	2,551	2,391
<b>TOTAL</b>	<b>239,360</b>	<b>246,345</b>

"Trade receivables, net" are non-interest bearing and have an average due date of 65 days, compared with 70 days twelve months earlier. The decrease is due to the steps taken to improve credit control and the reduction in average collection times. The reduction in this item was also partially due to an exchange effect for € 2,171 thousand.

Further adjustments were booked to the “Allowance for doubtful accounts” during the year for a total of € 1,075 thousand, against net utilizations of the allowance of € 1,315 thousand (see note 39 for further details). Writedowns, net of provisions not used during the period, were charged to income statement in “Variable cost of sales - Variable sales and distribution costs”.

“Due from Parent Company” as of December 31, 2007 is the amount receivable from CIR S.p.A., Sogefi’s parent, in connection with the Group tax filing system.

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

“Tax receivables” at December 31, 2007 include tax credits due to Group companies in various countries. It does not include deferred taxes which are treated separately.

“Other receivables” are made up as follows:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
<i>Amounts due from social security institutions</i>	676	1,177
<i>Amounts due from employees</i>	142	284
<i>Advances to suppliers</i>	765	1,739
<i>Due from others</i>	4,399	2,810
<b>TOTAL</b>	<b>5,982</b>	<b>6,010</b>

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

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

The decrease in “Advances to suppliers” is related to the lower amounts paid to suppliers for the purchase of materials and services.

The increase in “Due from others” is mainly because of the insurance compensation paid to the subsidiary Rejna S.p.A. for quality problems in a shipment of stabilizer bars. There is also a receivable of € 620 thousand relating to the financial support granted to Autoruber S.r.l., a subsidiary set up towards the end of the year and not consolidated as it is considered a short-term investment.

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

## 9. TANGIBLE FIXED ASSETS

The net value of tangible fixed assets at December 31, 2007 amounted to € 240,044 thousand versus € 249,249 thousand at the end of the previous year and is made up as follows:

<i>(in thousands of Euro)</i>	2006				
	<i>Land</i>	<i>Buildings, plant and machinery, commercial and industrial equipment</i>	<i>Other assets</i>	<i>Assets under construction and payments on account</i>	<i>TOTAL</i>
Balance at January 1	15,972	220,576	4,684	18,673	259,905
<i>Additions of the period</i>	-	21,815	1,067	16,833	39,715
<i>Disposals during the period, net</i>	(215)	(1,527)	(65)	(141)	(1,948)
<i>Exchange differences</i>	(59)	(2,506)	(203)	(256)	(3,024)
<i>Depreciation for the period</i>	-	(36,829)	(1,581)	-	(38,410)
<i>Writedowns during the period</i>	-	(3,937)	(9)	(62)	(4,008)
<i>Reclassification of assets held for sale</i>	-	(2,646)	-	-	(2,646)
<i>Other changes</i>	(75)	18,953	557	(19,770)	(335)
Balance at December 31	15,623	213,899	4,450	15,277	249,249
<i>Historical cost</i>	15,623	698,259	26,962	15,277	756,121
of which: leases - gross value	827	21,508	-	-	22,335
<i>Accumulated depreciation</i>	-	484,360	22,512	-	506,872
of which: leases - accumulated depreciation	-	4,076	-	-	4,076
<i>Net value</i>	15,623	213,899	4,450	15,277	249,249
Net value - leases	827	17,432	-	-	18,259

  

	2007				
Balance at January 1	15,623	213,899	4,450	15,277	249,249
<i>Additions of the period</i>	30	11,600	1,087	23,131	35,848
<i>Disposals during the period, net</i>	-	(101)	(11)	(19)	(131)
<i>Exchange differences</i>	27	(3,300)	(140)	(275)	(3,688)
<i>Depreciation for the period</i>	-	(35,330)	(1,625)	-	(36,955)
<i>Writedowns/revaluations during the period</i>	-	2,542	-	-	2,542
<i>Reclassification of assets held for sale</i>	(2,436)	(4,320)	-	-	(6,756)
<i>Other changes</i>	(1,890)	12,564	645	(11,384)	(65)
Balance at December 31	11,354	197,554	4,406	26,730	240,044
<i>Historical cost</i>	11,354	689,576	27,152	26,834	754,916
of which: leases - gross value	1,156	15,214	-	-	16,370
<i>Accumulated depreciation</i>	-	492,022	22,746	104	514,872
of which: leases - accumulated depreciation	-	3,717	-	-	3,717
<i>Net value</i>	11,354	197,554	4,406	26,730	240,044
Net value - leases	1,156	11,497	-	-	12,653

Capital investment during the year amounted to € 35,848 thousand compared with € 39,715 thousand in the previous year.

*Of the larger projects that were completed during the year, we would like to mention investments of around € 4.2 million to upgrade plant and equipment, as well as for improvements to buildings, at Alleward Rejna Autosuspensions S.A., Filtrauto S.A. and LPDN GmbH, € 0.8 million to upgrade the production lines at Issa, € 0.5 million to complete the cold line and for new steel processing machinery at Alleward Springs Ltd.*

*In addition, there are numerous other smaller investments made during the year for the maintenance and upgrade of production plant and for the development of new products, as well as improvements to buildings.*

*Many of these projects were initiated towards the end of the year, which explains the high balance of “Assets under construction and payments on account”. The more important projects involved investments of around € 4 million for work in progress at Alleward Rejna Autosuspensions S.A. to upgrade plant and machinery and to expand its storage systems, € 3.6 million for the installation at Alleward Molas do Brasil Ltda of a coil springs production line bought from Alleward Springs U.S.A. Inc., as well as to expand the plant, € 1.5 million for new production and assembly lines at Sogefi Filtration do Brasil Ltda, € 1 million for a new leaf spring production line at Rejna S.p.A. and completion of the second torsion bar line at Alleward Rejna Argentina S.A..*

*The line “Writedowns/revaluations during the period” includes the revaluation by € 2,557 thousand of the coil springs production line which was written down in 2006 as it was not fully utilized by Alleward Springs U.S.A. Inc.; now, following its sale to Alleward Molas do Brasil Ltda, its production capacity is expected to be used at a normal level. In the income statement, this revaluation has been booked to “Other non-operating expenses (income)” as it is non-recurring.*

*The line “Reclassification of assets held for sale” refers to:*

- an industrial building and related land owned by Sogefi S.p.A. and rented out to Rejna S.p.A. up to December 31, 2006. These assets, which became available for disposal following the reorganization of Rejna S.p.A., have been put on sale. They are expected to be sold during 2008;*
- the office building owned by Sogefi S.p.A.. It is expected to be sold during 2008;*
- a building in West Bromwich belonging to the British subsidiary United Springs Ltd, which has been put on sale following the reorganization. It is expected to be sold during 2008.*

*“Other changes” refer to the completion of projects that were underway at the end of the previous year and their reclassification to the pertinent headings. The reduction in “Land”, € 1,890 thousand, reflects a reclassification to “Buildings” for a better allocation of the figures.*

*The balance of “Assets under construction and payments on account” as of December 31, 2007 includes € 665 thousand of advances for investments.*

*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”.*

## **Guarantees**

*Tangible fixed assets as of December 31, 2007 are encumbered by mortgages and liens totalling € 5,681 thousand to guarantee loans from financial institutions.*

## **Purchase commitments**

*At December 31, 2007 there are binding commitments to buy tangible fixed assets for € 3,591 thousand (€ 1,014 thousand at December 31, 2006).*

## Assets under lease

The decrease in assets under lease relative to December 31, 2006 is due to the early purchase by the US subsidiary Alleward Springs U.S.A. Inc. of the line for the production of coil springs, previously held under lease.

The financial aspects of the lease instalments and their due dates are explained in note 16.

## 10. INTANGIBLE ASSETS

The net balance at December 31, 2007 was € 118,674 thousand versus € 117,403 thousand at the end of the previous year, made up as follows:

(in thousands of Euro)	2006				
	Develop-ment costs	Industrial patents and intellectual property rights, concessions, licences and trademarks	Others, assets under construction and payments on account	Consolida-tion differences	TOTAL
Balance at January 1	15,882	2,767	4,563	90,666	113,878
Additions of the period	6,469	316	4,339	-	11,124
Disposals during the period, net	(22)	-	(5)	-	(27)
Exchange differences	(128)	(40)	(132)	-	(300)
Amortization for the period	(5,256)	(1,138)	(223)	-	(6,617)
Writedowns during the period	(251)	(497)	-	-	(748)
Other changes	1,117	586	(1,610)	-	93
Balance at December 31	17,811	1,994	6,932	90,666	117,403
Historical cost	44,744	16,237	10,080	113,565	184,626
Accumulated amortization	26,933	14,243	3,148	22,899	67,223
Net value	17,811	1,994	6,932	90,666	117,403
	2007				
Balance at January 1	17,811	1,994	6,932	90,666	117,403
Additions of the period	7,283	471	3,395	-	11,149
Disposals during the period, net	(123)	-	(1)	-	(124)
Exchange differences	145	(14)	(100)	-	31
Amortization for the period	(6,019)	(1,400)	(318)	-	(7,737)
Writedowns during the period	(512)	(1,356)	-	-	(1,868)
Other changes	2,649	2,032	(4,861)	-	(180)
Balance at December 31	21,234	1,727	5,047	90,666	118,674
Historical cost	53,907	17,252	7,756	113,565	192,480
Accumulated amortization	32,673	15,525	2,709	22,899	73,806
Net value	21,234	1,727	5,047	90,666	118,674

Investments of the period amount to € 11,149 thousand (€ 11,124 thousand in the previous year). The more significant increases refer to “Development costs” and are due to the capitalization of costs incurred by the companies to develop new products in cooperation with the major car manufactures.

The additions to “Others, assets under construction and payments on account” are principally due to the costs incurred for the acquisition or internal production of intangible assets not yet in use. This item includes € 370 thousand for the first stage of development of new management software to be shared by all of the companies belonging to the Car Suspension Components Division.

It does not include advances to suppliers for the purchase of fixed assets.

For € 1,356 thousand, “Writedowns during the period” relate to the write-off of the internal costs and partial writedown of the external costs incurred by the French subsidiary Allevard Rejna Autosuspensions S.A. for the development of management software, in view of the fact that this software is likely to be used less extensively by the Suspension Components Division than originally envisaged. The impairment losses shown under “Development costs” relate principally to the writedown of costs incurred by Allevard Springs U.S.A. Inc. for the development of the coil springs line sold to Allevard Molas do Brasil Ltda during 2007.

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 around € 2,112 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 segments: Filtration and Car Suspension Components.

The goodwill assigned to Filtration Division amounts to € 73,618 thousand, with € 17,048 thousand being allocated to Car Suspension Components Division.

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 2008-2011, as approved by management, and on a discounting rate of 7.9%, 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 2011), adjusted to project a stable situation “in perpetuo”, based on the following main assumptions:

- a balance between capital investment and depreciation (according to the logic of considering the level of investment needed to “maintain” the business);
- a 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).

As regards the average cost of capital, we calculated 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 industry analysts to be Sogefi's peers.

The test based on the present value of the estimated future 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.

## 11. EQUITY INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2007 these amounted to € 101 thousand, the same as last year. They are carried at equity, except where the recoverable value of an investment is lower than its book value.

This item is made up as follows, with the changes that took place during the previous 12 months:

<i>(in thousands of Euro)</i>	<i>KS Automotive Suspensions Asia Private Ltd</i>	<i>Alleward Resorts 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 profit</i>	-	-	-
<i>Writedowns</i>	-	(271)	(271)
<i>Sale</i>	(3,000)	-	(3,000)
Balance at December 31, 2006	-	101	101

The following table summarizes information on the associate Alleward Resorts Composites S.a.S. at December 31, 2006:

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

The breakdown at December 31, 2007 is as follows:

<i>(in thousands of Euro)</i>	<i>Alleward Resorts Composites S.a.S.</i>
<i>% held</i>	50.00
Balance at January 1, 2007	101
<i>Share of profit</i>	-
<i>Writedowns</i>	-
<i>Sale</i>	-
Balance at December 31, 2007	101



The following table summarizes information on the associate *Allevard Resorts Composites S.a.S.* at December 31, 2007:

<i>(in thousands of Euro)</i>	12.31.2007
Total assets	971
Total liabilities	583
Total revenues	1,623
Net profit for the year	144

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

## 12. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

As of December 31, 2007 these totalled € 497 thousand, compared with € 450 thousand as of December 31, 2006. They are analyzed as follows:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Equity investments in other companies	497	450
TOTAL	497	450

The balance of “Equity investments in other companies” refers principally to *Afico Filters S.A.E.* measured at fair value which corresponds to its cost. The increase during the year is due to the purchase of *Autorubber S.r.l.*, a subsidiary set up towards the end of the year and not consolidated as it is considered a short-term investment.

## 13. FINANCIAL RECEIVABLES AND OTHER RECEIVABLES

In the previous year, “Financial receivables” included the non-current portion of the fair market value of interest rate swaps, in accordance with IAS 32 and 39 and IFRS 7. Given that the maturity of these contracts is in 2008, at December 31, 2007 the fair market value has been booked to “Other financial assets” as part of current assets.

“Other receivables” are analyzed as follows:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Substitute tax	1,272	2,171
Pension fund surplus	124	-
Other receivables	3,578	3,134
TOTAL	4,974	5,305

“Substitute tax” relates to the amount recognized by *Sogefi S.p.A.* for the revaluation of buildings at the end of 2005. The reduction that took place during the year takes account of the regulatory developments regarding income taxes, on the one hand, and, on the other, it is based on the state of the negotiations for the sale of certain buildings belonging to *Sogefi S.p.A.*, classified as “Non-current assets held for sale”. Consequently, it was decided to charge to income part of the “Substitute tax” relating to the assets involved in this disposal.

The “Pension fund surplus” concerns the subsidiary *Sogefi Filtration Ltd*, as explained in note 19 to which reference should be made.

*The “Other receivables” mainly includes tax credits and 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”.*

*The increase in this item during the year is essentially due to the receivables from tax authorities owing to Allevard Molas do Brasil Ltda for the tax advances paid as a result of acquiring the production line from Allevard Springs U.S.A. Inc.. This increase was partially offset by the grants received by Sogefi Filtration Ltd.*

#### 14. DEFERRED TAX ASSETS

*At December 31, 2007 this item amounts to € 25,167 thousand compared with € 26,819 thousand at December 31, 2006.*

*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 20 for a further discussion of this matter.*

#### 15. NON-CURRENT ASSETS HELD FOR SALE

*This item includes the net value of the buildings belonging to Sogefi S.p.A. and the British subsidiary United Springs Ltd which are available for sale as explained in note 9.*

*The balance at December 31, 2006 included the net value of a building in Nottingham belonging to the British subsidiary Sogefi Filtration Ltd, which was sold in 2007, realizing a capital gain of € 4,483 thousand.*

## C 2) LIABILITIES AND EQUITY

### 16. FINANCIAL DEBTS TO BANKS AND OTHER FINANCING CREDITORS

These are analyzed as follows:

#### Current portion

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
<i>Bank overdrafts and short-term loans</i>	12,418	13,278
<i>Current portion of medium/long-term financial debts</i>	13,696	18,578
of which: leases	1,340	1,186
of which: purchase commitments	-	1,824
<i>Total loans maturing within one year</i>	13,696	18,578
<b>TOTAL SHORT-TERM FINANCIAL DEBTS</b>	26,114	31,856
<i>Other short-term liabilities for derivative financial instruments</i>	469	-
<b>TOTAL SHORT-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</b>	26,583	31,856

#### Non-current portion

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
<i>Financial debts to banks</i>	118,005	128,402
<i>Other medium/long-term financial debts</i>	12,492	18,000
of which: leases	9,133	15,306
of which: purchase commitments	-	-
<b>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS</b>	130,497	146,402
<i>Other medium/long-term financial liabilities for derivative financial instruments</i>	-	-
<b>TOTAL MEDIUM/LONG-TERM FINANCIAL DEBTS AND DERIVATIVE FINANCIAL INSTRUMENTS</b>	130,497	146,402

#### Bank overdrafts and short-term loans

The balance is substantially in line with the previous year.

#### Current portion of medium/long-term financial debts

At December 31, 2007, this item principally includes the following loans:

- the current portion (€ 6,667 thousand) of the loan obtained by *Allevard Federn GmbH* of € 30 million repayable in annual instalments expiring in December 2010. The residual amount as of December 31, 2007 totals € 19.9 million. This loan bears floating-rate interest of Euribor plus a spread of 80 basis points up until December 2008, after which it falls to 70 basis points for the subsequent periods. The loan is not secured against any of the subsidiary's assets;
- the current portion (€ 2,000 thousand) of the loan obtained by *Sogefi Filtration S.A.* for € 8,000 thousand, repayable in six-monthly instalments ending in January 2010. The residual amount as of December 31, 2007 is € 5 million. This loan bears floating-rate interest of Euribor plus a spread of 45 basis points. The loan is not secured against any of the subsidiary's assets;
- the current portion of other minor long-term loans, including financial lease instalments in accordance with IAS 17.

#### Purchase commitments

At December 31, 2006 this caption included € 1,824 thousand for a commitment to *SIMEST S.p.A.* to buy its 10.47% interest in the US subsidiary *Allevard Springs U.S.A. Inc.*. This commitment was contractually scheduled to be honoured on June 30, 2008, but was honoured by *Sogefi S.p.A.* on July 4, 2007 after exercising the option to bring forward the deadline to 2007.

## Other short-term liabilities for derivative financial instruments

*This includes the current portion of financial instruments in compliance with IAS 32 and 39 and IFRS 7. The latter relate to the fair market value of certain interest rate swap contracts entered into to transform part of the loans from floating to fixed rate, and some forward contracts in foreign currency.*

*The balance at December 31, 2007 relates to the fair market value of the forward forex contracts taken out by Allevard Molas do Brasil Ltda to hedge the exchange risk on its debt in dollars after purchasing the coil springs production line from Allevard Springs U.S.A. Inc.. At December 31, 2006 the fair market value of the derivative contracts was positive and was shown under "Other financial assets" and "Financial receivables".*

*Reference should be made to chapter E for a further discussion of this matter.*

## Medium/long-term financial debts

*This includes:*

- the drawdown of € 49.9 million against a loan for € 50 million obtained by the Holding Company Sogefi S.p.A. in 2006. During 2007, the duration of this loan was extended by one year so that it is now due in September 2012. The loan bears interest at a floating rate equal to Euribor plus a spread of 22.5 basis points. The loan is not secured against any of the company's assets;*
- the drawdown of € 49.8 million against a loan for € 100 million obtained by the Holding Company Sogefi S.p.A. in 2006. During 2007, the duration of this loan was extended by one year so that it is now due in September 2012. The loan bears interest at a floating rate equal to Euribor plus a spread of 22.5 basis points. The loan is not secured against any of the company's assets;*
- the non-current portion of the loans granted to Allevard Federn GmbH and Sogefi Filtration S.A..*

*During 2007, the Holding Company Sogefi S.p.A. repaid the drawdown at December 31, 2006 of € 40 million of the syndicated loan of € 100 million obtained at the end of 2003, which means that all of this facility was available at December 31, 2007.*

*The item "Other medium/long-term financial debts" includes other minor loans, including financial lease instalments in accordance with IAS 17.*

*The reduction in this balance is mainly due to the early redemption by Allevard Springs U.S.A. Inc. of the lease financing the purchase of a complete line for the production of coil springs.*

## 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. The assets held under these lease, 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 cost and the residual liability.*

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

<i>(in thousands of Euro)</i>	<i>Instalments</i>	<i>Capital</i>
<i>Within 12 months</i>	<i>2,024</i>	<i>1,340</i>
<i>Between 1 and 5 years</i>	<i>7,721</i>	<i>5,807</i>
<i>Beyond 5 years</i>	<i>4,978</i>	<i>3,326</i>
<i>Total lease payments</i>	<i>14,723</i>	<i>10,473</i>
<i>Interests</i>	<i>(4,250)</i>	<i>-</i>
<b>TOTAL PRESENT VALUE OF LEASE PAYMENTS</b>	<b>10,473</b>	<b>10,473</b>

The contracts making up this caption were made by the following subsidiaries:

- 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 4,814 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 a pure rental agreement, has been given the accounting treatment foreseen under IAS 17 solely because the present value of the rent payments coincides approximately with the fair value of the asset at the time the contract was signed.

- Allevard Rejna Autosuspensions S.A. has entered into two lease contracts for the following production sites:

- a) Lieusaint. During 2007, this agreement was amended in the part relating to the interest rate and the redemption value at the end of the contract. The amount being financed was also raised by € 1,878 thousand after works had been carried out to expand the site. The contract expires in October 2014 and the original total amount of the contract was € 6,345 thousand, whereas future instalments not yet due amount to € 5,326 thousand and the annual nominal rate of interest applied by the lessor is 3-month Euribor plus a spread of 60 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 € 2,834 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. There is a purchase option at the end of the contract to buy the assets, namely € 4 for the production site at Lieusaint and € 305 thousand for the site at Fronville. Given that it is probable that the options will be exercised, considering the low redemption values of the assets, these contracts have been accounted for as finance leases, as foreseen by IAS 17.

## 17. TRADE AND OTHER CURRENT PAYABLES

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

(in thousands of Euro)	12.31.2007	12.31.2006
Trade and other payables	228,858	234,514
Tax payables	11,821	8,210
<b>TOTAL</b>	<b>240,679</b>	<b>242,724</b>

Details of trade and other payables are as follows:

(in thousands of Euro)	12.31.2007	12.31.2006
Due to suppliers	177,086	182,129
Due to the Parent Company	-	201
Due to tax authorities for indirect and other taxes	7,029	6,163
Due to social security institutions	15,910	15,715
Due to employees	23,558	23,313
Other payables	5,275	6,993
<b>TOTAL</b>	<b>228,858</b>	<b>234,514</b>

The amounts "Due to suppliers" are not subject to interest and on average are settled in 78 days (83 days in 2006). There is no significant concentration of payables due to any one supplier or small group of suppliers.

The decrease in the amounts due to suppliers is attributable for € 2,023 thousand to a negative exchange effect and, for the remainder, to the reduction in average settlement times and lower payables mainly at Sogefi Filtration S.A., following cutbacks at the Oyarzun plant.

At December 31, 2007 there were no payables to the Parent Company CIR S.p.A. in connection with the Group tax filing system. See chapter F for the general terms and conditions applicable to related party transactions.

The decrease in "Other payables" is mainly attributable to the payment during the year of the extraordinary bonuses to management provided for at the end of the previous year.

## 18. OTHER CURRENT LIABILITIES

"Other current liabilities" include adjustments to costs and revenues of the period so as to ensure compliance with the accruals principle (accrued expenses and deferred income) and advances received from customers for orders still to be delivered. The balance has increased by € 625 thousand compared with the previous year as a result of higher advances received from customers.

## 19. LONG-TERM PROVISIONS

These are made up as follows:

(in thousands of Euro)	12.31.2007	12.31.2006
Pension funds	23,718	31,999
Provision for employment termination indemnities	14,207	17,160
Provision for restructuring	6,003	5,905
Provisions for disputes with tax authorities	7,062	6,119
Provision for phantom stock options	253	-
Provision for product warranties	1,800	1,865
Other risks	4,645	3,132
Agents' termination indemnities	135	844
Lawsuits	942	1,441
<b>TOTAL</b>	<b>58,765</b>	<b>68,465</b>

Details of the main items are given below.

### Pension funds

The amount of € 23,718 thousand represents what was set aside at the end of the year by the various Group companies to cover the liabilities of their various pension funds. We point out that at December 31, 2007 the pension fund of Sogefi Filtration Ltd shows a surplus of € 124 thousand which is reported on the line "Other receivables", as explained in note 13. The net amount of the liabilities to the various pension funds at December 31, 2007 therefore came to € 23,594 thousand, as shown in the following table which shows movements in "Pension funds" during the course of the year:

(in thousands of Euro)	12.31.2007	12.31.2006
Opening balance	31,999	36,422
Cost of benefits charged to income statement	(44)	2,067
Contributions paid	(8,023)	(7,282)
Other changes	-	548
Exchange differences	(338)	244
<b>TOTAL</b>	<b>23,594</b>	<b>31,999</b>
of which booked to liabilities	23,718	31,999
of which booked to assets	(124)	-

The negative figure for the “Cost of benefits charged to income statement” is attributable to a change in the legislation applying to British pension funds which now allows employees to receive the benefit in a lump sum rather than as a pension. Since the lump sum is generally lower than the present value of the pension, this change has caused the liability to go down, generating an associated benefit of some € 2 million in the income statement.

The increase in “Contributions paid” is due to an extraordinary contribution that is around GBP 0.7 million higher than the amount paid the previous year. The overall amount of extraordinary contributions made in 2007 to reduce the deficit of the British pension funds came to GBP 2.7 million.

At December 31, 2006 “Other changes” related to the acquisition of the plant at Argentan (Normandy, France); its activities were taken over as part of a verticalisation strategy to produce plastic components in-house.

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

(in thousands of Euro)	2007	2006
Current service cost	2,041	2,158
Reduction due to regulatory change	(2,020)	-
Interest cost	8,886	7,971
Expected return on plan assets	(8,804)	(7,814)
Actuarial (gains) losses recognized during the year	(130)	37
Past service cost	-	105
Settlements/curtailments	(17)	(390)
TOTAL	(44)	2,067

The caption “Current service cost” is included in the various lines devoted to “Labour cost” in the income statement.

The item “Reduction due to regulatory change” represents the benefit deriving from the change in the rules governing the British pension funds, as mentioned previously. This item is included for € 268 thousand in “Administrative and general expenses” and for € 1,752 thousand in “Other non-operating expenses (income)” as being related to 2006.

“Interest cost” and “Expected return on plan assets” are included in “Financial expenses (income), net”. The increase in these items reflects the general rise in interest rates during 2007.

The other items are included in “Administrative and general expenses” and “Other non-operating expenses (income)”.

Provisions for the pension funds operating in the geographical areas of the companies concerned are as follows:

(in thousands of Euro)	12.31.2007	12.31.2006
Great Britain	1,925	10,754
France	18,322	17,718
Germany	3,147	3,174
Others	324	353
TOTAL	23,718	31,999

The sharp fall in Great Britain is a consequence of the extraordinary payment of GBP 2.7 million made during the year and of the economic benefit of the change in the rules governing the British pension funds.

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, being made with asset management companies and administered independently from the company.*

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

*The main assumptions used in the actuarial valuation of these pension funds were as follows:*

	12.31.2007	12.31.2006
Discount rate %	5.70	5.10-5.25
Expected rate of return on plan assets %	4.50-7.00	4.00-7.00
Expected annual wage rise %	3.75-4.10	3.55-4.00
Annual inflation rate %	3.10-3.30	3.00-3.10
Retirement age	65	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 2007, 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 also have the right 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:*

	12.31.2007	12.31.2006
Discount rate %	5.25	4.5
Expected annual wage rise %	2.5-3.5	2.5-3.5
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 2007, 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 the plans.*

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Present value of defined benefit obligations	164,415	181,830
Fair value of the plan assets	(148,962)	(147,016)
Deficit	15,453	34,814
Pension fund provisions	(23,718)	(31,999)
Surplus recorded in “Other receivables”	124	-
Unamortised past service cost (revenue)	18	9
Unrecognized actuarial (gains) losses	(8,123)	2,824



*The sharp reduction in the “Deficit” at December 31, 2007 has to do partly with a decrease in the “Present value of defined benefit obligations” and partly to an increase in the “Fair value of the plan assets”. This last item has benefited not only from an increase in asset yields, but also from the extraordinary payment of GBP 2.7 million to the pension fund by the British subsidiaries. Both of these items also reflect a significant depreciation of the pound sterling against the Euro, compared with the previous period. If we exclude the exchange effect, the “Present value of defined benefit obligations” would come to € 177.4 million and the “Fair value of the plan assets” would amount to € 162.5 million, with the “Deficit” falling by € 14.9 million.*

*The “Unrecognised actuarial (gains) losses” relate to the sum of the gains and losses not booked to the income statement.*

*It is worth mentioning that, overall, the Sogefi Group is now showing – for the first time since IAS/IFRS were adopted – a surplus in the often “thorny” question of pension fund management.*

### **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 are entitled 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 of the individual companies are booked to the income statement if they fall outside the 10% corridor.*

*Further to the amendments to the “Provision for employment termination indemnities” introduced by Law 296 of December 27, 2006 and subsequent decrees and regulations issued in the early part of 2007, the portions of the provision accruing as from January 1, 2007 and transferred either to supplementary pension funds or the treasury fund kept by INPS (the Italian social security authority) are being treated as “defined contribution plans”. These amounts therefore do not require actuarial valuation and are no longer booked to the “Provision for employment termination indemnities”.*

*The “Provision for employment termination indemnities” accruing up to December 31, 2006 is still a “defined benefit plan”, consequently requiring actuarial valuation, which however will no longer take account of the component relating to future wage inflation. Applying this new legislation has had a positive impact on the income statement of € 2,074 thousand, net of the previously unrecognised actuarial losses accruing to June 30, 2007.*

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

- *Macroeconomic assumptions:*
  1. *discount rate: 4.70%*
  2. *annual inflation rate: 2%*
  3. *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:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Opening balance	17,160	18,451
Accruals for the period	1,002	2,125
Reduction due to regulatory change	(2,074)	-
Contributions paid	(1,881)	(3,416)
TOTAL	14,207	17,160

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

<i>(in thousands of Euro)</i>	2007	2006
Current service cost	232	1,129
Reduction due to regulatory change	(2,074)	-
Interest cost	770	787
TOTAL	(1,072)	1,916

The unrecognised actuarial losses, being those lower than the corridor limit, amount to € 46 thousand at December 31, 2007 (€ 1,429 thousand at December 31, 2006).

### 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:

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
Opening balance	5,905	15,344
Accruals for the period	6,100	5,488
Utilizations	(4,958)	(14,388)
Provisions not used during the period	(1,046)	(553)
Exchange differences	2	14
TOTAL	6,003	5,905

“Accruals for the period” relate principally to production reorganization by the Filtration Division announced during the course of the year and due for completion over the next year.

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

The “Provisions not used during the period” relate to amounts previously set aside by Allevard Rejna Autosuspensions S.A. and Filtrauto S.A. which turned out to be excessive compared with the amount effectively spent.

Movements in the “Accruals for the period” net of the “Provisions not used during the period” amount to € 5,054 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: the allowances made were defined on the basis of the part of the dispute that is considered probable, even if the final outcome is not certain.

The provision has changed as follows during the period:

(in thousands of Euro)	12.31.2007	12.31.2006
Opening balance	6,119	6,850
Accruals for the period	589	707
Utilizations	(92)	(1,298)
Exchange differences	446	(140)
<b>TOTAL</b>	<b>7,062</b>	<b>6,119</b>

### Provision for phantom stock options

This provision amounts to € 253 thousand and refers to the allowance for new incentive schemes providing for cash payments, known as “phantom stock options”, for the Managing Director, managers and project workers of the Holding Company and managers of the Group’s other Italian companies. The related allowance has been booked to the income statement under “Personnel costs”, “Administrative and general consulting” and “Directors’ and statutory auditors’ remuneration”. More details on the phantom stock option plans can be found in note 29.

### 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 most important items:

(in thousands of Euro)	12.31.2006			
	Provision for product warranties	Other risks	Agents’ termination indemnities	Lawsuits
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)
<b>TOTAL</b>	<b>1,865</b>	<b>3,132</b>	<b>844</b>	<b>1,441</b>

(in thousands of Euro)	12.31.2007			
	Provision for product warranties	Other risks	Agents’ termination indemnities	Lawsuits
Opening balance	1,865	3,132	844	1,441
Accruals for the period	166	2,008	63	128
Utilizations	(46)	(380)	(772)	(125)
Provisions not used during the period	(180)	(135)	–	(497)
Exchange differences	(5)	20	–	(5)
<b>TOTAL</b>	<b>1,800</b>	<b>4,645</b>	<b>135</b>	<b>942</b>

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

The increase in “Other risks” relates principally to an allowance of € 1,070 thousand made by Filtrauto S.A. for a potential liability for tax professionelle due in previous years, and an allowance of € 379 thousand made by Sogefi Filtration S.p.A. for a dispute with some agents as part of the process of commercial reorganization that was begun during the year. The decrease of € 380 thousand follows

the settlement of various disputes with employees by Sogefi Filtration do Brasil Ltda. The balance at December 31, 2007 also includes the allowances made in previous years by the German subsidiary LPDN GmbH to provide for the impact of probable requests for part-time work by those employees so entitled by law, having reached the required age limit, and an allowance of around € 380 thousand 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 the provision for "Agents' termination indemnities" is related to the change in the distribution network of Sogefi Filtration S.p.A., with the almost total elimination of agency relationships.

"Provisions not used during the period" under "Lawsuits" mainly refers to the reversal of part of the allowances made in previous years by Sogefi Filtration d.o.o. for a legal dispute with a supplier, as a result of new events that suggest that the overall degree of risk may be less than was thought previously.

## 20. DEFERRED TAX ASSETS AND LIABILITIES

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

(in thousands of Euro)	12.31.2007		12.31.2006	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
<b>Deferred tax assets:</b>				
Allowance for doubtful accounts	2,331	684	2,048	679
Fixed assets writedowns	12,632	3,915	2,514	662
Inventory writedowns	7,426	2,403	7,932	2,860
Provisions for restructuring	5,931	1,727	3,926	1,274
Other provisions	23,909	7,468	32,415	10,074
Others	22,585	7,423	21,264	7,341
Deferred tax assets for tax losses incurred during the year	3,316	1,110	1,978	647
Deferred tax assets for tax losses incurred during prior years	1,332	437	8,105	3,282
<b>TOTAL</b>	<b>79,462</b>	<b>25,167</b>	<b>80,182</b>	<b>26,819</b>
<b>Deferred tax liabilities:</b>				
Accelerated/excess depreciation and amortization	54,914	17,695	49,966	16,681
Difference in inventory valuation methods	1,057	278	1,420	442
Capitalization of R&D costs	19,207	6,552	17,137	5,857
Others	7,864	2,703	4,232	1,498
<b>TOTAL</b>	<b>83,042</b>	<b>27,228</b>	<b>72,755</b>	<b>24,478</b>
<b>Deferred tax assets (liabilities), net</b>		<b>(2,061)</b>		<b>2,341</b>
<b>Temporary differences excluded from the calculation of deferred tax assets (liabilities):</b>				
Tax losses carried forward	23,427	9,209	25,189	9,990
Others	124	19	2,567	847
<b>TOTAL</b>	<b>23,551</b>	<b>9,228</b>	<b>27,756</b>	<b>10,837</b>

The tax effect is calculated using the tax rates applicable in the various countries, which are in line with the previous year, with the exception of Italy (from 37.25% to 31.4%), Germany (from 40% to 30%), Spain (from 32.6% to 28%) and Great Britain (from 30% to 28%). These rate changes meant adjusting the calculation of deferred tax assets and liabilities booked to the income statement under "Income taxes - Deferred tax liabilities (assets)".

The change in "Deferred tax assets (liabilities), net" compared with December 31, 2006 amounts to € 4,402 thousand and differs by € 184 thousand from the amount shown in the income statement under "Income taxes - Deferred tax liabilities (assets)" because of reclassifications, exchange differences or movements in balance sheet items that do not have any P&L effect.

The increase in the tax effect on the "Fixed assets writedowns" relates, for € 2,134 thousand, to the booking of deferred tax assets on the difference between the tax value and the consolidated book value of the available-for-sale buildings of Sogefi S.p.A. and, for € 653 thousand, to the recognition of deferred tax on the writedowns of fixed assets by the subsidiary Rejna S.p.A. in previous years, now that their recovery would appear probable.

The reduction in "Other provisions" is due to the decrease in British pension funds, as mentioned in the previous note.

The decrease in "Deferred tax assets for tax losses incurred during prior years" relates to the German subsidiaries of the Suspension Components Division, for the use of prior year tax losses in calculating current income taxes for the year.

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 in this item compared with the previous year is mainly attributable to Rejna S.p.A.. Improvements in its profitability now mean that it is reasonably certain that they will be recovered.

## 21. 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, 2007 amounts to € 59,595 thousand (€ 58,826 thousand at December 31, 2006), split into 114,604,992 ordinary shares of par value € 0.52 each.

Movements in the shares outstanding are as follows:

<i>(Shares in circulation)</i>	2007	2006
No. shares at start of period	113,127,592	112,187,792
No. shares issued for subscription of stock options	1,477,400	939,800
No. of ordinary shares as of December 31	114,604,992	113,127,592
Treasury shares	(1,695,000)	(1,695,000)
No. of shares outstanding as of December 31	112,909,992	111,432,592

## 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 shares</i>	<i>Reserve for reclassification of treasury shares</i>	<i>Translation reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total</i>
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>Currency translation differences</i>	–	–	–	(1,581)	–	–	(1,581)
Balance at December 31, 2006	70,490	3,762	(3,762)	8,520	19,702	71,301	170,013
<i>Paid share capital increase</i>	3,170	–	–	–	(382)	–	2,788
<i>Allocation of 2006 net profit:</i>							
<i>Dividends</i>	–	–	–	–	–	(82)	(82)
<i>Retained earnings</i>	–	–	–	–	–	28,483	28,483
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	–	–	(8)	(33)	(41)
<i>Other changes</i>	–	–	–	–	(3)	4	1
<i>Tax on items booked directly to equity</i>	–	–	–	–	19	–	19
<i>Imputed cost of stock options</i>	–	–	–	–	866	–	866
<i>Currency translation differences</i>	–	–	–	(2,954)	–	–	(2,954)
Balance at December 31, 2007	73,660	3,762	(3,762)	5,566	20,194	99,673	199,093

### Share premium reserve

*This amounts to € 73,660 thousand compared with € 70,490 thousand last year. The increase is due to the subscription of shares under the stock option plans.*

### Reserve for reclassification of treasury shares

*The “Reserve for reclassification of treasury shares” 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 € 2,954 thousand.*

## Other reserves

“Other reserves” are analyzed below:

<i>(in thousands of Euro)</i>	<i>Legal reserve</i>	<i>Treasury shares purchase reserve</i>	<i>Cash flow hedging reserve</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, 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
<i>Paid share capital increase</i>	–	–	–	–	–	(382)	(382)
<i>Fair value measurement of cash flow hedging instruments</i>	–	–	(8)	–	–	–	(8)
<i>Other changes</i>	–	–	–	–	–	(3)	(3)
<i>Tax on items booked directly to equity</i>	–	–	–	–	19	–	19
<i>Imputed cost of stock options</i>	–	–	–	866	–	–	866
Balance at December 31, 2007	11,880	–	287	2,363	(74)	5,738	20,194

*Details of the main reserves are as follows:*

### – Treasury shares purchase reserve

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

### – Cash flow hedging reserve

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

*The movements during the period show a decrease of € 8 thousand with a positive balance at December 31, 2007 of € 287 thousand.*

### – Reserve for stock options

*The reserve refers to the value of the imputed cost 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 20, 2007.*

## Retained earnings

*These total € 99,673 thousand and include amounts of net profit that have not been distributed.*

## MINORITY INTERESTS

The balance amounts to € 15,826 thousand and refers to the portion of shareholders' equity attributable to minority interests.

## 22. 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 included in the report on operations:

(in thousands of Euro)	12.31.2007	12.31.2006
A. Cash	63,753	51,519
B. Other cash at bank and on hand (details)	-	-
C. Financial instruments held for trading	59	128
D. Liquid funds (A) + (B) + (C)	63,812	51,647
E. Current financial receivables	897	32
F. Current payables to banks	12,418	13,278
G. Current portion of non-current indebtedness	13,696	18,578
H. Other current financial debts	469	-
I. Current financial indebtedness (F) + (G) + (H)	26,583	31,856
J. Current financial indebtedness, net (I) - (E) - (D)	(38,126)	(19,823)
K. Non-current payables to banks	118,004	128,403
L. Bonds issued	-	-
M. Other non-current financial debts	12,492	18,000
N. Non-current financial indebtedness (K) + (L) + (M)	130,496	146,403
O. Net indebtedness (J) + (N)	92,370	126,580
Non-current 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)	92,370	126,279

Details of the covenants applying to loans outstanding at period end are as follows (see note 16 for further details on loans):

- loan of € 50 million obtained by the Holding Company Sogefi S.p.A.: the ratio of the consolidated net financial position to consolidated EBITDA has to be less than or equal to 3.5;
- loan of € 100 million obtained by the Holding Company Sogefi S.p.A.: the ratio of the consolidated net financial position to consolidated EBITDA has to be less than 4.

At December 31, 2007 the Company was in full compliance with these covenants.



## D) NOTES ON THE MAIN INCOME STATEMENT ITEMS

### 23. SALES REVENUES

#### Revenues from the sale of goods and services

During the period, the Sogefi Group had sales of € 1,071,765 thousand compared with € 1,018,579 thousand the previous year (+5.2%); applying the same average exchange rates of 2006, sales would have amounted to € 1,075,772 thousand (+5.6%).

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

#### By business sector:

(in thousands of Euro)	2007		2006	
	Amount	%	Amount	%
Filters	548,225	51.2	527,171	51.7
Suspension components and precision springs	524,579	48.9	491,605	48.3
Intercompany eliminations	(1,039)	(0.1)	(197)	-
<b>TOTAL</b>	<b>1,071,765</b>	<b>100.0</b>	<b>1,018,579</b>	<b>100.0</b>

#### By geographical area of "destination":

(in thousands of Euro)	2007		2006	
	Amount	%	Amount	%
France	250,882	23.4	266,720	26.2
Germany	141,421	13.2	133,391	13.1
Great Britain	126,737	11.8	124,498	12.2
Italy	105,773	9.9	98,498	9.7
Spain	75,079	7.0	72,496	7.1
Benelux	71,427	6.7	70,828	7.0
Other European countries	108,454	10.1	89,576	8.8
Mercosur	148,475	13.9	123,453	12.1
United States	26,000	2.4	24,759	2.4
China	5,979	0.6	3,536	0.3
Rest of the World	11,538	1.0	10,824	1.1
<b>TOTAL</b>	<b>1,071,765</b>	<b>100.0</b>	<b>1,018,579</b>	<b>100.0</b>

Sales trends by market show a decline in France, because of the difficulties encountered by local car manufacturers during the first half of the year, and growth in other markets, particularly in the Mercosur, Other European countries, China, Germany and Italy. The growth in Other European countries refers principally to sales in Sweden, Slovenia and Poland.

## 24. VARIABLE COST OF SALES

*Details are as follows:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Materials</i>	486,147	449,995
<i>Direct labour cost</i>	119,232	114,848
<i>Energy costs</i>	30,176	29,518
<i>Sub-contracted work</i>	8,065	8,111
<i>Ancillary materials</i>	17,627	17,082
<i>Variable sales and distribution costs</i>	33,637	29,242
<i>Royalties paid to third parties on sales</i>	4,531	4,419
<b>TOTAL</b>	<b>699,415</b>	<b>653,215</b>

*The increase in “Variable cost of sales” is principally due to “Materials” as a result of the increase in sales, but also given a mix with a higher proportion of materials and higher prices in many procurement markets. “Direct labour cost”, on the other hand, reflects both wage rises and a higher average number of direct employees (4,383 at December 31, 2007 versus 4,289 at the end of the previous year), due to the growth in turnover.*

*The slight increase in “Energy costs” benefits from the saving achieved by the French companies by making a new supply contract, allowing them to soften the impact of price rises that in general were significant.*

*The growth in “Variable sales and distribution costs” is linked to the expansion in sales turnover, but it should also be remembered that in 2006 this item benefited from an insurance refund of around € 2.3 million.*

## 25. MANUFACTURING AND R&D OVERHEADS

*Details are as follows:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Labour cost</i>	79,475	78,897
<i>Materials, maintenance and repairs</i>	22,211	21,233
<i>Rental and hire charges</i>	4,753	4,666
<i>Personnel services</i>	7,507	7,366
<i>Technical consulting</i>	4,010	5,030
<i>Sub-contracted work</i>	1,592	1,606
<i>Insurance</i>	1,722	1,529
<i>Utilities</i>	1,439	1,681
<i>Capitalization of internal construction costs</i>	(10,222)	(9,615)
<i>Others</i>	2,664	1,871
<b>TOTAL</b>	<b>115,151</b>	<b>114,264</b>

*“Manufacturing and R&D overheads” show a slight increase (+0.8%) compared with the previous year, reflecting the Group’s ability to hold fixed costs stable at a time when sales and the main cost factors are rising.*

The rise in this item is concentrated in “Materials, maintenance and repairs”, as more maintenance was needed as a result of the growth in volumes produced, and in “Labour cost”, because of the rise in wages. These increases are partially offset by the reduction in “Technical consulting”, due to less use of external consultants for developing new products.

The increase in the “Capitalization of internal construction costs” is mainly attributable to Alleward Rejna Argentina S.A. for the development of a new leaf springs project for Renault, and to Filtrauto S.A. for the development of a new filters project for PSA.

The growth in “Others” is related to higher internal transport costs between the plants of Sogefi Filtration S.p.A. and the absence of some € 280 thousand of recoveries which benefited the previous year.

“Research and development expenses” amount to € 21,654 thousand, which is lower than the previous year when they amounted to € 22,024 thousand, slightly down as a percentage of sales (2.0% versus 2.2%).

## 26. DEPRECIATION AND AMORTIZATION

Details are as follows:

(in thousands of Euro)	2007	2006
Depreciation of tangible fixed assets	36,957	38,410
of which: assets under finance leases	497	618
Amortization of intangible assets	7,738	6,626
TOTAL	44,695	45,036

In 2007, this item amounts to € 44,695 thousand compared with € 45,036 thousand in the same period the previous year, a decrease of 0.8%. This decrease is attributable to the smaller amount of investments made this year.

The largest item by far is industrial depreciation, which amounts to € 35,332 thousand compared with € 36,829 thousand in 2006.

The decrease in depreciation of “Assets under finance leases” is due to the early redemption of a finance lease by Alleward Springs U.S.A. Inc., as explained in note 16.

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

## 27. DISTRIBUTION AND SALES FIXED EXPENSES

This item is made up of the following main components:

(in thousands of Euro)	2007	2006
Labour cost	20,572	20,035
Sub-contracted work	7,048	6,752
Advertising, publicity and promotion	4,325	4,590
Personnel services	2,782	2,736
Rental and hire charges	1,653	1,789
Consulting	881	765
Others	1,179	1,052
TOTAL	38,440	37,719

The moderate increase in “Distribution and sales fixed expenses” of € 721 thousand (+1.9%) also reflects the Sogefi Group’s ability to keep fixed costs under control, bearing in mind that part of the increase in labour cost is related to a change in the method of classification between general expenses and sales costs.

## 28. ADMINISTRATIVE AND GENERAL EXPENSES

These are analyzed as follows:

(in thousands of Euro)	2007	2006
Labour cost	26,463	25,898
Personnel services	4,360	5,395
Maintenance and repairs	4,263	4,691
Cleaning and security	3,571	3,833
Consulting	4,568	3,906
Utilities	3,197	2,948
Rental and hire charges	3,293	3,243
Insurance	2,624	2,508
Participation des salaries	2,329	2,295
Administrative, financial and tax-related services provided by Parent Company	1,850	1,850
Audit fees	1,159	1,392
Directors’ and statutory auditors’ remuneration	822	556
Sub-contracted work	717	643
Others	1,281	2,603
TOTAL	60,497	61,761

“Administrative and general expenses” amount to € 60,497 thousand at December 31, 2007 compared with € 61,761 thousand last year, a decrease of 2%.

The reduction in this item is principally due to “Others”, which includes the positive adjustments deriving from the new rules governing the “Provision for employment termination indemnities” (€ 2,074 thousand) and the change in regulations of the British pension funds (€ 268 thousand). Part of this benefit has been offset by around € 1 million reduction in recoveries deducted from this item, which benefited the previous year.

The more significant changes in the other components of “Administrative and general expenses” are discussed below.

The growth in “Labour cost”, of which € 128 thousand is due to the cost of the 2007 phantom stock option plans and the remainder to pay rises, is more than offset by the reduction in “Personnel services”, which were particularly high last year due to staff training costs associated with the working capital reduction project.

The reduction of “Maintenance and repairs” and “Cleaning and security” was offset by a rise in “Consulting”, mainly for the expenses incurred for the new “Kaizen” project and for upgrading IT systems, and in “Utilities”, for an increase in prices.

The reduction in “Audit fees” reflects savings obtained by the Sogefi Group on the renewal of the audit engagement for another three years, as well as a better classification of the fees paid for services provided by the independent auditors, which are now split between “Audit fees” and “Consulting”.

The increase in “Directors’ and statutory auditors’ remuneration” includes € 111 thousand in costs for the 2007 phantom stock option plan relating to the Managing Director of Sogefi S.p.A., while the rest of the increase is explained by higher remuneration.

“Directors’ and statutory auditors’ remuneration” includes € 501 thousand and € 100 thousand respectively for the Directors and Statutory Auditors of the Holding Company.

## 29. 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>	2007	2006
<i>Wages, salaries and contributions</i>	223,557	219,706
<i>Pension costs: defined benefit plans</i>	(38)	3,392
<i>Pension costs: defined contribution plans</i>	1,705	411
<i>Participation des salaires</i>	2,329	2,295
<i>Imputed cost of stock option plans</i>	866	945
<i>Other costs</i>	685	466
<i>TOTAL recurring costs</i>	229,104	227,215
<i>Extraordinary bonuses to management (non-recurring cost)</i>	–	2,288
<i>TOTAL</i>	229,104	229,503

*The increase in "Personnel costs" is due to "Wages, salaries and contributions", as explained in the preceding paragraphs. Excluding the non-recurring cost of the extraordinary bonuses paid to management, "Personnel costs" as a percentage of sales went from 22.3% in 2006 to 21.4% in 2007.*

*The reduction in "Pension costs: defined benefit plans" is a result of the new regulations governing the "Provision for employment termination indemnities" and the British pension funds. The reform of the "Provision for employment termination indemnities" entailed the transformation of the amounts accrued after December 31, 2006, transferred partly to supplementary pension funds and partly to the Treasury Fund at INPS, from "Defined benefit plans" to "Defined contribution plans", leading to a reclassification on the respective lines of the income statement. As reported in note 19, these amounts are no longer recorded in the "Provision for employment termination indemnities" but are booked as a payable to pension funds.*

*The increase in "Other costs" relates mainly to the higher incentives paid during the year to employees who left the Group.*

*The lines "Wages, salaries and contributions", "Pension costs: defined benefit plans" and "Pension costs: defined contribution plans" are included in the previous table under "Labour cost" and "Administrative and general expenses".*

*"Participation des salaires" 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 option plans" is included in "Other non-operating expenses (income)". The following paragraph "Personnel benefits" provides details of the stock option plans.*

*The structure of the Group's workforce, split by category, is shown in the following table:*

<i>(Number of employees)</i>	2007	2006
<i>Managers</i>	87	89
<i>Clerical staff</i>	1,408	1,408
<i>Blue collar workers</i>	4,746	4,758
<i>TOTAL</i>	6,241	6,255

## Personnel benefits

### Stock option plans

*Sogefi S.p.A. implements and has implemented in previous years stock option plans for managers and project workers of the Company and its subsidiaries that hold important positions of responsibility within the Group. The purpose is to foster greater loyalty to the Company and to provide an incentive that will raise their commitment to improving the Company's performance and value generation in the long term.*

*The plan provides participants with the opportunity 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, starting from 2006 stock option plans are first approved by the Shareholders' Meeting.*

*In 2007 the Board of Directors decided the following plan:*

- 2007 stock option plan reserved for managers of foreign subsidiaries for a maximum of 715,000 shares (0.62% of share capital at December 31, 2007) with a subscription price of € 6.96, to be exercised between September 30, 2007 and September 30, 2017.*

*Except for the plan mentioned above and as reported in the subsequent paragraph on "Phantom stock option plans", the Company has not carried out any 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 a result, it is not necessary to disclose the fair value of such goods or services.*

*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 2007, also those issued in 2003, 2004, 2005 and 2006, the main characteristics of which are as follows:*

- 2003 stock option plan for a maximum of 1,680,000 shares (1.47% of share capital at December 31, 2007) 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 (1.64% of share capital at December 31, 2007) at a price of € 2.64 per share, with a right to exercise them at the end of each four-month period 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 (1.68% of the share capital at December 31, 2007) with a subscription price of € 3.87, to be exercised between September 30, 2005 and September 30, 2015;*
- 2005 stock option plan reserved for 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 (1.26% of share capital at December 31, 2007) at a subscription price of € 4.50 with a right to exercise them from October 1 to December 7, 2008 and from May 1 to July 7, 2009;*
- 2006 stock option plan restricted to the managers of the Company and its subsidiaries for a maximum of 1,770,000 shares (1.54% of the share capital at December 31, 2007) 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.*

In 2007 options were exercised on 738,200 ordinary shares relating to the 2003, 2004, 2005 and 2006 plans at an average value of € 3.04 each, generating proceeds for the Holding Company of € 2,245 thousand.

The fair value of the options granted as of December 31, 2007, calculated with the help of a binomial tree model and amounting to € 866 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 2003-2007 plans and their average strike price:

	2007		2006	
	Number	Average price of the year	Number	Average price of the year
Not exercised/not exercisable at the start of the year	5,213,600	4.28	5,552,200	3.48
Granted during the year	715,000	6.96	1,850,000	5.87
Cancelled during the year	(354,600)	4.88	(1,362,000)	4.15
Exercised during the year	(738,200)	3.04	(826,600)	2.70
Not exercised/not exercisable at the end of the year	4,835,800	4.82	5,213,600	4.28
Exercisable at the end of the year	1,726,000	4.21	985,600	3.40

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 was partly due to the failure of part of the beneficiaries to exercise the options awarded under the 2005 extraordinary plan, 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, 2007	1.02	1.20	1.36
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	407,700	147,300
Exercised during the year	-	(407,700)	(145,700)
Cancelled during the year	-	-	-
Not exercised at the end of the year	228,000	-	1,600
Exercisable at the end of the year	228,000	-	1,600

In 2007 options were exercised on 553,400 ordinary shares relating to the 2000, 2001 and 2002 plans at an average value of € 2.37 each, generating proceeds for the Holding Company of € 1,312 thousand.

The total amount collected by the Group in 2007 under all stock option plans comes to € 3,557 thousand.

Details of the number of options exercisable at December 31, 2007 are given below:

	2003 - 2007 plans	2000 - 2002 plans	Total
Number of exercisable options remaining at December 31, 2006	985,600	759,200	1,744,800
Options matured during the year	1,752,200	23,800	1,776,000
Options exercised during the year	(738,200)	(553,400)	(1,291,600)
Options cancelled during the year	(273,600)	-	(273,600)
Number of exercisable options remaining at December 31, 2007	1,726,000	229,600	1,955,600

### Phantom stock option plans

Phantom stock option plans were issued during 2007 to the Managing Director, managers and project workers of the Holding Company, and to managers of the Italian subsidiaries. These plans were approved by the respective Boards of Directors. Unlike traditional stock option plans, phantom stock option plan do not involve granting any right to subscribe or to purchase a share, but entail paying the beneficiaries a variable cash sum corresponding to the difference between the Sogefi share price in the option exercise period and the Sogefi share price at the time of granting the option.

The principal characteristics of this plan are as follows:

- 2007 phantom stock option plan reserved for the Managing Director, managers and project workers of the Holding Company and for managers of Italian subsidiaries, for a maximum of 1,760,000 options at the grant price of € 7.0854, to be exercised between September 30, 2007 and September 30, 2017.

Details of the number of phantom stock options at December 31, 2007 are given below:

	2007
Not exercised/not exercisable at the start of the year	-
Granted during the year	1,760,000
Cancelled during the year	(30,800)
Exercised during the year	-
Not exercised/not exercisable at the end of the year	1,729,200
Exercisable at the end of the year	314,700

The fair value of options granted, calculated with the help of a binomial tree model, amounts to € 253 thousand at December 31, 2007. This amount is reported in the income statement under "Labour cost", "Administrative and general consulting" and "Directors' and statutory auditors' remuneration".

### 30. RESTRUCTURING COSTS

These amount to € 7,558 thousand (compared with € 5,234 thousand the previous year) and relate to reorganization plans already in progress, mainly in the Filtration Division.

"Restructuring costs" are made up of the accrual to the "Provision for restructuring" of € 5,054 thousand, net of the unused portion provided in previous years, and for the difference partly to costs incurred and paid during the year and partly to costs incurred during the year for which the previous years' provisions were not sufficient.



### 31. GAINS ON DISPOSAL

*The gains on disposal amount to € 4,622 thousand and mainly refer to the sale of the property in Nottingham owned by the subsidiary Sogefi Filtration Ltd.*

### 32. EXCHANGE LOSSES (GAINS)

*Exchange losses at December 31, 2007 amount to € 943 thousand (€ 843 thousand at December 31, 2006).*

### 33. OTHER NON-OPERATING EXPENSES (INCOME)

*These amount to € 19,821 thousand compared with € 21,010 thousand the previous year; the following table shows the main elements:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Indirect taxes</i>	5,318	5,134
<i>Other fiscal charges</i>	6,032	5,928
<i>Imputed cost of stock options</i>	866	945
<i>Other non-operating expenses (income)</i>	7,605	9,003
<b>TOTAL</b>	<b>19,821</b>	<b>21,010</b>

*“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 main components of “Other non-operating expenses (income)” are as follows:*

of which non-recurring:

- € 1,752 thousand in income arising from a change in the rules applying to British pension funds, relating to 2006;*
- € 2,557 thousand for the reversal of the writedown of the coil springs plants of Allevard Springs U.S.A. Inc. posted the previous year;*
- € 1,356 thousand for writing off the internal costs and part of the external costs incurred in previous years by Allevard Rejna Autosuspensions S.A. for developing a management software programme, now likely to be less extensively used by the Suspension Components Division than originally envisaged;*
- € 3,234 thousand in costs for transferring a coil springs line from Allevard Springs U.S.A. Inc. to Allevard Molas do Brasil Ltda;*
- € 5,273 thousand in consulting costs, including non-deductible indirect taxes, in the field of business development, including € 650 thousand for assistance provided by CIR S.p.A., the ultimate Parent Company;*
- € 562 thousand in non-recurring costs relating to Sogefi Filtration Ltd and Allevard Springs Ltd;*

of which recurring

- € 1,267 thousand in accruals for legal disputes with agents (Sogefi Filtration S.p.A.), employees and the tax authorities (Sogefi Filtration do Brasil Ltda);*
- € 207 thousand of pension costs for employees no longer on the books of Allevard Federn GmbH;*
- € 15 thousand in other recurring costs.*

## 34. FINANCIAL EXPENSES (INCOME), NET

*Financial expenses are detailed as follows:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Interests on amounts due to banks</i>	7,631	7,046
<i>Financial charges under lease contracts</i>	844	1,006
<i>Financial component of pension funds and termination indemnities</i>	703	795
<i>Costs of interest-rate hedging contracts</i>	–	189
<i>Other interests and commissions</i>	2,594	2,690
<b>TOTAL FINANCIAL EXPENSES</b>	<b>11,772</b>	<b>11,726</b>

*Financial income is detailed as follows:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Financial income from financial assets</i>	–	78
<i>Income from interest-rate hedging contracts</i>	186	32
<i>Interests on amounts due from banks</i>	1,919	1,095
<i>Other interests and commissions</i>	249	339
<b>TOTAL FINANCIAL INCOME</b>	<b>2,354</b>	<b>1,544</b>
<b>TOTAL FINANCIAL EXPENSES (INCOME), NET</b>	<b>9,418</b>	<b>10,182</b>

*Net financial expenses show a reduction of € 764 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 cash pooling function.*

## 35. LOSSES (GAINS) FROM EQUITY INVESTMENTS

*These include the dividends received from the associated company Allevard Resorts Composites S.A.S., € 108 thousand.*

## 36. INCOME TAXES

<i>(in thousands of Euro)</i>	2007	2006
<i>Current taxes</i>	20,804	19,616
<i>Deferred tax liabilities (assets)</i>	4,586	1,927
<b>TOTAL</b>	<b>25,390</b>	<b>21,543</b>

*The effective tax rate in 2007 increased with respect to the prior year (31.5% vs 28.8%): this is because 2006 benefited from the booking of substantial deferred tax assets on prior years' tax losses.*

Below there is a reconciliation between the standard tax rate and the effective tax rate for 2007. 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>	<i>Taxable amount</i>	<i>Tax rate %</i>	<i>Tax</i>
<i>Profit before taxes</i>	80,557	33%	26,584
<i>Effect of increases (decreases) with respect to the standard rate:</i>			
<i>Statutory amortization of goodwill</i>	(1,081)	33%	(357)
<i>Non-deductible costs, net</i>	416	33%	137
<i>Use of deferred tax assets not recognised in previous years</i>	(14,564)	33%	(4,806)
<i>Deferred tax assets on losses for the year not recognised in the financial statements</i>	3,547	33%	1,171
<i>Taxed portion of dividends</i>	3,753	33%	1,238
<i>Other permanent differences and tax rate differentials</i>			1,423
<i>Income taxes in the consolidated income statement</i>	80,557	31.5%	25,390

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

The "Deferred tax assets on losses for the year not recognised in the financial statements" are mainly attributable to the American subsidiaries for which there was not reasonable certainty at the end of the year that such losses would be recovered.

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

### 37. DIVIDENDS PAID

The dividends paid in 2007 (distributing 2006 earnings, as approved at the shareholders' meeting on April 20, 2007) amount to € 22,366 thousand, or € 0.20 per ordinary share.

Treasury shares have obviously been excluded from the distribution.

Last year, dividends paid amounted to € 19,455 thousand, or € 0.175 per ordinary share.

### 38. EARNINGS PER SHARE (EPS)

#### Basic EPS

Thanks to the rise in net profit for the period, EPS has gone from € 0.457 to € 0.465 with an increase of 1.7% despite a 0.9% increase in the weighted average number of shares outstanding.

	2007	2006
<i>Net profit attributable to the ordinary shareholders (in thousands of Euro)</i>	52,200	50,767
<i>Weighted average number of shares outstanding during the year (thousands)</i>	112,153	111,190
<i>Basic EPS (Euro)</i>	0.465	0.457

## 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.*

	2007	2006
<i>Net profit attributable to the ordinary shareholders (in thousands of Euro)</i>	52,200	50,767
<i>Average number of shares outstanding during the year (thousands)</i>	112,153	111,190
<i>Weighted average number of shares potentially under option during the year (thousands)</i>	1,989	1,467
<i>Number of shares that could have been issued at fair value (thousands)</i>	(1,022)	(724)
<i>Adjusted weighted average number of shares outstanding during the year (thousands)</i>	113,120	111,933
Diluted EPS (Euro)	0.461	0.454

*The “Weighted average number of shares potentially under option during the year” represents the average number of shares that could have been 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 2007 amounted to € 6.5352, whereas in 2006 it was € 5.4643.*

*The limited size of the adjustment, namely 967 thousand shares, equal to 0.9% of the average number of shares outstanding, makes Diluted EPS substantially the same as Basic EPS.*

## E) 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Financial instruments

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

Analyzing 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	
	12.31.2007	12.31.2006	12.31.2007	12.31.2006
<b>Financial assets</b>				
Cash and cash equivalents	63,753	51,519	63,753	51,519
Securities held for trading	59	128	59	128
Assets for derivative financial instruments	897	32	897	32
Trade receivables	220,097	226,992	220,097	226,992
Other receivables	5,982	6,010	5,982	6,010
Other assets	2,551	2,391	2,551	2,391
Other financial assets available for sale	497	450	497	450
Financial receivables	-	301	-	301
Other non-current receivables	4,974	5,305	4,974	5,305
<b>Financial liabilities</b>				
Short-term financial debts	26,114	31,856	26,392	32,189
Other short-term liabilities for derivative financial instruments	469	-	469	-
Trade and other payables	228,858	234,514	228,858	234,514
Other current liabilities	2,984	2,359	2,984	2,359
Medium/long-term financial debts	130,497	146,402	129,959	145,884

### 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, payables and receivables deriving from normal operating activities.

The Group handles its main hedging operations centrally. Precise instructions have also been issued laying down guidelines on 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 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 95% of floating-rate loans.

In order to hedge the risk of future increases in interest rates, the Group enters into interest rate swaps. At present, hedging transactions cover around 15% of the Group's floating-rate loans.

After such transactions, floating-rate loans represent around 80% of the Group's total loans.

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, 2007, split according to whether they are contractually at a fixed or floating rate (for further details see the table shown in the analysis of "Liquidity risk"):

(in thousands of Euro)	within 12 months	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	beyond 5 years	Total
TOTAL FIXED RATE	(1,217)	(802)	(842)	(630)	(549)	(3,836)	(7,876)
TOTAL FLOATING RATE	39,344	(26,411)	(35,433)	(26,818)	(34,575)	(602)	(84,495)

Below there is a sensitivity analysis which shows the impact on the income statement, net of tax, and on equity of a change in interest rates that is considered reasonably possible.

An increase or decrease in interest rates of 100 basis points, applied to floating-rate financial assets and liabilities in existence at December 31, 2007, including interest-rate hedges, would have the following effects:

(in thousands of Euro)	12.31.2007	
	Net profit	Equity
Sensitivity Analysis		
+ 100 basis points	(439)	(308)
- 100 basis points	439	308

The effect on equity differs from the effect on the income statement by € 131 thousand, which reflects the change in fair value of the instruments hedging the interest rate risk.

These effects do not differ significantly from the previous year.

## 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 4, the Group produces and sells mainly in countries of the Euro-zone, but it has business interests and is subject to risks above all in respect of 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.

Note that at December 31, 2007 the Brazilian subsidiary Allevard Molas do Brasil Ltda has a debt in dollars (USD 13,345 thousand) for the purchase of a springs production line from the American subsidiary Allevard Springs U.S.A. Inc.. As analysed in the section on "Hedging", the exchange risk of this debt has been entirely hedged by taking out derivative contracts.

In order to limit translation risk when converting the net results of 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.

As regards borrowings, 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 through forward currency purchases.

Below there is a sensitivity analysis which shows the impact on the income statement, especially on "Exchange losses (gains)", net of tax, and on equity of a change in exchange rates that is considered reasonably possible. Note that the exchange effect of translating the financial statements of foreign subsidiaries into Euro has not been taken into consideration here.

What has been taken into consideration are the financial assets and liabilities outstanding at December 31, 2007 denominated in a currency other than the functional currency of the individual subsidiaries. This analysis also takes into account any changes in the fair value of the financial instruments used to hedge exchange risk.

At December 31, 2007 exchange risk is concentrated mainly in transactions with the Euro. The only significant position in a currency other than the Euro is the debt in dollars mentioned above (USD 13,345 thousand) owed by the Brazilian subsidiary Allevard Molas do Brasil Ltda. This debt, being entirely hedged by derivatives, does not have any real impact on the sensitivity analysis.

A 5% appreciation or depreciation of the Euro against the other main currencies would have the following effects:

(in thousands of Euro)	12.31.2007	
	Net profit	Equity
Sensitivity Analysis		
+ 5%	(349)	(349)
- 5%	386	386

These effects are mainly due to the following exchange rates:

- EUR/USD, mainly for infragroup loans;
- EUR/GBP, mainly for trade payables in Euro of the UK subsidiaries.

These effects do not differ significantly from the previous year.

### Price risk

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

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.

We would also point out that price risk is generally mitigated by the Group's ability to pass on part of the increase in raw material costs to selling prices.

The price risk on Group investments classified as "Securities held for trading" and "Other financial assets available for sale" is not significant.

## **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. For example, 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.*

*The Group's maximum exposure to credit risk at December 31, 2007 is represented by the book value of the financial assets shown in the financial statements (€ 298,810 thousand), as well as by the nominal value of the guarantees given on behalf of third parties, as mentioned in note 43 (€ 12,458 thousand).*

*The exposure to credit risk is essentially linked to trade receivables which at December 31, 2007 amount to € 222,280 thousand (€ 231,269 thousand at December 31, 2006), written down by € 5,706 thousand (€ 6,040 thousand at December 31, 2006).*

*Receivables are backed by insurance guarantees for € 15,141 thousand (€ 18,788 thousand at December 31, 2006). The Group does not have any other guarantees covering trade receivables.*

*The following table shows the changes in the allowance for doubtful accounts:*

<i>(in thousands of Euro)</i>	<i>12.31.2007</i>	<i>12.31.2006</i>
<i>Opening balance</i>	<i>6,040</i>	<i>6,196</i>
<i>Accruals for the period</i>	<i>1,075</i>	<i>713</i>
<i>Utilizations</i>	<i>(1,015)</i>	<i>(788)</i>
<i>Provisions not used during the period</i>	<i>(300)</i>	<i>(71)</i>
<i>Exchange differences</i>	<i>(94)</i>	<i>(10)</i>
<i>TOTAL</i>	<i>5,706</i>	<i>6,040</i>



*The following is an ageing analysis of gross receivables and the related allowance for doubtful accounts to help evaluate credit risk:*

<i>(in thousands of Euro)</i>	12.31.2006		
	<i>Gross value</i>	<i>Allowance for doubtful accounts</i>	<i>Net value</i>
<i>Receivables past due:</i>			
<i>0-30 days</i>	9,266	(167)	9,099
<i>30-60 days</i>	3,156	(201)	2,955
<i>60-90 days</i>	2,310	(219)	2,091
<i>over 90 days</i>	12,549	(5,329)	7,220
<i>Total receivables past due</i>	27,281	(5,916)	21,365
<i>Total receivables still to fall due</i>	203,988	(124)	203,864
<b>TOTAL</b>	<b>231,269</b>	<b>(6,040)</b>	<b>225,229</b>

<i>(in thousands of Euro)</i>	12.31.2007		
	<i>Gross value</i>	<i>Allowance for doubtful accounts</i>	<i>Net value</i>
<i>Receivables past due:</i>			
<i>0-30 days</i>	9,439	(261)	9,178
<i>30-60 days</i>	2,994	(202)	2,792
<i>60-90 days</i>	1,849	(216)	1,633
<i>over 90 days</i>	8,886	(4,844)	4,042
<i>Total receivables past due</i>	23,168	(5,523)	17,645
<i>Total receivables still to fall due</i>	199,112	(183)	198,929
<b>TOTAL</b>	<b>222,280</b>	<b>(5,706)</b>	<b>216,574</b>

*At December 31, 2007 gross past due receivables were € 4,113 thousand lower than at the end of the previous year, falling as a percentage of total receivables from 11.8% to 10.4%. 4% of gross receivables have been past due for more than 90 days, compared with 5.4% last year. Past due receivables have been written down by 23.8% of the total (21.7% at December 31, 2006) and 54.5% (42.5% at December 31, 2006) considering only those over 90 days. Writedowns relate principally to balances in dispute. The proportion of past due receivables net of the allowance for doubtful accounts has fallen to 8.1% from 9.5% last year. The reduction in past due receivables, especially those over 90 days, reflects the continuous progress being made in credit management by the Sogefi Group.*

*The "Receivables past due over 90 days" relate principally to the Filtration Division's Italian and British subsidiaries. The provisions that have been made are considered appropriate based on the solvency of customers.*

*The item "Total receivables still to fall due" does not contain significant positions that have been renegotiated.*

*Considering the nature of the Sogefi Group's customers (manufacturers of cars and industrial vehicles and important international buying groups), a credit risk analysis by type of customer is not considered meaningful.*

### **Liquidity risk**

*The 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 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 it possible to optimize liquidity and cash flow management at a supranational level.

The following table shows an analysis of the Group's financial instruments by maturity, including the amount of future interests to be paid and trade receivables and payables:

(in thousands of Euro)	within 12 months	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	Beyond 5 years	Total
<b>Fixed rate</b>							
Finance lease Sogefi Filtration Ltd	(113)	(124)	(136)	(150)	(164)	(2,726)	(3,413)
Government financing	(629)	(668)	(696)	(470)	(375)	(1,049)	(3,887)
Other fixed rate loans	(475)	(10)	(10)	(10)	(10)	(61)	(576)
Future interests	(357)	(337)	(321)	(307)	(290)	(1,629)	(3,241)
<b>TOTAL FIXED RATE</b>	<b>(1,574)</b>	<b>(1,139)</b>	<b>(1,163)</b>	<b>(937)</b>	<b>(839)</b>	<b>(5,465)</b>	<b>(11,117)</b>
<b>Floating rate</b>							
Cash and cash equivalents	63,753	-	-	-	-	-	63,753
Financial assets	59	-	-	-	-	-	59
Assets for derivative financial instruments	897	-	-	-	-	-	897
Bank overdrafts and other short-term loans	(12,418)	-	-	-	-	-	(12,418)
Sogefi S.p.A. loans	-	(15,473)	(25,391)	(25,391)	(33,390)	-	(99,645)
Bank loans	(10,229)	(9,641)	(8,680)	-	-	-	(28,550)
Finance lease Allevarad Rejna Autosuspensions S.A	(1,226)	(1,287)	(1,351)	(1,415)	(1,180)	(602)	(7,061)
Other floating rate loans	(1,492)	(10)	(11)	(12)	(5)	-	(1,530)
Future interests	(6,735)	(5,790)	(4,082)	(2,459)	(943)	(36)	(20,045)
<b>TOTAL FLOATING RATE</b>	<b>32,609</b>	<b>(32,201)</b>	<b>(39,515)</b>	<b>(29,277)</b>	<b>(35,518)</b>	<b>(638)</b>	<b>(104,540)</b>
Trade receivables	220,097	-	-	-	-	-	220,097
Trade and other payables	(228,858)	-	-	-	-	-	(228,858)

## Hedging

### a) Exchange risk

The Sogefi Group has the following contracts to hedge the exchange risk on intercompany financial or trade balances. Note that even though the Group considers these instruments as exchange risk hedges from a financial point of view, it has chosen not to adopt hedge accounting, as this treatment is not considered suitable for the Group's operating requirements. It therefore measures such contracts at fair value through profit and loss.

At December 31, 2007, the Holding Company Sogefi S.p.A. and Allevarad Rejna Autosuspensions S.A. had the following forward sale contracts to hedge exchange risk on intercompany financial positions:

Forward sale	Date opened	Spot price €/currency	Date closed	Forward price €/currency
USD 8,000,000	12/21/2007	1.4385	03/20/2008	1.4400
USD 20,000,000	12/27/2007	1.4349	01/30/2008	1.4358

The Filtration Division's Brazilian subsidiary has the following forward sale contracts to hedge exchange risk on the collection of dividends:

Forward sale	Date opened	Spot price BRL/currency	Date closed	Forward price BRL/currency
ARP 240,000	02/23/2007	0.6735	01/29/2008	0.6741
ARP 240,000	02/23/2007	0.6735	02/27/2008	0.6736

The British subsidiaries have the following forward purchase contracts to hedge exchange risk on trade positions:

Forward purchase	Date opened	Spot price GBP/currency	Date closed	Forward price GBP/currency
EUR 1,000,000	12/21/2007	0.7175	03/20/2008	0.7201
EUR 1,300,000	12/21/2007	0.7175	03/20/2008	0.7201

At December 31, 2007 the fair value of these contracts amounted to € 547 thousand and was shown under "Other financial assets - Assets for derivative financial instruments". Fair value was calculated using the forward curve of exchange rates at December 31, 2007.

As mentioned previously, during the year Allevard Molas do Brasil Ltda purchased a springs production line from Allevard Springs U.S.A. Inc. for USD 13,345 thousand. This debt is expected to be paid in 8 instalments with the final payment due in November 2009. The exchange risk on this debt has been entirely hedged by the following derivative contracts:

Zero cost collar:

Forward purchase	Date opened	Spot price BRL/currency	Date closed	Forward price (call/put) BRL/currency
USD 400,000	06/19/2007	1.9047	02/28/2008	1.9500/2.0132
USD 400,000	06/19/2007	1.9047	05/30/2008	1.9800/2.0245
USD 400,000	06/19/2007	1.9047	08/29/2008	2.0060/2.0530
USD 400,000	06/19/2007	1.9047	11/28/2008	2.0300/2.0670
USD 550,000	06/19/2007	1.9047	02/27/2009	2.0390/2.1073
USD 550,000	06/19/2007	1.9047	05/29/2009	2.0700/2.1285
USD 550,000	06/19/2007	1.9047	08/31/2009	2.0940/2.1530
USD 550,000	06/19/2007	1.9047	11/30/2009	2.1180/2.1790

*Forward purchases:*

<i>Forward purchase</i>	<i>Date opened</i>	<i>Spot price BRL/currency</i>	<i>Date closed</i>	<i>Forward price BRL/currency</i>
USD 300,000	07/12/2007	1.8900	02/28/2008	1.9290
USD 300,000	07/12/2007	1.8900	05/30/2008	1.9478
USD 300,000	07/12/2007	1.8900	08/29/2008	1.9715
USD 300,000	07/12/2007	1.8900	11/28/2008	1.9935
USD 400,000	07/12/2007	1.8900	02/27/2009	2.0155
USD 400,000	07/12/2007	1.8900	05/29/2009	2.0389
USD 400,000	07/12/2007	1.8900	08/31/2009	2.0642
USD 400,000	07/12/2007	1.8900	11/30/2009	2.0895

<i>Forward purchase</i>	<i>Date opened</i>	<i>Spot price BRL/currency</i>	<i>Date closed</i>	<i>Forward price BRL/currency</i>
USD 300,000	07/23/2007	1.8606	02/28/2008	1.8978
USD 300,000	07/23/2007	1.8606	05/30/2008	1.9181
USD 300,000	07/23/2007	1.8606	08/29/2008	1.9424
USD 300,000	07/23/2007	1.8606	11/28/2008	1.9671
USD 400,000	07/23/2007	1.8606	02/27/2009	1.9900
USD 400,000	07/23/2007	1.8606	05/29/2009	2.0142
USD 400,000	07/23/2007	1.8606	08/31/2009	2.0425
USD 400,000	07/23/2007	1.8606	11/30/2009	2.0677

<i>Forward purchase</i>	<i>Date opened</i>	<i>Spot price BRL/currency</i>	<i>Date closed</i>	<i>Forward price BRL/currency</i>
USD 451,000	09/18/2007	1.9123	02/28/2008	1.9140
USD 451,000	09/18/2007	1.9123	05/30/2008	1.9352
USD 451,000	09/18/2007	1.9123	08/29/2008	1.9626
USD 451,000	09/18/2007	1.9123	11/28/2008	1.9905
USD 585,000	09/18/2007	1.9123	02/27/2009	2.0168
USD 585,000	09/18/2007	1.9123	05/29/2009	2.0449
USD 585,000	09/18/2007	1.9123	08/31/2009	2.0764
USD 385,687	09/18/2007	1.9123	11/30/2009	2.1016

*At December 31, 2007 the fair value of these contracts was negative for € 469 thousand, booked to “Other short-term liabilities for derivative financial instruments”.*

*Fair value was calculated using the forward curve of exchange rates at December 31, 2007.*

## 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):*

<i>Description of IRS</i>	<i>Date opened</i>	<i>Due date</i>	<i>Notional</i>	<i>Fixed rate</i>	<i>Fair value</i>
<i>To hedge 2 Sogefi S.p.A. loans € 100 million (€ 50 million 09/08/2006 due 09/08/2012 - € 50 million 09/29/2006 due 09/29/2012), rate: 3-month Euribor + 22.5 bps</i>	<i>09/22/2004</i>	<i>12/22/2008</i>	<i>10,000</i>	<i>3.25%</i>	<i>128</i>
<i>To hedge 2 Sogefi S.p.A. loans € 100 million (€ 50 million 09/08/2006 due 09/08/2012 - € 50 million 09/29/2006 due 09/29/2012), rate: 3-month Euribor + 22.5 bps</i>	<i>10/14/2004</i>	<i>12/22/2008</i>	<i>5,000</i>	<i>3.19%</i>	<i>80</i>
<i>To hedge 2 Sogefi S.p.A. loans € 100 million (€ 50 million 09/08/2006 due 09/08/2012 - € 50 million 09/29/2006 due 09/29/2012), rate: 3-month Euribor + 22.5 bps</i>	<i>10/14/2004</i>	<i>12/22/2008</i>	<i>5,000</i>	<i>3.188%</i>	<i>80</i>

*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 the paragraph on “Interest risk” for further information on the level of hedging of interest risk.*

## F) 40. 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 Parent Company, which at December 31, 2007 holds 56.88% 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 H along with the interests held by the Group.*

*Dealings between group companies are conducted at arm’s length, 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 centralized treasury function.*

*As part of its activity, Sogefi S.p.A. makes use of the services provided by CIR S.p.A., the ultimate Parent 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 the Sogefi Group in terms of the time devoted to them and the specific economic advantages obtained as a result.*

*In 2007 Sogefi S.p.A. used the services of CIR S.p.A., paying € 2,500 thousand for them (versus € 1,850 thousand the previous year). The increase in this item relates to the consultancy services provided by CIR S.p.A. in the field of business development.*

*At December 31, 2007 the Italian companies of the Sogefi Group have receivables of € 3,406 thousand due from CIR S.p.A. in connection with the Group tax filing system. At December 31, 2006 receivables amounted to € 1,673 thousand, all collected in 2007, and payables to € 201 thousand.*

*As part of their normal operating activities, during 2006 the Group’s Italian companies bought gas and electricity from the affiliate Sorgenia S.p.A., which is controlled by CIR S.p.A.. The supply contracts with Sorgenia S.p.A. were terminated in 2007 after the Group’s Italian companies decided to use other more competitive suppliers. The only balance between the Italian companies and Sorgenia S.p.A. still open at December 31, 2007 refers to a charge of € 12 thousand.*

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 2007, see the table below.

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>	2007	2006
<b>Receivables</b>		
- for the Group tax filing from Cir S.p.A.	3,406	1,673
<b>Payables</b>		
- for the Group tax filing to Cir S.p.A.	-	201
- for purchases of energy/gas to Sorgenia S.p.A.	12	1,338
<b>Costs</b>		
- for services received from Cir S.p.A.	2,500	1,850
- for purchases of energy/gas from Sorgenia S.p.A.	12	6,319
<b>Compensation of managers with strategic responsibilities</b>	1,544	1,336
<b>Compensation of directors and statutory auditors</b>		
- directors	674	402
- statutory auditors	148	154
<b>Extraordinary compensation of directors</b>	-	1,416

## G) COMMITMENTS AND RISKS

### 41. 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 made by the US subsidiary Alleward 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 4,181 thousand, of which USD 386 thousand due within 12 months.

For this contract Sogefi S.p.A. has provided a guarantee that covers around 50% of the remaining lease 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, 2007 are as follows:*

<i>(in thousands of Euro)</i>	2007	2006
<i>Within 12 months</i>	3,856	4,265
<i>Between 1 and 5 years</i>	10,174	11,594
<i>Beyond 5 years</i>	2,138	3,148
<b>TOTAL</b>	<b>16,168</b>	<b>19,007</b>

#### 42. INVESTMENT COMMITMENTS

*There are no binding commitments for capital expenditure other than those relating to the purchase of property, plant and equipment (€ 3,591 thousand) already disclosed in the notes. At December 31, 2006 the equivalent figure amounted to € 1,014 thousand.*

#### 43. GUARANTEES GIVEN

*Details of guarantees are as follows:*

<i>(in thousands of Euro)</i>	12.31.2007	12.31.2006
<b>PERSONAL GUARANTEES GIVEN</b>		
<i>a) Sureties to third parties</i>	2,744	3,008
<i>b) Other personal guarantees in favour of third parties</i>	9,714	9,714
<b>TOTAL PERSONAL GUARANTEES GIVEN</b>	<b>12,458</b>	<b>12,722</b>
<b>REAL GUARANTEES GIVEN</b>		
<i>a) Against liabilities shown in the balance sheet</i>	5,681	5,681
<b>TOTAL REAL GUARANTEES GIVEN</b>	<b>5,681</b>	<b>5,681</b>

*The guarantees 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.*

#### 44. OTHER RISKS

*The Group at December 31, 2007 has third-party goods and materials held at Group companies for € 5,937 thousand (€ 4,700 thousand at December 31, 2006).*

#### 45. SUBSEQUENT EVENTS

*On the subject of treasury shares, we point out that under the shareholders' authorization to buy treasury shares granted at the meeting of April 20, 2007, starting from January 7, 2008 up to February 25, 2008 the Holding Company Sogefi S.p.A. bought 341,000 shares at an average price of € 4.55 each.*

*On January 31, 2008 Sogefi S.p.A. also sold 80,000 treasury shares at a price of € 3.87 each in execution of the 2005 stock option plan reserved for one of the Company's project workers.*

*As a result, at February 25, 2008, Sogefi S.p.A. has 1,956,000 treasury shares, equal to 1.7% of the share capital.*



## H) GROUP COMPANIES

### 46. LIST OF GROUP COMPANIES AT DECEMBER 31, 2007

#### 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 (Italy)</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.)</i>	<i>USD</i>	<i>20,055,000</i>	<i>191</i>	<i>100.00</i>		<i>20,055,000</i>
<i>SOGEFI FILTRATION d.o.o. Medvode (Slovenia)</i>	<i>Euro</i>	<i>10,291,798</i>		<i>100.00</i>		<i>10,291,798</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>
<b>FILTRATION DIVISION</b> <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>FILTRAUTO DO BRASIL Ltda</i> <i>São Paulo (Brazil)</i> <i>Held by Sogefi Filtration do Brasil Ltda: 99%</i> <i>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>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>
<b>SUSPENSION COMPONENTS DIVISION</b>						
<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>4,000,001</i>	<i>99.99</i>	<i>1</i>	<i>4,000,001</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 &amp; PULVERMACHER - DITTMANN &amp; 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>LES NOUVEAUX ATELIERS MECANIQUES 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>
<i>AUTORUBBER S.r.l. Turin (Italy) Held by Rejna S.p.A.</i>	<i>Euro</i>	<i>50,000</i>		<i>100.00</i>		<i>50,000</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 &amp; 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 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>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>

*CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED*

*1. The undersigned:*

*Emanuele Bosio - Chief Executive Officer of Sogefi S.p.A.*

*Euro Trapani - Manager responsible for preparing Sogefi S.p.A.'s financial reports*

*hereby certify, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of February 24, 1998, that:*

*the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2007 fiscal year:*

- are adequate with respect to the company structure and*
- have been effectively applied.*

*2. No relevant aspects are to be reported on this subject.*

*3. It is also certified that the consolidated financial statements at December 31, 2007:*

*a) correspond to the books and accounting records;*

*b) have been prepared in accordance with International Accounting Standards (IAS/IFRS) and, to our knowledge, provide a true and fair representation of the financial position, results of operations and cash flows of the issuer and the companies included in the scope of consolidation.*

*Milan, February 26, 2008*

*Chief Executive Officer*

*Emanuele Bosio*

*Manager responsible for  
preparing financial reports  
Euro Trapani*

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

*Shareholders,*

*During 2007, we carried out the type of supervision required of us by law, implementing the audit checks laid down in Legislative 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 participation at Board meetings, we have ensured 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 accordance with the provisions of art. 154-bis of the Consolidated Law on Finance, the Board of Directors has taken the necessary steps to appoint a "Manager responsible for preparing financial reports", granting him adequate powers to perform his duties. At the beginning of 2008, 118,800 Sogefi S.p.A. shares were issued after the beneficiaries of current stock option plans exercised their options, at the same time, the Company also sold 80,000 treasury shares in execution of the 2005 stock option plan reserved for one of the Company's project workers.*
- 2. No atypical or unusual transactions were carried out with Group companies or related parties during 2007; the dealings that Sogefi has with other Group companies are all settled at arm's length and we are of the opinion that they are all in the Company's interest. Intercompany transactions involve intraGroup financing as well as administrative, financial, fiscal, corporate and management support services. There are intercompany loans outstanding and the Company has developed a cash pooling system.  
The above mentioned transactions are described in detail in the notes and in the report on operations.  
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 of Directors has approved the 2007 Stock Option Plan Regulation in order to create greater company loyalty among the employees of the foreign subsidiaries and to provide an incentive that will raise their commitment to improve the company's long-term performance. 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 03.25.2008) on the statutory and consolidated financial statements for the year ended 12.31.2007. 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.*
- 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, other than audit, rendered to the Sogefi Group by the Independent Auditors for a total of Euro 310,000; parties related to the Independent Auditors have also been appointed to perform work involving fees of Euro 85,000.*
- 7. We have not issued any opinions during the year as sometimes required by law.*
- 8. The Board of Directors met 6 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 have a positive opinion of the work performed by the Internal Control Committee and the Person in charge of Internal Control, who is not responsible for any operating area. An Internal Audit Department is currently being set up; the Group is now looking for more human resources so that this function can be organised in a suitable way considering the size and structure of the Group. 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 6 times, lead us to conclude that this structure is adequate. So no corrective action needs to be taken in our opinion.*
12. *Based on the information obtained from the various office managers and meetings with the Independent Auditors, we are of the opinion that the accounting system functions properly and is able to give a fair and reliable picture of operations.*
13. *In accordance with point 2. of art. 114 of Legislative 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 2007 we had one meeting 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 adopted 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 Legislative 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 changed the members of the Remuneration Committee so that it is now made up of non-executive directors, the majority of whom are independent, to comply with the Code of Conduct; the Company has also 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 Legislative 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, 2007 show net profit of Euro 26,034,191, whereas the consolidated financial statements of the Sogefi Group show net profit of Euro 52,200,000.*

*We have found no reason why you should not approve the financial statements as of December 31, 2007. We therefore agree with the Board of Directors' invitation for you to approve them, together with the allocation of net profit for the year and the distribution of dividends.*

Mantua, March 26, 2008

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 2007, 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 22 March 2007.

- 3 In our opinion, the consolidated financial statements of Sogefi SpA as of 31 December 2007 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, 25 March 2008

PricewaterhouseCoopers SpA

Sergio Pizzarelli  
(Partner)

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