

2004

**BOARD OF DIRECTORS REPORT
AND
CONSOLIDATED FINANCIAL STATEMENT**

(Translation into English of the original Italian version)



REPORT OF THE BOARD OF DIRECTORS
ON OPERATIONS FOR FISCAL YEAR 2004

Shareholders,

In 2004, the Sogefi Group achieved its best results in twenty-five years of activity, achieving revenues of € 966.1 million and net income of € 37.9 million.

This result is even more significant as it was achieved in a year of considerable tensions in ferrous metal markets. These created procurement problems and extraordinary hikes in steel prices, which in turn made negotiations with customers even more arduous.

However, we managed to counter these negative external factors very successfully by means of higher sales volumes for the main product lines, passing on part of the higher material costs to customers, a further reduction in fixed costs following the reorganization of the filtration division and greater efficiency thanks to higher capacity exploitation at certain locations following the reduction in the number of production sites in recent years.

The Group has obtained confirmation of its ability to penetrate the original equipment sector, where it collaborates with all of the major manufacturers of motor vehicles around the world. They recognize Sogefi as a reliable and competitive partner and a specialist in key technologies for the success of their models, such as engine filtration and suspension safety components.

World output of automobiles and light commercial vehicles rose in 2004 to 61 million units, an increase of around 5%. The rise in industrial vehicles was even more significant at +13%, for a total of 1.9 million units produced.

In the Group's principal markets, the trend in automotive output was positive with an increase in Europe of 4.4% for the auto/light commercial vehicle segment and 12.2% for industrial vehicles. The South American market is expected to grow rapidly. Indeed, its growth rate is already higher than China's with +23% in the auto/light commercial vehicle segment and +21% in industrial vehicles. Even though China's dizzy growth slowed down quite substantially in the second half of the year, it still produced a total of 4.8 million vehicles compared with the previous figure of 4.3 million.

The success of Japanese automakers continued both in Europe and in the United States, with Toyota beating Ford in the world ranking of total cars produced. In Europe, BMW strengthened its position, whereas the Group's main customers, PSA and Renault, remained more or less stable.

Group sales are much the same as last year in the aftermarket, where the downward trend in consumption continued due to longer product replacement times and automakers' attempts to improve their market share to the detriment of the independent aftermarket.

The Group's first US manufacturing company, Allevard Springs U.S.A. Inc., which is to produce shock absorber springs and stabilizer bars at Prichard (West Virginia) for Ford, commenced production in July.

An organizational and corporate restructuring of the filtration division was carried out in 2004 with a view to shortening the chain of control by reducing the number of operating companies from 26 to 14, and improving tax planning. This involved the following operations:

- *the sale of the investment in Filtrauto B.V. (Netherlands) from Filtrauto UK Ltd (Great Britain) to Sogefi Filtration B.V. (Netherlands);*
- *the sale of the investment in Filtrauto Slovenia d.o.o. (which then changed its name to Sogefi Filtration d.o.o.) from Filtrauto S.A. (France) to Sogefi S.p.A.;*
- *the sale of the investment in Filtrauto GmbH (Germany) from Filtrauto S.A. (France) to Sogefi Filtration B.V. (Netherlands);*
- *the sale of the investment in Filtrauto UK Ltd (Great Britain) from Filtrauto S.A. (France) to Sogefi Filtration Ltd (Great Britain);*
- *the sale of the investment in Sogefi International B.V. (Netherlands) from Sogefi S.p.A. to Sogefi Filtration S.A. (Spain);*
- *the sale of the investment in Sogefi Filtration S.p.A. (Italy) from Sogefi S.p.A. to Filtrauto Italia S.r.l. (Italy);*
- *the merger of the French companies Filtrauto S.A., Efficiencia S.A. and Sogefi Filtration S.A.;*
- *the sale of 10% of the interest in Filtrauto Argentina S.A.C.I.F. (Argentina) from Filtrauto S.A. (France) to Filtrauto Italia S.r.l. (Italy);*
- *the liquidation of Filtrauto Ireland Ltd;*
- *the merger between the Argentine companies Sogefi Filtration Argentina S.A. and Filtrauto Argentina S.A.C.I.F.;*
- *the merger between the Italian companies Sogefi Filtration S.p.A. and Filtrauto Italia S.r.l.;*
- *the merger of the Dutch companies Sogefi Filtration B.V., Filtrauto B.V. and Coopers Filters Europe B.V.;*
- *the merger between the Spanish companies Filtrauto Iberica S.A., 100% held by Filtrauto S.A. (France), and Sogefi Filtration S.A., 100% held by Sogefi S.p.A.;*
- *the merger between Sogefi Filtration Ltd and Filtrauto UK Ltd;*
- *the liquidation of Sogefi International B.V. (Netherlands).*

The reorganization of the suspension components division commenced in 2004, but the bulk will be carried out in 2005. The changes made in 2004 consisted of:

- *the spin-off of the French precision springs businesses by Allevard Rejna Autosuspensions S.A. contributing its business to Allevard S.A.S. which subsequently changed its name to United Springs S.A.;*
- *the sale of the investment in Sidergarda Mollificio Bresciano S.r.l. (Italy) from Sogefi S.p.A. to Rejna S.p.A. (Italy).*

Moreover, in January 2004, we sold our 20% stake in Immobiliare Regis S.r.l., the owner of a building in the historical centre of Mantua, for € 2.4 million.

The following industrial sites which are no longer used after the reorganizations were also sold off during the period.

- *Castelfranco Veneto (Italy) for € 8.3 million;*
- *Saint Richmond (France) for € 0.3 million;*
- *Carmen de Areco (Argentina) for € 0.4 million.*

As part of the ongoing process of improving all cost factors, towards the end of the year we began operating a centralized treasury activity. This will raise the efficiency of financial flows and keep borrowing costs as low as possible. Initially, its activity will be limited to the Italian and French subsidiaries; later it will be extended to the entire Group.

From the beginning of 2004, Sogefi S.p.A., a listed company since 1986, switched to the STAR segment of the Italian Stock Exchange. This is important recognition that the Company has all of the requisites of excellence to join the STAR.

GROUP PERFORMANCE

In 2004, the Group improved on all of its main prior year results as can be seen from the following table:

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME - KEY FIGURES

(in millions of euro)	2004		2003	
	Amount	%	Amount	%
Sales revenues	966.1	100.0	902.4	100.0
Cost of production	709.1	73.4	659.7	73.1
GROSS INDUSTRIAL INCOME	257.0	26.6	242.7	26.9
Sales costs, R&D, overheads and administrative costs	171.3	17.7	164.1	18.2
OPERATING INCOME	85.7	8.9	78.6	8.7
Financial expenses, net	(12.1)	(1.3)	(11.5)	(1.3)
Income from equity investments	1.7	0.2	0.7	0.1
Net miscellaneous income (expenses)	7.9	0.8	3.9	0.4
Extraordinary expenses, net	(12.9)	(1.3)	(17.3)	(1.9)
INCOME BEFORE TAXES AND MINORITY INTERESTS	70.3	7.3	54.4	6.0
Income taxes	30.7	3.2	23.7	2.6
INCOME BEFORE MINORITY INTERESTS	39.6	4.1	30.7	3.4
Loss (income) attributable to minority interests	(1.7)	(0.2)	(2.2)	(0.2)
NET INCOME FOR THE YEAR	37.9	3.9	28.5	3.2

Group sales in 2004 increased to € 966.1 million, +7.1% on the prior year figure of € 902.4 million.

The growth in revenues derives from better market shares in auto suspension components and engine oil and diesel filtration systems, the success of the stabilinks line for industrial vehicle suspensions, the positive trend in the Mercosur area, as mentioned earlier, and the passing on of certain cost increases to selling prices.

Revenues were also boosted by the start-up of the US company making suspension components, but they were also hit by the sharp decline in supplies to IVECO because of the inability to adjust prices.

The largest increase in sales was in the suspensions sector, while the precision springs business turned in a slight reduction:

(in millions of euro)	2004		2003	
	Amount	%	Amount	%
Filters	514.6	53.3	496.0	55.0
Suspension components	414.1	42.9	366.8	40.7
Precision springs	37.4	3.8	38.0	4.2
Other	—	—	1.6	0.1
TOTAL	966.1	100.0	902.4	100.0

Sales in the original equipment segment continued to strengthen, though the gradual erosion in the independent aftermarket was also confirmed:

(in millions of euro)	2004		2003	
	Amount	%	Amount	%
Original equipment (O.E.)	594.5	61.5	529.1	58.7
Independent aftermarket (I.A.M.)	240.0	24.9	241.3	26.7
Original equipment spares (O.E.S.)	131.6	13.6	132.0	14.6
TOTAL	966.1	100.0	902.4	100.0

The breakdown of sales by market shows a further decline in the domestic market, which has fallen to 12.7%, whereas South American markets have improved:

(in millions of euro)	2004		2003	
	Amount	%	Amount	%
France	286.4	29.7	276.3	30.6
Great Britain	125.3	13.0	119.0	13.2
Italy	123.0	12.7	135.5	15.0
Germany	120.7	12.5	108.0	12.0
Spain	69.1	7.1	57.9	6.4
Other European countries	133.4	13.8	121.2	13.4
Mercosur	79.4	8.2	60.9	6.8
United States	16.4	1.7	11.2	1.2
China	2.8	0.3	3.2	0.4
Rest of the World	9.6	1.0	9.2	1.0
TOTAL	966.1	100.0	902.4	100.0

French vehicle manufacturers again proved to be the Group's most important customers in 2004, followed by Ford, Fiat and Daimler Chrysler, the last of these making strong progress thanks to our suspension components for industrial vehicles.

The breakdown of sales by product line in the filtration division again show the growth in oil and diesel filtration systems, whereas in the suspension components division there has been a particularly significant increase in stabilizer bars in the field of auto components and in stabilinks for industrial vehicles:

(in millions of euro)	2004		2003	
	Amount	%	Amount	%
Oil filters	277.1	28.7	262.1	29.1
Stabilizer bars	181.1	18.7	155.1	14.9
Shock absorber springs	144.6	15.0	134.8	17.2
Air filters	114.1	11.8	119.1	13.2
Leaf springs	68.0	7.0	64.6	7.2
Diesel filters	62.9	6.5	56.8	6.3
Precision springs	37.3	3.9	38.0	4.2
Petrol filters	33.4	3.5	33.4	3.7
Stabilinks	12.6	1.3	5.8	0.6
Cabin filters	12.5	1.3	12.0	1.3
Other	22.5	2.3	20.7	2.3
TOTAL	966.1	100.0	902.4	100.0

The hike in steel prices and the need to pass on these higher charges to selling prices made the relationship with customers in the original equipment sector particularly tense for the whole year.

The increases requested by steel suppliers right from the start of the year were for long matched by an almost total refusal to accept price rises on the part of customers.

Only in the last quarter was it possible to pass on part of the higher costs as it was obvious that ferrous metal costs were continuing to rise, with an increasingly high risk that raw materials would no longer be delivered. By the end of 2004, the overall increase in the cost of the special steels used in suspensions was in excess of 25% compared with the end of the previous year.

Despite this significant increase in its principal cost factor, the Group still managed to achieve **consolidated gross industrial income** of € 257 million, which is 26.6% of sales, compared with € 242.7 million in 2003 (26.9%).

Labour costs remained stable during the year, falling as a percentage of sales from 24.9% to 23.3%, whereas the workforce went from 6,548 at December 31, 2003 to 6,303 at the end of 2004.

The fall in the number of employees was mainly in the filtration business, as shown below:

	12.31.2004		12.31.2003	
	Number	%	Number	%
Filters	3,559	56.5	3,847	58.7
Suspension components	2,375	37.6	2,304	35.2
Precision springs	345	5.5	374	5.7
Other	24	0.4	23	0.4
TOTAL	6,303	100.0	6,548	100.0

The reduction in the workforce affected all categories of employees, as shown in the following table:

	12.31.2004		12.31.2003	
	Number	%	Number	%
Managers	98	1.5	107	1.6
Clerical staff	1,460	23.2	1,559	23.8
Blue collar workers	4,745	75.3	4,882	74.6
TOTAL	6,303	100.0	6,548	100.0

Sales per head have gone from € 130 thousand in 2003 to € 140.9 thousand in 2004 (+8.4%).

Consolidated gross operating margin (EBITDA) came to € 138 million, a slight improvement of 6.1% on € 130.1 million in 2003 (14.3% of sales versus 14.4% last year).

Consolidated net operating income (EBIT) has grown by 9% to € 85.7 million compared with € 78.6 million in 2003. As a percentage of sales, it also improved to 8.9%, from 8.7% in 2003.

Apart from the cost factors already discussed, the proportion of all of the other main costs went down: energy went from 2.6% of sales last year to 2.4% in 2004; selling and distribution costs came in at 8.2% of sales in 2004 compared with 8.5% the previous year, while general and administrative expenses fell to 7.4% of sales compared with 7.7% in the previous twelve months. A prudent reserve of € 1.5 million was also created during the year for a dispute with a customer over quality problems relating to limited supplies of shock absorber springs.

Research and development costs for the entire Group amounted to € 20 million (2.1% of sales), € 2 million more than the € 18 million (2% of sales) spent in the previous twelve months.

Income before taxes and minority interests came to € 70.3 million, 29.1% up on last year's figure of € 54.4 million. It was affected by the following non-recurring items:

- a capital gain of € 7.2 million on the sale of the industrial building in Castelfranco Veneto;
- a capital gain of € 1.4 million on the sale of the interest in Immobiliare Regis S.r.l.;
- a capital gain of € 0.4 million on the sale of the buildings in St. Richmond (France) and Carmen de Areco (Argentina);
- the provision of additional reserves of € 5.7 million in connection with the closure of the Nottingham (U.K.) filters plant for charges relating to social security problems;
- adjustment of the existing reserves for the reorganization of Sidergarda Mollificio Bresciano S.r.l. for € 3.3 million, given the greater complexity of the operation following difficult negotiations with the trade unions in 2004;
- restructuring costs of € 2.2 million in support of the suspension components division in Italy, France and Great Britain.

Overall, the net effect of non-recurring income and expenses in 2004 was € 8.4 million less penalizing than in the previous year.

Consolidated net income for the year came to € 37.9 million, an increase of 33.1% compared with € 28.5 million last year, equal to 3.9% of sales (3.2% in 2003).

This result benefited from better tax planning thanks to the reorganization and the inclusion of Sogefi S.p.A. and its Italian subsidiaries in the CIR Group's consolidated tax return.

Earnings per share (EPS) come to € 0.348, which compared with € 0.265 in 2003, a rise of 31.2%, in the presence of an average number of shares, net of treasury stock, of 108,888,450 versus 107,292,170 shares in 2003.

The following table analyses the **consolidated capital structure** as of December 31, 2004 compared with that of twelve months earlier:
(in millions of euro)

	12.31.2004		12.31.2003	
	Amount	%	Amount	%
Short term operating assets	373.8		370.6	
Short term operating liabilities	(244.3)		(241.5)	
Net working capital	129.5	30.2	129.1	30.3
Equity investments (incl. treasury stock)	10.2	2.4	11.3	2.7
Intangible, tangible and other medium and long-term assets	372.8	87.0	368.3	86.4
CAPITAL INVESTED	512.5	119.6	508.7	119.4
Other medium and long-term liabilities	(84.0)	(19.6)	(82.7)	(19.4)
CAPITAL INVESTED, NET	428.5	100.0	426.0	100.0
Net financial position	190.5	44.5	213.4	50.1
Shareholders' equity - Minority interests	15.9	3.7	14.4	3.4
Consolidated shareholders' equity - Group	222.1	51.8	198.2	46.5
TOTAL	428.5	100.0	426.0	100.0

Consolidated shareholders' equity as of December 31, 2004 was higher than a year earlier, being € 222.1 million (after distributing dividends of € 15.8 million) compared with € 198.2 million as of December 31, 2003.

Movements in consolidated shareholders' equity and the reconciliation between consolidated shareholders' equity and that of the Parent Company Sogefi S.p.A. are included in the explanatory notes.

The percentage of minority interests to total shareholders' equity remained substantially unchanged at 6.7% in 2004 compared with 6.8% in 2003.

Book net equity per share was € 1.993 as of December 31, 2004 after distributing a dividend of € 0.145 per share (€ 1.793 as of December 31, 2003). The number of shares at the end of 2004, net of treasury stock, was 109,563,792 compared with 108,425,192 at the end of 2003.

Return on investment (ROI) for the year was 20.2%, a further improvement on 18.3% the previous year, as with the **return on equity (ROE)** which increased by 22.1% to 18.4% compared with 15.1% in 2003.

Again in 2004, the Group generated very positive cash flow which improved the **consolidated net financial position** with net debt falling to € 190.5 million from € 213.4 million at the end of the previous year.

The following table analyses its composition:

(in millions of euro)	12.31.2004	12.31.2003
Cash, banks, financial receivables and marketable securities	57.1	43.1
Short-term borrowings (*)	(105.7)	(67.1)
Medium/long-term debt	(141.9)	(189.4)
NET FINANCIAL POSITION	(190.5)	(213.4)

(*) including current portion of medium and long-term financial debt

The **cash flow generated by operations** came to € 94.6 million which compares with € 86.4 million in 2003, while **free cash flow** amounted to € 36.4 million (€ 38.9 million in 2003).

The following table provides a **statement of changes in consolidated financial position**.

(in millions of euro)	12.31.2004	12.31.2003
Self financing	94.9	80.7
Changes in net working capital	(0.3)	5.7
Cash flow from operations	94.6	86.4
Parent Company share of capital increases	2.6	3.1
Dividends paid	(16.9)	(14.8)
Capital increases in consolidated companies subscribed by minority interests	0.9	0.9
Additions to intangible fixed assets	(13.4)	(10.6)
Additions to tangible fixed assets	(45.5)	(49.7)
Net decrease from sale of tangible fixed assets	1.5	4.2
Disposal of equity investments, net	1.4	1.0
Net financial position of the companies acquired/sold	(0.2)	0.4
Other changes, net	(2.1)	7.2
Change in net financial position	22.9	28.1
Net financial position, beginning of year	(213.4)	(241.5)
Net financial position, end of year	(190.5)	(213.4)

New **capital investments** were made for € 45.5 million, mainly to build the plants for Allevard Springs U.S.A. Inc. and to upgrade the production capacity of ISSA S.L. (suspensions in Spain).

At the end of the year, there was a further improvement in the gearing ratio between **net debt and total net equity**, which fell to 0.8 compared with 1 as of December 31, 2003, as did the ratio between net debt and EBITDA, which went from 1.64 at the end of 2003 to 1.38 at the end of 2004.

PERFORMANCE OF THE PARENT COMPANY

2004 closed positively for the Parent Company Sogefi S.p.A.. Net income for the year, equal to € 22.1 million, was 29.4% higher than the € 17.1 million made in 2003. As a result, shareholders' equity went from € 161.3 million at the end of 2003 to € 170.2 million at the end of 2004, having distributed dividends during the year just past of € 15.8 million.

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

(in millions of euro)	2004	2003
Financial income and expenses	30.1	36.1
Adjustments to the value of financial assets	–	(7.3)
Other operating revenues	7.9	5.7
Operating costs	(12.2)	(9.9)
INCOME BEFORE EXTRAORDINARY ITEMS	25.8	24.6
Extraordinary charges	(3.4)	(1.4)
INCOME BEFORE TAXATION	22.4	23.2
Income taxes	0.3	6.1
NET INCOME FOR THE YEAR	22.1	17.1

The main driver of this improvement was the higher amount of dividends received from subsidiaries, which in turn was made possible by the corporate rationalization carried out by the filtration division.

Another positive impact on the net result came from a revision of the way that management fees are charged to subsidiaries for the various activities carried on by the Parent Company, starting on 1 July 2004. This was needed due to the process of rationalizing the corporate structure, which led, among other things, to a shortening of the chain of control, thereby increasing the number of equity investments held directly.

A negative effect, on the other hand, came from the net balance generated by the disposal of equity investments during the course of the year: in fact, the loss incurred on the sale to Rejna S.p.A. of the interest held in Sidergarda Mollificio Bresciano S.r.l. was only partially offset by the gains made on the sale to third parties of the interest in Immobiliare Regis S.r.l. and on the sale to Sogefi Filtration S.A. (Spain) of the interest in Sogefi International B.V. (Netherlands). Transfers within the Group were carried out at a price established by independent expert appraisers appointed specifically for the purpose.

The significant drop in the amount of income taxes was the result of the tax reform introduced in 2004. On the one hand, the method of accounting for dividends was changed following the introduction of the so-called “participation exemption” on the losses and gains generated by managing equity investments: starting from the current year, dividends are booked net of tax credits and are therefore exempt from an income tax point of view, except as generated by the limited amount of double taxation. On the other hand, the tax reform in question introduced the concept of the tax consolidation, making it possible for the Parent Company, by accepting the proposal of its parent company, CIR S.p.A., to deduct any tax loss in the Group tax return, showing a receivable from the parent company for tax not due on this amount.

Moving on to the balance sheet, the following table shows the main asset and liability items of Sogefi S.p.A. as of December 31, 2004 compared with the situation at the end of the previous year:

<i>(in millions of euro)</i>	<i>12.31.2004</i>	<i>12.31.2003</i>
Short term assets	9.8	9.6
Short term liabilities	(4.6)	(3.8)
Net working capital	5.2	5.8
Equity investments (including treasury stock)	179.4	226.9
Other fixed assets	9.2	9.6
CAPITAL INVESTED	193.8	242.3
Other medium and long-term liabilities	(1.4)	(2.2)
CAPITAL INVESTED, NET	192.4	240.1
Net financial position	22.2	78.8
Shareholders' equity	170.2	161.3
TOTAL	192.4	240.1

The considerable reduction in the Company’s net debt, down from € 78.8 million at the end of 2003 to € 22.2 million at the end of 2004, is substantially due to the considerable reduction in investments in equity interests following the corporate rationalization that took place during the year.

<i>(in millions of euro)</i>	<i>12.31.2004</i>	<i>12.31.2003</i>
Cash and banks	12.3	2.5
Short/medium-term financial receivables from subsidiaries and from other	170.3	81.3
Short term borrowings	(80.0)	–
Medium/long-term debt	(124.8)	(162.6)
Net financial position	(22.2)	(78.8)

The increase in financial activity from subsidiaries is related to their higher requirements in connection with implementation of the reorganization, as well as optimization of the Group treasury function.

The following table provides a **statement of changes in financial position of Sogefi S.p.A.**

(in millions of euro)	31.12.2004	31.12.2003
Self financing	23.1	25.2
Changes in net working capital	–	(1.4)
Cash flow from operations	23.1	23.8
Parent Company share capital increases	2.6	3.1
Dividends paid	(15.8)	(13.9)
Net decrease (increase) in intangible and tangible fixed assets	(0.3)	(0.1)
Net decrease (increase) in equity investments	47.5	(15.4)
Other changes, net	(0.5)	–
Change in net financial position	56.6	(2.5)
Net financial position, beginning of year	(78.8)	(76.3)
Net financial position, end of year	(22.2)	(78.8)

PERFORMANCE BY BUSINESS DIVISION

FILTRATION DIVISON

The results of the filtration division in 2004 were very positive, with an increase in sales and net income thanks to a particularly strong performance on the part of our South American markets, as can be seen in the following table:

(in millions of euro)	FILTER DIVISION EUROPE		FILTER DIVISION SOUTH AMERICA		Intercompany eliminations	TOTAL FILTER DIVISION	
	Amount	%	Amount	%	Amount	Amount	%
Sales	462.8	100.0	53.9	100.0	(2.1)	514.6	100.0
Gross operating margin	69.3	15.0	8.4	15.5	(0.3)	77.4	15.0
Operating income	49.7	10.7	6.6	12.2	(0.3)	56.0	10.9
Result before taxes	50.5	10.9	5.4	10.0	(2.6)	53.3	10.3
Net income	36.9	8.0	4.2	7.8	(2.6)	38.5	7.5
Net financial position	(53.5)		1.5		–	(52.0)	
Total shareholders' equity	104.9		16.3		(39.7)	81.5	
Number of employees at December 31	2,941		618		–	3,559	

The division's consolidated sales were € 514.6 million, 3.8% up on last year's figure of € 496 million. Sales in the European market came to € 462.8 million compared with € 451.7 million in the previous twelve months, whereas sales in the South American market rose by 17.8% to reach € 53.9 million from € 45.8 million the previous year.

Sales improved exclusively with customers who are O.E.M. constructors, while the steady fall in demand on the independent aftermarket continued.

During the year, the Group won contracts to supply important new platforms, including:

- the engine air filtration system for the Fiat Punto/Opel Corsa (year of production: 2005);
- the 2.2 Tdi engine oil filtration system for the Ford Transit/Psa Boxer and Jumper (year of production: late 2005);
- the 2.4 Tdi engine oil filtration system for the Ford Transit/Land Rover 4x4 (year of production: late 2005);
- F1C diesel fuel filtration system for the Iveco Daily (year of production: 2005).

The impact of the increase in flat-rolled steel costs was offset by cost reductions in other materials, which gave the division a chance to improve its economic results by raising volumes and streamlining fixed costs.

The division’s gross operating margin (EBITDA) therefore improved on the previous year, coming in at € 77.4 million compared with € 71.6 million in 2003, which is 15% of sales compared with 14.4% in the previous twelve months.

Consolidated net operating income (EBIT) improved considerably, going from € 49.4 million to € 56 million and rising as a percentage of sales to 10.9% compared with 10% in 2003.

The profitability of South American markets was particularly high with an EBITDA of 15.5% of sales (12.5% in 2003) and an EBIT of 12.2% of sales (8% in 2003).

The division’s consolidated net income benefited from the capital gains mentioned earlier on the sale of properties and a lower effective tax rate thanks to the corporate reorganization, coming in at € 38.5 million, an increase of 30.4% compared with the 2003 result of € 29.5 million.

The division’s net debt as of December 31, 2004 amounted to € 52 million, an increase on € 46.8 million at the same date in 2003. Total shareholders’ equity has fallen due to the change in the scope of consolidation that followed the reorganization; as of December 31, 2004 it amounted to € 81.5 million compared with € 93.9 million at the end of 2003.

The corporate and industrial reorganization of the filtration business led to a reduction in the workforce, which at the end of year numbered 3,559 people, 288 fewer than at December 31, 2003.

SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION

The suspension components and precision springs division managed to increase its sales considerably, but its operating results were only marginally better because of the hefty increase in the price of steel.

(in millions of euro)	CAR AND PRECISION SPRINGS		INDUSTRIAL VEHICLES		Intercompany eliminations	TOTAL SUSPENSION COMPONENTS DIVISION	
	Amount	%	Amount	%		Amount	%
Sales revenues	347.9	100.0	104.7	100.0	(1.1)	451.5	100.0
Gross operating margin	49.4	14.2	14.3	13.7	–	63.7	14.1
Operating income	27.5	7.9	9.7	9.2	0.4	37.6	8.3
Result before taxes	19.3	5.6	6.1	5.8	0.4	25.8	5.7
Net income	8.3	2.4	1.8	1.7	0.4	10.5	2.3
Net financial position	(122.5)		6.2		–	(116.3)	
Total shareholders’ equity	78.9		31.3		(12.3)	97.9	
Number of employees at December 31	2,064		656		–	2,720	

Sales went up by 11.6% to € 451.5 million, compared with € 404.8 million in 2003, thanks to higher market shares in the auto segment in Europe, high output in Brazil and the success of the stabilinks line for industrial vehicles. In this last sector, despite the drastic reduction in the volumes supplied to the national customer, sales rose from € 98.2 million in 2003 to € 104.7 million in 2004, an increase of 6.6%.

The precision springs sector had sales of € 37.4 million, which was slightly down (-1.7%) on the € 38 million made in the previous twelve months.

The division achieved important commercial successes during the year which will result in it supplying the following platforms:

- front bar and spring for the Peugeot AT/new 206 project (year of production: late 2005);
- front bar for the new Fiat Punto and Opel Corsa and rear spring for the Fiat Punto (year of production: late 2005);
- front/rear bar and rear spring for the Ford Group Eudc/Ford Mondeo/Galaxy, Volvo S60/V70/S80 and Land Rover Freelander projects (year of production: 2006);
- front bar and rear spring for the D.C. W204/new class C project (year of production: 2007);
- front/rear spring for the Renault X91/new Laguna project (year of production: 2007).

The high proportion of materials to total costs for suspension components made it imperative to update selling prices as quickly as possible in line with the rise in steel costs. This objective was pursued right from the start of the year, though our efforts were only partially successful and for this we had to wait until the last quarter of the year. Greater difficulties were encountered in the auto and precision spring sector in Europe, whereas in South America and in the industrial vehicles sector, it proved somewhat easier to adjust selling prices, helped by strong demand for the products in question.

Operating profitability rose to a certain extent in absolute terms, but fell as a percentage of sales.

The division's gross operating margin (EBITDA) came to € 63.7 million compared with € 61.5 million the previous year, falling as a percentage of sales to 14.1% from 15.2% in 2003.

Consolidated net operating income (EBIT) was influenced by the loss made by Allevarad Springs U.S.A. Inc. which has just started up with more difficulties than expected and amounted to € 37.6 million compared with € 37.2 million in the previous twelve months, falling as a percentage of sales to 8.3% from 9.2% in 2003.

Still in the suspensions sector, the South American companies raised their operating profitability (EBIT) considerably, rising to € 4.1 million (14.1% of sales) from € 1.1 million (7% of sales) the previous year.

Significant progress was also made in the operating profitability of the industrial vehicles sector, which made an EBIT of € 9.7 million (9.2% of sales) compared with € 7.3 million (7.4 % of sales) in 2003.

After making the reserves mentioned previously for reorganization costs to be incurred in 2005-2006, the division's **consolidated net income** improved slightly in 2003 to € 10.5 million compared with € 9.1 million twelve months earlier, helped by the inclusion of Rejna S.p.A. and Sidergarda Mollificio Bresciano S.r.l. in the Group's consolidated tax return.

In May and June, the latter company had to endure a long industrial dispute with the trade unions over the redundancies that followed the contraction of supplies to IVECO. The agreement signed with the trade union representatives and the Ministry provides for access to special redundancy benefits on a rotating basis for a maximum of 180 workers out of the 291 still on the books at the end of the year.

After capital investments of € 34.1 million and an outlay of € 11.1 million for Rejna S.p.A.'s purchase of Sogefi S.p.A.'s interest in Sidergarda Mollificio Bresciano S.r.l., the division's net debt at December 31, 2004 had increased to € 116.3 million compared with € 87.1 million at the end of 2003.

The division's total consolidated shareholders' equity at the end of the year fell by 11.9%, partly because of the acquisition of the equity investment in Sidergarda Mollificio Bresciano S.r.l., going from € 111.2 million as of December 31, 2003 to € 97.9 million at the end of 2004.

The workforce involved in the suspensions and precision springs business went from 2,678 people in 2003 to 2,720 at the end of 2004.

SOGEFI INTERNATIONAL B.V.

In March 2004, the Parent Company sold its interest in Sogefi International B.V. to Sogefi Filtration S.A. (Spain), a subsidiary, as part of its corporate rationalization of the Filtration Division. Subsequently, the Spanish subsidiary put the Dutch company into liquidation as it was no longer functional to the Group's strategies. This process of liquidation was concluded on December 7, 2004 with the company's formal cancellation. As a result, Sogefi Filtration do Brasil Ltda, the Dutch holding company's main asset, became a direct subsidiary of Sogefi Filtration S.A..

FINANCIAL INFORMATION REQUIRED BY ART. 2428.6-BIS OF THE ITALIAN CIVIL CODE

As regards the use of financial instruments by the Parent Company, we would point out that the Company, which currently has a gross indebtedness of € 205 million, all variable rate, decided to transform part of it to fixed rate, stipulating interest risk hedging contracts (IRS) for a total of € 100 million. By means of these contracts, the Parent Company made sure that it had protection against potential interest rate hikes at a limited cost, considering how low interest rates currently are.

The economic aspects of these hedging contracts are detailed in the notes to the Parent Company's financial statements.

OTHER INFORMATION

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

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

Name	Company	No. of shares held at the end of 2003	No. of shares purchased in 2004	No. of shares sold in 2004	No. of shares held at the end of 2004
Carlo De Benedetti (1)	Sogefi S.p.A.	65,194,962	—	—	65,194,962
Emanuele Bosio	Sogefi S.p.A.	719,500	216,000	—	935,500
	A.R.A. S.A.	18	—	—	18
	Filtrauto S.A.	1	—	—	1
	(*) Efficiencia S.A.	1	—	1	—
Giovanni Germano (2)	Sogefi S.p.A	2,012,000	—	—	2,012,000
	Sogefi S.p.A.	1,004,312	—	—	1,004,312
Renato Ricci	Sogefi S.p.A.	670,000	—	—	670,000
	A.R.A. S.A.	54	—	—	54
Giovanni Russo	Sogefi S.p.A.	—	16,000	—	16,000

(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 Montecchio 38, Turin (Italy) - VAT no. 00486820012

(*) a company merged during 2004

All shares are held with full title.

As regards the shares held by Emanuele Bosio, five of the shares in Allevard Rejna Autosuspensions S.A. as well as the holding in Filtrauto S.A. are unavailable until the end of his period in office as a Director.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

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

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

Transactions with related parties are carried out at arm’s-length conditions, taking into account the quality and specific nature of the services rendered. The more important transactions that took place between Group companies in 2004 are analyzed in the explanatory notes.

In 2004, the Parent Company transferred tax credits to Filtrauto Italia S.r.l. and to Sogefi Filtration S.p.A..

In 2004 the Company changed the way that its services as Parent Company are recharged to Group companies. It also stipulated procurement fee contracts with the subsidiaries. As explained earlier, this change was made necessary mainly by the process of corporate reorganization.

Sogefi S.p.A. uses the services of its parent company, CIR S.p.A., in the fields of strategic development, disposals and acquisitions, administration, finance, tax and corporate matters. Sogefi S.p.A. is interested in having these services as CIR S.p.A. is able to provide them more efficiently than others thanks to its knowledge and experience of the Company’s set-up, its business and reference market. The cost of these services is in proportion to their actual value for Sogefi, in terms of the time dedicated and the specific economic advantages deriving from them. This relationship is regulated by contracts at arm’s-length conditions.

With reference to the provisions of Legislative Decree 344/2003, all of the Italian companies opted to join the CIR Group's consolidated tax return for the three years 2004-2005-2006.

CORPORATE GOVERNANCE

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

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

In July 2002 the Corporate Governance Committee recommended adopting the changes contained in the revised Code of Conduct for Listed Companies, first issued in 1999, in order to take into account national and international best practice.

In order to apply these changes, in 2002 the Company's Board of Directors made certain amendments and additions to the "Corporate Governance Model" adopted by the Company on March 6, 2001.

In 2004 various amendments were made to the "Corporate Governance Model", namely:

Internal Control System: Internal Control Committee

- On April 20, 2004, the Board passed a resolution renewing the Internal Control Committee, appointing as members of this Committee the Independent Directors Roberto Robotti, Paolo Riccardo Rocca and Antonio Tesone.*

The "Corporate Governance Model" was also changed to take account of the new membership of the Board of Directors approved by the Ordinary Shareholders' Meeting held on April 20, 2004, as well as the amendments to the by-laws approved by the same Shareholders' Meeting in Extraordinary session to implement the provisions of Legislative Decree 6/2003 (the so-called "Vietti Law").

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

As regards Legislative Decree 231/2001, which brings domestic regulations on administrative liability of legal 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, which is attached to the company's "Annual Report on the System of Corporate Governance". The Code clearly defines the values that the Group believes in as the basis on which to achieve its objectives. It lays down rules of conduct which are binding on directors, employees and others who have ongoing relations with the Group. On February 26, 2004 the company also adopted a "Model of Organization, Management and Control as per Legislative Decree no. 231 of June 8, 2001" following the guidelines of the decree, with a view to ensuring conditions of fairness and transparency in the carrying on of the company's affairs and business activities.

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

TREASURY STOCK

At December 31, 2004, Sogefi S.p.A. held 1,695,000 of its own shares (with a total par value of € 881 thousand) equal to 1.52% of the share capital, purchased in prior years and carried in the financial statements at € 3,762 thousand, giving an average book value per share of € 2.219.

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

In accordance with the new Privacy Law which came into effect on January 1, 2004, the Company has reviewed the security standards imposed by this law on the collection and processing of personal data relating to employees, customers and suppliers. A special Security Planning Document will be issued to explain the forms of protection that currently exist (in accordance with the previous law on privacy, no. 675/1996) with an indication of the changes that could be made by the company by the law's June 30, 2005 deadline to adjust to the new regulations.

POLICY GUIDANCE AND COORDINATION

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

Dealings with the parent company during the year have already been explained in the section entitled "Intercompany and related party transactions" in this report, while the related economic effects are discussed in the notes to the Parent Company's financial statements.

SUBSEQUENT EVENTS AND OUTLOOK FOR 2005

The following operations were carried out in the first two months of 2005 to conclude the reorganization of the filtration division:

- the sale of the investment in Sogefi Filtration S.p.A. (Italy) from Filtrauto S.A. (France) to Sogefi S.p.A.;*
- the conversion into a downpayment on a future increase in capital of the loan of € 19.6 million granted in 2004 by Sogefi S.p.A. to Sogefi Filtration S.p.A..*

On January 31, 2005 an increase in capital of Sogefi S.p.A. took place, issuing 109,600 shares reserved for employees of the Company and its subsidiaries in execution of the stock option plans.

At a meeting held on February 14, 2005, the Board of Directors approved an increase in capital of Sogefi S.p.A. for a total of 1,930,000 shares at a price of € 3.87 each to service a stock option plan in favour of employees of the Company and of its subsidiaries.

The rising trend in steel prices that we have seen for the last twelve months has continued in the initial part of 2005, forcing us to persist in our efforts to adjust prices to recover these cost increases.

The principal markets where the Sogefi Group operates ought to see a mild recovery in 2005. This, together with further industrial reorganizations already planned and measures to achieve profitability at Alleward Springs U.S.A. Inc. ought to enable us to achieve positive results again this year.

PROPOSED ALLOCATION OF NET INCOME FOR THE YEAR

The financial statements as of December 31, 2004 which we are submitting for your approval show net income of € 22,119,227.86 which we propose should be allocated as follows:

<i>Net income for the year</i>	<i>Euro</i>	<i>22,119,227.86</i>
<i>– to legal reserve</i>	<i>Euro</i>	<i>200,000.00</i>
<i>– Dividend of € 0.160 per share to all of the shares outstanding with rights from January 1, 2004 (excluding treasury stock in portfolio)</i>		
<i>– Balance of net income for 2004 allocated to “Retained earnings”</i>		

The proposed allocation of net income for the year takes into consideration the provision contained in art. 2357ter, 2 of the Italian Civil Code, which establishes that the right to net income of treasury stock be proportionally distributed to the other shares.
You are reminded that the exact amount to allocate to the dividend and to “Retained earnings” may change according to the amount of treasury stock held at the date of the Shareholders’ Meeting, as well as the potential issue on March 31, 2005 of up to 512,400 ordinary shares with dividend rights from January 1, 2004 if options are exercised under existing stock option plans.

Milan, February 28, 2005

THE BOARD OF DIRECTORS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2004 AND 2003

(in thousands of euro)

ASSETS	12.31.2004	12.31.2003
A) DUE FROM SHAREHOLDERS FOR CAPITAL NOT PAID IN	–	–
B) FIXED ASSETS		
I. INTANGIBLE FIXED ASSETS		
1) Incorporation and expansion costs	5,483	468
2) Research, development and advertising expenses	16,641	12,752
3) Industrial patents and intellectual property rights	2,033	3,734
4) Concessions, licences, trademarks and similar rights	1,223	1,032
5) Goodwill	3,297	3,795
6) Intangibles in progress and payments on account	846	2,759
7) Other	1,320	1,556
8) Differences arising on consolidation	81,697	86,871
TOTAL	112,540	112,967
II. TANGIBLE FIXED ASSETS		
1) Land and buildings	71,704	73,887
2) Plant and machinery	147,392	129,978
3) Industrial and commercial equipment	12,176	13,120
4) Other	5,756	4,448
5) Tangibles in progress and payments on account	11,388	23,518
TOTAL	248,416	244,951
III. FINANCLAL FIXED ASSETS		
1) Equity investments in:		
a) Subsidiaries	16	16
b) Associated companies	5,953	7,069
c) Other companies	443	422
Total	6,412	7,507
2) Receivables:	(*)	(*)
a) Subsidiaries	30	30
b) Associated companies	133	133
c) Parent companies	–	–
d) Others	16	1,808
Total	1,709	1,971
3) Other securities	–	–
4) Treasury stock	(**)	3,762
TOTAL	11,883	13,240
TOTAL FIXED ASSETS	372,839	371,158

(*) amounts due within one year
(**) including 1,695,000 treasury shares with a total par value of € 881 thousand

	12.31.2004		12.31.2003	
C) SHORT-TERM ASSETS				
I. INVENTORIES				
1) Raw materials, ancillary materials and consumables	41,111		37,475	
2) Work in progress and semi-finished products	12,728		14,375	
3) Contract work in progress	544		662	
4) Finished goods and goods for resale	57,688		56,320	
5) Advances	45		1,082	
TOTAL	112,116		109,914	
II. RECEIVABLES	(***)		(***)	
1) Trade receivables	687	235,963	866	232,848
2) Due from subsidiaries		284	5	486
3) Due from associated companies		1		1
4) Due from parent companies		7,356		—
4-Bis) Due from tax authorities	308	11,620	361	20,768
4-Ter) Deferred tax assets	8,195	8,195	7,372	7,372
5) Other	1,111	6,218	42	5,315
TOTAL		269,637		266,790
III. FINANCIAL ASSETS NOT HELD AS FIXED ASSETS				
1) Equity investments in subsidiaries	—		—	
2) Equity investments in associated companies	—		—	
3) Equity investments in parent companies	—		—	
4) Other equity investments	—		—	
5) Treasury stock	—		—	
6) Other securities	6,896		11,837	
7) Due from subsidiaries	—		—	
8) Due from associated companies	—		—	
9) Due from financial institutions and others	203		88	
TOTAL	7,099		11,925	
IV. CASH AT BANK AND ON HAND				
1) Bank and post office deposits	49,585		30,392	
2) Checks	130		400	
3) Cash and valuables on hand	89		174	
TOTAL	49,804		30,966	
TOTAL CURRENT ASSETS	438,656		419,595	
D) ACCRUED INCOME AND PREPAID EXPENSES				
1) Issue discounts and similar expenses relating to loans	68		137	
2) Other accrued income and prepaid expenses	2,329		2,456	
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME ASSETS	2,397		2,593	
TOTAL ASSETS	813,892		793,346	

(***) amounts due beyond one year

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2004 AND 2003

(in thousands of euro)

LIABILITIES AND SHAREHOLDERS' EQUITY	12.31.2004	12.31.2003	
A) SHAREHOLDERS' EQUITY			
I. Share capital	57,656	56,773	
II. Share premium reserve	27,823	24,773	
III. Revaluation reserves	1,547	1,547	
IV. Legal reserve	11,530	11,480	
V. Statutory reserves	—	—	
VI. Reserve for treasury stock	3,762	3,762	
VII. Other reserves	81,878	71,341	
VIII. Retained earnings	—	—	
IX. Group net income for the year	37,919	28,485	
CONSOLIDATED SHAREHOLDERS' EQUITY - GROUP	222,115	198,161	
MINORITY INTERESTS	15,897	14,443	
TOTAL GROUP AND MINORITY SHAREHOLDERS' EQUITY	238,012	212,604	
B) ALLOWANCES FOR RISKS AND CHARGES			
1) Pension and similar commitments	20,391	15,373	
2) Taxation, including deferred	13,469	12,607	
3) Other	30,207	31,359	
TOTAL ALLOWANCES FOR RISKS AND CHARGES	64,067	59,339	
C) ALLOWANCE FOR EMPLOYMENT TERMINATION INDEMNITIES	19,644	21,038	
D) PAYABLES	(***)	(***)	
1) Bonds	80,000	80,000	80,000
2) Convertible bonds	—	—	—
3) Shareholder loans	—	—	—
4) Banks	133,897	158,830	100,926
5) Other providers of finance	7,974	8,726	8,452
6) Advances	—	616	—
7) Suppliers	34	170,463	20
8) Notes payable	—	7,041	—
9) Subsidiaries	—	—	55
10) Associated companies	—	—	450
11) Parent companies	—	—	—
12) Tax authorities	116	19,729	581
13) Social security institutions	83	16,232	72
14) Other	51	28,069	1,657
TOTAL PAYABLES	489,706	497,621	
E) ACCRUED EXPENSES AND DEFERRED INCOME			
1) Accrued expenses and deferred income	2,463	2,744	
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	2,463	2,744	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	813,892	793,346	

(***) amounts due beyond one year

MEMORANDUM ACCOUNTS	12.31.2004	12.31.2003
PERSONAL GUARANTEES GIVEN		
a) Sureties in favour of:		
– subsidiaries	–	–
– associated companies	–	–
– third parties	2,389	1,833
c) Other personal guarantees in favour of third parties	9,714	9,714
TOTAL PERSONAL GUARANTEES GIVEN	12,103	11,547
SECURED GUARANTEES GIVEN		
b) Against liabilities shown in the balance sheet	6,782	7,284
TOTAL SECURED GUARANTEES GIVEN	6,782	7,284
COMMITMENTS		
– for the purchase of goods	3,305	4,370
– for the purchase of equity investments	1,824	1,064
– for interest rate risk hedging contracts	115,953	80,284
– for the sale of equity investments	–	–
– for the sale of securities under repurchase agreements	–	–
– for the sale of currency	7,847	1,980
TOTAL COMMITMENTS	128,929	87,698
CONTINGENCIES	5,999	5,620
TOTAL MEMORANDUM ACCOUNTS	153,813	112,149

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS 2004 AND 2003

(in thousands of euro)

	2004	2003
A) VALUE OF PRODUCTION		
1) Revenues from the sale of goods and services	966,148	902,369
2) Change in inventories of work in progress, semi-finished goods and finished products	(1,026)	(1,222)
3) Change in contract work in progress	(113)	(692)
4) Additions to fixed assets by internal production	12,719	8,804
5) Other revenues and income		
a) operating grants	385	266
b) others	17,264	15,040
Total 5)	17,649	15,306
TOTAL VALUE OF PRODUCTION	995,377	924,565
B) PRODUCTION COSTS		
6) Raw, ancillary and consumable materials and goods for resale	443,350	396,347
7) Services received	163,696	149,006
8) Leases and rentals	9,991	8,716
9) Personnel		
a) Wages and salaries	168,139	165,740
b) Social security payments	48,202	48,289
c) Allowance for employment termination indemnities	2,430	2,876
d) Retirement and similar benefits	3,487	4,234
e) Other	2,489	3,532
Total 9)	224,747	224,671
10) Depreciation, amortization and writedowns		
a) Amortization of intangible fixed assets	13,241	12,400
b) Depreciation of tangible fixed assets	39,107	39,073
c) Other writedowns of fixed assets	—	2,642
d) Writedown of receivables included in short-term assets and of liquid funds	1,578	1,591
Total 10)	53,926	55,706
11) Change in inventories of raw, ancillary and consumable materials and goods for resale	(4,897)	(2,520)
12) Provisions for risks and charges	1,696	1,699
13) Other provisions	2,656	1,948
14) Other operating expenses	6,641	6,507
TOTAL PRODUCTION COSTS	901,806	842,080
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	93,571	82,485

	2004	2003
C) FINANCIAL INCOME AND EXPENSES		
15) Income from equity investments in		
– subsidiaries	5	357
– associated companies	78	303
– other companies	3	4
Total 15)	86	664
16) Other financial income		
a) Income from receivables held as fixed assets		
– associated companies	–	–
– parent companies	–	–
– other companies	–	8
b) Income from securities held as fixed assets, not representing equity investments	–	–
c) Income from securities held as short-term assets, not representing equity investments	72	324
d) Income other than the above		
– interest and commissions from subsidiaries	–	–
– interest and commissions from associated companies	–	–
– interest and commissions from parent companies	–	–
– interest and commissions from affiliated companies	–	–
– other interest and commission	922	3,436
Total 16)	994	3,768
17) Interest and other financial charges		
– associated companies	–	–
– parent companies	–	–
– other	11,214	14,510
17-Bis) Exchange gain and losses	(1,876)	(728)
Total 17)	13,090	15,238
TOTAL FINANCIAL INCOME AND EXPENSES	(12,010)	(10,806)
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
18) Revaluations		
a) Equity investments	209	239
b) Financial assets	–	–
c) Securities held as short-term assets	–	–
Total 18)	209	239
19) Writedowns		
a) Equity investments	–	190
b) Financial assets	–	–
c) Securities held as short-term assets	–	–
Total 19)	–	190
TOTAL ADJUSTMENTS	209	49
E) EXTRAORDINARY INCOME AND EXPENSES		
20) Income		
– gains on disposals	1,409	–
– other	–	475
21) Expenses		
– losses on disposals	–	55
– taxes relating to prior years	47	1,593
– other	12,834	16,106
TOTAL EXTRAORDINARY ITEMS	(11,472)	(17,279)
INCOME BEFORE TAXATION	70,298	54,449
22) Income taxes		
– current taxes	32,208	24,842
– deferred taxes	(1,551)	(1,129)
TOTAL TAXES	30,657	23,713
INCOME INCLUDING MINORITY INTERESTS	39,641	30,736
Loss (income) attributable to minority interests	(1,722)	(2,251)
GROUP NET INCOME FOR THE YEAR	37,919	28,485

*EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004*

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Sogefi Group have been prepared in conformity with Decree 127 of April 9, 1991, and comprise the balance sheet, the statement of income and these explanatory notes. A statement of changes in financial position has also been presented to provide information on cash flows generated from operations at Group level during the year.

The consolidated financial statements (prepared on a line-by-line basis) include the financial statements of the Parent Company, Sogefi S.p.A., and all the Italian and foreign companies in which, directly or indirectly, it holds the majority of voting rights, except those that are not significant, pursuant to art. 28 of Decree Law 127/91.

The financial statements used for consolidation purposes are those prepared by the Boards of Directors for approval by the shareholders of the individual companies. Such financial statements are adjusted, where necessary, to eliminate the effects of fiscal interference and to comply with the accounting policies set out in art. 2426 of the Italian Civil Code (applied consistently throughout the Group), as interpreted and supplemented by those recommended by the Italian Accounting Profession or, where these are silent, those of the International Accounting Standards Board (IASB) (if consistent with current legislation). Adjustments primarily concern the elimination of accelerated depreciation (this now involves only foreign companies) and the upward adjustment of inventory values where the “average cost” valuation basis has been adopted rather than the LIFO method used by certain Italian companies, together with the related tax effects.

All the consolidated companies prepare their financial statements using the Parent Company’s accounting reference date.

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

- exclusions:*
 - 80% of Kingdragon.it S.p.A. in liquidation held by Sogefi S.p.A.. The company filed its closing liquidation accounts in January 2005;*
 - 100% of Les Nouveaux Ateliers Mecaniques S.A., 74.9% held by Sogefi S.p.A. and 25.1% by Sidergarda Mollificio Bresciano S.r.l., as it is dormant and being closed down in accordance with Belgian law;*
- inclusions:*
 - 100% of Filtrauto Argentina S.A.C.I.F., previously not consolidated and carried at equity, brought by Filtrauto S.A. (France) in Sogefi Filtration Argentina S.A. and subsequently merged with the latter.*

The changes in the scope of consolidation are not material for consolidation purposes, nor in comparison with the previous year, given that the companies involved are dormant or in liquidation.

The companies included in the scope of consolidation as of December 31, 2004 are listed in an attachment.

The balance sheet and statement of income figures for 2003 have been reclassified for comparison purposes with the 2004 financial statements as these have been amended on the basis of the new rules on company law. These reclassifications affected the asset captions “Due from tax authorities” and “Deferred tax assets” previously included in “Due from others”, and the statement of income captions “Exchange gain and losses” previously shown under “Other financial income - other interest and commission” and “Interest and other financial charges - other”.

No special circumstances arose during the year that would require departure from legislative requirements under Art. 2423.4 of the Italian Civil Code.

CONSOLIDATION PRINCIPLES

The consolidation principles applied are consistent with those used in the previous year in compliance with Arts. 31 and subsequent of Legislative Decree No. 127/91.

Consolidation methods

The assets, liabilities, costs and revenues of companies consolidated on a line-by-line basis are reflected in full, regardless of the percentage owned, while the carrying value of consolidated investments held by the Parent Company and other consolidated companies is eliminated against the related share of shareholders' equity.

The shareholders' equity and results for the year attributable to minority interests are reported separately in the consolidated balance sheet and statement of income.

The difference between the cost of equity interests in consolidated companies acquired during the year and the related portion of shareholders' equity is allocated, where possible, to specific assets and liabilities of the companies concerned.

Any remaining excess of cost is recorded as a "Difference arising from consolidation" and is amortized over 20 years, as the sector in which these companies operate is unlikely to see rapid advances in technology or production methods that would undermine their solid and widespread position in the markets in which they have decades of experience.

Any shortfall of cost is credited to the "Consolidation reserve", classified among "Other reserves" in the equity accounts, or, where the lower price paid reflects a forecast of adverse results, to "Provisions for risks arising on consolidation".

Intercompany receivables, payables, costs and revenues are eliminated, as are unrealized profits and losses deriving from transactions between consolidated companies. Dividends received from consolidated companies are also eliminated.

Translation of financial statements denominated in foreign currencies

The financial statements of foreign consolidated subsidiaries are translated to euro using year-end exchange rates for assets and liabilities and average exchange rates for the year for statement of income items. Differences that arise from using closing rather than opening exchange rates to translate opening shareholders' equity, and from using different rates to translate the result for the year (average rate in the statement of income, closing rate in the balance sheet) are classified among "Other reserves" in shareholders' equity.

The following exchange rates were applied:

	2004		2003	
	Average	12.31	Average	12.31
US dollar	1.2419	1.3621	1.1288	1.2630
Pound sterling	0.6784	0.7051	0.6921	0.7048
Swedish krona	9.1241	9.0204	9.1249	9.0802
Brazilian real	3.6319	3.6728	3.4571	3.6627
Argentine peso	3.6637	4.0381	3.3206	3.7450
Slovenian taller	239.2344	239.8081	233.6449	236.9668
Chinese Renminbi	10.2817	11.2778	9.3467	10.4581

ACCOUNTING POLICIES

The accounting policies underlying the consolidated financial statements comply with Art. 2426 of the Italian Civil Code and are consistent with those applied in the previous year except where specifically stated otherwise. The more significant policies are as follows:

Intangible fixed assets

Intangible assets are stated at purchase or production cost, including any directly-related charges, and amortized on a straight-line basis over the period they are expected to benefit.

Intangibles in process of formation and payments on account are not amortized.

Tangible fixed assets

Tangible assets are stated at purchase or production cost, net of related depreciation, adjusted in some cases under specific monetary revaluation laws. Revaluation surpluses, net of any taxes paid, are credited directly to reserves included in consolidated shareholders' equity. Equalization taxes are not provided in relation to these reserves, since no transactions are expected to take place which would give rise to such taxation.

Voluntary revaluations are not included in the value of fixed assets.

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

Tangible assets are depreciated each year on a straight-line basis using rates that reflect the technical and economic residual lives of the related assets. Tangible assets are written down in cases where, regardless of the depreciation accumulated, there is a permanent loss in value. Their original value is reinstated in future accounting periods should the reasons for such writedowns no longer apply.

The average depreciation rates applied are as follows:

	%
Industrial buildings and light constructions	2.5-10
Plant and machinery	5-30
Industrial and commercial equipment	10-33
Other assets	10-25

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

Ordinary maintenance costs are fully expensed as incurred. Improvement expenditure is allocated to the related assets and depreciated over their residual useful lives.

Assets acquired under finance leasing contracts are recorded among tangible assets at the original price paid, while the amount payable to the leasing company is recorded as a liability. Such assets are depreciated over their economic useful lives on the same basis as other tangible fixed assets.

Financial fixed assets

Equity investments in non-consolidated subsidiaries (in particular, companies that are not material to the consolidation) are valued under the equity method.

Equity investments in associated and other companies are valued at equity, purchase or subscription cost and written down for any permanent losses; the original value is written back in future years, if the reasons of the writedown no longer apply.

Receivables are stated at their estimated realizable value.

Investment securities and treasury stock, stated at purchase or subscription cost, are classified among "Financial fixed assets", since they are expected to be held long term.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost, generally determined on a weighted average cost basis, and their market or net realizable value.

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

Receivables included among short-term assets

Current receivables are stated at their estimated realizable value after adequate provision for doubtful accounts. Receivables assigned without recourse have been written out of the balance sheet and the difference between their book value and the amount received has been written off as a loss.

Financial assets not held as fixed assets

Securities and equity investments not held as fixed assets are stated at the lower of cost (of purchase or subscription) and their value determined with reference to year-end market conditions. The original value of such securities is reinstated in future accounting periods should the reasons for the writedowns no longer apply.

The carrying value of any such securities denominated in foreign currency is adjusted using year-end exchange rates, within the limits of their redemption value; any resulting unrealized gains or losses are included under financial income (or expenses) for the period.

Repurchase agreements in securities, involving irrevocable forward purchase and sale commitments, are recorded in the consolidated financial statements as amounts due to or from financial institutions. Income or expense represented by coupons falling due on securities purchased or sold for cash, as well as differentials between the spot and forward prices of such securities, are recognized in the statement of income on an accruals basis among "Other financial income and charges".

Accruals and deferrals

Accruals and deferrals represent time-based apportionments of income and expenditure items that relate to more than one accounting period.

Provisions for risks and charges

The provisions for risks and charges cover known or likely losses or liabilities, the timing and amount of which cannot be determined at year-end. They reflect the best estimate of losses to be incurred based on the information available.

Contingent liabilities are described in the notes, but no specific reserves are provided.

The provisions for pension and similar commitments are designed to cover the liability to employees of foreign companies upon termination of employment, as well as supplementary pension entitlements, in conformity with collective employment contracts and in-house agreements.

The amount provided represents the total expected liability accrued for each employee determined on an actuarial basis as of the end of the year.

Allowance for employment termination indemnities

This reflects the liability to all employees, determined in accordance with current Italian legislation and employment contracts in force. This liability is subject to annual revaluation in line with the relevant official indices.

Payables

Payables are stated at their nominal value.

Forward currency transactions and interest rate swaps

The financial instruments used to hedge exchange and interest rate risks relating to specific assets and liabilities or categories of assets and liabilities contained within the balance sheet are reflected in the statement of income according to the matching principle.

Revenue recognition

Revenues from the sale of products are recognized at the time ownership passes, which is generally upon shipment to the customer. Revenues from services rendered are recognized at the time the services are provided.

Operating grants

Operating grants are credited to income at the time they are formally approved.

Dividend tax credits

In 2003, tax credits on dividends were booked to the consolidated statement of income as a reduction in income tax. In 2004, we have not booked any tax credits as the rules have been changed and we are waiting for a definitive interpretation of the related accounting treatment.

Income taxes

These are provided on the basis of estimated taxable income, determined in accordance with current fiscal legislation, taking into account any available exemptions, benefits and tax credits.

In addition, deferred taxation is provided on the basis of timing differences between the stated amounts of balance-sheet items and the corresponding values for tax purposes. Deferred tax relief is recognized only to the extent that future taxable income is expected to be sufficient to ensure its absorption.

This basis complies with accounting principle no. 25 issued by the Italian Accounting Profession, which introduced International Accounting Standard no. 12 into Italian regulations.

Translation of foreign currency balances

Foreign currency receivables and payables are recorded using exchange rates ruling at the transaction date.

Receivables and payables outstanding at the balance sheet date are translated using year-end exchange rates. The resulting gains or losses are recorded as financial income or charges for the period, taking into account the effect of any relevant hedging contracts.

Equity investments denominated in foreign currencies are stated at amounts based on historical exchange rates.

ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRS)

EC Regulation no. 1606/02 issued by the European Parliament and by the Council on July 19, 2002 lays down that from the financial year that commences after January 1, 2005 companies with securities traded on an organized market in any member state of the European Union will have to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Initial implementation of international accounting principles is regulated by IFRS no. 1 "First-time Adoption of International Financial Reporting Standards" issued on June 19, 2003. This does not require a complete re-elaboration of all of the comparative financial statements involved as though they had always been prepared according to the new standards. Instead, based on a cost/benefit logic, it provides for a series of obligatory exceptions and voluntary exemptions, which will have to be evaluated company by company.

During the year we carried out all of the analyses needed to prepare an adjusted version of the 2004 financial statements in accordance with the new international financial standards to permit a satisfactory comparison with the 2005 financial statements.

Based on these analyses, we know that the main items that will need to be adjusted compared with existing accounting standards are as follows:

- intangible fixed assets, with particular reference to the accounting treatment and valuation of research and development expenses, incorporation and expansion costs, goodwill deriving from acquisitions of equity investments and their amortization;*
- tangible assets, in the part concerning the valuation of merit regarding the options given by IFRS 1;*
- financial assets, in the part regarding the accounting treatment and valuation of treasury stock and equity investments in other companies;*
- risk reserves and contingent liabilities, as regards the requirements laid down by IAS/IFRS for them to be booked to the financial statements;*
- the allowance for employment termination indemnities, pension funds and other similar personnel benefits, as regards any estimates and actuarial valuations, and the accounting treatment of stock option plans;*
- the accounting treatment of financial instruments in accordance with IAS 39;*
- the treatment of investments by minority shareholders which under IAS 32 will have to be reclassified as medium-term payables.*

SECTOR INFORMATION

Again with a view to applying the new international accounting standards from the year 2005, we have already decided to provide certain information by business area (primary sector) and by geographical area (secondary sector), as envisaged by IAS 14.

In this regards, with reference to the business areas as well as the Parent Company Sogefi, information is provided on the two divisions, filtration and suspension components.

Primary sector: business areas

The following table gives Group balance sheet and statement of income figures for the two divisions in 2004:

(in thousands of euro)	Filtration division	Suspension components division	Sogefi S.p.A.	Adjustments	Sogefi consolidated	
REVENUES						
Sales to third parties	514,571	451,280	–	–	965,851	
Intersector sales	–	299	6,521	(6,523)	297	
TOTAL REVENUES	514,571	451,579	6,521	(6,523)	966,148	

RESULTS

Operating income	56,000	37,553	(3,829)	(4,023)	85,701	
Financial expenses, net					(12,095)	
Income from equity investments					1,704	
Other income (expenses)					(5,012)	
Income before taxes					70,298	
Income taxes					30,657	
Loss (income) attributable to minority interests					(1,722)	
NET INCOME					37,919	

BALANCE SHEET

ASSETS						
Sector assets	327,947	378,652	381,025	(343,704)	743,920	
Equity investments in associated companies	–	5,953	–	–	5,953	
Unallocated assets	–	–	–	64,019	64,019	
TOTAL ASSETS	327,947	384,605	381,025	(279,685)	813,892	
LIABILITIES						
Sector liabilities	246,467	286,703	210,792	(168,083)	575,879	
TOTAL LIABILITIES	246,467	286,703	210,792	(168,083)	575,879	

OTHER INFORMATION

Additions to tangible and intangible assets	16,404	42,126	360	2	58,892	
Depreciation, amortization and writedowns	21,365	25,983	798	3,992	52,138	

The adjustments to “Total Revenues” refer to services rendered by Sogefi S.p.A. to other Group companies.
The adjustments to “Operating income” refer to the amortization of consolidation differences and the depreciation of fixed asset revaluations that arose on the purchase of 40% of Sogefi Filtration S.p.A. in 2000 and the Filtrauto Group in 2001.
The balance sheet adjustments to “Sector assets” refer to the elimination of equity investments and intercompany receivables.
The caption “Unallocated assets” includes consolidation differences and fixed asset revaluations that arose on the purchase of 40% of Sogefi Filtration S.p.A. in 2000 and the Filtrauto Group in 2001.

Secondary sector: geographical area

The following table gives a breakdown of statement of income and balance sheet figures of the Group by geographical area “of origin” during 2004, that is taking into consideration 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 both in the report of the Board of Directors and in the notes to the statement of income.

(in thousands of euro)	Europe	South America	Other	Adjustments	Sogefi consolidated	
REVENUES						
Sales to third parties	878,481	78,734	8,636	–	965,851	
Intersector sales	6,989	3,919	–	(10,611)	297	
TOTAL REVENUES	885,470	82,653	8,636	(10,611)	966,148	

BALANCE SHEET

ASSETS						
Sector assets	1,051,334	44,708	32,020	(384,142)	743,920	
Equity investments in associated companies	5,953	–	–	–	5,953	
Unallocated assets	–	–	–	64,019	64,019	
TOTAL ASSETS	1,057,287	44,708	32,020	(320,123)	813,892	

OTHER INFORMATION

Additions to tangible and intangible assets	44,892	2,499	11,499	2	58,892	
Depreciation, amortization and writedowns	43,999	2,893	1,254	3,992	52,138	

COMMENTS ON THE ASSET CAPTIONS

B) FIXED ASSETS

Intangible fixed assets

As of December 31, 2004 and 2003, these amount to € 112,540 thousand and € 112,967 thousand respectively and consist of:
(in thousands of euro)

	Gross values			
	Balance as of 12.31.03 (a)	Purchase (b)	Other changes (Note 1) (c)	Balance as of 12.31.04 (d=a+b+c)
Incorporation and expansion costs	4,601	141	5,644	10,386
Research, development and advertising expenses	22,682	5,534	2,423	30,639
Industrial patents and intellectual property rights	10,732	141	(1,997)	8,876
Concessions, licences, trademarks and similar rights	4,441	409	916	5,766
Goodwill	9,869	—	(6)	9,863
Intangibles under construction and payments on account	2,759	7,027	(8,940)	846
Other	3,883	127	903	4,913
Differences arising on consolidation	103,696	—	—	103,696
TOTAL	162,663	13,379	(1,057)	174,985

	Accumulated amortization			
	Balance as of 12.31.03 (e)	Amortization for the year (f)	Other changes (Note 1) (g)	Balance as of 12.31.04 (h=e+f+g)
Incorporation and expansion costs	4,133	873	(103)	4,903
Research, development and advertising expenses	9,930	4,228	(160)	13,998
Industrial patents and intellectual property rights	6,998	1,451	(1,606)	6,843
Concessions, licences, trademarks and similar rights	3,409	507	627	4,543
Goodwill	6,074	512	(20)	6,566
Intangibles under construction and payments on account	—	—	—	—
Other	2,327	496	770	3,593
Differences arising on consolidation	16,825	5,174	—	21,999
TOTAL	49,696	13,241	(492)	62,445

	Net values	
	Balance as of 12.31.03 (i=a-e)	Balance as of 12.31.04 (j=d-h)
Incorporation and expansion costs	468	5,483
Research, development and advertising expenses	12,752	16,641
Industrial patents and intellectual property rights	3,734	2,033
Concessions, licences, trademarks and similar rights	1,032	1,223
Goodwill	3,795	3,297
Intangibles under construction and payments on account	2,759	846
Other	1,556	1,320
Differences arising on consolidation	86,871	81,697
TOTAL	112,967	112,540

Note (1): includes reductions for intangible fixed assets that are fully amortized, changes in the scope of consolidation, translation differences arising on financial statements denominated in foreign currencies, reclassifications and writedowns.

Intangible assets are made up principally of “Differences arising on consolidation”, which were generated in previous years by the acquisitions of Allevard Ressorts Automobile in 1999, 40% of Sogefi Filtration S.p.A. in 2000 and the Filtrauto Group in 2001.

The net balance of € 81,697 thousand is lower than the 2003 figure of € 86,871 thousand mainly due to the amortization charge for the year. Amortization is charged over 20 years, because the sector in which these companies operate is unlikely to see rapid changes in technology or production methods that could undermine their consolidated and widespread position in the markets in which they have decades of experience.

The main increases are due to research and development expenses incurred by companies operating in the original equipment (O.E.) market for the development of new products, helped by the research and development structures of the principal car makers. These costs are amortized over their estimated useful life, while all advertising expenses are written off in the year they are incurred.

As of December 31, the heading “Incorporation and expansion costs”, net of accumulated amortization, is made up of:

(in thousands of euro)	12.31.2004	12.31.2003
Incorporation costs		
• incorporation and start-up costs	5,438	270
Expansion costs		
• other expansion costs	45	198
Total	5,483	468

The increase for the year is mainly due to reclassification of the start-up costs of Allevard Springs U.S.A. Inc., previously included in “Intangibles under construction and payments on account”, which were completed during the summer of 2004.

Incorporation and expansion costs are amortized over periods that vary from 4 to 5 years.

“Industrial patents and intellectual property rights” are amortized over the period they are expected to benefit, which is determined, where possible, with reference to contracts, or for any other assets over a period of 3-5 years, passed from € 3,734 thousand at the end of 2003 to € 2,033 thousand.

Goodwill is amortized over a maximum of twenty years, as it refers directly to the consolidation differences.
Intangible fixed assets are amortized over the period they are expected to benefit, which is determined, where possible, with reference to contracts, and over a period of three to five years for any other assets.

Tangible fixed assets

As of December 31, 2004 and 2003, these amount to € 248,416 thousand and € 244,951 thousand respectively and consist of:
(in thousands of euro)

	Gross values				
	Balance	Purchase	Disposals	Other	Balance
	as of 12.31.03 (a)	(b)	(c)	changes (Note 1) (d)	as of 31.12.04 (e=a+b+c+d)
Land and buildings	129,294	537	(2,856)	2,778	129,753
Plant and machinery	419,555	9,560	(8,544)	34,747	455,318
Industrial and commercial equipment	77,395	2,681	(1,197)	1,241	80,120
Other assets	25,356	1,136	(716)	2,162	27,938
Tangibles under construction and payments on account	23,518	31,599	(33)	(43,696)	11,388
TOTAL	675,118	45,513	(13,346)	(2,768)	704,517

	Accumulated depreciation				
	Balance	Depreciation	Utilization	Other	Balance
	as of 12.31.03 (f)	for the year (g)	(h)	changes (Note 1) (i)	as of 12.31.04 (j=f+g+h+i)
Land and buildings	55,407	4,920	(1,534)	(744)	58,049
Plant and machinery	289,577	27,180	(8,379)	(452)	307,926
Industrial and commercial equipment	64,275	5,080	(1,185)	(226)	67,944
Other assets	20,908	1,927	(682)	29	22,182
Tangibles under construction and payments on account	—	—	—	—	—
TOTAL	430,167	39,107	(11,780)	(1,393)	456,101

	Net values	
	Balance as of	Balance as of
	12.31.03 (f)	12.31.04 (f-e-j)
Land and buildings	73,887	71,704
Plant and machinery	129,978	147,392
Industrial and commercial equipment	13,120	12,176
Other assets	4,448	5,756
Tangibles under construction and payments on account	23,518	11,388
TOTAL	244,951	248,416

Note (1): the column includes changes in the scope of consolidation, translation differences on financial statements denominated in foreign currencies, reclassifications and write-downs.

The column “Other changes” refers mainly to assets previously under construction that have since become operative. In addition, it includes the changes in the scope of consolidation relating to Filtrauto Argentina S.A.C.I.F. and Les Nouveaux Ateliers Mecaniques S.A., for a total of € 231 thousand.

Capital investment during the year amounted to € 45,513 thousand compared with € 49,656 thousand in the previous year. The decrease in “Land and buildings” is mainly due to the buildings sold in Castelfranco Veneto (Italy) (Sogefi Filtration S.p.A.), St. Richmond (Filtrauto France S.A.) and Carmen de Areco (Sogefi Filtration Argentina S.A.).

The rise in “Plant and machinery” is mainly due to further capital investment in automation and improvements to production processes. Decreases relate essentially to closure of the Filtration Division’s production facilities in Italy and France (St. Richmond), as well as the disposal of assets no longer used in the production cycle. The tangible fixed assets involved were more or less fully depreciated, as can be seen from the table above.

The increase in “Industrial and commercial equipment”, which was less than the depreciation charge for the year, and in “Other” relates mainly to the development of new products and to ordinary production activities.

The decrease in “Intangibles under construction and payments on account” is mainly due to completion of the bar and spring lines in Spain, France and the United States, with their consequent reclassification to the pertinent headings: it is also higher than the increases generated by new investment projects currently in progress.

Tangible fixed assets relating to Italian companies included in the scope of consolidation are recorded at historical purchase cost, as adjusted in accordance with special monetary revaluation laws. Revaluation surpluses net of applicable taxes are recorded in a specific equity reserve.

The gross value as of December 31, 2004 of fixed assets inclusive of revaluations and writedowns, included in accumulated depreciation, is the following:

(in thousands of euro)

	Historical (a)	Revaluations (b)	Gross value (c=a+b)	Write-downs
Land and buildings	126,812	2,941	129,753	29
Plant and machinery	455,250	68	455,318	1,289
Industrial and commercial equipment	80,120	–	80,120	22
Other assets	27,938	–	27,938	1
Tangibles under construction and payments on account	11,388	–	11,388	–
TOTAL	701,508	3,009	704,517	1,341

This table clearly shows that the impact of revaluations and writedowns on total fixed assets is extremely modest.

Tangible assets as of December 31, 2004 were encumbered by mortgages and liens, mainly on buildings, totalling € 6,782 thousand to guarantee loans from financial institutions.

Financial fixed assets

As of December 31, 2004 these totalled € 11,883 thousand, compared with € 13,240 thousand as of December 31, 2003. They are analyzed as follows:

Equity investments

Equity investments in non-consolidated subsidiary, associated and other companies, valued at equity, purchase or subscription cost (detailed in the attachment), totalled € 6,412 thousand and € 7,507 thousand as of December 31, 2004 and 2003 respectively.

If the equity investments valued at purchase or subscription cost had been valued at net equity, any differences would not have been material.

Equity investments are analyzed as follows:

(in thousands of euro)	12.31.2004		12.31.2003	
	% Group ownership	Carrying value	% Group ownership	Carrying value
Equity investments in subsidiaries				
Donit Zagreb d.o.o.	100.00	15	100.00	15
Filtrauto Inc.	100.00	1	100.00	1
Integral S.A.	100.00	–	100.00	–
Filtrauto Argentina S.A.C.I.F.	–	–	100.00	–
Filtrauto do Brasil Ltda	100.00	–	100.00	–
Les Nouveaux Ateliers Mecaniques S.A. (*)	100.00	–	–	–
Kingdragon.it S.p.A. (**)	80.00	–	–	–
TOTAL		16		16
Equity investments in associated companies				
KS Automotive Suspensions Asia Private Ltd	50.00	5,561	50.00	5,309
Alleward Ressorts Composites S.A.S.	50.00	392	50.00	319
Immobiliare Regis S.r.l.	–	–	20.00	1,441
Makkawi Cars & Lorries Co.	25.00	–	25.00	–
TOTAL		5,953		7,069
Equity investments in other companies				
Afico Filters S.A.E.	19.00	391	19.00	391
Immobilindustria S.p.A.	0.81	43	0.81	22
Banca Monte Paschi Siena	–	3	–	3
Other minor equity investments	–	6	–	6
TOTAL		443		422
GRAND TOTAL		6,412		7,507

(*) being closed down

(**) in liquidation

The reduction in equity investments in associated companies is mainly due to the sale of Immobiliare Regis S.r.l., as it was no longer considered strategic for the Group, resulting in a capital gain of € 1,409 thousand.

Other receivables

These refer principally to the advance on “Employment termination indemnities” paid by Italian companies to the tax authorities and various non-interest bearing guarantee deposits. This item includes amounts collectible beyond five years for a total of € 424 thousand.

Treasury stock

As of December 31, 2004, “Treasury stock” reflects the carrying value of the 1,695,000 Sogefi ordinary shares that the company acquired on the open market, as authorized at the ordinary shareholders’ meeting in accordance with Art. 2357 of the Italian Civil Code.

Treasury stock held at year-end represent 1.52% of total share capital.

Shareholders’ equity includes a specific reserve for the same amount as the carrying value of the treasury stock.

C) CURRENT ASSETS

Inventories

Year-end inventories are made up as follows:

(in thousands of euro)	12.31.2004			12.31.2003		
	Cost	Writedowns	Net	Cost	Writedowns	Net
Raw materials, ancillary materials and consumables	46,752	5,641	41,111	42,405	4,930	37,475
Work in progress and semi-finished products	13,278	550	12,728	14,978	603	14,375
Contract work in progress	544	—	544	662	—	662
Finished goods and goods for resale	70,000	12,312	57,688	66,049	9,729	56,320
Advances	45	—	45	1,082	—	1,082
TOTAL	130,619	18,503	112,116	125,176	15,262	109,914

The increase in cost of € 5,443 thousand is attributable for € 2,069 thousand to Allevard Spring U.S.A. Inc., which was not yet operative at the end of 2003. The remainder is the result of the sharp rise in the cost of steel during 2004. In any case, these figures bat the Group’s policy of rationalizing inventories continued during the year, as the increase in the gross value of inventories was 4.3%, whereas sales increased by 7%, improving the stock turnover ratio.

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. Part of the increase in the provision is due to the new standard methods of valuation adopted by the Suspension Components Division.

Receivables

Current receivables are analyzed as follows:

Trade receivables

This balance amounts to € 235,963 thousand (€ 232,848 thousand in the previous year) and comprises:

(in thousands of euro)	12.31.2004	12.31.2003
Customers	242,549	240,705
Less: allowance for doubtful accounts	6,586	7,857
TOTAL	235,963	232,848

The increase of € 3,115 thousand is mainly attributable to Allevard Springs U.S.A. Inc. for € 2,627 thousand. Starting from this year, the heading includes the reclassification of payables for customer bonuses (€ 1,306 thousand), which are deducted from this item.

It is worth pointing out that despite an increase in sales revenues during the year of almost € 64 million, the gross value of receivables is only slightly higher than last year, which means an improvement in their average duration.

The reduction in the “Allowance for doubtful accounts” is mainly attributable to its use by Sogefi Filtration S.A. (Spain) to write off bad debts. Overall, the provision for the year is in line with that of the previous year, as mentioned in the relevant note to the statement of income.

Due from subsidiary and associated companies
These total € 285 thousand (€ 487 thousand in the previous year) and represent amounts due to various Group companies: Donit Zagreb (€ 284 thousand) and KS Automotive Suspensions Asia Private (€ 1 thousand).

Due from parent companies
These amount to € 7,356 thousand and represent amounts receivable by the Italian companies from the parent company, CIR S.p.A., following their inclusion in the consolidated tax return.

Due from tax authorities
These amount to € 11,620 thousand versus € 20,768 thousand in the previous year and mainly refer to taxes paid in advance and indirect tax credits. The reduction is principally to do with the Italian companies' inclusion in the CIR Group's consolidated tax return system, as mentioned above.

Deferred tax assets
This caption totals € 8,195 thousand versus € 7,372 thousand at the end of the previous year. It refers to benefits expected on deductible timing differences and losses carried forward, subject to what can reasonably be expected to be recovered.

Other receivables
This balance amounts to € 6,218 thousand (€ 5,315 thousand in the previous year) and comprises:

<i>(in thousands of euro)</i>	<i>12.31.2004</i>	<i>12.31.2003</i>
<i>Due from social security institutions</i>	<i>736</i>	<i>76</i>
<i>Advances to employees</i>	<i>275</i>	<i>196</i>
<i>Advances to suppliers</i>	<i>1,208</i>	<i>1,241</i>
<i>Other receivables</i>	<i>3,999</i>	<i>3,802</i>
<i>TOTAL</i>	<i>6,218</i>	<i>5,315</i>

The increase in the item "Due from social security institutions" is mainly because of the amount receivable by Sidergarda Mollificio Bresciano S.r.l. for advances to employees on state redundancy benefits.

"Other receivables" do not include amounts due beyond 5 years and refer mainly to the € 2,126 thousand receivable by Sogefi Filtration Ltd for an investment plan implemented by the company and partly financed by the Welsh Development Office; the amount will be received in two equal instalments during the next two years.

Information by geographical area

In accordance with the new rules on company law, the following is a breakdown of receivables by geographical area:

(in thousands of euro)	France	Italy	Great Britain	Spain	Other European countries	Rest of the World	Total
Receivables:							
From customers	89,194	49,939	20,348	17,812	38,046	20,624	235,963
From subsidiaries	–	–	–	–	284	1	285
From parent companies	–	7,356	–	–	–	–	7,356
Due from tax authorities	4,719	2,125	132	2,900	617	1,127	11,620
Deferred tax assets	1,326	3,860	2,162	772	75	–	8,195
Due from third parties	131	1,683	2,388	379	478	1,159	6,218
TOTAL	95,370	64,963	25,030	21,863	39,500	22,911	269,637

Financial assets not held as fixed assets

Financial assets, which do not include any amounts receivable beyond one year, are as follows:

Other securities

These amount to € 6,896 thousand versus € 11,837 thousand of the previous year and mainly consist of investments in SICAV Banca Sella Euro1 by Sogefi S.p.A. and in mutual fund units by Iberica de Suspensiones S.L. (ISSA), more or less immediately negotiable, to improve short term returns on liquid assets.

The decline of € 4,941 thousand with respect to the previous year is principally due to the fact that at the end of the previous year Allevard Springs U.S.A. Inc. had temporary liquidity available, which was then used to pay for construction of the new production facilities.

Due from financial institutions and others

These amount to € 203 thousand and represent the “theoretical” amount receivable at the end of the year from comparing the exchange rate as of that date with the rate used when the exchange risk hedging contracts were taken out, which was at the same time as loans were granted in pounds sterling to the subsidiary Sogefi Filtration Ltd and in Swedish krona to the subsidiary Sogefi Filtration A.B..

Cash at bank and on hand

Cash at bank and on hand amounts to € 49,804 thousand (compared with € 30,966 thousand in the previous year), and includes:

(in thousands of euro)	12.31.2004	12.31.2003
Bank and post office deposits	49,585	30,392
Checks	130	400
Cash and valuables on hand	89	174
TOTAL	49,804	30,966

The increase in this caption is due to the cash generated by the Group, while the debt structure is almost entirely made up of medium to long term liabilities.

D) ACCRUED INCOME AND PREPAID EXPENSES

Prepaid expenses and accrued income total € 2,397 thousand compared with € 2,593 thousand in the previous year and are made up of:

(in thousands of euro)	12.31.2004	12.31.2003
Issue discount on 2000 Sogefi S.p.A. bond loan	68	137
Accrued income	411	148
Prepaid expenses:		
Insurance premiums	233	283
Leasing charges	107	26
Other	1,578	1,999
TOTAL	2,397	2,593

The caption “Other” is mainly for a prepaid expense relating to a one-off payment to Honeywell International in connection with the agreement stipulated in 2000 for exploitation of the FRAM trademark.

The heading also includes the figures relating to the American subsidiary Allevard Springs U.S.A. Inc. for € 278 thousand.

COMMENTS ON THE LIABILITY CAPTIONS

A) GROUP SHARE OF CONSOLIDATED EQUITY

As of December 31, 2004 shareholders' equity amounted to € 222,115 thousand with an increase of € 23,954 thousand compared to € 198,161 thousand as of December 31, 2003.

Movements are detailed below:

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Reserve for treasury stock	Other reserves	Group net income for the year	Total
(in thousands of euro)								
Balance as of December 31, 2002	56,574	24,213	1,547	11,315	3,762	66,945	23,510	187,866
Increases in share capital:								
– cash	199	574	–	–	–	2,286	–	3,059
Allocation of 2002 net income:								
Legal reserve	–	–	–	165	–	–	(165)	–
Dividends	–	–	–	–	–	–	(13,944)	(13,944)
Retained earnings	–	–	–	–	–	9,401	(9,401)	–
Partial spin-off of Sogefi Filtration S.p.A.: – reconstitution of the reserve ex art. 55 Law 526/82		(14)	–	–	–	14	–	–
Effect of translating foreign currency financial statements	–	–	–	–	–	(7,305)	–	(7,305)
Net income for the year	–	–	–	–	–	–	28,485	28,485
Balance as of December 31, 2003	56,773	24,773	1,547	11,480	3,762	71,341	28,485	198,161
Increases in share capital:								
– cash	883	3,050	–	–	–	(1,378)	–	2,555
Allocation of 2003 net income:								
Legal reserve	–	–	–	50	–	–	(50)	–
Dividends	–	–	–	–	–	–	(15,777)	(15,777)
Retained earnings	–	–	–	–	–	12,658	(12,658)	–
Effect of translating foreign currency and other changes	–	–	–	–	–	(743)	–	(743)
Net income for the year	–	–	–	–	–	–	37,919	37,919
Balance as of December 31, 2004	57,656	27,823	1,547	11,530	3,762	81,878	37,919	222,115

Share capital

The share capital of the Parent Company Sogefi S.p.A., amounting to € 57,656 thousand as of December 31, 2004 (€ 56,773 thousand as of December 31, 2003), is fully paid-in and consists of 110,876,792 ordinary shares of par value € 0.52 each.

Share premium reserve

This amounts to € 27,823 thousand, an increase of € 3,050 thousand with respect to € 24,773 thousand last year.

Revaluation reserve

These total € 1,547 thousand and comprise surpluses on monetary revaluations carried out in accordance with the law by the Parent Company, Sogefi S.p.A. and the partial reinstatement of the "Revaluation reserve ex Law 413/91" transferred in 2000 from Rejna S.p.A. by using the share exchange surplus resulting from the spin-off.

Legal reserve

This totals € 11,530 thousand and is € 50 thousand higher as a result of allocating a portion of the 2003 net income to this reserve, as approved by the ordinary shareholders' meeting held on April 20, 2004.

Reserve for treasury stock

It amounts to € 3,762 thousand, equal to the carrying value of the shares, which are shown under financial assets and is unchanged with respect to last year.

Other reserves

These reserves, totalling € 81,878 thousand, include the accumulated difference between the purchase cost and net equity of the companies consolidated as of December 31, 1993, retained earnings or accumulated losses, € 38,238 thousand to set up the reserve for treasury stock, as authorized by the Shareholders' Meeting of Sogefi S.p.A. held on April 20, 2004 to buy up to a maximum of 10,500,000 own shares, and all the reserves of the subsidiary companies. The caption also includes cumulative translation adjustments as indicated in the consolidation principles, generated up until December 31, 2004. Revaluation of the euro against the world's main currencies during the year had a negative impact of € 960 thousand, partly offset by the changes in the scope of consolidation for € 217 thousand. The decrease of € 1,378 thousand is the net balance between stock options subscribed and paid at December 2003, for € 2,286 thousand, and those at December 2004, for € 908 thousand, which are recorded in the Companies Register the following year.

Group net income for the year

It amounts to € 37,919 thousand (€ 28,485 thousand in 2003).

Earnings per share (considering the changes in share capital and treasury stock in portfolio during the year) come to € 0.348, compared with € 0.265 in 2003.

MINORITY INTERESTS

The balance of € 15,897 thousand, including the portion of net income for the year attributable to minority interests, relates to the portion of shareholders' equity attributable to minority interests of 0.17% of Rejna S.p.A. (0.23% in 2003), 50% of Iberica de Suspensiones S.L. (ISSA), 39.42% of Shanghai Alleward Springs Co. Ltd (36.58% in 2003 which increased thanks to an increase in capital subscribed only by the minority shareholders) and 13.79% of Alleward Spring U.S.A. Inc. (20% in 2003, which fell during the year because of increase in capital not subscribed proportionally) and 13.75% of Seneca S.c.a.r.l..

B) ALLOWANCES FOR RISKS AND CHARGES

Pension and similar commitments

This caption includes provisions made according to collective employment contracts or by company-specific agreements, to be paid to foreign company employees as severance indemnities or as supplementary pensions.

The amount transferred to the pension reserve reflects the total estimated liability to employees, determined on an actuarial basis using information as of December 31, 2004.

The increase of € 5,018 thousand with respect to the previous year is mainly due to the provision of € 4,275 thousand by the British subsidiary Sogefi Filtration Ltd to cover the deficit in the pension fund for employees at the Nottingham factory, given that it has been announced that the plant is to close down in 2005.

Taxation, including deferred
As of December 31, 2004, other allowances amounted to € 13,469 thousand compared with € 12,607 thousand in the previous year, and comprise the following:

(in thousands of euro)	12.31.2004	12.31.2003
Tax litigation	5,371	4,217
Deferred tax liabilities	8,098	8,390
TOTAL	13,469	12,607

The caption “Tax litigation” refers to disputes with local tax authorities currently being decided, mainly involving the subsidiaries Sogefi Filtration Ltd and Sogefi Filtration do Brasil Ltda, for which a positive outcome is expected.
The caption “Deferred tax liabilities” includes the deferred tax on income items and the tax effect of consolidation adjustments.

Other
As of December 31, 2004, other allowances amounted to € 30,207 thousand compared with € 31,359 thousand in the previous year, and comprise the following:

(in thousands of euro)	12.31.2004	12.31.2003
Agents’ leaving indemnities	1,599	1,497
Scheduled maintenance	–	788
Product warranty	3,533	2,048
Other risks	25,075	26,943
Provisions for risks and charges arising on consolidation	–	83
TOTAL	30,207	31,359

“Other risks” refer in particular to reorganization expenses. This caption decreased by € 1,868 thousand. This amount is the net of prior year provisions reversed during the year for restructurings in the Filtration and Suspension Components Divisions, and new provisions made for restructurings currently being carried out at Group companies.

The change in the scope of consolidation resulted in a decrease of € 406 thousand.

C) ALLOWANCE FOR EMPLOYMENT TERMINATION INDEMNITIES

Movements in this item are as follows:

(in thousands of euro)	
Balance as of December 31, 2003	21,038
Provision for the year	2,296
Indemnities paid	(3,592)
Advances	(98)
Balance as of December 31, 2004	19,644

The provision for the year does not agree with the amount reflected in the statement of income under “Termination indemnities” as it does not include amounts paid to employees who left during the year.
The amount reversed out of the provision for indemnities paid during the year mainly refers to the closure of Sogefi Filtration S.p.A.’s plant at Castelfranco Veneto and the restructuring in progress at Sidergarda Mollificio Bresciano S.r.l..

D) PAYABLES

As of December 31, 2004 payables amounted to € 489,706 thousand (€ 497,621 thousand last year), all of which were due within five years, exception where indicated in relation to amounts due to banks and other providers of finance.

Bonds
These total € 80 million and represent a bond arranged by Caboto Holding SIM and Deutsche Bank and issued by Sogefi S.p.A. in December 2000 (repayable in December 2005) which bears interest at a rate linked to quarterly Euribor-indexed rate uplifted by about 90 basis points. Considering the issue and re-offer price, the yield to investors is of Euribor + 100 basis points.

Amounts due to banks			
<i>These amount to € 158,830 thousand compared with € 167,207 thousand in the previous year and are analyzed as follows:</i>			
<i>(in thousands of euro)</i>			
	12.31.2004	12.31.2003	
Current account overdrafts	7,135	36,682	
Secured loans:			
<i>due within 12 months</i>	4,090	4,016	
<i>due between one and five years</i>	952	1,384	
Other loans:			
<i>due within 12 months</i>	13,708	25,583	
<i>due between one and five years</i>	131,905	99,542	
<i>due beyond five years</i>	1,040	–	
TOTAL	158,830	167,207	

“Current account overdrafts” have decreased thanks to the liquidity generated by the Group, helped by the start-up of the centralized treasury activity.

“Other loans due between one and five years” mainly include two loans granted by a pool of primary Italian banks to the Parent Company Sogefi S.p.A. in the form of a syndicated loans. The first amounts to € 80 million and is repayable in a lump sum in December 2006. It bears interest at a variable rate of Euribor plus a spread of 70 basis points.
The second amounts to € 100 million and was stipulated at the end of 2003; only € 40 million has been drawn down to date. The loan lasts for five years and is repayable in December 2008, with interest at a variable rate of Euribor plus a spread of 60 basis points.
Neither of these two loans provides for any real guarantee on the Company’s assets.

Other providers of finance

These amount to € 8,726 thousand compared with € 9,258 thousand in the previous year and are analyzed as follows:

(in thousands of euro)	12.31.2004	12.31.2003
due within 12 months	752	806
due between one and five years	4,116	3,785
due beyond five years	3,858	4,667
TOTAL	8,726	9,258

This heading mainly refers to payables for financial leases on buildings of the French companies Allevard Rejna Autosuspensions S.A. and Allevard Rejna Technologie Froid S.A. totalling € 7,317 thousand.

Advances

These amount to € 616 thousand compared with € 1,369 thousand in the previous year. This balance includes advances from customers for goods which have not yet been supplied.

Suppliers

This caption totals € 170,463 thousand versus € 172,798 thousand at the end of the previous year. There is no significant concentration of payables due to any one supplier or small group of suppliers. The decrease is mainly due to the fact that investments in the last few months of the year were lower than in the same period of 2003, when the production lines at the American company's Prichard, West Virginia plant were being completed.

Notes payable

This caption (which increased during the year from € 5,076 thousand to € 7,041 thousand) includes notes that fall due within 12 months, issued by the French subsidiaries to suppliers for the purchase of materials.

Payables due from subsidiaries and associated companies

The value at the end of the period equals zero. The main item during the previous year, a payable to the associated company Immobiliare Regis S.r.l., was actually sold together with the shareholding.

Tax authorities

These amount to € 19,729 thousand versus € 18,742 thousand in the previous year and are analyzed as follows:

(in thousands of euro)	12.31.2004	12.31.2003
Income taxes	10,864	11,563
VAT	4,312	1,489
Other tax liabilities	4,553	5,690
TOTAL	19,729	18,742

The increase in "VAT" is mainly due to the tax payable on the building in Castelfranco Veneto sold in December 2004 by the subsidiary Sogefi Filtration S.p.A..

Social security institutions

This caption totals € 16,232 thousand versus € 14,987 thousand at the end of the previous year.

Other payables

These amount to € 28,069 thousand versus € 27,679 thousand in the previous year and are analyzed as follows:

(in thousands of euro)	12.31.2004	12.31.2003
Due to employees	22,936	21,987
Agents' commission	1,710	1,342
Customer bonuses	–	1,678
Dividends not collected by shareholders	49	45
Other	3,374	2,627
TOTAL	28,069	27,679

The rise in “Due to employees” is essentially due to holidays not taken and indemnities still to be paid.

The heading “Customer bonuses”, as already mentioned, has been reclassified as a reduction to “trade receivables”.

Information by geographical area

In accordance with the new rules on company law, the following is a breakdown of payables by geographical area:

(in thousands of euro)	France	Italy	Great Britain	Spain	Other European countries	Rest of the World	Total
Payables:							
Advances	300	9	–	262	–	45	616
To suppliers	55,326	43,486	14,866	17,881	28,575	10,329	170,463
Notes payable	7,041	–	–	–	–	–	7,041
Tax authorities	5,589	4,175	3,023	2,878	2,914	1,150	19,729
Social security institutions	10,359	2,805	1,523	414	845	286	16,232
Due to third parties	12,794	6,426	1,305	1,577	3,784	2,183	28,069
TOTAL	91,409	56,901	20,717	23,012	36,118	13,993	242,150

E) ACCRUED EXPENSES AND DEFERRED INCOME

These total € 2,463 thousand compared with € 2,744 thousand in the prior year. They include adjustments made to costs and revenues for the year under the matching principle. These are analyzed as follows:

(in thousands of euro)	12.31.2004	12.31.2003
Accrued expenses:		
Interest expense on loans and bonds	372	204
Other	1,378	1,306
Deferred income	713	1,234
TOTAL	2,463	2,744

The heading “Deferred income” includes above all the residual amount received from Honeywell International in connection with the agreement signed in 2000, for the development and expansion of the FRAM trademark in those markets where certain Group companies have a sole agency for FRAM products.

DEFERRED TAX ASSETS AND LIABILITIES

In accordance with the new rules on company law, the following is a breakdown of deferred tax assets and liabilities:

(in thousands of euro)	12.31.2004		12.31.2003		
	Amount of timing differences	Tax effect	Amount of timing differences	Tax effect	
Deferred tax assets:					
Allowance for doubtful accounts	2,316	769	2,620	870	
Writedowns of equity investments	881	291	1,422	483	
Inventory writedowns	8,401	3,129	5,335	2,008	
Restructuring reserves	10,858	3,409	11,432	3,703	
Other allowances for risks and charges	19,502	6,125	14,719	4,846	
Other	12,801	4,197	10,565	3,560	
TOTAL	54,759	17,920	46,093	15,470	
Deferred tax liabilities:					
Accelerated/excess depreciation	40,060	13,897	39,360	13,619	
Difference in inventory valuation methods	1,767	641	1,268	456	
R&D costs capitalized	9,677	3,403	7,002	2,463	
Other	2,993	1,629	3,339	1,859	
TOTAL	54,497	19,570	50,969	18,397	
Deferred tax assets for tax losses incurred during the year		—		666	
Deferred tax assets for tax losses incurred during prior years		1,747		1,243	
Net deferred tax assets (liabilities)		97		(1,018)	
Timing differences excluded from the calculation of deferred tax assets (liabilities):					
Tax losses carried forward	18,749	6,636	17,363	5,964	
Restructuring reserves	5,984	2,229	4,200	1,565	
Other	2,653	875	2,141	706	

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

The heading “Net deferred tax assets (liabilities)” is the balance between “Deferred tax assets” of € 8,195 thousand, shown under assets, and “Current and deferred taxation” of € 8,098 thousand, shown under liabilities.

The increase in this item compared with the previous year amounts to € 1,115 thousand. There is a difference of € 436 thousand between this figure and the amount shown in the statement of income under “Income taxes” due to reclassifications in the balance sheet and exchange differences.

As regards the figures shown under “Timing 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.

MEMORANDUM ACCOUNTS

Guarantees given to secure loans are stated at the full value of the commitment at the balance sheet date. These accounts indicate risks, commitments and guarantees provided by Group companies to third parties.

“Other personal guarantees in favour of third parties” reflect the commitment of LPDN GmbH to the employee pension funds of the two acquired business segments. This commitment is covered by the contractual obligations of the seller.

“Commitments for the sale of currency” include exchange risk hedging contracts stipulated by Sogefi S.p.A. and Allevard Rejna Autosuspensions S.A..
For these hedging transactions, we have recognized in the statement of income the differences that result from applying the exchange rates ruling when the contracts came into effect and those ruling at the balance sheet date.

The caption “Commitments for the purchase of equity investments” represents the commitment to purchase by June 30, 2008 the residual 13.79% of the investment in Allevard Springs U.S.A. Inc. held by SIMEST S.p.A., at an agreed price consisting of the higher of the costs incurred by SIMEST S.p.A. for this investment and the corresponding value of the portion of the company’s net equity as of that date.

In order to hedge the risk of future increases in interest rates, the Group stipulates interest rate swaps, which transform part of the debt from variable rate to fixed rate. The increase compared with the previous year refers for € 20 million to a new contract stipulated to hedge the € 40 million drawdown of the syndicated loan due in 2008 by Sogefi S.p.A. and for € 15 million to the contract taken out by Filtrauto S.A. to hedge a medium term loan; these amounts are in addition to the two contracts previously stipulated for a total of € 80 million. The caption “Interest rate risk hedging contracts” also includes the notional value of € 953 thousand to be borne in future periods, calculated on the basis of the interest rate curve foreseen at the end of 2004.

The caption “Contingencies” principally contains a valuation of third-party goods and materials held by Group companies.

COMMENTS ON THE STATEMENT OF INCOME CAPTIONS

Commentary on operations is included in the Directors Report, in accordance with Art. 2428.1 of the Italian Civil Code.
Given the detailed presentation of the various costs and revenues in the statement of income and the above comments on the balance sheet, the following remarks are restricted to the principal captions.
We would also point out that the statement of income has been affected, albeit marginally, by the change in the scope of consolidation.

A) VALUE OF PRODUCTION

Revenues from the sale of goods and services
The Sogefi Group’s turnover came to € 966,148 thousand compared with € 902,369 thousand in the previous year (+7.1%); using the average exchange rates for 2003, Group sales would have totalled € 969,649 thousand (+7.5%).
The increase in sales also includes the start-up of the American subsidiary Allevard Springs U.S.A. Inc. which generated sales of € 5,801 thousand.

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

By business area:

(in thousands of euro)	2004		2003	
	Amount	%	Amount	%
Filters	514,571	53.3	495,961	55.0
Suspension components	451,577	46.7	404,805	44.9
Other	—	—	1,603	0.1
TOTAL	966,148	100.0	902,369	100.0

By geographical area of “destination”:

(in thousands of euro)	2004		2003	
	Amount	%	Amount	%
France	286,437	29.7	276,269	30.6
Great Britain	125,261	13.0	118,975	13.2
Italy	123,008	12.7	135,462	15.0
Germany	120,667	12.5	108,068	12.0
Spain	69,149	7.1	57,893	6.4
Other European countries	133,430	13.8	121,178	13.4
Mercosur	79,349	8.2	60,902	6.8
United States	16,421	1.7	11,171	1.2
China	2,842	0.3	3,237	0.4
Rest of the World	9,584	1.0	9,214	1.0
TOTAL	966,148	100.0	902,369	100.0

The breakdown of sales by geographical areas confirms the downward trend in domestic sales and strong growth in Germany and Spain, as well as in North and South America, thanks to the start-up of activities in the United States and the positive trend in the Brazilian and Argentine markets.

Additions to fixed assets by internal production

This item amounts to € 12,719 thousand versus € 8,804 thousand in 2003. It represents the cost of internal work incurred by the Group for the construction of tangible and intangible fixed assets, including the purchase of materials and related payroll costs and services received.

The increase is mainly due to the start-up of the American company Allevard Springs U.S.A. Inc., which was completed in the summer of 2004.

Other revenues and income

This caption totals € 17,649 thousand versus € 15,306 thousand in 2003 and comprises:

(in thousands of euro)	2004	2003
Operating grants	385	266
Other revenues and commission:		
Commission income	80	40
Gains on disposals	7,920	4,528
Out-of-period income	2,483	4,051
Sales of scrap, rejects, obsolete materials and other	6,781	6,421
TOTAL	17,649	15,306

The increase in this caption is mainly due to the higher capital gain from the sale of the building in Castelfranco Veneto by Sogefi Filtration S.p.A., offset by lower out-of-period income on the reversal of liabilities that no longer exist, as benefited the previous year.

B) PRODUCTION COSTS

Raw, ancillary and consumable materials and goods for resale
This amounts to € 443,350 thousand versus € 396,347 thousand in 2003 and is made up of:

<i>(in thousands of euro)</i>	2004	2003
Raw materials	349,014	307,701
Ancillary materials	34,495	29,774
Consumables	14,403	12,472
Goods for resale	27,173	25,872
Other	18,265	20,528
TOTAL	443,350	396,347

The increase of € 47,003 thousand is mainly due to “raw materials”, reflecting the rise in the cost of steel, as well as higher production volumes (including € 7,031 thousand linked to the start-up of operations at the American subsidiary Allevard Springs U.S.A. Inc.). The increase in other items is due to the growth in production.
The movement in these costs has to be evaluated also taking into consideration caption 11) “Change in inventories of raw, ancillary and consumable materials and goods for resale” which increased during the year by € 4,897 thousand. In 2003, inventories rose by € 2,520 thousand.

Services received
The cost of services received came to € 163,696 thousand in 2004 compared with € 149,006 thousand in 2003 and can be analyzed as follows:

<i>(in thousands of euro)</i>	2004	2003
Repairs and maintenance	25,051	21,856
Energy, telephone, telex, etc.	26,480	26,356
Charges, commission and royalties	15,889	15,542
Advertising, publicity and promotion	4,839	4,572
Administrative, financial and tax-related services provided by Parent Company	1,760	1,620
Legal, tax, administrative and other consultancy	10,235	7,263
Sub-contracted work	31,130	26,713
Personnel services	13,942	13,047
Directors' and statutory auditors' remuneration	475	473
Audit fees	1,380	1,251
Insurance	4,259	4,681
Transport	18,989	17,294
Cleaning and security	3,701	3,343
Other	5,566	4,995
TOTAL	163,696	149,006

The increase between 2004 and the previous year of € 14,690 thousand (of which € 3,363 thousand related to the American subsidiary Allevard Springs U.S.A. Inc.) affects almost all headings and relates to the growth in business volumes.

The increase in “Sub-contracted work” results from higher production activities and in particular to temporary staff used by companies to cope with particularly heavy workloads. Personnel costs did in fact remain substantially unchanged with respect to the previous year.

The increase in “Repairs and maintenance” is due to the greater use of plant capacity because of the rise in production and the partial outsourcing of maintenance services.

The increase in “Legal, tax, administrative and other consultancy” is attributable to studies for new products and consultancy expenses for the various projects initiated during the year, such as: the reorganization of the Filtration Division, the reduction of working capital, a new way of charging central costs to the operating subsidiaries, the IT assistance to update Group reporting systems for the new international accounting standards, as well as development of the Group treasury activity.

The increase in “Transport” of € 1,695 thousand with respect to the previous year (including € 511 thousand relating to the American subsidiary Alleward Springs U.S.A. Inc.) is dependent on sales volumes and higher costs for the transport of raw materials.

“Energy, telephone, telex, etc” includes € 3,659 thousand in respect of the electricity purchased from the affiliated company Energia S.p.A. by the subsidiaries Rejna S.p.A., Sidergarda Mollificio Bresciano S.r.l. and Sogefi Filtration S.p.A., which helped make the best use of energy tariffs.

“Directors’ and statutory auditors’ remuneration” includes € 341 thousand and € 78 thousand respectively for the Directors and Statutory Auditors of the Parent Company.

Leases and rentals

This caption totals € 9,991 thousand compared with € 8,716 thousand in 2003 and includes rents, lease payments, patent and licence costs and other minor items. The increase of € 1,275 thousand mainly refers to leasing contracts activated during the year by the British subsidiary Sogefi Filtration Ltd and the American subsidiary Alleward Springs U.S.A. Inc., the latter amounting to € 818 thousand.

Personnel

Personnel costs went from € 224,671 thousand in 2003 to € 224,747 thousand in 2004. An analysis of these expenses is provided in the consolidated statement of income. Personnel costs are stable with respect to the previous year and include costs for € 2,788 thousand relating to the American subsidiary Allewards Springs U.S.A. Inc. whose workforce at the end of 2004 totalled 119 compared with 17 in 2003 (the average for 2004 amounts to 88 versus 7 in 2003).

As a result of the reorganization measures, the Group had 6,303 employees as of December 31, 2004 compared with 6,548 at the end of 2003. At the end of the year, 132 employees of the plant of Sidergarda Mollificio Bresciano S.r.l. were on state redundancy benefits, whereas at the end of 2003 98 employees of the plant of Castelfranco Veneto were in that situation.

The table below shows the number of employees at the end of 2003 and 2004 and movements during the year by category:

	12.31.03	Recruits (Leavers)	12.31.04	Average for the year 2004	Average for the year 2003
Managers	107	(9)	98	100	110
Clerical staff	1,559	(99)	1,460	1,513	1,575
Blue collar workers	4,882	(137)	4,745	4,940	5,017
TOTAL	6,548	(245)	6,303	6,553	6,702

Depreciation, amortization and writedowns

In 2004 this item amounts to € 53,926 thousand compared with € 55,706 thousand in the previous year. Depreciation and amortization did not change significantly from the amount booked in 2003. In 2004 there were no movements in the item “other writedowns of fixed assets”. The writedowns of fixed assets carried out during the previous year related to closure of the Filtration Division’s plants and to the writedown of plant and machinery belonging to the Suspension Components Division, which is no longer used in production. The heading also includes the writedown of receivables, which each company has carried out according to its needs, for a total of € 1,578 thousand, in line with the previous year.

Provisions for risks and charges and Other provisions

The item “provisions for risks and charges” comes to € 1,696 thousand, compared with € 1,699 thousand of the previous year and principally includes provisions for disputes with customers and tax authorities.
“Other provisions” amount to € 2,656 thousand versus € 1,948 thousand in the previous year and are mainly for product warranties against problems that arose on limited supplies of shock absorber springs, as well as for agents' leaving indemnities and other risks.

Other operating expenses

These expenses total € 6,641 thousand (€ 6,507 thousand in 2003) and are analyzed as follows:

(in thousands of euro)	2004	2003
Entertainment expenses	314	485
Indirect taxation	4,388	3,398
Membership fees	356	401
Losses on disposal of fixed assets	67	229
Out-of-period expense	484	1,105
Other operating expenses	1,032	889
TOTAL	6,641	6,507

The increase in “indirect taxation” is mainly due to the American subsidiary, to higher taxation, for non-deductible VAT for Sogefi S.p.A., on buildings and professional training at Allevard Rejna Autosuspensions S.A..

C) FINANCIAL INCOME AND EXPENSES

Income from equity investments

These amount to € 86 thousand, compared with € 664 thousand in 2003, and mainly relate to dividends distributed by the associated company Allevard Ressorts Composites S.A.S..
Bear in mind that in 2003 the Group benefited from the capital gain booked by Sogefi International B.V. on the sale of Fiamm Sogefi Buzinas Ltda.

Other financial income
“Other financial income” totals € 994 thousand versus € 3,768 thousand in 2003.

This caption is analyzed as follows:

- Income from securities held as short-term assets not representing equity investments: it amounts to € 72 thousand (€ 324 thousand in 2003) and derives from the subsidiary Iberica de Suspensiones S.L..
- Income other than the above: it represents a balance of € 922 thousand in 2004 compared with € 3,436 thousand the previous year and is made up of:

(in thousands of euro)	2004	2003
Financial income from repurchase agreements	–	259
Interest from banks	428	672
Income from interest-rate hedging contracts	30	44
Other interest and commissions	464	2,461
TOTAL	922	3,436

The reduction in “Other interest and commissions” is due to not recording the tax credit on the dividends paid by French companies following a change in the local tax regulations, which from January 1, 2005 no longer allows such tax credits to be recovered. Given that the tax credits should be paid during the first part of 2005, it is not yet clear which rules should apply to dividends paid in 2004: the accruals basis or the cash basis.

Interest and other financial charges
These amount to € 11,214 thousand compared with € 14,510 thousand in 2003 and consist of:

(in thousands of euro)	2004	2003
Interest on non-convertible bonds	2,514	4,866
Interest on bank overdrafts	727	1,096
Interest on bank loans	4,432	4,872
Interest on loans from third parties	12	14
Costs of interest-rate hedging contracts	790	995
Other interest and commissions	2,739	2,667
TOTAL	11,214	14,510

The fall in total financial expenses results from the general reduction in indebtedness and in interest rates on the European market. The decrease in “Interest on non-convertible bonds” during the year is due to the fact that the Sogefi International B.V. bond loan was repaid in December 2003.

Exchange gains and losses
Net exchange losses amount to € 1,876 thousand compared with € 728 thousand in the previous year.
The heading principally includes income and expenses on exchange risk hedging contracts. This growth is mainly attributable to two factors: on the one hand, hedging contracts were taken out during the year to cover the risk related to the expected results of the UK and Brazilian subsidiaries; on the other, there was the impact of the sudden devaluation of the dollar at the end of the year, which generated unrealized losses on infraGroup receivables and payables.

D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS

Revaluations

This heading represents the revaluation of the equity investments in KS Automotive Suspensions Asia Private Ltd and Allevard Ressorts Composites S.A. (carried at equity) to reflect their results for the year.

Writedowns

In 2003, this item included the write-off of the investment in Filtrauto Argentina S.A.C.I.F. and the writedown of the investment in Afico Filters S.A.E..

E) EXTRAORDINARY INCOME AND EXPENSES

Income

This caption is analyzed as follows:

<i>(in thousands of euro)</i>	2004	2003
Capital gain from disposals	1,409	—
Other extraordinary income	—	475
TOTAL	1,409	475

The heading “Capital gain from disposals” refers to the sale of the associated company Immobiliare Regis S.r.l. held by Sogefi S.p.A..

“Other extraordinary income” in 2003 was generated by the reversal of allowances that turned out to be in excess of the actual liability.

Expenses

This caption is analyzed as follows:

<i>(in thousands of euro)</i>	2004	2003
Losses on disposal of tangible fixed assets	—	55
Restructuring costs	12,834	14,572
Taxes relating to prior years	47	1,593
Other extraordinary charges	—	1,534
TOTAL	12,881	17,754

In 2004, “Restructuring costs” include the provision for reorganization plans being carried out or which will be started in the future at subsidiaries of the Filtration (Nottingham - Great Britain) and Suspension Components Divisions (Sidergarda Mollificio Bresciano S.r.l.).

In 2003, “Taxes relating to prior years” included the costs incurred by the Italian companies to take advantage of a tax amnesty (Law 289/2002) to settle outstanding fiscal disputes, whereas “Other extraordinary charges” related principally to the settlement of a dispute on the part of Allevard Rejna Autosuspensions S.A. for the Carros plant.

INCOME TAXES

This caption includes current taxes of € 32,208 thousand, partially offset by deferred tax assets of € 1,551 thousand, for a net of € 30,657 thousand.
In the previous year, current taxes amounted to € 24,842 thousand, while deferred tax assets amounted to € 1,129 thousand, giving a net of € 23,713 thousand.

Below there is a reconciliation between the standard tax rate and the effective tax rate for 2004. 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 income</i>	<i>Tax rate %</i>	<i>Tax</i>
<i>Income before taxes</i>	70,298	33.0	23,200
<i>Effect of increases (decreases) with respect to the standard rate:</i>			
<i>Amortization of consolidation differences</i>	4,982	33.0	1,644
<i>Costs charged solely for tax purposes</i>	(8,265)	33.0	(2,727)
<i>Impact of operating losses not included in deferred tax assets</i>	2,036	33.0	672
<i>Non-deductible costs</i>	2,667	33.0	880
<i>Costs taxed at special rates</i>			(1,456)
<i>Other permanent differences</i>			8,446
<i>Income taxes for the year</i>	70,298	43.6	30,659

The table shows the main elements that explain the difference between the theoretical rate and effective rate.

“Costs charged solely for tax purposes” relate to the subsidiary Sogefi Filtration S.p.A. and refer to costs that are eliminated on consolidation.
The impact of operating losses not included in deferred tax assets is mainly attributable to the losses realized by the American subsidiary Alleward Springs U.S.A. Inc..
All the other variances form part of “Non-deductible costs” and “Costs taxed at special rates”.
Lastly, the line-item “Other permanent differences” includes IRAP for the Italian companies and the “Taxe Professionnelle” and “Participation des salariés” for the French companies.

DERIVATIVE FINANCIAL INSTRUMENTS

As part of its financial risk management policy, the Sogefi Group carries out interest and exchange risk hedging transactions (interest rate swaps and forward currency sales).

As of December 31, 2004, the Sogefi Group holds the following forward sale contracts to hedge its exchange risk on intercompany financial positions:

Forward sale	Date opened	Spot price	Date closed	Forward price
GBP 5,000,000	12/22/2004	0.6856	03/22/2005	0.6901
SEK 2,000,000	11/24/2004	8.9600	02/28/2005	8.9600
USD 500,000	11/29/2004	1.3210	04/29/2005	1.3235

As of December 31, 2004, the Sogefi Group holds the following interest risk hedging contracts (in thousands of euro):

Description of IRS	Date opened	Contract maturity	Notional	Fixed rate	Fair value
Hedging of the bond of € 80 million (12/22/2000 maturity 12/22/2005), rate: 3-month Euribor + 90 bp	02/07/2003	12/22/2005	40,000	2.89%	(224)
Hedging of syndicated loan of € 80 million (12/21/2001 maturity 12/21/2006), rate: Euribor + 70 bp	02/07/2003	12/21/2006	40,000	3.13%	(467)
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	09/22/2004	12/22/2008	10,000	3.25%	(125)
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	10/14/2004	12/22/2008	5,000	3.19%	(62)
Hedging of syndicated loan of € 100 million (12/22/2003 maturity 12/22/2008), rate: Euribor + 60 bp	10/14/2004	12/22/2008	5,000	3.188%	(62)
Hedging of loan of € 15 million (12/25/2003 maturity 09/25/2007), rate: 3-month Euribor + 57.5 bp	03/25/2004	09/25/2007	15,000	2.46%	(13)

ATTACHMENTS TO THE EXPLANATORY NOTES
AS OF DECEMBER 31, 2004

I. RECONCILIATION OF THE FINANCIAL STATEMENTS OF SOGEFI S.p.A.
AS OF DECEMBER 31, 2004 AND 2003 WITH THE CONSOLIDATED
FINANCIAL STATEMENTS OF THE SOGEFI GROUP

NET INCOME FOR THE YEAR

<i>(in thousands of euro)</i>	2004	2003
Net income per Sogefi S.p.A. financial statements	22,119	17,100
Group share of results of subsidiary companies included in the consolidated financial statements	47,443	41,989
Elimination of Parent Company dividends	(31,898)	(30,709)
Elimination of unrealized gains deriving from infraGroup transactions and other consolidation adjustments, net of the related deferred taxation	255	105
NET INCOME PER CONSOLIDATED FINANCIAL STATEMENTS	37,919	28,485

SHAREHOLDERS' EQUITY

<i>(in thousands of euro)</i>	12.31.2004	12.31.2003
Shareholders' equity per Sogefi S.p.A. financial statements	170,233	161,335
Group share of excess equity value of investments in consolidated companies over carrying value in Sogefi S.p.A. financial statements	57,744	42,943
Elimination of unrealized gains deriving from infraGroup transactions and other consolidation adjustments, net of the related deferred taxation	(5,862)	(6,117)
SHAREHOLDERS' EQUITY PER CONSOLIDATED FINANCIAL STATEMENTS	222,115	198,161

II. STATEMENT OF CONSOLIDATED CASH FLOW FOR THE YEARS
ENDED DECEMBER 31, 2004 AND 2003

<i>(in thousands of euro)</i>	2004	2003
Sources of funds		
Net income for the year	37,919	28,485
Minority interests in net income for the year	1,722	2,251
Depreciation, amortization and writedowns	52,138	54,066
Net change in allowance for employment termination indemnities and similar provisions	3,785	1,001
Net change in other allowances and provisions	(666)	(5,100)
SELF FINANCING	94,898	80,703
Changes in net working capital	(306)	5,747
CASH FLOW GENERATED BY OPERATIONS	94,592	86,450
Sale of equity investments	1,441	1,143
Net decrease from sale of fixed assets	1,478	4,218
Parent Company share capital increases	2,554	3,059
Capital increases in consolidated companies subscribed by minority interests	936	946
Other sources	—	7,057
TOTAL SOURCES	101,001	102,873
Application of funds		
Increase in intangible fixed assets	13,379	10,575
Additions to tangible fixed assets	45,513	49,656
Acquisition of equity investments	21	164
Dividends paid by the Parent Company	15,777	13,944
Dividends paid by Group companies to third parties	1,133	890
Other application of funds	2,064	—
TOTAL APPLICATION OF FUNDS	(77,887)	(75,229)
FINANCIAL SURPLUS (DEFICIT)	23,114	27,644
Net financial position of companies acquired/sold during the year	(157)	431
CHANGE IN NET FINANCIAL POSITION	22,957	28,075
NET FINANCIAL POSITION, BEGINNING OF THE YEAR	(213,448)	(241,523)
NET FINANCIAL POSITION, END OF THE YEAR	(190,491)	(213,448)

III. LIST OF EQUITY INVESTMENTS AS OF DECEMBER 31, 2004
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Direct subsidiaries						
	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held
REJNA S.p.A. Settimo Torinese (Turin - Italy)	Euro	5,200,000	7,986,134	99.83	0.65	5,190,987.10
SOGEFI FILTRATION B.V. Weesp (Netherlands)	Euro	1,125,000	2,500	100.00	450	1,125,000
SOGEFI FILTRATION Ltd Llantrisant (Great Britain)	GBP	5,126,737	5,126,737	100.00	1	5,126,737
SOGEFI FILTRATION A.B. Stockholm (Sweden)	SEK	100,000	1,000	100.00	100	100,000
SOGEFI FILTRATION S.A. Oyarzun (Spain) Held by Sogefi S.p.A.: 86.08% Held by Filtrauto S.A.: 13.92%	Euro	12,953,713.60	2,155,360	100.00	6.01	12,953,713.60
FILTRAUTO S.A. Guyancourt (France)	Euro	5,750,000	287,494	99.99	20	5,749,880
ALLEVARD REJNA AUTOSUSPENSIONS S.A. Saint Cloud (France)	Euro	18,517,734	1,028,582	99.98	18	18,514,476
LUHN & PULVERMACHER - DITTMANN & NEUHAUS GmbH Hagen (Germany)	Euro	50,000		100.00		50,000
ALLEVARD SPRINGS U.S.A. Inc. Prichard (U.S.A.) Held by Sogefi S.p.A.: 41.38% Held by Allevard Rejna Autosuspensions S.A.: 44.83%	USD	15,225,000	125	86.21		13,125,000
SENECA S.c.a.r.l. Milan (Italy) Held by Sogefi S.p.A.: 85.75% Held by Rejna S.p.A.: 0.25% Held by Sidergarda Mollificio Bresciano S.r.l.: 0.25%	Euro	10,000		86.25		8,625
SOGEFI FILTRATION d.o.o. Medvode (Slovenia)	SIT	2,466,326,560		100.00		2,466,326,560

Indirect subsidiaries							
	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held	
FILTRATION GROUP							
COOPERS FILTERS Ltd Abergavenny Gwent (Great Britain) Held by Sogefi Filtration Ltd	GBP	3,000,000	3,000,000	100.00	1	3,000,000	
FILTRAUTO UK Ltd Nottingham (Great Britain) Held by Sogefi Filtration Ltd	GBP	6,810,000	6,810,000	100.00	1	6,810,000	
SOGEFI FILTRATION S.p.A. Sant'Antonino di Susa (Turin - Italy) Held by Filtrauto S.A.	Euro	21,951,000	21,951,000	100.00	1	21,951,000	
FILTRAUTO GmbH Ludwigsburg (Germany) Held by Sogefi Filtration B.V.	Euro	51,130		100.00		51,130	
SOGEFI FILTRATION DO BRASIL Ltda São Bernardo do Campo (Brazil) Held by Sogefi Filtration S.A.	BRL	29,857,374	29,857,373	99.99	1	29,857,373	
SOGEFI FILTRATION ARGENTINA S.A. Buenos Aires (Argentina) Held by Sogefi Filtration do Brasil Ltda: 91.90% Held by Filtrauto S.A.: 7.28% Held by Sogefi Filtration S.p.A.: 0,81%	ARP	10,691,607	10,691,605	99.99	1	10,691,605	

Indirect subsidiaries						
	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held
SUSPENSION COMPONENTS GROUP						
ALLEVARD SPRINGS Ltd Mid Glamorgan (Great Britain) Held by Allevard Rejna Autosuspensions S.A.	GBP	4,000,002	4,000,002	100.00	1	4,000,002
ALLEVARD FEDERN GmbH Völklingen (Germany) Held by Allevard Rejna Autosuspensions S.A.	Euro	12,782,300		100.00		12,782,300
LIGGETT ARGENTINA S.A. Buenos Aires (Argentina) Held by Allevard Rejna Autosuspensions S.A.	ARP	600,000	599,827	99.97	1	599,827
IBERICA DE SUSPENSIONES S.L. (ISSA) Alsasua (Spain) Held by Allevard Rejna Autosuspensions S.A.	Euro	10,529,668	5,264,834	50.00	1	5,264,834
ALLEVARD MOLAS DO BRASIL Ltda São Paulo (Brazil) Held by Allevard Rejna Autosuspensions S.A.: 99.997% Held by Allevard Springs Ltd: 0.003%	BRL	37,161,683	37,161,683	100.00	1	37,161,683
ALLEVARD REJNA TECHNOLOGIE FROID S.A. Choisy Le Roi (France) Held by Allevard Rejna Autosuspensions S.A.	Euro	3,340,050	222,664	99.99	15	3,339,960
UNITED SPRINGS Ltd Rochdale (Great Britain) Held by Allevard Rejna Autosuspensions S.A.	GBP	6,500,000	6,500,000	100.00	1	6,500,000
UNITED SPRINGS B.V. Hengelo (Netherlands) Held by Allevard Rejna Autosuspensions S.A.	Euro	254,979	254,979	100.00	1	254,979
SHANGHAI ALLEVARD SPRINGS Co. Ltd Shanghai (China) Held by Allevard Rejna Autosuspensions S.A.	CNY	52,746,597		60.58		31,953,888
UNITED SPRINGS S.A.S. Saint Cloud (France) Held by Allevard Rejna Autosuspensions S.A.	Euro	10,218,000	2,043,599	99.99	5	10,217,995
SIDERGARDA MOLLIFICIO BRESCIANO S.r.l. San Felice del Benaco (Brescia - Italy) Held by Rejna S.p.A.	Euro	17,700,000		100.00		17,700,000

EQUITY INVESTMENTS IN SUBSIDIARIES CARRIED AT EQUITY

Indirect subsidiaries						
	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held
FILTRAUTO Inc. Wilmington (U.S.A.) Held by Filtrauto S.A.	USD	1,000	1,000	100.00		1,000
INTEGRAL S.A. San Luis (Argentina) Held by Filtrauto S.A.: 93.50% Held by Sogefi Filtration Argentina S.A.: 6.50%	ARP	2,515,600	2,515,600	100.00	1	2,515,600
FILTRAUTO DO BRASIL Ltda São Paulo (Brazil) Held by Filtrauto S.A.	BRL	354,600	354,600	100.00	1	354,600
DONIT ZAGREB d.o.o. Zagreb (Croatia) Held by Sogefi Filtration d.o.o.	HRK	116,500		100.00		116,500
LES NOUVEAUX ATELIERS MECANIQUES S.A. (*) Brussels (Belgium) Held by Sogefi S.p.A.: 74.9% Held by Sidergarda Mollificio Bresciano S.r.l.: 25.1%	Euro	2,880,000	120,000	100.00	24	2,880,000
KINGDRAGON.IT S.p.A. (**) Turin (Italy) Held by Sogefi S.p.A.	Euro	517,000	413,600	80.00	1	413,600

(*) being closed down

(**) in liquidation

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES CARRIED AT EQUITY

	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held
ALLEVARD RESSORTS COMPOSITES S.A.S. Serrieres (France) Held by Allevard Rejna Autosuspensions S.A.	Euro	300,000	60,000	50.00	2.50	150,000
KS AUTOMOTIVE SUSPENSIONS ASIA PRIVATE Ltd Singapore Held by Allevard Rejna Autosuspensions S.A.	DEM	16,200,000	8,100,000	50.00	1	8,100,000

EQUITY INVESTMENTS IN ASSOCIATED COMPANIES CARRIED AT COST

	Currency	Share capital	Number of shares	% ownership	Par value per share	Par value of interest held
MAKKAWI CARS & LORRIES Co. Khartoum (Sudan) Held by Sidergarda Molificio Bresciano S.r.l.	SDP	900,000	225	25.00	1,000	225,000

EQUITY INVESTMENTS IN OTHER COMPANIES CARRIED AT COST (***)

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

(***) as per Consob Resolution 11971 Art. 126

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

Shareholders,

During the course of 2004, we have carried out the controls required by law, according to art. 2429 of the Italian Civil Code and art. 153 of D.Lgs. 58/98.

In particular:

- 1. The Report of the Board of Directors explains the most important transactions from an economic, financial and capital point of view that the Board authorized during the course of the year. We as the Board of Statutory Auditors were able to monitor the situation by taking part in Board meetings, which gave us a chance to observe that transactions were not imprudent, risky or contrary to shareholders' resolutions or the by-laws.*
We would emphasize that the Company has just reorganized the Filtration Division in order to reduce the chain of control and improve tax planning.
- 2. No atypical or unusual transactions were carried out during the year with Group companies or related parties, as mentioned by the Directors in their report.*
All transactions with other Group companies were carried out at arm's-length conditions, as explained in the Notes, where all balances with parent companies, subsidiaries and associated companies are listed.
The Company again implemented stock option plans during the year in favour of managers holding key positions within the Group. The purpose is to enhance corporate loyalty and to provide an incentive for the efforts that they make to achieve the Company's objectives. Details of the stock options plans are provided in the notes to the financial statements.
- 3. Based on the information contained in the Directors' Report, we are not aware of any atypical or unusual transactions; we are also convinced that the level of disclosure in the Report is adequate. Above all, the Report explains the nature of normal, day-to-day transactions with related parties and other Group companies involving the administrative, financial and fiscal sector; these services are provided by the Parent Company, which has many years' experience of the problems that are typical of Sogefi's sphere of activity. We approve of these transactions as they were in the company's interest.*
- 4. The Company has appointed PricewaterhouseCoopers S.p.A. as its independent auditors to certify both the statutory and consolidated financial statements. We were able to review their audit report on the financial statements on March 18, 2005; we took note of the work performed which is designed to ensure that the books of account have been kept on a regular basis and that the Company's operations have been recorded correctly. The independent auditors did not have any qualifications to make regarding the statutory and consolidated financial statements and nor do we have any observations to make regarding the reliability of the accounting system to present a true and fair view of the Company's operations.*
- 5. No protests under art. 2408 of the Civil Code have been received.*
- 6. No complaints have been received so we have not taken any action in this regard.*
- 7. Fees were paid during the year for assistance and consultancy services provided by entities related to the independent auditors for a total of € 343 thousand.*
- 8. During the year, we expressed our opinion in favour of the reappointment of the independent auditors for the three years 2004-2005-2006.*
- 9. The Board of Directors held five meetings during the year; we as the Board of Statutory Auditors met eight times; once with the independent auditors in order to exchange information needed to perform our respective duties, as required by art. 150.3 of D.Lgs. 58/98.*

10. *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.*
11. *Within our area of competence, we consider the organizational structure of the Company to be adequate; no corrective action needs to be taken in our opinion.*
12. *As far as our duties are concerned, we consider the internal control system to be effective; no corrective action is needed in our opinion. We periodically check that the system is working properly.*
13. *We have evaluated the adequacy of the accounting systems, as well as its reliability to represent Company transactions correctly, by obtaining information from those in charge of the related functions and analyzing the results of the work carried out by the independent auditors.*
14. *In accordance with art. 114.2 of D.Lgs. 58/98 the Company has introduced a system for controlling Group companies that is adequate considering the structure and size of the Group; subsidiaries transmit their data on a timely basis, ensuring a correct flow of information between the Company and its subsidiaries.*
15. *During meetings with the independent auditors no significant matters arose that are worth of mention in this report.*
16. *The Company has already adopted the Code of Conduct drawn up by the Committee for the Corporate Governance of Listed Companies and as regards Legislative Decree 231/2001, it adopted a Code of Ethics in 2003. It has also adopted a Model of Organization, Management and Control to ensure maximum transparency in the carrying on of the Company's affairs and business activities.*
17. *We are not aware of any omissions, reprehensible facts or grave irregularities as a result of our audit work, so no specific disclosure needs to be made to the Supervisory Authorities or to the Shareholders' Meeting as envisaged by art. 153.2 of D.Lgs. 58/98.*
18. *We do not have any proposals to make regarding the financial statements or their approval.*
The statutory financial statements for the year ended December 31, 2004 show net income of € 22,119,227.86, whereas the consolidated financial statements of the Sogefi Group show net income of € 37,919 thousand.
Based on the above, we have found no reason why you should not approve the financial statements as of 12.31.2004. We therefore agree with the Board of Directors' invitation for you to approve them, together with the allocation of net income for the year as proposed in the report on operations.

Mantua, March 21, 2005

THE BOARD OF STATUTORY AUDITORS

<i>Angelo Girelli</i>	<i>Chairman</i>
<i>Franco Caramanti</i>	<i>Auditor</i>
<i>Riccardo Zingales</i>	<i>Auditor</i>

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of
SOGEFI SpA

- 1 We have audited the consolidated financial statements of SOGEFI SpA as of and for the year ended 31 December 2004. These financial statements are the responsibility of the Company'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 generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange (CONSOB). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. 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 adequacy and the fairness of the accounting principles used and the reasonableness of the 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 as required by law, reference should be made to the report issued by us dated 17 March 2004.

- 3 In our opinion, the consolidated financial statements of SOGEFI SpA as of and for the year ended 31 December 2004 comply with the laws governing the criteria for their preparation; therefore they give a true and fair view of the consolidated financial position and consolidated results of operations of the Company.

Milan, 15 March 2005

PricewaterhouseCoopers SpA

Ezio Bassi
(Partner)

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