

**REPORT ON GROUP OPERATIONS
IN THE FIRST HALF OF 2005**



SOCIETA' PER AZIONI - SHARE CAPITAL EURO 58,171,147.84
MANTUA COMPANY REGISTER AND TAX CODE 00607460201
COMPANY SUBJECT TO THE ACTIVITY AND COORDINATION OF CIR S.p.A.
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TABLE OF CONTENTS

CORPORATE BODIES	page	3
REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS	page	4
GROUP		
- Accounting schedules	page	17
- Explanatory and integrative notes to the financial statements	page	22
- List of equity investments as at June 30, 2005	page	62
PARENT COMPANY		
- Accounting schedules	page	71
- Explanatory and integrative notes to the financial statements	page	74
OBSERVATIONS OF THE BOARD OF DIRECTORS ON GROUP OPERATIONS FOR THE FIRST HALF 2005	page	90
AUDITORS' REPORT ON THE REVIEW OF THE INTERIM FINANCIAL REPORTING	page	91
APPENDIX		
- <i>Transition to IAS / IFRS: consolidated and statutory financial statements of Sogefi S.p.A. for 2004 accounting schedules and explanatory notes</i>		
- <i>Independent Auditors' report on the IFRS reconciliation prospects illustrating the effects of transition to International Financial Reporting Standards (IFRS)</i>		

BOARD OF DIRECTORS

Honorary Chairman and Director CARLO DE BENEDETTI (4)
Chairman RODOLFO DE BENEDETTI (1) (4)

Managing Director
and General Manager EMANUELE BOSIO (2)

Directors OLIVIERO MARIA BREGA (3)
PIERLUIGI FERRERO (3)
GIOVANNI GERMANO
FRANCO GIRARD (4)
ALBERTO PIASER
RENATO RICCI
ROBERTO ROBOTTI (5) (6)
PAOLO RICCARDO ROCCA (5) (6)
ANTONIO TESONE (5)

Secretary to the Board NIVES RODOLFI

BOARD OF STATUTORY AUDITORS

Chairman ANGELO GIRELLI

Permanent statutory auditors FRANCO CARAMANTI
RICCARDO ZINGALES

Substitute statutory auditors MAURO GIRELLI
LUIGI MACCHIORLATTI VIGNAT
GIOVANNI RUSSO

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.p.A.

Details on the exercise of powers (CONSOB Resolution No. 97001574 of February 20, 1997):

- (1) All ordinary and extraordinary powers with single signature, except for those delegated to the Board of Directors by law or the by-laws.
- (2) All ordinary powers with single signature.
- (3) All ordinary and extraordinary powers with joint signatures, except for those delegated to the Board of Directors by law or the by-laws.
- (4) Members of the Remuneration Committee.
- (5) Members of the Internal Control Committee.
- (6) Members of the Supervisory Body (Legislative Decree 231/2001).

REPORT OF THE BOARD OF DIRECTORS

ON GROUP OPERATIONS

IN THE FIRST HALF OF 2005

This interim report has been prepared in accordance with Consob resolution 11971/1999 and subsequent amendments, in particular those introduced by resolution no. 14990 of April 14, 2005, and includes the accounting schedules and explanatory and integrative notes of the Group and of the Parent Company, prepared according to IAS/IFRS and, in particular, IAS 34 on Interim Financial Reporting. The interim figures for 2004 which are provided for comparison purposes have been suitably reclassified and re-elaborated in accordance with International Financial Reporting Standards (IFRS) and have been subjected to a limited review.

A document has been attached to this interim report prepared in accordance with Consob Resolution no. 14990, as required by IFRS 1, which explains the impacts deriving from the transition to IAS/IFRS on the balance sheet at the transition date, on the balance sheet at December 31, 2004 and on the income statement for 2004. In accordance with CONSOB Circular no. DEM/5025723 of April 15, 2005 the balances shown in the reconciliation schedules have been subjected to a full audit. The document shows the figures taken from the consolidated financial statements of the Sogefi Group and from the statutory financial statements of Sogefi S.p.A. for the year 2004, prepared in accordance with IAS/IFRS, together with an analysis of the main differences compared with the financial statements prepared in accordance with the Italian accounting principles applied to date.

INFORMATION ON OPERATIONS

In the first six months of 2005, the Sogefi Group continued to expand and improve its results.

During the half-year, the general trend in the European automobile market was negative, with new registrations down 1.1% on first-half 2004, whereas the cost of steel rose yet again by an average of 12% on the end of 2004. As far as the Sogefi Group was concerned, these events were offset by strong demand in Latin America and by a healthy industrial vehicle market, where sales of stabilinkers rose considerably.

To maintain the levels of profitability achieved, it has been essential for the Group to transfer to selling prices at least part of the increases in raw material costs, while the reorganization measures completed in 2004 made it possible to reduce overheads even more.

Consolidated revenues for the half-year amount to € 535.4 million, an increase of 8.1% on the same period of 2004, when they came to € 495.3 million.

This growth derives principally from selling price adjustments and increased activity on the part of Allevard Springs U.S.A. Inc., which was still completing its start-up during the first half of 2004.

This progress was mainly due to the Suspension Components Division (which includes precision springs), whose sales have increased by 15.8%, whereas the Filtration Division managed to raise its sales by 1.5% despite fairly weak demand in the independent aftermarket during the first four months of the year.

In this way, the Group achieved a more balanced presence in these two sectors, as shown in the following table:

(in millions of euro)	<i>First half of 2005</i>		<i>First half of 2004</i>		<i>% change 1st half 05/ 1st half 04</i>	<i>Year 2004</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>		<i>Amount</i>
Filters	269.9	50.4	265.9	53.7	1.5	514.6
Suspension components	246.8	46.1	209.8	42.4	17.7	414.1
Precision springs	18.7	3.5	19.6	3.9	(4.6)	37.4
TOTAL	535.4	100.0	495.3	100.0	8.1	966.1

Revenues in the original equipment market again rose as a proportion of total sales, as illustrated in the following table:

(in millions of euro)	<i>First half of 2005</i>		<i>First half of 2004</i>		<i>% change 1st half 05/ 1st half 04</i>	<i>Year 2004</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>		<i>Amount</i>
Original equipment (O.E.)	344.7	64.4	304.3	61.4	13.3	594.5
Independent aftermarket (I.A.M.)	121.0	22.6	122.2	24.7	(0.9)	240.0
Original equipment spares (O.E.S.)	69.7	13.0	68.8	13.9	1.3	131.6
TOTAL	535.4	100.0	495.3	100.0	8.1	966.1

The breakdown of sales by country shows an increase in the weighting of South American countries, the start-up in the USA and a contraction in the domestic market:

(in millions of euro)	<i>First half of 2005</i>		<i>First half of 2004</i>		<i>% change 1st half 05/ 1st half 04</i>	<i>Year 2004</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>		<i>Amount</i>
France	158.2	29.6	151.1	30.5	4.7	286.4
Germany	67.5	12.6	62.1	12.6	8.6	120.7
Great Britain	64.8	12.1	64.0	13.0	1.3	125.3
Italy	60.5	11.3	65.9	13.3	(8.1)	123.0
Spain	35.0	6.5	36.3	7.3	(3.6)	69.1
Other European countries	74.8	14.0	67.5	13.6	10.9	133.4
Mercosur	52.1	9.7	36.7	7.4	42.0	79.4
United States	16.2	3.0	5.9	1.2	177.1	16.4
China	2.2	0.4	1.4	0.3	53.9	2.8
Rest of the World	4.1	0.8	4.4	0.8	(7.3)	9.6
TOTAL	535.4	100.0	495.3	100.0	8.1	966.1

The results for the first half are an improvement, as reported below:

CONSOLIDATED RECLASSIFIED INCOME STATEMENT FOR THE FIRST HALF

(in millions of euro)	1st half 2005		1st half 2004		Year 2004	
	Amount	%	Amount	%	Amount	%
Revenues from sales	535.4	100.0	495.3	100.0	966.1	100.0
Variable cost of sales	349.2	65.2	313.2	63.2	614.5	63.6
CONTRIBUTION MARGIN	186.2	34.8	182.1	36.8	351.6	36.4
Manufacturing and R&D overheads	59.9	11.2	60.3	12.2	116.4	12.0
Depreciation and amortization	24.7	4.6	24.2	4.9	45.1	4.7
Distribution, marketing and sales fixed expenses	20.1	3.8	20.6	4.2	39.5	4.1
Administrative and general expenses	31.4	5.8	32.0	6.4	59.0	6.1
OPERATING INCOME	50.1	9.4	45.0	9.1	91.6	9.5
Restructuring costs	5.1	1.0	6.7	1.4	23.0	2.4
Losses (gains) on disposal	-	-	(0.1)	-	(7.9)	(0.8)
Exchange (gains) losses	(0.7)	(0.1)	0.6	0.1	1.9	0.2
Other non-operating charges (income)	6.2	1.1	5.2	1.0	9.6	1.0
EBIT	39.5	7.4	32.6	6.6	65.0	6.7
Financial chargess (income), net	5.6	1.1	6.1	1.2	12.2	1.3
Losses (gains) from equity investments	0.1	-	(1.7)	(0.3)	(1.7)	(0.2)
INCOME BEFORE TAXES AND MINORITY INTERESTS	33.8	6.3	28.2	5.7	54.5	5.6
Income taxes	11.9	2.2	13.8	2.8	22.0	2.3
NET INCOME INCLUDING MINORITY INTERESTS	21.9	4.1	14.4	2.9	32.5	3.3
Loss (income) attributable to minority interests	0.1	-	(1.3)	(0.3)	(2.5)	(0.2)
GROUP NET INCOME FOR THE PERIOD	22.0	4.1	13.1	2.6	30.0	3.1

The consolidated contribution margin amounts to € 186.2 million compared with € 182.1 million in first-half 2004. The increase in selling prices needed to recover raw material costs allowed to achieve a margin that, in absolute terms, was better than in the first half of last year, though dilution meant that it fell in percentage terms. In fact, as a percentage of sales it fell during the first half of 2005 to 34.8% compared with 36.8% in the same period of 2004.

One of the other key factors of production, labour cost, actually fell from 25.4% of sales in first-half 2004 to 23.1%, whereas energy costs rose from 2.5% to 2.6% of sales.

Consolidated net operating income has risen by 11.3%, up to € 50.1 million (9.4% of sales) compared with € 45.0 million in first-half 2004 (9.1% of sales).

Consolidated EBITDA (income before interest, tax, depreciation and amortization) was € 64.2 million compared with € 56.8 million in first-half 2004 (+13.1%), rising from 11.5% to 12.0% as a percentage of sales.

The period featured non-recurring selling costs, further to the provision of € 3.8 million for probable charges to be incurred due to quality problems with a consignment of suspension springs delivered to a European customer.

Over the coming months, the Group will continue to implement its reorganization of the production locations of both divisions. Provisions of € 5.1 million were made in the first half of 2005 for projects previously defined, while in the same period last year provisions of € 6.7 million were made for the reorganization of Sidergarda Mollificio Bresciano S.r.l. and the Filtration Division. It has to be remembered that first-half 2004 was also negatively affected by € 3.3 million of start-up costs incurred by Allevard Springs U.S.A. Inc.

First-half 2005 benefited from a more favourable trend in exchange differences compared with the same period in 2004 with a positive impact of € 1.3 million mainly thanks to the strengthening of the dollar against the Euro.

Consolidated EBIT (income before interest and tax) came to € 39.5 million, an increase of 21.3% compared with € 32.6 million in the first six months of the previous year.

It also improved as a percentage of sales, coming in at 7.4% compared with the previous 6.6%.

Consolidated income before taxes and minority interests for the period amounted to € 33.8 million, up by 19.9 % compared to € 28.2 million in first-half 2004.

In the first half of 2005 there was a reduction in financial expenses of € 0.5 million, essentially because of lower debt. Note that the same period in 2004 was helped by a capital gain of 1.4 million on the disposal of the interest in Immobiliare Regis S.r.l.

Consolidated net income for the six-month period was € 22 million (4.1% of sales) compared with € 13.1 million (2.6% of sales) in the first half of last year.

This result has benefited from a decline in the effective tax rate from 49.1% in first-half 2004 to 35.1% in first-half 2005. The high effective tax rate in the first half of 2004 was due to significant losses at Allevard Springs U.S.A. Inc. and Sidergarda Mollificio Bresciano S.r.l., for which deferred tax assets had not been booked. The lower tax rate in the first half of this year is thanks to reorganization of the corporate structure, mainly in the Suspension Components Division.

Consolidated shareholders' equity, including minority interests, at June 30, 2005 amounted to € 235.5 million, and increased by 13.2% compared to € 208.1 million at June 30, 2004 (€ 224.5 million at December 31, 2004).

The following table shows the balance sheet structure of the Group:

(in millions of euro)	June 30, 2005		December 31, 2004		June 30, 2004	
	Amount	%	Amount	%	Amount	%
Current assets	406.2		374.0		406.3	
Current liabilities	(246.8)		(243.9)		(252.2)	
Net working capital	159.4	35.4	130.1	30.4	154.1	33.5
Equity investments	5.6	1.2	10.2	2.4	10.0	2.2
Intangible, tangible and other non-current assets	385.4	85.7	385.6	90.0	384.4	83.6
CAPITAL INVESTED	550.4	122.3	525.9	122.8	548.5	119.3
Other non-current liabilities	(100.5)	(22.3)	(97.4)	(22.8)	(88.7)	(19.3)
CAPITAL INVESTED, NET	449.9	100.0	428.5	100.0	459.8	100.0
Financial indebtedness - net	214.4	47.7	204.0	47.6	251.7	54.8
Shareholders' equity - minority interests	14.3	3.2	14.2	3.3	14.3	3.1
Consolidated shareholders' equity - Group	221.2	49.1	210.3	49.1	193.8	42.1
TOTAL	449.9	100.0	428.5	100.0	459.8	100.0

As a result of the adoption of IAS 39 from January 1, 2005, treasury stock were booked to "Equity investments" up until December 31, 2004, whereas at June 30, 2005 they have been offset against equity.

The efforts to reduce **Group debt** continued during the period. At the end of the first six months of 2005 Group net debt amounted to € 214.4 million, and decreased by € 37.3 million (-14.8%) compared with € 251.7 million at 30 June 2004 and increased compared to € 204 million at December 31, 2004 after paying dividends of € 17.6 million and taxes of € 12.6 million, combined with the seasonal increase in working capital.

The following table shows a cash flow statement for the period with comparative figures at June 30, 2004 and for the whole of the previous year:

(in millions of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>	<i>Year 2004</i>
SELF-FINANCING	49.4	37.5	88.5
Change in net working capital	(29.3)	(24.5)	(0.3)
Other non-current assets/liabilities	(1.6)	(2.0)	(2.7)
CASH FLOW GENERATED BY OPERATIONS	18.5	11.0	85.5
Sale of equity investments	-	1.4	1.4
Net decrease from sale of fixed assets	0.1	0.2	1.5
TOTAL SOURCES	18.6	12.6	88.4
Increase in intangible assets	3.8	3.4	8.0
Purchase of property, plant and equipment	11.2	22.2	44.5
Acquisition of equity investments	-	-	-
TOTAL APPLICATION OF FUNDS	15.0	25.6	52.5
Net financial position of subsidiaries purchased/sold during the year	-	-	(0.2)
Exchange gains on non-current assets/liabilities and equity	2.2	2.3	1.1
FREE CASH FLOW	5.8	(10.7)	36.8
Parent company increases in share capital	1.4	1.3	2.6
Increases in share capital of consolidated subsidiaries	-	0.2	0.2
Dividends paid by parent company to shareholders	(17.6)	(15.8)	(15.8)
Dividends paid by subsidiaries to minority interests	-	-	(1.1)
CHANGES IN EQUITY	(16.2)	(14.3)	(14.1)
Change in net financial position	(10.4)	(25.0)	22.7
Net financial position at beginning of period	(204.0)	(226.7)	(226.7)
NET FINANCIAL POSITION AT END OF PERIOD	(214.4)	(251.7)	(204.0)

The following table gives a breakdown of net financial debts, which are made up more than 76.3% by medium and long term borrowings:

(in millions of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>	<i>June 30, 2004</i>
Cash, banks, financial receivables and marketable securities	54.1	57.1	32.8
Bank overdrafts and other current loans (*)	(105.4)	(105.9)	(40.9)
Long term financial debts	(163.1)	(155.2)	(243.6)
FINANCIAL INDEBTEDNESS - NET	(214.4)	(204.0)	(251.7)

(*) including current portions of long term financial debts (€ 92 million at June 30, 2005)

The corporate and industrial reorganizations have allowed to achieve greater efficiency in the workforce, which at June 30, 2005 consisted of 6,324 employees compared with 6,605 at June 30, 2004 and 6,303 at December 31, 2004.

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

In the first half of the financial year, the parent company Sogefi S.p.A. recorded a net income of € 25.2 million compared with € 30.1 million in the same period last year.

This reduction in net income is due, on one hand, to lower dividends from subsidiaries (€ 26.3 million compared with € 31.9 million in the first half of the previous year) and, on the other, to the lack of capital gains on sales of equity investments, which had a positive impact of € 3.3 million on the results of first-half 2004 (Immobiliare Regis S.r.l. and Sogefi International BV). The trend in other operating revenues during the first half of 2004 was positive following the introduction from July 1, 2004 of new methods of charging the services rendered by the parent company to subsidiaries. The period also saw the recovery of costs that were not deductible for tax purposes in previous years.

The reorganization of the Filtration Division was completed at the beginning of this year with the acquisition of Sogefi Filtration S.p.A. from the subsidiary Filtrauto S.A. for € 25 million. During the current year, we have also been implementing the reorganization of the Suspension Components Division: in the first half, this has led to the mergers of the direct subsidiary Rejna S.p.A. with Sidergarda Mollificio Bresciano S.r.l., which was completed recently, and of Allevard Rejna Autosuspensions S.A. with its subsidiary Allevard Rejna Technologie Froid S.A. in May.

(in millions of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>	<i>Year 2004</i>
Financial income/charges and dividends	25.0	30.5	29.8
Adjustments to the value of financial assets	-	-	-
Other operating revenues	5.1	3.4	7.9
Operating costs	(6.7)	(6.0)	(11.8)
Other non-operating expenses (income)	-	3.2	(3.4)
INCOME BEFORE TAXES	23.4	31.1	22.5
Income taxes	(1.8)	1.0	0.3
NET INCOME	25.2	30.1	22.2

At June 30, 2005 the company's equity amounted to € 176.5 million, slightly decreased compared to € 178.4 million at June 30, 2004, but increased compared to € 171.7 million at the end of 2004. The company's equity in the first half was affected by the distribution of dividends (€ 17.6 million) and by the adoption of IAS 39 from January 1, 2005 which led to a reduction of € 4.4 million, principally due to the reclassification of the company's treasury stock.

(in millions of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>	<i>June 30, 2004</i>
Current assets	3.8	9.8	9.0
Current liabilities	(4.9)	(4.6)	(4.8)
Net working capital	(1.1)	5.2	4.2
Equity investments	222.0	181.2	198.9
Other fixed assets	10.7	10.5	10.6
CAPITAL INVESTED	231.6	196.9	213.7
Other non-current liabilities	(1.4)	(1.4)	(1.8)
CAPITAL INVESTED, NET	230.2	195.5	211.9
Financial indebtedness - net	53.7	23.8	33.5
Shareholders' equity	176.5	171.7	178.4
TOTAL	230.2	195.5	211.9

The higher level of capital invested compared with December 31, 2004 is substantially attributable to the acquisition of Sogefi Filtration S.p.A from Filtrauto S.A.

The reduction in current assets is due to the fact that the company began filing for tax on a consolidated basis in 2004 as part of the CIR Group, which enabled the company to receive € 7.7 million from its parent company CIR S.p.A., corresponding to the amount of the tax credit deriving from the tax losses that the company incurred in 2004, together with the tax credit relating to previous years.

The following table shows a cash flow statement for the period with comparative figures at June 30, 2004 and for the whole of the previous year:

(in millions of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>	<i>Year 2004</i>
SELF-FINANCING	25.1	30.5	22.8
Change in net working capital	6.5	1.4	-
Other non-current assets/liabilities	(0.7)	(0.2)	(0.5)
CASH FLOW GENERATED BY OPERATIONS	30.9	31.7	22.3
Sale of equity investments	-	57.7	75.5
TOTAL SOURCES	30.9	89.4	97.8
Purchase of property, plant and equipment	-	0.2	0.2
Acquisition of equity investments	44.6	28.7	28.7
TOTAL APPLICATION OF FUNDS	44.6	28.9	28.9
FREE CASH FLOW	(13.7)	60.5	68.9
Parent company increases in share capital	1.4	1.3	2.6
Dividends paid by parent company to shareholders	(17.6)	(15.8)	(15.8)
CHANGES IN EQUITY	(16.2)	(14.5)	(13.2)
Change in net financial position	(29.9)	46.0	55.7
Net financial position at beginning of period	(23.8)	(79.5)	(79.5)
NET FINANCIAL POSITION AT END OF PERIOD	(53.7)	(33.5)	(23.8)

Net financial indebtedness has increased from € 23.8 million at the end of 2004 to € 53.7 million at June 30, 2005. At June 30, 2004, financial indebtedness amounted to € 33.5 million.

(in millions of euro)	June 30, 2005	December 31, 2004	June 30, 2004
Cash and banks	13.8	12.3	2.4
Securities and short/medium-term financial receivables from subsidiaries and third parties	149.3	170.3	170.6
Short term borrowings	(89.4)	(79.9)	-
Long term financial debts	(127.4)	(126.5)	(206.5)
Net financial position	(53.7)	(23.8)	(33.5)

The considerable increase in cash and banks compared with June 30, 2004 is due to the central group treasury project, which in the first half of the year led to the creation of a system of international cash pooling. All of the Italian and French subsidiaries are members of this system, which manages any surplus cash that these companies generate.

Short term borrowings consist almost entirely of the bond loan of € 80 million, which is due for redemption at the end of this year.

At the end of the period, the company's workforce consisted of 25 employees, substantially the same as at the end of the previous half-years.

PERFORMANCE OF THE FILTRATION DIVISION

The depressed state of the independent aftermarket in Europe has conditioned the activities of the filtration sector, making **consolidated sales** of € 269.9 million, with a slight increase compared to € 265.9 million in the first half of last year.

The performance is positive thanks to further strong growth in South American markets (+27.4%), with sales of € 32.7 million compared with € 25.7 million in the same period of 2004 and exchange gains of € 2.1 million.

On the other hand, the European market, , has turned in an overall decline of 1.2%, with revenues of € 238.3 million compared with € 241.3 million, after exchange losses of € 0.9 million.

Consolidated operating income, came to € 28.3 million (10.5% of sales) compared with € 27.5 million in first-half 2004 (10.3% of sales).

Consolidated EBITDA fell by 2.9% due to lower sales in the independent aftermarket: € 33.5 million compared with € 34.5 million in the same period of 2004, also falling as a percentage of sales from 13% to 12.4%.

Consolidated EBIT, thanks to lower depreciation and amortization, slightly increased to € 24 million compared to € 23.3 million in the same period last year. The impact on turnover has increased 8.8% to 8.9%.

Next autumn the closing down process of the Nottingham plant will be completed; plans are ready to transfer the activity currently carried on in Barcelona to a new location in the same area.

At June 30, 2005 the Filtration Division had a workforce of 3,592, which decreased compared to the figure of 3,838 twelve months earlier. At December 31, 2004 the figure was 3,559.

PERFORMANCE OF THE SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION

An increase in selling prices and higher turnover in Mercosur and in the stabilinkers product line boosted the division's sales by 15.8% on the same period of 2004.

Consolidated sales have in fact increased to € 265.5 million compared with € 229.3 in the first half of last year.

Particularly dynamic was the performance of the companies in Brazil (+56.6% in local currency), Argentina (+53.1% in local currency) and in industrial vehicles, that of LPDN GmbH (+31.3%), which has begun supplying stabilinkers also to the US market, where Paccar is a customer.

After a depressed second half in 2004, the Chinese market has still not recovered and the decline in activity on the domestic market has continued (from next August supplies to Iveco will only be marginal as they will only be for spare parts).

Business in the precision springs sector weakened again (-4.6%) as it is suffering from competition by south-east Asian manufacturers; nor was it possible to pass on higher steel costs to customers.

Consolidated operating income amounts to € 23 million (8.6% of sales) compared with € 20 million in first-half 2004 (8.7% of sales).

Overall profitability, however, is a good deal better with an **EBITDA** of € 32.5 million, an improvement of 31.3% compared with € 24.8 million in first-half 2004 (as mentioned earlier, significantly affected by the start-up costs of the American subsidiary and the costs of restructuring Sidergarda Mollificio Bresciano S.r.l.). As a percentage of sales it has gone up from 10.8% in first-half 2004 to 12.3% in the corresponding period of 2005.

In the same way, **EBIT** has grown by 45.4%, up to € 17.7 million (6.7% of sales) compared with € 12.2 million in the first half of the previous year (5.3% of sales).

The auto suspension sector was able to pass on almost all of the latest increases in steel prices, but this was a lot harder in the industrial vehicle suspension and precision springs sector.

Even though the prices of certain alloys are sky-rocketing, there should not be further rises in our main raw material during the second half of the year.

Measures to reorganize production have continued, implementing the plan to concentrate the Italian production of suspension components for industrial vehicles and earth moving equipment at Raffa di Puegnago, which means closing the S. Felice del Benaco plant by the end of 2006.

Also as part of the division's reorganization plan, Allevard Rejna Technologie Froid S.A. has been merged with Allevard Rejna Autosuspension S.A.

At June 30, 2005 the workforces of the Suspension Components Division consisted of 2,707 people, which decreased compared with 2,741 at the end of the first six months of 2004, and which amounted to 2,720 at December 31, 2004.

PERFORMANCE IN THE SECOND QUARTER OF 2005

CONSOLIDATED RECLASSIFIED INCOME STATEMENT OF THE SOGEFI GROUP FOR THE SECOND QUARTER

(in millions of euro)	<i>Period</i> 4.1 - 6.30.2005		<i>Period</i> 4.1 - 6.30.2004		<i>Change</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Sales revenues	282.3	100.0	254.8	100.0	27.5	10.8
Variable cost of sales	184.9	65.5	162.3	63.7	22.6	13.9
CONTRIBUTION MARGIN	97.4	34.5	92.5	36.3	4.9	5.3
Manufacturing and R&D overheads	30.4	10.8	29.6	11.6	0.8	2.8
Depreciation and amortization	12.7	4.5	12.2	4.8	0.5	4.2
Distribution, marketing and sales fixed expenses	10.4	3.7	10.1	4.0	0.3	2.9
Administrative and general expenses	15.8	5.6	15.7	6.1	0.1	0.5
OPERATING INCOME	28.1	9.9	24.9	9.8	3.2	12.8
Restructuring costs	4.9	1.7	5.4	2.1	(0.5)	(10.4)
Exchange (gains) losses	(0.3)	(0.1)	0.2	0.1	(0.5)	(292.9)
Other non-operating charges (income)	3.1	1.1	2.7	1.1	0.4	15.7
EBIT	20.4	7.2	16.6	6.5	3.8	23.2
Financial expenses (income), net	2.8	1.0	3.2	1.2	(0.4)	(10.3)
Losses (gains) from equity investments	0.1	-	(0.1)	-	0.2	167.4
INCOME BEFORE TAXES AND MINORITY INTERESTS	17.5	6.2	13.5	5.3	4.0	29.3
Income taxes	5.7	2.0	7.9	3.1	(2.2)	(27.7)
NET INCOME INCLUDING MINORITY INTERESTS	11.8	4.2	5.6	2.2	6.2	108.1
Loss (income) attributable to minority interests	0.4	0.1	(0.5)	(0.2)	0.9	183.5
GROUP NET INCOME FOR THE PERIOD	12.2	4.3	5.1	2.0	7.1	138.4

Consolidated sales in the second quarter of 2005 amounted to € 282.3 million, and increased by 10.8% compared with the same quarter in 2004 (+3.7% of the filtration division and +19.1% of the suspension components division).

Consolidated operating income amounted to € 28.1 million (9.9% of sales) compared with € 24.9 million in the second quarter of 2004 (9.8% of sales).

Consolidated EBITDA increased by 15.2%, going from € 28.8 million (11.3% of sales) in the second quarter of 2004 to € 33.1 million (11.7% of sales) in the same period this year.

Consolidated EBIT has increased by 23.2%, going from € 16.6 million (6.5% of sales) in the second quarter of 2004 to € 20.4 million (7.2% of sales) in the same period this year.

Consolidated net income has increased by 138.4%, up to € 12.2 million (4.3% of sales) compared with € 5.1 million (2% of sales) in the same period last year.

INVESTMENTS AND RESEARCH AND DEVELOPMENT

The need for constant upgrading of products and processes led to 15 million euro of new investments, whereas capital expenditure in the first half of 2004 amounted to 25.6 million. The decrease marks the end of a period of hefty capital expenditure to reinforce the Group's presence in new markets.

Research and development involves 266 employees throughout the Group in constant innovation of products and processes and developing new components for each new model launched by customers. Total R&D expenditure amounted to € 12.1 million compared with € 11.4 million in the first six months of 2004.

TREASURY STOCK

In the first half of 2005, the Company did not carry out any further transactions in treasury stock. Therefore, at June 30, 2005, the Company held 1,695,000 of its own shares (1.52% of its share capital), at an average price of Euro 2.219 per share.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

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

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

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 first-half 2005 are analyzed in the explanatory notes.

The parent company charges Group companies fees for administrative, financial and management support services, as well as commission on procurement contracts.

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.

Certain Group companies buy gas and electricity from companies of the Energia Group.

SUBSEQUENT EVENTS AFTER JUNE 30, 2005

No significant events have taken place since June 30, 2005.

OUTLOOK FOR THE REST OF THE YEAR

In the light of the results achieved in the first half of the year, without further increases in steel prices and in case the worldwide vehicle market does not worsen, the Sogefi Group forecasts for the whole period 2005 a result higher than the one achieved in 2004.

Milan, July 26, 2005

THE BOARD OF DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(in thousands of euro)

ASSETS	<i>June 30, 2005</i>	<i>December 31, 2004</i>
CURRENT ASSETS		
Cash and cash equivalents	45,111	49,804
Securities and financial assets held for trading	8,799	7,098
Current portion of long term financial assets	133	133
Working capital		
Inventories	112,381	112,116
Trade receivables	276,625	243,052
Other receivables	5,709	5,108
Receivables from tax authorities	7,851	11,313
Other current assets	3,596	2,397
TOTAL WORKING CAPITAL	406,162	373,986
TOTAL CURRENT ASSETS	460,205	431,021
NON-CURRENT ASSETS		
FIXED ASSETS		
Land	15,992	15,699
Property, plant and equipment	235,778	236,871
Other tangible fixed assets	5,492	5,741
<i>of which: leasing</i>	<i>20,258</i>	<i>19,580</i>
Intangible assets	111,419	110,250
TOTAL FIXED ASSETS	368,681	368,561
OTHER NON-CURRENT ASSETS		
Equity investments in subsidiaries	16	16
Equity investments in associated companies	5,148	5,953
Other financial assets available for sale	443	4,235
Long term trade receivables	879	687
Other receivables	3,706	2,964
Deferred tax assets	12,178	13,445
TOTAL OTHER NON-CURRENT ASSETS	22,370	27,300
TOTAL NON-CURRENT ASSETS	391,051	395,861
TOTAL ASSETS	851,256	826,882

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2005	December 31, 2004
CURRENT LIABILITIES		
Bank overdrafts and other current loans	12,506	11,135
Current portion of long term financial debts	92,878	94,761
<i>of which: leasing</i>	<i>1,141</i>	<i>964</i>
TOTAL SHORT TERM FINANCIAL DEBTS	105,384	105,896
Trade and other payables	236,168	229,945
Tax payables	7,609	10,864
Other current liabilities	2,971	3,080
TOTAL CURRENT LIABILITIES	352,132	349,785
NON-CURRENT LIABILITIES		
LONG TERM FINANCIAL DEBTS		
Financial debts to bank	141,187	133,809
Other long term financing	21,904	21,394
<i>of which: leasing</i>	<i>18,590</i>	<i>18,237</i>
TOTAL LONG TERM FINANCIAL DEBTS	163,091	155,203
OTHER LONG TERM LIABILITIES		
Long term provisions	86,176	84,987
Other long term payables	123	284
Deferred tax liabilities	14,213	12,084
TOTAL OTHER LONG TERM LIABILITIES	100,512	97,355
TOTAL NON-CURRENT LIABILITIES	263,603	252,558
SHAREHOLDERS' EQUITY		
Share capital	57,221	57,656
Reserves and retained earnings (accumulated losses)	141,964	122,658
Net income (loss) for the year	22,043	30,029
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE PARENT COMPANY	221,228	210,343
Minority interests	14,293	14,196
TOTAL SHAREHOLDERS' EQUITY	235,521	224,539
TOTAL LIABILITIES AND EQUITY	851,256	826,882

CONSOLIDATED INCOME STATEMENT
(in thousands of euro)

	<i>1st half 2005</i>		<i>1st half 2004</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Revenues from sales and services	535,430	100.0	495,275	100.0
Variable cost of sales	349,235	65.2	313,149	63.2
CONTRIBUTION MARGIN	186,195	34.8	182,126	36.8
Manufacturing and R&D overheads	59,859	11.2	60,269	12.2
Depreciation and amortization	24,666	4.6	24,181	4.9
Distribution, marketing and sales fixed expenses	20,139	3.8	20,645	4.2
Administrative and general expenses	31,454	5.8	32,047	6.4
OPERATING INCOME	50,077	9.4	44,984	9.1
Restructuring costs	5,111	1.0	6,728	1.4
Losses (gains) on disposal	(33)	-	(67)	-
Exchange (gains) losses	(755)	(0.1)	549	0.1
Other non-operating charges (income)	6,224	1.1	5,174	1.0
EBIT	39,530	7.4	32,600	6.6
Financial expenses (income), net	5,641	1.1	6,120	1.2
Losses (gains) from equity investments	42	-	(1,744)	(0.3)
INCOME BEFORE TAXES AND MINORITY INTERESTS	33,847	6.3	28,224	5.7
Income taxes	11,891	2.2	13,866	2.8
NET INCOME INCLUDING MINORITY INTERESTS	21,956	4.1	14,358	2.9
Loss (income) attributable to minority interests	87	-	(1,278)	(0.3)
GROUP NET INCOME FOR THE PERIOD	22,043	4.1	13,080	2.6
EPS:				
Basic	0.201	-	0.119	-
Diluted	0.198	-	0.118	-

Consolidated cash flow

(in thousands of euro)

	1st half 2005	1st half 2004
Cash flows from operating activities		
Net income	22,043	13,080
adjustments:		
- minority interests	(87)	1,279
- depreciation and amortization	24,666	24,198
- accrued costs for stock options	395	-
- loss/(gain) on disposal of fixed assets	(33)	(67)
- dividend income	(264)	(78)
- share of associated companies' pre-tax income	306	(258)
- provisions for risks and restructuring	3,787	1,001
- post-retirement and other benefits for employees	(1,347)	(1,782)
- change in net working capital	(29,316)	(24,505)
- other medium/long term assets/liabilities	(1,168)	(2,105)
- exchange differences on medium/long term assets/liabilities	(5,454)	(555)
CASH FLOWS FROM OPERATING ACTIVITIES	13,528	10,208
of which: taxes paid	12,570	15,674
Net interest paid	(5,516)	(5,922)
INVESTMENT ACTIVITIES		
Acquisition of equity investments	-	(51)
Purchase of property, plant and equipment	(11,193)	(22,178)
Purchase of intangible assets	(3,844)	(3,425)
Net change in other securities	(1,846)	9,249
Sale of subsidiaries (net of cash and cash equivalents)	-	1,442
Sale of property, plant and equipment	81	246
Sale of intangible assets	-	14
Dividends collected	264	78
NET CASH FLOWS FROM INVESTMENT ACTIVITIES	(16,538)	(14,625)
FINANCING ACTIVITIES		
Increase in capital of subsidiaries by third parties	-	195
Net change in share capital	1,368	1,305
Dividends paid to shareholders by parent company	(17,599)	(15,777)
Accrued costs for stock options	(395)	-
Exchange difference on equity/minority interests	9,576	3,618
Issue/redemption of bonds	40	40
New (repayment of) long term borrowings	5,095	23,418
New (repayment of) finance leases	(582)	(221)
Other equity movements	(557)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	(3,054)	12,578
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,064)	8,161
Balance at the beginning of the period	38,669	(5,716)
(Decrease) increase in cash and cash equivalents	(6,064)	8,161
BALANCE AT THE END OF THE PERIOD	32,605	2,445

NB: this table shows the elements that bring about the change in cash and cash equivalents, as expressly required by IAS 7. For a better understanding of the various operating cash flows and hence the changes in the entire net financial position, reference should be made to the cash flow statements included in the Directors' Report.

CHANGES IN CONSOLIDATED EQUITY

Attributable to the shareholders of the parent company					Minority interests	Total
(in thousands of euro)	Share capital	Reserves and retained income (accumulated losses)	Net income for the period	Total		
<i>Balance as of December 31, 2003</i>	56,773	108,477	28,485	193,735	12,615	206,350
Increases in share capital:						
- cash	740	566	-	1,306	-	1,306
Allocation of 2003 net income:						
Legal reserve	-	50	(50)	-	-	-
Dividends	-	-	(15,777)	(15,777)	-	(15,777)
Retained earnings	-	12,658	(12,658)	-	-	-
Effect of translating foreign currency financial statements	-	1,420	-	1,420	372	1,792
Net income for the period	-	-	13,080	13,080	1,278	14,358
<i>Balance as of June 30, 2004</i>	57,513	123,171	13,080	193,764	14,265	208,029

Attributable to the shareholders of the parent company					Minority interests	Total
(in thousands of euro)	Share capital	Reserves and retained income (accumulated losses)	Net income for the period	Total		
<i>Balance as of December 31, 2004</i>	57,656	122,658	30,029	210,343	14,196	224,539
Reclassification of treasury stock	(882)	(2,880)	-	(3,762)		(3,762)
Adjustments for IAS 32 & 39:						
Valuation of cash flow hedging instruments at fair value	-	(940)	-	(940)	-	(940)
Valuation of securities at fair value	-	25	-	25	-	25
Taxes on items booked directly to shareholders' equity	-	302	-	302	-	302
<i>Balance at January 1, 2005</i>	56,774	119,165	30,029	205,968	14,196	220,164
Increases in share capital:						
- cash	447	921	-	1,368	-	1,368
Allocation of 2004 net income:						
Legal reserve	-	200	(200)	-	-	-
Dividends	-	-	(17,599)	(17,599)	-	(17,599)
Retained earnings	-	12,230	(12,230)	-	-	-
Valuation of cash flow hedging instruments at fair value	-	(521)	-	(521)	-	(521)
Taxes on items booked directly to shareholders' equity	-	176	-	176	-	176
Figurative cost of stock options	-	395	-	395	-	395
Effect of translating foreign currency financial statements	-	9,398	-	9,398	184	9,582
Net income for the period	-	-	22,043	22,043	(87)	21,956
<i>Balance as of June 30, 2005</i>	57,221	141,964	22,043	221,228	14,293	235,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Chapter	Note no.	DESCRIPTION
A		GENERAL ASPECTS
	1	Content and format of the consolidated financial statements
	2	Consolidation and accounting policies
	3	Financial assets
	4	Financial risk management
B		SEGMENT INFORMATION
	5	Information sector by sector
C		NOTES ON THE MAIN BALANCE SHEET ITEMS
C1		ASSETS
	6	Cash and cash equivalents
	7	Securities and financial assets held for trading
	8	Inventories
	9	Trade and other receivables
	10	Tangible fixed assets
	11	Intangible assets
	12	Equity investments in subsidiaries and associated companies
	13	Other financial assets available for sale
	14	Other receivables
	15	Deferred tax assets
C2		LIABILITIES AND SHAREHOLDERS' EQUITY
	16	Financial debts to bank and other financing
	17	Trade and other current payables
	18	Long term provisions
	19	Pension funds and post-retirement benefits
	20	Provisions for restructuring
	21	Share capital and reserves
D		NOTES ON THE MAIN INCOME STATEMENT ITEMS
	22	revenues from sales
	23	Cyclical nature of sales
	24	Variable cost of sales
	25	Manufacturing and R&D overheads
	26	Depreciation and amortization
	27	Personnel costs
	28	Restructuring costs
	29	Other non-operating charges (income)
	30	Financial charges (income), net
	31	Income taxes
	32	Dividends paid
	33	Earnings Per Share
E		RELATED PARTY TRANSACTIONS
F		COMMITMENTS AND RISKS
	34	Operating leases
	35	Investment commitments
	36	Guarantees given
	37	Other risks
	38	Subsequent events
G		GROUP COMPANIES
	39	List of Group companies
H		RECONCILIATION ON FIRST TIME ADOPTION OF IAS/IFRS
	40	Comparative figures as of June 30, 2004
	41	Changes to IAS/IFRS conversion document
	42	Reconciliation between IAS/IFRS and Italian GAAP as of June 30, 2004

A) GENERAL ASPECTS

1. CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements for the period January 1 to June 30, 2005 have been prepared in accordance with International Financial Reporting Standards (IAS/IFRS) and to this end the financial statement figures of the Group companies included in the consolidation have been suitably reclassified and adjusted.

These interim financial statements and explanatory notes have been prepared according to the recommendations included in IAS 34 "Interim Financial Reporting" and IFRS 1, in the part that established the guidelines to be followed in preparing interim financial statements during the transition phase (arts. 45-46 etc.).

As a partial exception to IAS 34, these interim financial statements provide detailed as opposed to summary schedules in order to provide a more complete overview of the changes that have taken place in the Group's assets and liabilities, financial position and results during the half-year.

There are also the disclosures required by IAS 34 with the supplementary information considered useful for a clearer understanding of these interim financial statements.

The Group has taken advantage of the option provided by IFRS 1 to apply IAS 32 and 39 from January 1, 2005. In this regard, we would like to point out that, as permitted by IFRS 1, the Group has also taken advantage of the right not to show comparative information on IAS 32 and 39 for the following categories:

- treasury stock held (value as of January 1, 2005 of 3.8 million euro to be deducted from financial assets and shareholders' equity);
- fair value of IRS interest rate risk hedging contracts (value as of January 1, 2005 of 1 million euro to be added to financial liabilities and deducted from shareholders' equity).

FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated balance sheet

The consolidated balance sheet is presented in sections, showing Assets on one hand and Liabilities and Equity on the other.

Assets and liabilities are in turn shown in the consolidated financial statements on the basis of their classification as current or non-current.

Consolidated income statement

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

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

- Contribution margin
- Operating income
- EBIT (earnings before interest and taxes);
- Income before taxes and minority interests
- Income before minority interests
- Net income for the year

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

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

In any case, these types of charges and income are shown separately in the schedule presented here and, if necessary and significant, the notes to the financial statements give a clear indication as to their nature and amount.

Consolidated Cash Flow Statement

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

Change in consolidated equity

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

CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the six months ended June 30, 2005 include the financial statements of Sogefi S.p.A., the parent company, and of its subsidiaries.

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

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

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

Compared with June 30, 2004, the changes that have taken place in the scope of consolidation are irrelevant for consolidation and comparison purposes, as the companies concerned are either dormant or in liquidation.

2. CONSOLIDATION AND ACCOUNTING POLICIES

2.1 Consolidation policies

The financial statements as of June 30, 2005 of the companies included in the scope of consolidation, prepared in accordance with Group accounting policies with reference to IFRS, have been used for consolidation purposes.

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

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

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

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

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

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

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

Equity investments in associated companies are consolidated according to the equity method, which means that the economic results of associated companies are reflected in the consolidated income statement and any changes in their equity are reflected in the consolidated equity.

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

The following exchange rates have been used for translation purposes:

	<i>1st half 2005</i>		<i>1st half 2004</i>	
	<i>Average</i>	<i>30.6</i>	<i>Average</i>	<i>30.6</i>
US dollar	1.2846	1.2092	1.2266	1.2155
Pound sterling	0.6860	0.6742	0.6735	0.6708
Swedish krona	9.1399	9.4260	9.1634	9.1451
Brazilian real	3.2979	2.8476	3.6390	3.7838
Argentine peso	3.7387	3.4994	3.5665	3.6009
Chinese renminbi	10.6338	10.0080	10.1543	10.0643
Slovenian taller	239.8082	239.2344	238.0952	239.9900

2.2 Accounting policies

The same accounting policies have been applied in the interim financial statements as were used in the company's annual financial statements, apart from the changes needed to adapt to IAS/IFRS, being applied for the first time, or variations of existing standards.

Cash and cash equivalents

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

Inventories

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

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 in current assets

Current receivables are stated at their estimated realizable value after adequate provision for doubtful accounts.

Receivables assigned without recourse are recorded under the name of the new debtor, generally finance companies that provide this kind of service.

Tangible fixed assets

The Sogefi Group has opted in favour of the cost method when preparing IAS/IFRS financial statements for the first time, as permitted by IFRS 1. So fair value accounting has not been used to value property, plant and equipment. Assets are therefore shown in the financial statements at historical cost or, under certain circumstances, at a reassessed value based on the previous accounting principles as a replacement of cost, net of accumulated depreciation.

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

Any government capital grants that refer to tangible fixed assets are deducted directly from the asset concerned.

Tangible assets are depreciated month by month on a straight-line basis using technical and economic rates that reflect the residual useful lives of the assets concerned.

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

The average depreciation rates applied are as follows:

	%
Land	n/a
Industrial buildings and light constructions	2.5-10
Plant and machinery	5-30
Industrial and commercial equipment	10-33
Other tangible fixed assets	10-25
Tangible assets under construction and payments on account	n/a

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

Ordinary maintenance costs are fully expensed as incurred.

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

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

Assets in leasing

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

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

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

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

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

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

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

Intangible assets

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

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

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

Goodwill

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

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

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

Goodwill is subjected to impairment testing every year to identify any permanent losses in value.

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

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

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

Research and development expenses

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

Again in accordance with IAS 38, development expenses relating to specific projects are capitalized when their future benefit is considered reasonably certain; they are then amortized over the entire period of future profits expected to be earned by the project in question.

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

Trademarks and licences

Trademarks and licences are valued at cost, net of amortization and accumulated impairment losses. The cost is amortized over the lower of the contract term and their defined useful life.

Software

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

Impairment losses suffered by tangible and intangible fixed assets

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

If a previous write-down is no longer justified, a new estimated book value is reinstated, providing it is not higher than what the net book value would have been if the write-down had never taken place. This write-back is also booked to the income statement.

Equity investments in associated companies

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

Joint ventures

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

Equity investments in other companies and other securities

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

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

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

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

Loans

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

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

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

Derivatives

A derivative or any other contract with the following characteristics:

1. its value changes in relation to changes in an interest rate, the price of a financial instrument, the price of an item of goods, the exchange rate of a foreign currency, a price or interest rate index, a credit rating or any other pre-established underlying variable;
2. it does not require an initial net investment or, if requested, it is less than what would be requested for other types of contract likely to provide a similar reaction to changes in market factors;
3. it will be settled at some future date;

is classified as a financial instrument and consequently adjusted to its fair value at the end of each period.

For accounting purposes, hedging transactions are classified as:

fair value hedges if they are subject to the risk of changes in the market value of the underlying assets or liabilities;

cash flow hedges if they are taken out to cover the risk of variations in the financial flows deriving from an existing asset or liability, or from a future transaction.

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

For instruments classified as *cash flow hedges* (e.g. *Interest Rate Swaps*) gains and losses that arise from their valuation at market value are booked directly to net equity for the part that effectively hedges the risk for which they were taken out, whereas any part that proves ineffective is booked to the income statement.

Trade and other payables

Payables are stated at their nominal value. Payables are eliminated from the balance sheet once the underlying financial liabilities have been extinguished.

Long term provisions

Allowances for risks and charges

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

Risks for which a liability is only possible are disclosed in a specific section on commitments and risks without any provision being made.

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

Post-retirement benefits

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

Following this approach, the amount shown in the balance sheet reflects the present value of the liability, net of any assets servicing the plans and adjusted for any actuarial gains or losses not accounted for.

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

Deferred taxation

Deferred tax has to be calculated on the taxable timing (or temporary) differences between the book value of assets and liabilities and their value for tax purposes, and classified under non-current assets and liabilities.

Deferred tax assets are accounted for only to the extent that there is likely to be sufficient taxable income in the future to absorb them.

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

Deferred tax assets and liabilities are calculated at the tax rates expected to apply in the period when the deferral comes to an end, considering current rates and those known to be applicable in the future.

Shareholders' equity

Share capital

The share capital consists of ordinary shares shown at par value. Share capital is shown in the balance sheet net of treasury stock, in accordance with IAS 39.

Fair value reserve

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

Cash flow hedging reserve

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

Translation reserve

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

Retained earnings (Accumulated losses)

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

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

Stock options

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

The Sogefi Group has therefore calculated the figurative cost of applying this standard; for stock option plans, the fair value of the option at the grant date is charged to the income statement as a cost over the vesting period of the benefit with as a contra-entry in the balance sheet an increase in reserves set up specifically for this purpose as part of net equity.

This figurative cost is measured with the help of suitable economic and actuarial models.

Revenue recognition

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

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

Variable cost of sales

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

Manufacturing and R&D overheads

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

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

Distribution, marketing and sales fixed expenses

This category includes fixed labour costs, advertising expenses, external warehouse costs, rentals and other fixed distribution, marketing and sales costs identified as being incurred after finished products have been stocked in the pertinent warehouse and directly related to their sale and distribution.

Administrative and general expenses

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

Restructuring costs and other non-operating costs/revenues

These are figures that do not relate to the Group's normal business activities and as laid down in IAS 1 (revised in December 2003), from January 1, 2005 they are to be classified as ordinary items and highlighted in the notes if they are of a significant amount.

The non-recurring nature of restructuring costs makes it opportune for them to be disclosed separately, after the first-level operating result deriving from the Group's normal business activities.

Dividends

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

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

Current taxes

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

Earnings per share (EPS)

Basic earnings per share are calculated by dividing net income for the period attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

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

Translation of foreign currency items

Functional currency

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

The Group's functional currency is the euro and this is the currency in which the consolidated financial statements are prepared and published.*Foreign currency transactions and relating accounting treatment*

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

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

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

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

3. FINANCIAL ASSETS

Considering the particular importance given by IAS to financial assets, we thought it best to devote a specific paragraph on them.

A. Classification

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

1. Financial assets held for trading
2. Investments held to maturity
3. Loans and financial receivables similar to loans
4. Financial assets available for sale

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

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

Financial assets held for trading

This is made up of two sub-categories:

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

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

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

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

Investments held to maturity

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

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

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

Originated loans and receivables

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

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

Financial assets available for sale

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

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

Accounting treatment

Financial assets held for trading whose fair value is adjusted through the income statement (cat. 1) and financial assets available for sale (cat. 4) are booked at fair value plus any related purchase costs.

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

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

Fair value is the price at which an asset could be exchanged, or a liability extinguished, in an open transaction between willing and independent parties. Consequently, it is assumed that the firm is a going-concern and that none of its parts needs to liquidate its assets in a forced sale at unfavourable conditions.

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

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

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

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

Interest risk

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

Market risk exposure deriving from changes in interest rates is principally linked to medium/long term loans with floating interest rates.

At present, hedging transactions cover around 50% of the Group's liabilities.

Foreign currency risk

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

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

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

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

Price risk

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

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

Credit risk

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

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

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

In order to minimize credit risk, however, procedures have in any case been implemented to limit the impact of any customer insolvencies.

As regards counterparties for the management of financial resources, the Group only has recourse to partners that have a safe profile and a high international standing.

Liquidity risk

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

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

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

It should also be mentioned that the Group is currently implementing a system of centralized treasury management for all of the main European subsidiaries, which will make it possible to optimize liquidity and cash flow management at a supranational level.

B) SEGMENT INFORMATION

5. INFORMATION SECTOR BY SECTOR

Information on the Group's business areas (primary sector) and geographical areas (secondary sector) is provided below in compliance with IAS 34.

Information by business area is also provided for the two divisions, filtration and suspension components, as well as for the parent company.

Primary sector: business areas

The following table gives key figures for the Group's two divisions relating to the first half of 2005:

(in thousands of euro)	Filtration Division	Suspension Components Division	Sogefi S.p.A.	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	269,937	265,441	-	-	535,378
Intersector sales	-	77	4,363	(4,388)	52
TOTAL REVENUES	269,937	265,518	4,363	(4,388)	535,430
RESULTS					
EBIT	23,880	17,684	(2,034)	-	39,530
Financial expenses, net					5,641
Dividends from equity investments					(264)
Losses (gains) from equity investments					306
Income before taxes					33,847
Income taxes for the period					11,891
Loss (income) attributable to minority interests					87
NET INCOME					22,043
BALANCE SHEET					
ASSETS					
Sector assets	438,430	398,253	399,592	(390,168)	846,107
Equity investments in associated companies	-	5,149	-	-	5,149
TOTAL ASSETS	438,430	403,402	399,592	(390,168)	851,256
LIABILITIES					
Sector liabilities	251,538	307,024	223,139	(165,966)	615,735
TOTAL LIABILITIES	251,538	307,024	223,139	(165,966)	615,735
OTHER INFORMATION					
Additions to tangible and intangible fixed assets	6,662	8,368	7	-	15,037
Depreciation, amortization and write-downs	9,633	15,155	184	-	24,972

The adjustments to "Total revenues" mainly refer to services provided by Sogefi S.p.A. to other Group companies.

In the balance sheet, the adjustments to "Sector assets" refer to the reversal of equity investments and intercompany loans and receivables.

Secondary sector: geographical areas

The following table gives key figures for the Group in relation to the geographical areas "of origin" for the first half of 2005, in other words making reference to the country of the company that made the sales or holds the assets.

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

(in thousands of euro)	Europe	South America	Other	Adjustments	Sogefi Group consolidation
REVENUES					
Sales to third parties	474,012	51,429	9,937	-	535,378
Intersector sales	5,678	1,877	13	(7,516)	52
TOTAL REVENUES	479,690	53,306	9,950	(7,516)	535,430
BALANCE SHEET					
ASSETS					
Sector assets	1,203,999	59,544	37,643	(455,079)	846,107
Equity investments in associated companies	5,149	-	-	-	5,149
TOTAL ASSETS	1,209,148	59,544	37,643	(455,079)	851,256
OTHER INFORMATION					
Additions to tangible and intangible fixed assets	12,617	1,685	735	-	15,037
Depreciation, amortization and writedowns	22,429	1,685	858	-	24,972

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

C 1) ASSETS

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to € 45,111 thousand versus € 49,804 thousand at December 31, 2004 and are made up as follows:

(in thousands of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>
Bank and post office deposits	44,990	49,585
Cheques	21	130
Cash and cash equivalents on hand	100	89
TOTAL	45,111	49,804

Short term bank deposits are remunerated at variable rates of interest. Post office deposits are also remunerated at variable rates of interest with a maturity of less than one month.

At June 30, 2005 the Group had unutilized lines of credit of € 249,020 thousand; all of the conditions are respected, which means that these lines are available for use on request.

7. SECURITIES AND FINANCIAL ASSETS HELD FOR TRADING

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

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

(in thousands of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>
Other securities	8,742	6,895
Due from financial institutions and others	57	203
TOTAL	8,799	7,098

They amount to € 8,799 thousand compared with € 7,098 thousand the previous year and are made up principally of SICAV Banca Sella Euro1 shares owned by Sogefi S.p.A. and units in the investment funds of Iberica de Suspensiones S.L. (ISSA), which are available almost immediately, used to optimize short term cash management.

8. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of euro)	June 30, 2005			December 31, 2004		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Raw, ancillary and consumable materials	51,191	5,389	45,802	46,752	5,641	41,111
Work in progress and semi-finished products	14,499	642	13,857	13,278	550	12,728
Contracted work in progress	645	-	645	544	-	544
Finished goods and goods for resale	61,992	9,960	52,032	70,000	12,312	57,688
Advances	45	-	45	45	-	45
TOTAL	128,372	15,991	112,381	130,619	18,503	112,116

Inventories, shown net of provisions, are in line with the previous year despite the unfavourable seasonal trend. They reflect the Group's efforts to rationalize inventories, which are to be appreciated even more considering the increase in business volumes.

The reduction in the provision for obsolete and slow-moving goods is due to the fact that inventory items no longer used in the production cycle have been demolished.

9. TRADE AND OTHER RECEIVABLES

Current receivables are analyzed as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
Trade receivables	275,307	235,411
Due from subsidiaries	207	284
Due from parent company	1,110	7,356
Due from associated companies	1	1
Receivables from tax authorities	7,851	11,313
Due from others	5,709	5,108
Other non-financial current assets	3,596	2,397
TOTAL	293,781	261,870

“Trade receivables” are non-interest bearing and have an average due date of 80 days. The net increase is mainly due to higher sales in the second quarter of 2005.

“Due from parent company” as of June 30, 2005 is the balance of amount receivable from CIR, Sogefi's parent company, in connection with the Group tax filing system.

“Receivables from tax authorities” at June 30, 2005 are tax credits due to various Group companies.

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

“Other non-financial current assets” mainly consist of accrued income and prepaid expenses on insurance premiums, indirect taxes on buildings and the prepaid portion of a one-off payment to Honeywell International in connection with an agreement stipulated in 2000 for the use of the FRAM trademark, of which € 119 thousand fall due within 12 months and € 657 thousand beyond 12 months.

10. TANGIBLE FIXED ASSETS

At June 30, 2005 they amount to € 257,262 thousand compared with € 258,311 thousand at the end of the previous year and are broken down as follows:

(in thousands of euro)		GROSS VALUES			
	<i>Balance as of 12.31.04</i>	<i>Increases for acquisitions</i>	<i>Disposals</i>	<i>Other changes (Note 1)</i>	<i>Balance as of 06.30.05</i>
	(a)	(b)	(c)	(d)	(e=a+b+c+d)
Land	15,699	-	-	293	15,992
Buildings	115,345	56	-	3,205	118,606
Plant and machinery	462,578	1,271	(241)	12,721	476,329
Industrial and commercial equipment	79,204	1,457	(73)	2,654	83,242
Other tangible fixed assets	27,938	207	(41)	970	29,074
Tangible assets under construction and payments on account	12,124	8,202	(31)	(2,398)	17,897
TOTAL	712,888	11,193	(386)	17,445	741,140

(in thousands of euro)		ACCUMULATED DEPRECIATION			
	<i>Balance as of 12.31.04</i>	<i>Depreciation for the year</i>	<i>Utilizations</i>	<i>Other changes (Note 1)</i>	<i>Balance as of 06.30.05</i>
	(f)	(g)	(h)	(i)	(j=f+g+h+i)
Land	-	-	-	-	-
Buildings	54,142	2,326	-	964	57,432
Plant and machinery	310,294	15,008	(197)	5,467	330,572
Industrial and commercial equipment	67,944	2,987	(73)	1,433	72,291
Other tangible fixed assets	22,197	907	(36)	515	23,583
Tangible assets under construction and payments on account	-	-	-	-	-
TOTAL	454,577	21,228	(306)	8,379	483,878

Note (1): this column reflects the exchange differences arising on translation of foreign currency financial statements.

(in thousands of euro)	NET VALUES	
	<i>Balance as of 12.31.04 (l=a-f)</i>	<i>Balance as of 06.30.05 (m=e-j)</i>
Land	15,699	15,992
Buildings	61,203	61,174
Plant and machinery	152,284	145,757
Industrial and commercial equipment	11,260	10,951
Other tangible fixed assets	5,741	5,491
Tangible assets under construction and payments on account	12,124	17,897
TOTAL	258,311	257,262

Increases deriving from acquisitions for the period amount to € 11,193 thousand and are mainly investments in automation and improvements to production processes.

Guarantees

Tangible assets as of June 30, 2005 are encumbered by mortgages and liens totalling € 5,885 thousand to guarantee loans from financial institutions.

Purchase commitments

At June 30, 2005 there are binding commitments to buy tangible fixed assets for € 8,537 thousand.

Leasing

At June 30, 2005 the carrying value of plant and machinery, being purchases under finance leases, amounts to € 23,508 thousand with accumulated depreciation of € 3,250 thousand. The financial aspects of the lease instalments and their due dates are explained in note 16.

11. INTANGIBLE ASSETS

At June 30, 2005 they amount to € 111,419 thousand versus € 110,250 thousand at the end of the previous year and are broken down as follows:

(in thousands of euro)	GROSS VALUES			
	<i>Balance as of 12.31.04 (a)</i>	<i>Increases for acquisitions (b)</i>	<i>Other changes (Note 1) (c)</i>	<i>Balance as of 06.30.05 (d=a+b)+c)</i>
Development costs	27,368	3,227	1,802	32,397
Industrial patents and intellectual property rights	8,876	85	343	9,304
Concessions, licences, trademarks and similar rights	5,766	77	174	6,017
Intangible assets under development and payments on account	832	391	(83)	1,140
Other	3,650	64	8	3,722
Goodwill	113,565	-	-	113,565
TOTAL	160,057	3,844	2,244	166,145

(in thousands of euro)	ACCUMULATED DEPRECIATION			
	<i>Balance as of 12.31.04 (e)</i>	<i>Amortization for the year (f)</i>	<i>Other changes (Note 1) (g)</i>	<i>Balance as of 06.30.05 (h=e+f+g)</i>
Development costs	12,919	2,575	1,198	16,692
Industrial patents and intellectual property rights	6,843	491	316	7,650
Concessions, licences, trademarks and similar rights	4,485	229	41	4,755
Intangible assets under development and payments on account	-	-	-	-
Other	2,661	133	(64)	2,730
Goodwill	22,899	-	-	22,899
TOTAL	49,807	3,428	1,491	54,726

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.

(in thousands of euro)	NET VALUES	
	<i>Balance as of 12.31.04 (i=a-e)</i>	<i>Balance as of 06.30.05 (j=d-h)</i>
Development costs	14,449	15,705
Industrial patents and intellectual property rights	2,033	1,654
Concessions, licences, trademarks and similar rights	1,281	1,262
Intangible assets under construction and payments on account	832	1,140
Other	989	992
Goodwill	90,666	90,666
TOTAL	110,250	111,419

The main increases are due to "Development costs", being the costs incurred by companies operating in the original equipment sector for the development of new products.

As mentioned in the explanation of the accounting policies, from January 1, 2004 goodwill is no longer amortized, but subjected each year to impairment testing.

In the Filtration and in the Auto Suspension Components Division goodwill has been booked deriving from external acquisitions, amounting to € 73.6 million and € 17 million respectively.

In order to monitor the actual value of goodwill in the best way possible, this process has been centralized at a divisional consolidation level. This ensures that impairment tests really are based on the cash generation prospects of the business units concerned.

The impairment test carried out as of December 31, 2004 confirmed that there is no need to make any adjustments to the figures shown in the balance sheet, given the divisions' positive performance during the first half of 2005, which provides comfort that the values are reasonable.

12. EQUITY INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

As of June 30, 2005 they amounted to € 5,164 thousand, compared with € 5,969 thousand as of December 31, 2004. They are analyzed as follows:

(in thousands of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>
Equity investments in subsidiaries	15	16
Equity investments in associated companies	5,149	5,953
TOTAL	5,164	5,969

The equity investments in subsidiaries here included are of a totally immaterial amount and some are being closed.

The balance sheet value is shown at cost, written down where necessary for permanent impairment, thereby reflecting their fair value.

The equity investments in associated companies are valued under the equity method.

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

13. OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

The decrease in this item compared with the previous year is due to the reclassification of treasury stock, which as a result of adopting IAS 39, from January 1, 2005, has been deducted from equity.

14. OTHER RECEIVABLES

This item mainly includes the advance tax paid on “employment termination indemnities”, non-interest bearing deposits and grants receivable for investments made by various Group companies which will be collected over the coming years.

15. DEFERRED TAX ASSETS

This amount relates to the benefits due on deductible timing (or temporary) differences and carry-forward tax losses, booked within the limits of a reasonable recovery.

C 2) LIABILITIES AND EQUITY

16. FINANCIAL PAYABLES TO BANKS AND OTHER LONG TERM FINANCING

These are analyzed as follows:

Current portion

(in thousands of euro)	June 30, 2005	December 31, 2004
Current account overdrafts	12,506	11,135
Bonds maturing within 12 months	79,961	79,922
Current portion of mid-long term financial payables	12,917	14,839
<i>of which leasing</i>	1,141	964
<i>of which cash flow hedging instruments</i>	160	-
TOTAL current financial payables	92,878	98,761
TOTAL current portion	105,384	105,896

Non-current portion

(in thousands of euro)	June 30, 2005	December 31, 2004
Financial payables to banks	141,187	133,809
Other long term financing	21,904	21,394
<i>of which leasing</i>	18,590	18,237
<i>of which cash flow hedging instruments</i>	1,245	-
<i>of which purchase commitments</i>	1,824	1,824
TOTAL long term financial debts	163,091	155,203

Bonds maturing within 12 months

These amount to € 80 million and represent the bond loan organized by Caboto Holding SIM and Deutsche Bank and issued by Sogefi S.p.A. in December 2000, maturity December 2005; it pays interest at 3-month Euribor +90 basis points (considering the issue and re-offer price of 99.566, the yield to investors is Euribor +100 basis points).

Current portion of long-term financial payables

This is the portion falling due within the next 12 months of long term financial payables, part of which is represented by finance leases as per IAS 17 and part by cash flow hedging instruments, as per IAS 32 and 39. The latter relate to the fair market value of certain interest rate swap contracts stipulated to transform part of the loans from floating to fixed rate.

Middle and long-term financing

This mainly includes two syndicated loans obtained by the parent company Sogefi S.p.A. from primary Italian and foreign banks.

The former amounts to € 80 million and falls due in a lump sum in December 2006, being remunerated at a floating rate of Euribor plus a spread of 70 basis points.

The latter was stipulated at the end of 2003 and amounts to € 100 million, of which only € 40 million has been drawn down. The loan has a duration of five years and falls due in December 2008, paying floating-rate interest of Euribor plus a spread of 60 basis points.

Neither of these two loans provides for any secured guarantee on the Company's assets.

Purchase commitments

Sogefi S.p.A. has a commitment to repurchase an interest in the US affiliate Alleward Spring U.S.A. Inc. from Simest S.p.A., a company controlled by the Italian Ministry of Productive Activities which develops and promotes Italian companies abroad.

As part of its institutional duties, Simest S.p.A. provides support to Italian companies that invest abroad, also by means of direct participation in the risk capital of foreign companies during their start-up phase.

Sogefi S.p.A. used the services of Simest S.p.A. during the early phases of its entry into NAFTA market and at June 30, 2005 Simest S.p.A. has subscribed and paid in € 1,824 thousand (13.79% of the US company). Sogefi S.p.A. has a commitment to repurchase this stake on June 30, 2008, with the chance to ask for it to be anticipated from June 30, 2007.

Given that this commitment is certain and irrevocable, these amounts have been booked as a medium-term liability, as required by IAS/IFRS.

17. TRADE AND OTHER PAYABLES

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

(in thousands of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>
Trade and other payables	236,168	229,945
Tax payables	7,609	10,864
Other current liabilities	2,971	3,080
TOTAL	246,748	243,889

Details of trade and other payables are as follows:

(in thousands of euro)	<i>June 30, 2005</i>	<i>December 31, 2004</i>
Due to suppliers	180,002	170,427
Notes payable	2,364	7,041
Due to tax authorities for indirect and other taxes	10,095	8,750
Due to social security institutions	14,227	15,755
Due to employees	26,047	22,841
Other payables	3,433	5,131
TOTAL	236,168	229,945

Trade payables do not generate interest and on average are settled at 76 days.

The increase in the amount due to suppliers is mainly due to higher production volumes.

18. LONG TERM PROVISIONS

The item is detailed as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
Pension funds	37,918	37,978
Provision for employment termination indemnities	18,565	19,047
Provision for restructuring	19,625	19,241
Provision for product warranties	5,565	3,013
Other risks	2,271	2,964
Agents' termination indemnities	1,395	1,599
Lawsuits	837	1,145
TOTAL	86,176	84,987

19. PENSION FUNDS AND POST-RETIREMENT BENEFITS

The following are the pension funds operating in the geographical areas of the companies concerned:

(in thousands of euro)	June 30, 2005	December 31, 2004
Great Britain	17,542	18,062
France	16,734	16,254
Germany	3,147	3,168
Other	495	494
TOTAL	37,918	37,978

20. PROVISION FOR RESTRUCTURING

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

Over the period the provision has changed as follows:

(in thousands of euro)	June 30, 2005
January 1	19,241
Provisions for the period	5,111
Utilizations	(5,031)
Exchange differences	304
TOTAL	19,625

Utilizations have been booked as reductions of provisions previously set aside.

21. SHARE CAPITAL AND RESERVES

Share capital

The share capital of the parent company Sogefi S.p.A. is fully paid in and at June 30, 2005 amounts to € 58,103 thousand (€ 57,656 thousand at December 31, 2004), split into 111,785,392 ordinary shares of par value € 0.52 each.

As required by IAS, the share capital has been reduced by the par value of the treasury stock (own shares) held in portfolio. The balance at June 30, 2005 therefore comes to € 57,221 thousand for 110,090,392 shares.

Reserves and retained earnings (accumulated losses)

The item is made up as follows:

(in thousands of euro)	Share premium reserve	Reserve for treasury stock	Translation reserve	Other reserves	Retained earnings	Total
<i>Balance as of December 31, 2004</i>	27,823	3,762	(410)	56,428	35,055	122,658
Reclassification of treasury stock	882	(3,762)				(2,880)
Adjustments for adoption of IAS 32 / 39:						
Valuation of cash flow hedging instruments at fair value	-	-	-	(940)	-	(940)
Valuation of securities at fair value	-	-	-	25	-	25
Taxes on items booked directly to shareholders' equity	-	-	-	302	-	302
<i>Balance at January 1, 2005</i>	28,705	-	(410)	55,815	35,055	119,165
Increases in share capital:						
- cash	1,517	-	-	(596)	-	921
Allocation of 2004 net income:						
Legal reserve	-	-	-	200	-	200
Dividends	-	-	-	-	-	-
Retained earnings	-	-	-	-	12,230	12,230
Shareholders' resolution for purchase of treasury stock	(13,000)	-	-	13,000	-	-
Valuation of cash flow hedging instruments at fair value	-	-	-	(521)	-	(521)
Taxes on items booked directly to shareholders' equity	-	-	-	176	-	176
Figurative cost of stock options	-	-	-	395	-	395
Effect of translating foreign currency financial statements	-	-	9,398	-	-	9,398
<i>Balance as of June 30, 2005</i>	17,222	-	8,988	68,469	47,285	141,964

Share premium reserve

Such reserve amounts to € 17,222 thousand compared with € 27,823 thousand last year. The reduction is due to the transfer to the "Reserve for the purchase of treasury stock" of € 13,000 thousand, offset for € 1,517 thousand by the subscription of stock options and € 882 thousand by the reclassification for cancellation of treasury stock following the adoption of IAS 32 and 39 from January 1, 2005.

Translation reserve

This reserve is used to record the exchange differences arising on the translation of foreign subsidiaries' financial statements.

The changes during the period amount to € 9,398 thousand.

Other reserves

The details of other reserves are as follows:

(in thousands of euro)	Legal reserve	Treasury stock purchase reserve	Cash flow hedging reserve	Stock option reserve	Taxes on items booked directly to shareholders' equity	Other reserves	Total other reserves
<i>Balance as of December 31, 2003</i>	11,480	38,238	-	-	-	8,039	57,757
Increases in share capital:							
- cash	-	-	-	-	-	(2,003)	(2,003)
Allocation of 2003 net income:							
- legal reserve	50	-	-	-	-	-	50
<i>Balance as of June 30, 2004</i>	11,530	38,238	-	-	-	6,036	55,804

(in thousands of euro)	Legal reserve	Treasury stock purchase reserve	Cash flow hedging reserve	Stock option reserve	Taxes on items booked directly to shareholders' equity	Other reserves	Total other reserves
<i>Balance as of December 31, 2004</i>	11,530	38,238	-	-	-	6,660	56,428
Valuation of cash flow hedging instruments at fair value	-	-	(940)	-	-	-	(940)
Valuation of securities at fair value	-	-	-	-	-	25	25
Taxes on items booked directly to shareholders' equity	-	-	-	-	302	-	302
<i>Balance at January 1, 2005</i>	11,530	38,238	(940)	-	302	6,685	55,815
Increases in share capital:							
- cash	-	-	-	-	-	(596)	(596)
Allocation of 2004 net income:							
- Legal reserve	200	-	-	-	-	-	200
Shareholders' resolution for purchase of treasury stock	-	13,000	-	-	-	-	13,000
Valuation of cash flow hedging instruments at fair value	-	-	(521)	-	-	-	(521)
Taxes on items booked directly to shareholders' equity	-	-	-	-	176	-	176
Figurative cost of stock options	-	-	-	395	-	-	395
<i>Balance as of June 30, 2005</i>	11,730	51,238	(1,461)	395	478	6,089	68,469

Details of the main reserves are as follows:

- Fair value reserve for cash flow hedging instruments

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

Movements during the period show a decrease of € 521 thousand and their value is included in other reserves for a total decrease of € 1,461 thousand.

- *Legal reserve*

Such reserve totals 11,730 thousand Euro and is 200 thousand Euro higher as a result of allocating a portion of the 2004 net income to this reserve, as approved by the ordinary shareholders' meeting held on April 19, 2005.

- *Treasury stock purchase reserve*

This refers to the resolution passed at the shareholders' meeting of April 19, 2005 to purchase treasury stock.

- *Stock option reserve*

The reserve refers to the value of the figurative cost during the year of stock option plans assigned to employees and resolved after November 7, 2002.

Retained earnings

These amount to € 47,285 thousand and include profits that have not been distributed.

MINORITY INTERESTS

The balance amounts to € 14,293 thousand and refers to the portion of shareholders' equity pertaining to minority interests.

D) NOTES ON THE MAIN INCOME STATEMENT ITEMS

22. SALES REVENUES

Revenues from the sale of goods and services

During the period, the Sogefi Group had sales of € 535,430 thousand compared with € 495,275 thousand the previous year (+8.1%); applying the same average exchange rates of the first half of 2004, sales would have amounted to € 534,205 thousand (+7.9%).

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

By business sector:

(in thousands of euro)	June 30, 2005		June 30, 2004	
	Amount	%	Amount	%
Filters	269,937	50.4	265,945	53.7
Suspension components	265,493	49.6	229,330	46.3
TOTAL	535,430	100.0	495,275	100.0

By geographical area of "destination":

(in thousands of euro)	June 30, 2005		June 30, 2004	
	Amount	%	Amount	%
France	158,188	29.6	151,124	30.5
Germany	67,498	12.6	62,145	12.6
Great Britain	64,790	12.1	63,965	12.9
Italy	60,494	11.3	65,860	13.3
Spain	34,981	6.5	36,276	7.3
Other European countries	74,765	14.0	67,447	13.6
Mercosur	52,115	9.7	36,693	7.4
United States	16,246	3.0	5,863	1.2
China	2,220	0.4	1,443	0.3
Rest of the World	4,133	0.8	4,459	0.9
TOTAL	535,430	100.0	495,275	100.0

An analysis of sales in the main geographical markets confirms the downward trend on the domestic market and strong growth in Germany, the United States, Brazil and Argentina.

23. THE CYCLICAL NATURE OF SALES

The type of products sold by the company and the sectors in which the Group operates means that sales tend to be fairly linear over the course of the year and, assuming that the business areas stay the same, they do not have a particularly cyclical nature.

For information purposes, sales per half-year for the last two years are as follows:

(in thousands of euro)	<i>1st half</i>	<i>2nd half</i>	<i>Total year</i>
Year 2003	457,405	444,964	902,369
Year 2004	495,275	470,873	966,148

24. VARIABLE COST OF SALES

This caption is analyzed as follows:

(in thousands of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>
Materials	244,160	209,962
Direct cost of labour	56,803	58,001
Energy costs	12,885	11,622
Sub-contracted work	5,346	5,635
Ancillary materials	8,546	8,121
Variable sales and distribution costs	19,332	17,800
Royalties paid to third parties on sales	2,163	2,008
TOTAL	349,235	313,149

The increase in the “Variable cost of sales” is mainly due to the item “Materials”, which has been affected by increases in steel prices, and by higher production volumes.

“Energy costs” includes the purchase of electricity from the affiliate Energia S.p.A for € 2,479 thousand by the Italian companies.

25. MANUFACTURING AND R&D OVERHEADS

(in thousands of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>
Production costs	51,552	52,332
R&D	12,130	11,445
Capitalization of internal construction costs	(3,823)	(3,508)
TOTAL	59,859	60,269

“Manufacturing and R&D overheads” mainly include the following: indirect production labour cost, external maintenance costs, maintenance materials, consumable materials and others.

26. DEPRECIATION AND AMORTIZATION

This caption is analyzed as follows:

(in thousands of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>
Depreciation of tangible assets	21,228	20,617
<i>of which: assets under finance leases</i>	<i>348</i>	<i>277</i>
Amortization of intangible assets	3,438	3,564
TOTAL	24,666	24,181

In 2005, this item amounts to € 24,666 thousand compared with € 24,181 thousand in the same period last year, without significant differences in the two periods under comparison.

Industrial depreciation included in total depreciation amounts to € 20,322 thousand compared with € 19,678 thousand in the same period last year.

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

27. PERSONNEL COSTS

Personnel

Personnel costs are analyzed as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Wages and salaries	85,872	88,776
Social security payments	25,218	25,428
Termination indemnities	1,153	1,432
Pension and similar costs	1,988	1,970
Other	643	239
TOTAL	114,874	117,845

Average employment is shown below by grade:

(Number of employees)	1st half 2005	1st half 2004
Managers	100	102
Employees	1,450	1,538
Factory workers	4,779	4,984
TOTAL	6,329	6,624

28. RESTRUCTURING COSTS

These amount to € 5,111 thousand (compared with € 6,728 thousand in the first half of the previous year) and refer to restructuring plans currently underway.

29. OTHER NON-OPERATING EXPENSES (INCOME)

These amount to € 6,224 thousand (compared with € 5,174 thousand in the first half of the previous year) and refer principally to indirect taxes and fiscal charges not directly related to income earned, as explained in the notes on "Content and format of the financial statements".

This caption is analyzed as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Indirect taxes	2,451	1,913
Other fiscal charges	3,359	2,981
Other non-operating expenses	414	280
TOTAL	6,224	5,174

Indirect taxes are indirect fiscal charges that do not depend directly on the income earned by the business.

Other fiscal charges are the *taxe professionnelle* paid by the French companies

Other non-operating expenses are mainly the figurative cost of the stock option plans granted to employees of Group companies.

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

30. FINANCIAL CHARGES (INCOME), NET

Financial charges are as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Interest on non-convertible bonds	1,303	1,284
Interest on bank overdrafts	2,539	2,503
Financial charges under finance leases	401	594
Financial component of pension funds and termination indemnities	3,380	518
Costs of interest-rate hedging contracts	453	372
Other interest and commissions	1,278	1,361
TOTAL FINANCIAL CHARGES	9,354	6,632

Financial income is as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Financial income from repurchase agreements	14	44
Interest from banks	244	143
Financial component of pension funds and termination indemnities	3,172	137
Other interest and commissions	283	188
TOTAL FINANCIAL INCOME	3,713	512
TOTAL FINANCIAL CHARGES (INCOME), NET	5,641	6,120

The “Financial component of pension funds and termination indemnities” refers to the financial component included in the actuarial valuation of pension funds and the provision for employment termination indemnities.

31. INCOME TAXES

(in thousands of euro)	1st half 2005	1st half 2004
Current taxes	9,978	13,629
Deferred taxation	1,913	237
TOTAL	11,891	13,866

32. DIVIDENDS PAID

The dividends paid in the first half of 2005 (relating to the distribution of 2004 profit, as approved by the shareholders' meeting on April 19, 2005) amount to € 17,599 thousand, or € 0.160 per ordinary share.

The Company has not issued any shares other than the ordinary shares and the shares held by the company (treasury stock) do not receive dividends.

Dividends paid in the first half of last year of amounted to € 15,777 thousand, or € 0.145 per ordinary share.

33. EARNINGS PER SHARE (EPS)

EPS

Basic EPS

Basic earnings per share are calculated by dividing net income for the period attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The calculation of outstanding shares excludes treasury stock and the weighted average number of shares has been calculated using the principle of retrospective application of changes in the number of shares outstanding.

	1st half 2005	1st half 2004
Net income attributable to the ordinary shareholders (in thousands of euro)	22,043	13,080
Weighted average number of shares outstanding during the period (thousands)	109,846	109,846
TOTAL basic EPS (euro)	0.201	0.119

Diluted EPS

Diluted EPS are calculated by dividing net income for the period attributable to the ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period, adjusted for the dilutive effects of potential shares. Treasury stock is excluded from the calculation of outstanding shares.

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

In determining the average number of potential shares in circulation we have used the average fair value of the shares only during the period of reference (first half 2005). The average fair value of the Sogefi S.p.A. ordinary shares in the first half of 2005 amounts to € 3.9548 versus an average fair value in first-half 2004 of € 2.9712.

	<i>1st half 2005</i>	<i>1st half 2004</i>
Net income attributable to the ordinary shareholders (in thousands of euro)	22,043	13,080
Average number of shares outstanding during the year (thousands)	109,846	109,846
Weighted average number of shares potentially under option during the half-year (thousands)	3,835	3,191
Number of shares that would have been issued at fair value (thousands)	(2,318)	(2,369)
Adjusted weighted average number of shares outstanding during the year (thousands)	111,363	110,668
Diluted EPS (euro)	0.198	0.118

E) RELATED PARTY TRANSACTIONS

The Group is controlled by CIR S.p.A., the ultimate parent company, which at April 19, 2005 held 58.35% of the outstanding shares. The shares of Sogefi S.p.A. are listed on the Milan Stock Exchange.

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

The relationships between Group companies are regulated by normal market conditions, taking into account the quality and type of services rendered; Sogefi S.p.A., the parent company, charges Group companies fees for administrative, financial and management support services, as well as commissions on procurement contracts negotiated at head office.

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

At June 30, 2005, the amount of services received by Sogefi S.p.A. from CIR S.p.A. amounts to € 887 thousand (versus € 855 thousand in first-half 2004).

Again at June 30, 2005 Sogefi S.p.A. owes CIR S.p.A. € 887 thousand.

On the other hand, the Italian companies of the Sogefi Group are showing receivables for € 1,110 thousand in connection with the 2004 Group tax filing. At December 31, 2004 this figure amounted to € 7,356 thousand and its decrease is due to the normal settlement that took place in the first half of 2005.

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

At June 30, 2005 the total of these purchases amounted to € 2,479 thousand (of which € 2,021 thousand for the Suspension Components Division and € 458 for the Filtration Division), while the related liability amounted to € 553 thousand (€ 126 thousand for the Filtration Division and € 427 thousand for the Suspension Components Division).

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

F) COMMITMENTS AND RISKS

34. OPERATING LEASES – GROUP AS LESSEE

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

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

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

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

The contract expires on October 27, 2018 and the residual instalments amount to USD 5,178 thousand, of which USD 386 thousand within 12 months.

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

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

35. CAPITAL COMMITMENTS

There are no binding commitments for capital expenditure other than those relating to the purchase of tangible fixed assets (€ 8,537 thousand) already disclosed in the notes. At December 31, 2004 the equivalent figure amounted to € 3,305 thousand.

36. GUARANTEES GIVEN

Details of guarantees are as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
UNSECURED GUARANTEES GIVEN		
a) Sureties to third parties	2,463	2,389
d) Other unsecured guarantees on behalf of third parties	9,714	9,714
TOTAL UNSECURED GUARANTEES GIVEN	12,177	12,103
SECURED GUARANTEES GIVEN		
b) Against liabilities shown in the balance sheet	5,885	6,782
TOTAL SECURED GUARANTEES GIVEN	5,885	7,284

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

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

"Secured guarantees" refer to encumbrances or liens granted to banks to obtain loans for the purchase of fixed assets.

37. OTHER RISKS

At June 30, 2005 Group companies held goods and materials belonging to third parties for € 5,650 thousand (€ 5,999 thousand at December 31, 2004).

38. SUBSEQUENT EVENTS

There are no significant subsequent events that took place after June 30, 2005.

G) GROUP COMPANIES

39. LIST OF GROUP COMPANIES AT JUNE 30, 2005

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)	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
SOGEFI FILTRATION S.p.A. Sant'Antonino di Susa (Turin)	Euro	21,951,000	21,951,000	100.00	1	21,951,000
ALLEVARD SPRINGS U.S.A. Inc. Prichard (U.S.A.) Held by Sogefi SpA: 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) Held by Sogefi S.p.A.: 85.75%, by Rejna S.p.A.: 0.25%, 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 (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
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%, by Filtrauto S.A.: 7.28%, by Sogefi Filtration S.p.A.: 0.82%	ARP	10,691,607	10,691,605	99.99	1	10,691,605

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 Vollklingen (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%, by Allevard Springs Ltd: 0.003%	BRL	37,161,683	37,161,683	100.00	1	37,161,683
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) Held by Rejna S.p.A.	Euro	17,700,000		100.00		17,700,000

EQUITY INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES

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% and 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 MECANIKES S.A. (*) Brussels (Belgium) Held by Sogefi S.p.A.: 74.9% by Sidergarda Mollificio Bresciano S.r.l.: 25.1%	Euro	2,880,000	120,000	100.00	24	2,880,000

(*)winding up

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 Mollificio Bresciano S.r.l.	SDP	900,000	225	25.00	1,000	225,000

EQUITY INVESTMENTS IN OTHER COMPANIES VALUED 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

H) RECONCILIATIONS ON FIRST-TIME ADOPTION OF IAS/IFRS

40. COMPARATIVE FIGURES AS OF JUNE 30, 2004

The figures for the first half of 2004, which as shown here for comparison purposes, have been suitably reclassified and adjusted in accordance with IAS/IFRS.

Note that IAS 32 and 39 were adopted from January 1, 2005. Reference should be made to the section of this report entitled "General Aspects" for a fuller explanation of this matter.

41. CHANGES TO THE IAS/IFRS TRANSITION DOCUMENT

At the time that we presented the Company's first-quarter 2005 report, we also presented an initial disclosure document, unaudited, with a detailed reconciliation for 2004 of the differences between IAS and Italian GAAP.

In presenting this interim report as of June 30, 2005, prepared according to IAS/IFRS, the Company would now like to present a final transition document, which has been audited.

The differences between the initial document and the final audited reconciliation schedule relate exclusively to IAS 19 - Post-retirement benefits - and can be summarized as follows:

a. Income statement reclassifications

In order to give a better representation of the nature of the actuarial costs, we decided to reclassify the portion of interest relating to the actualization of the "Pension funds", transferring these expenses from "Other non-operating expenses (income)" to "Financial expenses (income), net", which is considered more suitable.

The figure reclassified in the 2004 income statement amounts to € 0.6 million and did not entail any change in the net result for that year.

b. Provision for employment termination indemnities

In line with the accounting treatment adopted by the parent company, it was decided to apply the corridor method envisaged in IAS 19 also for the actuarial differences attributable to termination indemnities starting on January 1, 2004.

This resulted in a rise in 2004 net income of € 0.3 million.

c. Update of actuarial estimates

An update of the actuarial estimates used for the pension funds of foreign subsidiaries led to a reduction in shareholders' equity as of January 1, 2004 of € 0.3 million.

Conclusions

As a result of the off-setting adjustments mentioned in points (b) and (c) above, the consolidated shareholders' equity at December 31, 2004 shown in the official, audited transition document is the same as the figure shown in the document presented along with the first-quarter 2005 report.

42. RECONCILIATION OF THE RESULTS AT JUNE 30, 2004 ACCORDING TO IAS/IFRS AND THE RESULTS FOR THE SAME PERIOD ACCORDING TO ITALIAN GAAP

Along with the first-half 2005 figures prepared according to IAS/IFRS, the Group has provided a detailed reconciliation for the whole of 2004, both income statement and balance sheet, of the differences between IAS and Italian GAAP.

This reconciliation has been prepared as a separate document and reference should be made to it for a complete discussion of the differences. It is also available on Sogefi's website: <http://www.sogefi.it>.

As regards the first half of 2005, in accordance with IFRS 1 (in the part that deals with the documentation to be provided when presenting interim reports during the first year of conversion to IAS/IFRS), the following is a reconciliation of the figures at June 30, 2004 for the consolidated income statement and balance sheet.

This information is provided in order to give third parties a clearer understanding of the situation, given that the previous interim financial statements (as of June 30, 2004) were prepared according to Italian GAAP, which were applicable at that time.

For a more detailed explanation of the origin and motivation of the various changes in the reconciliation, reference should be made to the IAS/IFRS conversion document.

a. Reconciliation of the consolidated income statement at June 30, 2004 between Italian GAAP and IAS/IFRS

(in thousands of euro)	Sogefi income statement (Italian GAAP)		IAS/IFRS adjustments	Sogefi income statement (IAS/IFRS)	
	Amount	%		Amount	%
Sales revenues	495,275	100.0	-	495,275	100.0
Variable cost of sales	313,149	63.2	(14)	313,149	63.2
CONTRIBUTION MARGIN	182,112	36.8	14	182,126	36.8
Manufacturing and R&D overheads	56,392	11.4	3,877	60,269	12.2
Depreciation and amortization	27,712	5.6	(3,531)	24,181	4.9
Distribution, marketing and sales fixed expenses	20,657	4.2	(12)	20,645	4.2
Administrative and general expenses	33,117	6.7	(1,070)	32,047	6.4
OPERATING INCOME	44,234	8.9	750	44,984	9.1
Restructuring costs	1,680	0.3	5,048	6,728	1.4
Losses (gains) on disposal	(67)	-	-	(67)	-
Exchange (gains) losses	549	0.1	-	549	0.1
Other non-operating expenses (income)	5,215	1.0	(41)	5,174	1.0
EBIT	36,857	7.4	(4,257)	32,600	6.6
Financial expenses (income), net	5,088	0.9	1,032	6,120	1.2
Losses (gains) from equity investments	(1,744)	(0.3)	-	(1,744)	(0.3)
INCOME BEFORE TAXES AND MINORITY INTERESTS	33,513	6.8	(5,289)	28,224	5.7
Income taxes for the period	14,062	2.8	(196)	13,866	2.8
NET INCOME INCLUDING MINORITY INTERESTS	19,451	4.0	(5,093)	14,358	2.9
Loss (income) attributable to minority interests	(1,198)	(0.2)	(80)	(1,278)	(0.3)
GROUP NET INCOME FOR THE YEAR	18,253	3.7	(5,173)	13,080	2.6

The following is a brief explanation of the main reconciling items:

- Manufacturing and R&D overheads

The main differences relate essentially to the start-up costs incurred by the US subsidiary Alleward Springs U.S.A. Inc. According to the principles applicable last year, these costs were accounted for as start-up and expansion costs and then amortized over five years from when the plant commenced operations. Under IAS, these costs now have to be charged directly to the income statement in their entirety.

Depreciation and amortization

The differences in “Depreciation and amortization” are mainly due to:

- the elimination of amortization on goodwill (- € 2.9 million) which under IAS/IFRS is no longer to be amortized each year but subject to annual impairment testing to see if there has been any loss of value;
- lower amortization on research and development expenditure (- € 0.4 million) incurred in prior years, which was eliminated against shareholders' equity in the financial statements as of January 1, 2004;
- higher depreciation on assets being bought under finance leases (+ € 0.1 million) which in accordance with IAS 17 have to be depreciated in the same way as all other fixed assets.

The main item refers to amortization on goodwill which amounts to € 2.8 million for the first half of 2004.

Administrative and general expenses

The differences relate almost entirely (€ 1 million) to the provisions required as a result of updating the actuarial estimates for the pension funds and employment termination indemnities. Part of these amounts (€ 0.5 million) has been reclassified to financial expenses.

Restructuring costs

The principal amount relates to a provision of € 4.5 million for the reorganization of the subsidiary Sidergarda Mollificio Bresciano S.r.l., which operates in the field of industrial vehicle suspension components. This provision, which was made in 2003 in accordance with Italian GAAP, only complied with all of the requirements laid down by IAS/IFRS in the first half of 2004.

The other amounts are minor provisions made by the Filtration Division.

Financial expenses (income), net

The largest amount booked as financial expenses (€ 0.5 million) is the booking of finance leases in accordance with IAS 17, according to which each instalment has to be split between a financial component and an operating component (depreciation).

The remainder relates to the financial component of the updated actuarial estimates for the pension funds and employment termination indemnities.

b. Reconciliation of consolidated shareholders' equity at June 30, 2004 between Italian GAAP and IAS/IFRS:

(in thousands of Euro)	Equity at June 30, 2004
Sogefi consolidated financial statements (Italian GAAP)	204,063
IAS/IFRS adjustments:	
> IAS 38 - Intangible assets	(3,415)
- Goodwill	2,871
- Start-up costs	(4,432)
- Research and development	(1,324)
- Other intangible assets	(1,420)
- Deferred taxation	890
> IAS 16 - Tangible assets	1,026
- Adjustments to tangible assets	794
- Deferred taxation	232
> IAS 37 - Provisions for restructuring and other liabilities	7,374
- Restructuring provisions:	9,038
- Other provisions	1,003
- Deferred taxation	(2,668)
> IAS 19 - post-retirement benefits	(14,612)
- Pension funds/Termination indemnities	(21,750)
- Deferred taxation	7,138
> IAS 17 - Leasing	(652)
- Assets	11,822
- Financial liabilities	(12,477)
- Impact on the income statement	(236)
- Deferred taxation	239
> IAS 27 - Consolidated financial statements	(143)
> Adjustments to minority interests	823
> Exchange differences on IAS/IFRS adjustments	(699)
TOTAL IAS/IFRS impacts	(10,299)
Consolidated financial statements (IAS/IFRS)	193,764

FINANCIAL STATEMENTS OF THE PARENT COMPANY SOGEFI S.p.A.

BALANCE SHEET
INCOME STATEMENT

BALANCE SHEET
(in thousands of euro)

ASSETS	June 30, 2005	December 31, 2004
CURRENT ASSETS		
Cash at bank and on hand	13,795	12,299
Securities and financial assets held for trading	5,143	5,203
Loans and financial receivables similar to loans	52,347	73,359
WORKING CAPITAL		
Inventories	-	-
Trade receivables	3,055	8,973
Other receivables	138	121
Receivables from tax authorities	247	451
Other current assets	315	274
TOTAL WORKING CAPITAL	3,755	9,819
TOTAL CURRENT ASSETS	75,040	100,680
NON-CURRENT ASSETS		
FIXED ASSETS		
Land	3,706	3,706
Property, plant and equipment	6,367	6,558
Other fixed assets	134	138
<i>of which: leasing</i>	-	-
Intangible assets	44	51
TOTAL FIXED ASSETS	10,251	10,453
OTHER NON-CURRENT ASSETS		
Equity investments in subsidiaries	222,033	177,431
Equity investments in associated companies	-	-
Other financial assets available for sale	3	3,765
Loans and financial receivables similar to loans	91,800	91,800
Long term trade receivables	-	1
Deferred taxation	465	-
<i>of which: leasing</i>	-	-
TOTAL OTHER NON-CURRENT ASSETS	314,301	272,997
TOTAL NON-CURRENT ASSETS	324,552	283,450
TOTAL ASSETS	399,592	384,130

LIABILITIES AND EQUITY	June 30, 2005	December 31, 2004
CURRENT LIABILITIES		
Bank overdrafts and other current loans	142	5
Current portion of long term financial debts	89,263	79,945
<i>of which: leasing</i>	-	-
TOTAL SHORT TERM FINANCIAL PAYABLES	89,405	79,950
Trade and other payables	3,665	2,860
Tax payables	454	700
Other current liabilities	819	942
TOTAL CURRENT LIABILITIES	94,343	84,452
NON-CURRENT LIABILITIES		
LONG TERM FINANCIAL DEBTS		
Amounts due to banks	124,313	124,732
Other long term financing	3,069	1,824
<i>of which: leasing</i>	-	-
TOTAL LONG TERM FINANCIAL DEBTS	127,382	126,556
OTHER LONG TERM LIABILITIES		
Long term provisions	1,291	1,211
Other payables	-	116
Deferred taxation	123	29
TOTAL OTHER LONG TERM LIABILITIES	1,414	1,356
TOTAL NON-CURRENT LIABILITIES	128,796	127,912
SHAREHOLDERS' EQUITY		
Share capital	57,221	57,656
Retained earnings (accumulated losses)	94,053	91,861
Net profit (loss) for the period	25,179	22,249
TOTAL SHAREHOLDERS' EQUITY	176,453	171,766
TOTAL LIABILITIES AND EQUITY	399,592	384,130

INCOME STATEMENT
(in thousands of euro)

	<i>1st half 2005</i>	<i>1st half 2004</i>
FINANCIAL INCOME/EXPENSES AND DIVIDENDS		
1) Income from equity investments	26,333	31,898
2) Other financial income	3,472	2,560
3) Interest and other financial charges	4,773	3,985
TOTAL FINANCIAL INCOME AND CHARGES	25,032	30,473
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS		
4) Revaluations	-	-
5) Write-downs	-	40
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS	-	(40)
6) OTHER OPERATING REVENUES	5,119	3,403
OTHER OPERATING COSTS		
7) Non-financial services	3,070	2,728
8) Leases and rentals	188	179
9) Personnel	2,253	2,329
10) Depreciation, amortization and write-downs	208	243
11) Provisions for risks and charges	-	-
12) Other provisions	-	-
13) Other operating charges	683	485
TOTAL OTHER OPERATING COSTS	6,402	5,964
NON-OPERATING INCOME AND CHARGES		
14) Income	-	3,279
15) Charges	395	5
NON-OPERATING INCOME (LOSS)	(395)	3,274
INCOME BEFORE TAXES	23,354	31,146
16) Income taxes for the period	(1,825)	979
NET INCOME	25,179	30,167

EXPLANATORY NOTES ON THE ACCOUNTING SCHEDULES OF THE PARENT COMPANY SOGEFI S.p.A.

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The interim financial statements for the period January 1 – June 30, 2005 have been prepared in accordance with International Financial Reporting Standards (IAS/IFRS).

These interim financial statements and explanatory notes have been prepared according to the recommendations contained in IAS 34 "Interim Financial Reporting" and IFRS 1, in the part that established the guidelines to be followed in preparing interim financial statements during the transition phase (arts. 45-46 etc.).

As a partial exception to IAS 34, these interim financial statements provide detailed as opposed to summary schedules in order to provide a more complete overview of the changes that have taken place in the Group's assets and liabilities, financial position and results during the half-year.

There are also the disclosures required by IAS 34 with the supplementary information considered useful for a clearer understanding of these half-year financial statements.

The company has taken advantage of the option granted by IFRS 1 to apply IAS 32 and 39 from January 1, 2005. In this regard, we would like to point out that, as permitted by IFRS 1, the company has also taken advantage of the right not to show comparative information on IAS 32 and 39 for the following categories:

- treasury stock held (value as of January 1, 2005 of 3.8 million Euro to be deducted from financial assets and shareholders' equity);
- fair value of IRS interest rate risk hedging contracts (value as of January 1, 2005 of 1 million Euro to be added to financial liabilities and deducted from shareholders' equity).

The parent company's income statement has been drawn up, as in previous years, taking account of the instructions contained in CONSOB Circular no. SOC/RM 94001437 of February 23, 1994.

Comparative figures have been provided in the attached financial statements: at December 31, 2004 for the balance sheet and for the first half of 2004 for the income statement, suitably reclassified and adjusted to ensure comparability.

ACCOUNTING POLICIES

The accounting policies used in preparing the parent company's balance sheet and income statement as of June 30, 2005 are the same as those explained in the notes to the consolidated financial statements.

As regards the equity investments in subsidiaries, which are eliminated in the consolidated financial statements, the Company has preferred to value them at cost, remaining more or less consistent with the previous accounting treatment.

NOTES ON THE MAIN BALANCE SHEET ITEMS

ASSETS

Securities and financial assets held for trading

This caption is analyzed as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
SICAV Banca Sella Euro1	5,086	5,000
Other	57	203
TOTAL	5,143	5,203

The fair value of the Sicav at June 30, 2005 has been obtained from data provided by "financial information companies".

The change compared with December 31, 2004 reflects adoption of the fair value approach. The part attributable to the first half of 2005 has been booked to other financial income.

Loans and financial receivables similar to loans

These are short term receivables due from subsidiaries, principally for loans granted to them, as well as for the intraGroup cash pooling system.

Trade receivables

This caption is analyzed as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
Due from subsidiaries	2,429	2,702
Due from parent company	626	6,260
Due from others	-	11
TOTAL	3,055	8,973

The amount due from Sogefi's parent company at the end of the previous year, which reflects its tax credits for 2004 as a result of filing for tax on a Group basis, together with tax credits that arose in previous years, was all collected during the period.

Tangible fixed assets

At June 30, 2005, these amount to € 10,207 thousand versus € 10,402 thousand at the end of the previous year. This caption is analyzed as follows:

(in thousands of euro)	Gross values				
	<i>Balance as of 31.12.04 (a)</i>	<i>Additions (b)</i>	<i>Disposals (c)</i>	<i>Other changes (d)</i>	<i>Balance as of 30.06.05 (e=a+b+c+d)</i>
Land	3,706	-	-	-	3,706
Property, plant and equipment	15,171	-	-	-	15,171
Other fixed assets	635	6	-	-	641
TOTAL	19,512	6	-	-	19,518

(in thousands of euro)	Accumulated depreciation				Net values	
	<i>Balance as of 31.12.04 (f)</i>	<i>Depreciation for the period (g)</i>	<i>Utilizations in the period (h)</i>	<i>Other changes (i)</i>	<i>Balance as of 30.06.05 (j=f+g+h+i)</i>	<i>Balance as of 30.06.05 (l=e-j)</i>
Land	-	-	-	-	-	3,706
Property, plant and equipment	8,613	191	-	-	8,804	6,367
Other fixed assets	497	10	-	-	507	134
TOTAL	9,110	201	-	-	9,311	10,207

IFRS require land to be shown separately from buildings, even when they are bought together, land being considered a fixed asset with an unlimited useful life. During the conversion to IAS/IFRS, Sogefi S.p.A. has separated the accounting values of buildings from those of the related land and reversed the accumulated depreciation charged on the land, including the amount charged in 2004.

Tangible fixed assets at June 30, 2005 are not encumbered by liens or other commitments.

Equity investments in subsidiaries

Changes in equity investments in subsidiaries during the first half of 2005 are shown in the following table:

STATEMENT OF CHANGES IN EQUITY INVESTMENTS IN SUBSIDIARIES DURING THE FIRST HALF OF 2005

(in thousands of euro)

	Opening balance			
	31.12.2004			
	Number of shares	Historical cost	Revaluations (Writedowns)	Balance
Subsidiaries				
REJNA S.p.A.	7,986,134	23,669	(2,363)	21,306
Sogefi FILTRATION S.p.A.	-	-	-	-
Sogefi FILTRATION B.V.	2,500	805	3,871	4,676
Sogefi FILTRATION Ltd	5,126,737	9,910	28,366	38,276
Sogefi FILTRATION A.B.	1,000	55	614	669
Sogefi FILTRATION Sociedad Anonima	1,855,360	25,168	7,755	32,923
FILTRAUTO S.A.	287,494	38,258	-	38,258
ALLEVARD REJNA AUTOSUSPENSIONS S.A.	1,028,582	17,098	-	17,098
Sogefi FILTRATION d.o.o.	1	10,704	-	10,704
LUHN & PULVERMACHER-DITTMANN &NEUHAUS GmbH	-	418	5,580	5,998
ALLEVARD SPRINGS USA Inc.	60	5,691	-	5,691
SENECA S.c.a.r.l.	-	8	-	8
LES NOUVEAUX ATELIERS MECANIQUES S.A. (*)	89,880	8,131	(8,131)	-
KINGDRAGON.IT S.p.A. (in liquidation)	413,600	1,309	(1,309)	-
Total		141,224	34,383	175,607
Allevard Springs USA Inc. - commitment to buy interest from Simest S.p.A.	-		-	1,824
Total subsidiaries				177,431

(*) winding up

1st half 2005						Closing balance		
						30.06.2005		
	Additions		Disposals		Writedowns			
	Number of shares	Amount	Number of shares	Amount	Amount	Number of shares	Amount	% ownership
Subsidiaries								
REJNA S.p.A.	-	-	-	-	-	7,986,134	21,306	99.83
Sogefi FILTRATION S.p.A.	21,951,000	44,602	-	-	-	21,951,000	44,602	100.00
Sogefi FILTRATION B.V.	-	-	-	-	-	2,500	4,676	100.00
Sogefi FILTRATION Ltd	-	-	-	-	-	5,126,737	38,276	100.00
Sogefi FILTRATION A.B.	-	-	-	-	-	1,000	669	100.00
Sogefi FILTRATION Sociedad Anonima	-	-	-	-	-	1,855,360	32,923	86.08
FILTRAUTO S.A.	-	-	-	-	-	287,494	38,258	99.99
ALLEVARD REJNA AUTOSUSPENSIONS S.A.	-	-	-	-	-	1,028,582	17,098	99.98
Sogefi FILTRATION d.o.o.	-	-	-	-	-	1	10,704	100.00
LUHN & PULVERMACHER- DITTMANN & NEUHAUS GmbH	-	-	-	-	-	-	5,998	100.00
ALLEVARD SPRINGS USA Inc.	-	-	-	-	-	60	5,691	(**) 41.38
SENECA S.c.a.r.l.	-	-	-	-	-	-	8	85.75
LES NOUVEAUX ATELIERS MECANIQUES S.A. (*)	-	-	-	-	-	89,880	-	(***) 74.90
KINGDRAGON.IT S.p.A. (in liquidation)	-	-	413,600	-	-	-	-	-
Total		44,602				-	220,209	
ALLEVARD SPRINGS USA Inc. Commitment to buy interest from Simest S.p.A.	-	-	-	-	-	-	1,824	-
Total subsidiaries		44,602		-	-	-	222,033	

(*) winding up

(**) the total ownership interest comes to 86.21%, through the subsidiary Allevard Rejna Autosuspensions S.A.

(***) the total ownership interest comes to 100%, through the subsidiary Sidergarda Mollificio Bresciano S.r.l.

The main changes in equity investments during the first half of the year are:

Sogefi Filtration S.p.A.

To complete the reorganization of the Italian companies in the Filtration Division, in January 2005, 100% of Sogefi Filtration S.p.A. was purchased by Filtrauto S.A. for € 25,000 thousand. The further increase in this investment was mainly due to the conversion of a loan granted to this company in 2004 into share capital.

Allevard Springs USA Inc.

The company has recognized as an increase in its investment the commitment to Simest S.p.A. to buy back its stake in Allevard Springs USA Inc. from June 30, 2008, with the chance to anticipate this operation from June 30, 2007.

Kingdragon.IT S.p.A.

This investment has been written off following the company's cancellation from the Companies' Register on completion of the liquidation procedure.

Other financial assets available for sale

They are analyzed as follows:

(in thousands of Euro)	June 30, 2005	December 31, 2004
Treasury stock	-	3,762
Banca Monte Paschi Siena shares	3	3
TOTAL	3	3,765

“Treasury stock” reflects the carrying value of 1,695,000 Sogefi ordinary shares, which the company bought on the market in previous years, based on the authorization to buy the company's own shares given by the Shareholders' Meeting in accordance with art. 2357 of the Italian Civil Code.

The treasury stock held at June 30, 2005 represents 1.52% of the share capital

The carrying value of the treasury stock held at June 30, 2005 has been written off in accordance with IFRS against share capital for the par value of the shares (€ 882 thousand) and against the share premium reserve for the balance.

Loans and financial receivables similar to loans

These are financial receivables due from subsidiaries for interest-bearing loans granted to them.

LIABILITIES AND EQUITY

Financial payables to banks and other financing

This caption is analyzed as follows:

Current portion

(in thousands of euro)	June 30, 2005	December 31, 2004
Financial payables to banks	142	5
Financial payables to subsidiaries	8,701	23
Bonds maturing within 12 months	79,961	79,922
Current portion of long term financial payables	601	-
<i>of which: cash flow hedging instruments</i>	160	-
TOTAL current financial payables	89,263	79,945
TOTAL current portion	89,405	79,950

Non-current portion

(in thousands of euro)	June 30, 2005	December 31, 2004
Long term financial payables	124,313	124,732
Other long term financing	3,069	1,824
<i>of which: cash flow hedging instruments</i>	1,245	-
<i>of which: purchase commitments</i>	1,824	1,824
TOTAL long term financial payables	127,382	126,556

The bonds form part of the bond loan of € 80 million nominal value issued in 2000 and redeemable in December 2005. The figure is lower than at December 31, 2004 due to the calculation of the loan issue charges.

The long term financial payables to banks are mainly two syndicated loans of € 80 million and € 100 million, the latter drawn down for € 40 million, repayable in 2006 and 2008 respectively.

The increase in financial payables compared with the end of the previous year relates to the acquisition of Sogefi Filtration S.p.A. in January 2005. The increase in interest-bearing financial payables to subsidiaries is due to the international cash pooling system introduced during the period, which involves the Italian and French subsidiaries, managing centrally any surplus liquidity that they generate.

Trade and other payables

This caption is analyzed as follows:

(in thousands of euro)	June 30, 2005	December 31, 2004
Due to subsidiaries	163	37
Due to parent company	887	-
Due to suppliers	1,598	1,390
Due to social security institutions	339	443
Other payables	678	990
TOTAL	3,665	2,860

DERIVATIVE FINANCIAL INSTRUMENTS

As part of its risk management policy, the company has various IRS contracts taken out in previous years to hedge interest rate risk, with a notional value of € 100 million, and exchange risk (forward currency sales). The IRS contracts are financial hedging transactions that make it possible to convert part of the outstanding debts from floating to fixed rate. These contracts have been booking according to the standards laid down for cash-flow hedges.

SHAREHOLDERS' EQUITY

Share capital

The share capital at June 30, 2005 amounts to € 58,102,403.84. Considering the reclassification of treasury stock in portfolio, the accounting balance is of € 57,221 thousand.

The increase in capital resulting from the exercise of stock options at May 31 and June 30, 2005 has been booked to the reserve for increases in share capital as it was officially registered in July 2005.

Changes during the half-year were as follows:

- an increase of € 199 thousand deriving from the increase in share capital reserved to the employees of the Company and its subsidiaries, in execution of the Stock Option Plans, subscribed and paid in on December 31, 2004 (382,000 shares). In the 2004 financial statements, this increase was booked to the reserve for increases in share capital as it was officially registered in January 2005.
- an increase of € 248 thousand deriving from the increase in share capital reserved to the employees of the Company and its subsidiaries, in execution of the Stock Option Plans, subscribed and paid in at the end of January and March 2005 (476,000 shares);
- a decrease of € 882 thousand being the par value of the 1,695,000 shares held as treasury stock, as required by IAS/IFRS.

Reserves and retained earnings (accumulated losses)

At June 30, 2005, they amount to € 94,053 thousand versus € 91,861 thousand at the end of the previous year.

The following schedule shows the changes in shareholders' equity that have taken place in the first half of 2004 and 2005:

(in thousands of euro)	Share capital	Reserves and retained earnings (accumulated losses)	Net income for the period	Total shareholders' equity
<i>Balance as of December 31, 2003</i>	56,773	88,867	17,100	162,740
Rights issues	740	565	-	1,305
Allocation of 2003 net income:				
- to dividends	-	-	(15,777)	(15,777)
- to legal reserve	-	50	(50)	-
- to retained earnings	-	1,273	(1,273)	-
Net income for the period	-	-	30,167	30,167
<i>Balance as of June 30, 2004</i>	57,513	90,755	30,167	178,435

(in thousands of euro)	Share capital	Reserves and retained earnings (accumulated losses)	Net income for the period	Total shareholders' equity
<i>Balance as of December 31, 2004</i>	57,656	91,861	22,249	171,766
Reclassification of treasury stock	(882)	(2,880)	-	(3,762)
Valuation of cash flow hedging instruments at fair value	-	(940)	-	(940)
Valuation of securities at fair value	-	25	-	25
Taxes on items booked directly to shareholders' equity	-	310	-	310
<i>Balance at January 1, 2005</i>	56,774	88,376	22,249	167,399
Share capital increases reserved to the employees of Sogefi S.p.A. and its subsidiaries	447	921	-	1,368
Allocation of 2004 net income:				
- to dividends	-	-	(17,599)	(17,599)
- to legal reserve	-	200	(200)	-
- to retained earnings	-	4,450	(4,450)	-
Valuation of cash flow hedging instruments at fair value	-	(465)	-	(465)
Taxes on items booked directly to shareholders' equity	-	176	-	176
Figurative cost of stock options	-	395	-	395
Net income for the period	-	-	25,179	25,179
<i>Balance as of June 30, 2005</i>	57,221	94,053	25,179	176,453

NOTES ON THE MAIN INCOME STATEMENT ITEMS

FINANCIAL INCOME/EXPENSES AND DIVIDENDS

Income from equity investments

This caption is analyzed as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Dividends from subsidiary companies:		
- Sogefi Filtration S.p.A.	1,712	5,400
- Sogefi Filtration Société Anonyme	-	1,597
- Sogefi Filtration A.B.	198	200
- Sogefi Filtration Sociedad Anonima	5,165	-
- Sogefi Filtration B.V.	900	1,100
- Sogefi Filtration d.o.o.	1,356	-
- Luhn & Pulvermacher-Dittmann & Neuhaus GmbH	6,000	4,000
- Filtrauto S.A.	11,002	9,603
- Allevard Rejna Autosuspensions S.A.	-	9,998
TOTAL	26,333	31,898

The dividends approved in the first half have all been reflected in the income statement.

Other financial income

This caption is analyzed as follows:

(in thousands of euro)	1st half 2005	1st half 2004
Interest from subsidiaries	2,797	2,430
Interest from banks	118	20
Income on SICAV	61	-
Other income	1	1
Exchange gains and income from exchange-rate hedging contracts	448	72
Interest grants	47	37
TOTAL	3,472	2,560

Interest and other financial charges

As follows:

(in thousands of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>
Interest on bond loan	1,303	1,284
Interest expense on syndicated loans	1,721	1,625
Interest expense on Banca Carige S.p.A. loan	77	61
Interest on financial debts to banks	17	33
Interest on amounts due to subsidiaries	54	-
Interest on other payables (Simest)	79	58
Costs of interest-rate hedging contracts	453	372
Interest due to tax authorities	8	14
Exchange losses and cost of hedging exchange risks	825	283
Bank commissions and fees	124	142
Commission on financial transactions	81	59
Other	31	54
TOTAL	4,773	3,985

OTHER OPERATING REVENUES

These are analyzed as follows:

(in thousands of euro)	<i>1st half 2005</i>	<i>1st half 2004</i>
REVENUES FROM THE SALE OF GOODS AND SERVICES		
Business consulting and assistance, commissions on negotiation of procurement contracts, royalties:		
- Filtration Division companies	1,852	1,140
- Suspension Components Division companies	1,510	476
Leased and sub-leased premises :		
- Sogefi Filtration S.p.A.	290	287
- Sidergarda Mollificio Bresciano S.r.l.	711	702
OTHER REVENUES AND INCOME		
Other income and cost recoveries from subsidiaries	497	529
Income from Honeywell agreement	236	236
Other income	23	33
TOTAL	5,119	3,403

OTHER OPERATING COSTS

During the first half of 2005, services received included Euro 887 thousand for administrative, financial, fiscal and corporate services provided by the parent company.

NON-OPERATING INCOME AND EXPENSES

€ 395 thousand is the figurative cost of applying IFRS 2. For the stock option plans, the fair value of the option, determined at the time it was granted, is booked as a cost to the income statement over the vesting period of the benefit, with the contra-entry going to an equity reserve in the balance sheet .

The income made in the first half of 2004 consisted of capital gains on the sale of equity investments.

INCOME TAXES FOR THE PERIOD

The equivalent amount in first-half 2005 is € 1,825 thousand, which includes € 1,400 thousand of tax benefits on the deduction of expenses added back in prior years.

OTHER INFORMATION

During the first half of 2005, Sogefi S.p.A. had 25 employees on average.

COMMITMENTS AND RISKS

The more important are as follows:

- guarantees in favour of subsidiaries for a nominal amount of € 33,859 thousand and in favour of minority interests for € 1,860 thousand;
- commitments for interest rate hedging contracts stipulated by the company for a notional value of € 100,000;
- commitments for forward currency sales of € 8,382 thousand.

RECONCILIATION FOR FIRST-TIME ADOPTION OF IFRS

COMPARATIVE FIGURES

The figures for the first half of 2004, which are presented for comparison purposes have been suitably reclassified and adjusted in compliance with IFRS.

RECONCILIATION OF THE RESULTS AT JUNE 30, 2004 ACCORDING TO IAS/IFRS AND THE RESULTS FOR THE SAME PERIOD ACCORDING TO ITALIAN GAAP

Along with the first-half 2004 figures prepared according to IFRS, the company has provided a detailed reconciliation for the whole of 2004, both income statement and balance sheet, of the differences between IAS/IFRS and Italian GAAP.

In accordance with IFRS 1 (in the part that deals with the documentation to be provided when presenting interim reports during the first year of conversion to IAS/IFRS), the following is a reconciliation of the figures at June 30, 2004 for the income statement and balance sheet.

This information is provided in order to allow third parties a clearer understanding of the situation, given that the previous interim financial statements (as of June 30, 2004) were prepared according to Italian GAAP, which were applicable at that time.

The adoption of IAS/IFRS has not had any significant impact on the net result as of June 30, 2004.

a. Reconciliation of the income statement at June 30, 2004 between Italian GAAP and IAS/IFRS

(in thousands of euro)

	<i>Sogefi income statement (Italian GAAP)</i>	<i>IAS/IFRS adjustments</i>	<i>Sogefi income statement (IAS/IFRS)</i>
FINANCIAL INCOME/EXPENSES AND DIVIDENDS			
1) Income from equity investments	31,898	-	31,898
2) Other financial income	2,560	-	2,560
3) Interest and other financial charges	3,811	174	3,985
TOTAL FINANCIAL INCOME AND EXPENSES	30,647	(174)	30,473
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
4) Revaluations	-	-	-
5) Write-downs	40	-	40
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS	(40)	-	(40)
6) OTHER OPERATING REVENUES	3,403	-	3,403
OTHER OPERATING COSTS			
7) Non-financial services	2,709	19	2,728
8) Leases and rentals	179	-	179
9) Personnel	2,383	(54)	2,329
10) Depreciation, amortization and write-downs	393	(150)	243
11) Provisions for risks and charges	-	-	-
12) Other provisions	-	-	-
13) Other operating expenses	485	-	485
TOTAL OTHER OPERATING COSTS	6,149	(185)	5,964
NON-OPERATING INCOME AND EXPENSES			
14) Income	3,279	-	3,279
15) Expenses	5	-	5
NON-OPERATING INCOME (LOSS)	3,274	-	3,274
INCOME BEFORE TAXES	31,135		31,146
16) Income taxes for the period	994	(15)	979
NET INCOME	30,141	26	30,167

The following is a brief explanation of the main reconciling items:

Interest and other financial charges

The difference relates to:

- the recognition of financial charges relating to the period in connection with the bond issue and new loans, previously booked under amortization;
- reclassification of the commission paid to Simest S.p.A. for the financial debt towards it;
- the financial component of employment termination indemnities.

Depreciation and amortization

The differences in “Depreciation and amortization” are mainly due to:

- lower amortization on intangible assets incurred in prior years, which was eliminated against shareholders' equity in the financial statements as of January 1, 2004;
- reversal of the amortization charged in previous years on expenses in connection with the bond issue and new loans, booked as financial components;
- lower depreciation on tangible fixed assets. IAS require land to be shown separately from buildings, even when they are bought together, land being considered a fixed asset with an unlimited useful life. During the conversion to IAS, Sogefi S.p.A. has separated the accounting values of buildings from those of the related land and reversed the accumulated depreciation charged on the land, including the amount charged in 2004.

b. Reconciliation of shareholders' equity at June 30, 2004 between Italian GAAP and IAS/IFRS:

(in thousands of euro)	Equity at June 30, 2004
Sogefi S.p.A. financial statements (Italian GAAP)	177,006
<u>IFRS adjustments:</u>	
> IAS 38 - Intangible assets	(74)
- Other intangible assets	(110)
- Deferred taxation	36
> IAS 16 - Tangible assets	1,482
- Adjustments to tangible assets	1,482
> IAS 19 - post-retirement benefits	21
- Termination indemnities	31
- Deferred taxation	(10)
TOTAL IFRS impacts	1,429
Sogefi S.p.A. financial statements (IFRS)	178,435

SOGEFI S.P.A.

HEAD OFFICE: VIA U. BARBIERI 2, MANTUA, ITALY

MANTUA COMPANY REGISTER 00607460201

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**OBSERVATIONS OF THE BOARD OF STATUTORY AUDITORS ON THE
REPORT OF THE BOARD OF DIRECTORS ON GROUP OPERATIONS FOR THE
FIRST HALF OF 2005**

We acknowledge that we received the report on operations during the first half of 2005, approved by the Board of Directors, on July 26, 2005.

The report has been prepared pursuant to the applicable CONSOB regulations and in accordance with the rules governing company accounts.

The associated company points out that it has been subject to a limited audit by PriceWaterhouseCooper S.p.A., who had no comments to make.

We do not have any observations on the report approved by the Board of Directors.

Mantua, August 22, 2005

The Board of Statutory Auditors

Angelo Girelli (Chairman)

Franco Caramanti (Auditor)

Riccardo Zingales (Auditor)

AUDITORS' REPORT ON THE REVIEW OF THE INTERIM FINANCIAL REPORTING PREPARED IN ACCORDANCE WITH ART. 81 OF CONSOB DELIBERATION N° 11971 OF 14 MAY 1999 AND SUBSEQUENT MODIFICATIONS

To the Shareholders of
SOGEFI SPA

- 1 We have performed a review of the interim financial reporting of Sogefi SpA for the six-month period ended 30 June 2005, consisting of balance sheet, income statement and related comment notes for the holding company and consolidated. This interim financial reporting is the responsibility of Sogefi SpA's directors. Our responsibility is to issue a report on this interim financial reporting based on our review. We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.
- 2 Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with deliberation n° 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual separate and consolidated financial statements, we do not express an audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the separate and consolidated financial statements of the prior year, reference should be made to our report dated 28 July 2005.

The comparative data of the interim financial reporting of the prior year, adjusted in accordance with the International Financial Reporting Standards (IFRS) and the relating IFRS reconciliation schedules, derive from the six-month interim financial data prepared in compliance with the legal

requirements and the accounting standards previously in force reviewed by us, for which reference should be made to our report dated 29 July 2004.

- 4 Based on our review no significant changes or adjustments came to our attention that should be made to the interim financial reporting and related comment notes identified in paragraph 1 of this report, in order to make them consistent with the criteria for the preparation of interim financial reporting established by article 81 of CONSOB Regulation approved by Deliberation n° 11971 of 14 May 1999 and subsequent modifications.

Milan, 22 August 2005

PricewaterhouseCoopers SpA

Ezio Bassi
(Partner)

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

SOGEFI GROUP

**TRANSITION TO IFRS:
CONSOLIDATED AND
STATUTORY FINANCIAL STATEMENTS
OF SOGEFI S.P.A. FOR 2004**

ACCOUNTING SCHEDULES AND EXPLANATORY NOTES

CONTENTS

1.	Introduction and definition of IAS/IFRS options	page	3
2.	Summary of the impacts of the transition on the consolidated income statement, balance sheet and cash flow statement from 1/1/2004 to 1/1/2005	page	4
3.	New format of consolidated income statement and reclassifications	page	6
4.	Reconciliation of the consolidated balance sheet, income statement and cash flow figures between the previous accounting principles (Italian GAAP) and IAS/IFRS	page	9
5.	Analysis of the impacts of conversion to IAS/IFRS on consolidated shareholders' equity	page	17
6.	Analysis of the impacts of conversion to IAS/IFRS on consolidated financial position	page	26
7.	Analysis of the impacts of conversion to IAS/IFRS on consolidated cash flow statement	page	26
8	Sogefi S.p.A. – IFRS1 – Conversion to IAS/IFRS – Statutory financial statements	page	28

1. Introduction and definition of IAS/IFRS options

With reference to the Consultation Document 14990 issued by CONSOB on 14 April 2005 on how interim reports should be drawn up during 2005, the SOGEFI Group has decided to follow the instructions laid down in IAS/IFRS for the valuation and measurement of accounting aggregates starting from the first quarterly report for 2005.

The date of the Sogefi Group's first time adoption of IAS/IFRS at a consolidated level is 1 January 2005, which means that the consolidated financial statements for the year ending 31 December 2005 will be the first to be prepared according to the new standards.

The CIR Group's "conversion" date is 1 January 2004, which is the date of the opening balance sheet prepared according to IAS/IFRS.

Given that this is the first time that international accounting principles are being applied, this document has been prepared in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards". It explains the impacts that the transition from Italian GAAP to IFRS has had on the balance sheet, income statement and financial position of the Sogefi Group.

Lastly, in accordance with Consob Circular DEM/5025723 of 15 April 2005, the Sogefi Group has appointed PricewaterhouseCoopers S.p.A. to audit the reconciliation schedules required by IFRS 1 and the main processes involved in the conversion to IFRS.

We would point out that the valuation and measurement of the accounting aggregates - regarding both the adjustments to the 2004 consolidated financial statements and the figures in the interim reports issued in 2005 - are based on IAS/IFRS now in force and as currently interpreted; we therefore cannot exclude that changes may be made during the course of 2005 which could involve amendments to the figures herein reported, given the rapid and continuous evolution of the debate on IFRS during this transition phase.

The following is an explanation of the decisions made by Sogefi with regard to the optional exemptions affecting the opening financial statements during first time adoption as permitted by IFRS 1:

- *Business combinations*: we have elected not to apply IFRS 3 retroactively; in other words, not to "reopen" business combinations that took place prior to the transition date, 1/1/2004.
- *Goodwill* we have elected not to apply IFRS 3 retroactively to goodwill, with the result that amortization has no longer been charged on goodwill from 1/1/2004.
- *Fair value*: given the choice between re-determining the value of property, plant and equipment at their "fair value" and continuing with the historical cost model, historical cost

was chosen. Assets are therefore shown in the financial statements at historical cost or, under certain circumstances, at a reassessed value based on the previous accounting principles as a replacement of cost, net of accumulated depreciation.

- *Post-retirement benefits*: we decided to identify all of the cumulative actuarial differences as of the transition date, 1/1/2004. For subsequent periods, we have opted to use the "corridor approach" for all defined-benefit pension funds.
- *Cumulative translation differences*: we have taken the exemption from IAS 21 for any cumulative translation differences that arose prior to the transition date (1/1/2004). It follows that the opening financial statements at 1/1/2004 do not show any cumulative translation differences relating to foreign operations.
- *Financial instruments*: Sogefi has adopted IAS 32 and 39 from 1/1/2005, without retroactive application.

2. Summary of the impacts of the transition on the consolidated income statement, balance sheet and cash flow statement from 1/1/2004 to 1/1/2005

As regards the 2004 financial statements, the main items affected by IAS/IFRS compared with the existing principles are as follows:

- intangible assets, with particular reference to the accounting treatment and valuation of research and development expenses, start-up and expansion costs, goodwill deriving from acquisitions of equity investments and their amortization;
- property, plant and equipment, especially the split between land and buildings;
- financial assets, in the part regarding the accounting treatment and valuation of treasury stock;
- risk reserves and contingent liabilities, as regards the requirements laid down by IAS/IFRS for them to be booked to the financial statements;
- the provision 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 32 and 39;
- the treatment of investments by minority shareholders which are reclassified as medium-term payables.

Very briefly, the impacts on the balance sheet and income statement can be summarised as follows:

- Consolidated shareholders' equity (excluding minority interests) at 1/1/2004 went from € 198.2 million under the previous accounting principles to € 193.8 million under IAS/IFRS.

- The consolidated net result for the year 2004 went from € 37.9 million under the previous accounting principles to € 30 million under IAS/IFRS. Generally speaking, the adoption of IAS will have a positive impact on the income statement, thanks to the fact that amortization will no longer be charged on goodwill (€ 5.7 million), partly offset by other elements that will have a total negative impact of € 2.5 million. However, even though the 2004 income statement has benefited from these factors, it is penalised by non-recurring charges totalling € 11.1 million, of which € 7.3 million relates to extraordinary costs already recorded in the 2003 financial statements under the previous accounting principles and € 3.8 million for start-up costs of the new plant belonging to Alleward Springs U.S.A. Inc. (capitalised under the previous accounting principles).
- Consolidated shareholders' equity (excluding minority interests) at 1/1/2005 went from € 222.1 million under the previous accounting principles to € 206 million under the new ones, mainly because of the impact of adopting IAS 19 for UK pension funds and similar benefits (€ 10.8 million) and IAS 39 for the treatment of treasury stock (€ 3.8 million).
- Consolidated net financial debts at 1/1/2005 went from € 190.5 million under the previous accounting principles to € 205 million under the new ones.

3. New format consolidated income statement and reclassifications

We have decided to propose a new income statement format as part of the conversion to IAS/IFRS. This involving shifting the approach from “full costing” to “direct costing”. In this new format, we have retained "Operating income" as an intermediate line item because we consider it to be a significant figure, given that it represents the profitability of ordinary operations (understood as the production and sales activities in the strictest sense), more or less in line with the definition of operating income used in previous years. Conceptually, this is not the same as EBIT (earnings before interest and income tax) as it is usually shown after restructuring costs and non operating expenses. In this connection, it is worth pointing out that operating income does not include taxes not on income as they are not considered a typical feature of the Company's operating activity, but rather the result of different fiscal policies that the various countries adopt for common budgetary purposes by applying a variable mix of direct and indirect taxes depending on their own socio-economic characteristics. As explained in greater detail below, taxes not on income have been reclassified to “Other non operating charges (income)”.

**TABLE 1: 2004 CONSOLIDATED INCOME STATEMENT (ITALIAN GAAP)
RECLASSIFIED ACCORDING TO THE NEW FORMAT INTRODUCED AT
THE SAME TIME AS ADOPTING IAS/IFRS.**

<i>(in millions of euro)</i>	Amount	%
Sales revenues	966.1	100.0
Variable cost of sales	614.5	63.6
CONTRIBUTION MARGIN	351.6	36.4
Manufacturing and R&D overheads	110.7	11.5
Depreciation and amortization	52.2	5.4
Distribution, marketing and sales fixed expenses	39.5	4.1
Administrative and general expenses	61.4	6.3
OPERATING INCOME	87.8	9.1
Restructuring costs	13.3	1.4
Losses (gains) on disposal	(7.9)	(0.8)
Exchange (gains) losses	1.9	0.2
Other non operating expenses (income)	9.3	0.9
EBIT	71.2	7.4
Financial expenses (income), net	10.3	1.1
Losses (gains) from equity investments	(1.7)	(0.2)
INCOME BEFORE TAXES AND MINORITY INTERESTS	62.6	6.5
Income taxes	23.0	2.4
INCOME BEFORE MINORITY INTERESTS	39.6	4.1
Loss (income) attributable to minority interests	(1.7)	(0.2)
NET INCOME FOR THE YEAR	37.9	3.9

We also considered it opportune to reclassify certain items to the income statement, with the following impact on "Operating income" and "Income before taxes and minority interests" compared with the figures shown in the annual report:

TABLE 2: IMPACT OF RECLASSIFICATIONS ON THE 2004 CONSOLIDATED INCOME STATEMENT

<i>(in millions of euro)</i>	Results shown in the Annual Report 2004	Reclassifications	Results after reclassifications 2004
	Amount	Amount	Amount
OPERATING INCOME	85.7	2.1	87.8
INCOME BEFORE TAXES AND MINORITY INTERESTS	70.3	(7.7)	62.6
NET INCOME FOR THE YEAR	37.9	-	37.9

The favourable variance of € 2.1 million at the level of operating income includes a positive impact of € 4.5 million thanks to the reclassification of taxes not on income (capital taxes, for example), which were previously included in administrative and general expenses and which have now been reclassified to other non operating charges (income); this is then partially offset by a negative impact of € 2.4 million caused by the reclassification of particular costs relating to the French companies ("Participation des salariés"), previously included in income taxes and now reclassified as administrative and general expenses.

The variance of € 7.7 million which reduces income before taxation and minority interests concerns the reclassification of the "Taxe Professionnelle", reclassified under non operating charges (income), and "Participation des salariés" of the French companies, previously included in income taxes for the period.

There is obviously no change in net income for the year.

4. Reconciliation of the consolidated balance sheet, income statement and cash flow figures between the previous accounting principles and IAS/IFRS

TABLE 3: RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AT 1/1/2004 BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS: ASSETS

<i>(In millions of euro)</i>	Consolidated Balance Sheet SOGEFI (Italian GAAP) 01/01/2004	Adjustments IAS/IFRS	Consolidated Balance Sheet IAS/IFRS 01/01/2004
CURRENT ASSETS			
Cash and Cash Equivalents	31.0	-	31.0
Short Term Securities	11.9	-	11.9
Current Portion Long Term Financial Assets	0.1	-	0.1
<u>Current Operating Assets:</u>			
Net Inventories	109.9	-	109.9
Net Trade Receivables	232.5	0.1	232.6
Other Receivables	5.3	-	5.3
Receivables from Tax Authorities	20.4	-	20.4
Other Current Assets	2.6	-	2.6
Total Current Operating Assets	370.7	0.1	370.8
TOTAL CURRENT ASSETS	413.7	0.1	413.8
NON-CURRENT ASSETS			
<u>Fixed Assets:</u>			
Property, Plant and Equipment	240.5	13.1	253.6
Other Tangible Fixed Assets	4.4	-	4.4
<i>Of which leasing</i>	<i>9.3</i>	<i>11.8</i>	<i>21.1</i>
Intangible Fixed Assets	113.0	(4.4)	108.6
Total Fixed Assets	357.9	8.7	366.6
<u>Other Non-Current Assets:</u>			
Equity Investments in Subsidiaries, Associated and other Companies	11.3	-	11.3
Other Financial Assets	-	-	-
Long-Term Trade Receivables	0.9	-	0.9
Other Receivables	2.2	-	2.2
Deferred Taxes Assets	7.4	4.1	11.5
Total other Non-Current Assets	21.8	4.1	25.9
TOTAL NON-CURRENT ASSETS	379.7	12.8	392.5
TOTAL ASSETS	793.4	12.9	806.3

TABLE 3 BIS: RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AT 1/1/2004 BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS: LIABILITIES AND EQUITY

<i>(In millions of euro)</i>			
	Consolidated Balance Sheet SOGEFI (Italian GAAP) 01/01/2004	Adjustments IAS/IFRS	Consolidated Balance Sheet IAS/IFRS 01/01/2004
CURRENT LIABILITIES			
Trade and Other Payables	225.8	(0.3)	225.5
Current Portion Long Term Financial Debts	30.5	0.3	30.8
<i>Of which leasing</i>	<i>0.6</i>	<i>0.3</i>	<i>0.9</i>
Bank's Overdraft and Other Current Loans	36.7	-	36.7
Tax Payables	11.6	-	11.6
Current Provisions	4.1	-	4.1
TOTAL CURRENT LIABILITIES	308.7	-	308.7
NON-CURRENT LIABILITIES			
<u>Long Term Financial Debts:</u>			
Bonds	80.0	(0.2)	79.8
Financial Debts to Banks	100.9	(0.1)	100.8
Other Long Term Financing	8.5	13.2	21.7
<i>Of which leasing</i>	<i>7.3</i>	<i>12.2</i>	<i>19.5</i>
Total Long Term Financial Debts	189.4	12.9	202.3
<u>Other Long Term Liabilities:</u>			
Long Term Provisions	67.8	7.7	75.5
Other Long Term Payables	2.3	-	2.3
Deferred Income Tax Liabilities	12.6	(1.5)	11.1
Total Other Long Term Liabilities	82.7	6.2	88.9
TOTAL NON-CURRENT LIABILITIES	272.1	19.1	291.2
EQUITY			
<u>Shareholders' Equity Attributable to Parent Company :</u>			
Share Capital	56.8	-	56.8
Retained Earnings (Acc.Losses), Other Reserves	112.9	(4.4)	108.5
Net Income (Loss) of the period	28.5	-	28.5
Total Shareholders' Equity Attributable to Parent Company	198.2	(4.4)	193.8
Shareholders' Equity – Minority Interests	14.4	(1.8)	12.6
TOTAL EQUITY	212.6	(6.2)	206.4
TOTAL LIABILITIES AND EQUITY	793.4	12.9	806.3

**TABLE 4: RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AT 31/12/2004 AND 1/1/2005
BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS: ASSETS**

	Consolidated Balance Sheet SOGEFI (Italian GAAP) 31/12/2004	Adjustments IAS/IFRS	Consolidated Balance Sheet IAS/IFRS 31/12/2004	Adjustments IAS 32/39	Consolidated Balance Sheet IAS/IFRS 1/1/2005
<i>(In millions of euro)</i>					
CURRENT ASSETS					
Cash and Cash Equivalent	49.8	-	49.8		49.8
Short Term Securities	7.1	-	7.1		7.1
Current Portion Long Term Financial Assets	0.1	-	0.1		0.1
Current Operating Assets:					
Net Inventories	112.1	-	112.1		112.1
Net Trade Receivables	242.9	0.2	243.1		243.1
Other Receivables	5.1	-	5.1		5.1
Receivables from Tax Authorities	11.3	-	11.3		11.3
Other Current Assets	2.4	-	2.4		2.4
Total Current Operating Assets	373.8	0.2	374.0		374.0
TOTAL CURRENT ASSETS	430.8	0.2	431.0		431.0
NON-CURRENT ASSETS					
Fixed Assets:					
Property, Plant and Equipment					
Other Tangible Fixed Assets	242.7	9.9	252.6		252.6
<i>Of which leasing</i>	5.8	(0.1)	5.7		5.7
Intangible Fixed Assets	9.0	10.6	19.6		19.6
Total Fixed Assets	112.5	(2.3)	110.2		110.2
Other Non-Current Assets:	361.0	7.5	368.5		368.5
Equity Investments in Subsidiaries, Associated and other Companies	10.2	-	10.2	(3.8)	6.4
Other Financial Assets	-	-	-	-	0.0
Long Term Trade Receivables	0.7	-	0.7	-	0.7
Other Receivables	3.0	-	3.0	-	3.0
Deferred Income Tax Assets	8.2	5.3	13.5	(0.1)	13.4
Total other Non-Current Assets	22.1	5.3	27.4	(3.9)	23.5
TOTAL NON-CURRENT ASSETS	383.1	12.8	395.9	(3.9)	392.0
TOTAL ASSETS	813.9	13.0	826.9	(3.9)	823.0

**TABLE 4 BIS: RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET AT 31/12/2004 AND 1/1/2005
BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS: LIABILITIES AND
SHAREHOLDERS' EQUITY**

<i>(In millions of euro)</i>	Consolidated Balance Sheet SOGEFI (Italian GAAP) 31/12/2004	Adjustments IAS/IFRS	Consolidated Balance Sheet IAS/IFRS 31/12/2004	Adjustments IAS 32/39	Consolidated Balance Sheet IAS/IFRS 1/1/2005
CURRENT LIABILITIES					
Trade and Other Payables	230.3	(0.5)	229.8	-	229.8
Current Portion Long-term Financial Debts	94.6	0.2	94.8	-	94.8
<i>Of which leasing:</i>	<i>0.7</i>	<i>0.3</i>	<i>1.0</i>	-	1.0
Bank's Overdraft and Other Current Loans	11.1	-	11.1	1.0	12.1
Tax Payables	10.9	-	10.9	-	10.9
Current Provisions	3.1	-	3.1	-	3.1
TOTAL CURRENT LIABILITIES	350.0	(0.3)	349.7	1.0	350.7
NON-CURRENT LIABILITIES					
<u>Long-term Financial Debts:</u>					
Bonds	-	-	-	-	0.0
Financial Debts to Banks	133.9	(0.1)	133.8	-	133.8
Other Long-term Financing	8.0	13.4	21.4	-	21.4
<i>Of which leasing</i>	<i>6.6</i>	<i>11.6</i>	<i>18.2</i>	-	18.2
Total Long-term Financial Debts	141.9	13.3	155.2	-	155.2
<u>Other Long-term Liabilities:</u>					
Long-term Provisions	70.2	14.8	85.0	-	85.0
Other Long-term Payables	0.3	-	0.3	-	0.3
Deferred Tax Liabilities	13.5	(1.4)	12.1	(0.5)	11.6
Total Other Long-term Liabilities	84.0	13.4	97.4	(0.5)	96.9
TOTAL NON- CURRENT LIABILITIES	225.9	26.7	252.6	(0.5)	252.1
EQUITY					
<u>Shareholders' Equity Attributable to Parent Company :</u>					
Share Capital	57.7	-	57.7	-	57.7
Retained Earnings (Acc. Losses), Other Reserves	126.5	(3.8)	122.7	(4.4)	118.3
Net Income (Loss) of the period	37.9	(7.9)	30.0	-	30.0
Total Shareholders' Equity Attributable to Parent Company	222.1	(11.7)	210.4	(4.4)	206.0
Shareholders' Equity – Minority Interests	15.9	(1.7)	14.2	-	14.2
TOTAL SHAREHOLDERS' EQUITY	238.0	(13.4)	224.6	(4.4)	220.2
TOTAL LIABILITIES AND	813.9	13.0	826.9	(3.9)	823.0

TABLE 5: RECONCILIATION OF THE 2004 CONSOLIDATED INCOME STATEMENT BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS:

	Consolidated Income Statement SOGEFI (Italian GAAP) 2004		Adjustments IAS/IFRS	Consolidated Income Statement IAS/IFRS 2004	
	Amount	%		Amount	%
(in millions of euro)					
Revenues from sales	966.1	100.0	-	966.1	100.0
Variable Cost of Sales	614.5	63.6	-	614.5	63.6
CONTRIBUTION MARGIN	351.6	36.4	-	351.6	36.4
Manufacturing and R&D Overheads	110.7	11.5	5.7	116.4	12.0
Depreciation and Amortization	52.2	5.4	(7.1)	45.1	4.7
Distribution, Marketing and Sales Fixed Expenses	39.5	4.1	-	39.5	4.1
Administrative and General Expenses	61.4	6.3	(2.4)	59.0	6.1
OPERATING INCOME	87.8	9.1	3.8	91.6	9.5
Restructuring Costs	13.3	1.4	9.7	23.0	2.4
Losses (Gain) on Disposals	(7.9)	(0.8)	-	(7.9)	(0.8)
Exchange Differences	1.9	0.2	-	1.9	0.2
Other Non-Operating Expenses (Income)	9.3	0.9	0.3	9.6	1.0
EBIT	71.2	7.4	(6.2)	65.0	6.7
Financial Expenses (Income)	10.3	1.1	1.9	12.2	1.3
Losses (Gain) from Equity Investments	(1.7)	(0.2)	-	(1.7)	(0.2)
INCOME BEFORE TAXES AND MINORITY INTERESTS	62.6	6.5	(8.1)	54.5	5.6
Income Taxes	23.0	2.4	(1.0)	22.0	2.3
INCOME BEFORE MINORITY INTERESTS	39.6	4.1	(7.1)	32.5	3.3
Loss (Income) Attributable to Minority Interests	(1.7)	(0.2)	(0.8)	(2.5)	(0.2)
NET INCOME FOR THE YEAR	37.9	3.9	(7.9)	30.0	3.1

TABLE 6: RECONCILIATION OF THE CONSOLIDATED NET FINANCIAL POSITION FROM 1/1/2004 TO 1/1/2005 BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS

(in millions of euro)	1/1/2004	31/12/2004	1/1/2005
CONSOLIDATED NET FINANCIAL POSITION SOGEFI (Italian GAAP)	(213.4)	(190.5)	(190.5)
<u>Adjustments IAS:</u>			
- Leasing Contracts	(12.5)	(11.9)	(11.9)
- Financial Instruments			(1.0)
- Financing for Equity Investments Purchase	(1.1)	(1.8)	(1.8)
- Charges on Financing	0.3	0.2	0.2
TOTAL ADJUSTMENTS IAS/IFRS	(13.3)	(13.5)	(14.5)
CONSOLIDATED NET FINANCIAL POSITION IAS/IFRS	(226.7)	(204.0)	(205.0)

TABLE 7: RECONCILIATION OF THE 2004 CONSOLIDATED CASH FLOW STATEMENT BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS (IAS 7)

	Consolidated Annual Report SOGEFI (Italian GAAP)	Adjustments IAS/IFRS	Consolidated Annual Report IAS/IFRS
(in millions of euro)			
Cash Flow from Operating Activities			
Net Income	37.9	(7.9)	30.0
Adjustments for:			
- Minority Interests	1.7	0.8	2.5
- Depreciations and Amortizations	52.2	(7.1)	45.1
- Accrued Costs for Stock Options			
- Loss (Gain) from Sale of Assets	(7.9)	-	(7.9)
- Dividends Collected	(0.1)	-	(0.1)
- Result from Associated Companies	(0.2)	-	(0.2)
- Allowance for Risks and Restructuring Plans	(0.5)	13.9	13.4
- Allowances for Employment	3.8	(6.2)	(2.4)
- Changes in Net Working Capital	(0.3)	-	(0.3)
- Other Mid-Long Term Assets/Liabilities	(2.8)	-	(2.8)
- Exchange Difference on Long Term Assets/Liabilities (included Financial Assets/Liabilities)	1.7	(0.6)	1.1
CASH FLOW FROM OPERATING ACTIVITIES :	85.5	(7.1)	78.4
Of which:			
- Tax Paid :	22.9	-	22.9
- Net Financial Interests Paid:	10.4	1.3	11.7
INVESTING ACTIVITIES			
Acquisition of Equity Investments	-	-	-
Net Financial Position of Subsidiaries Purchased/Sold	(0.2)	-	(0.2)
Purchase of Property, Plant and Equipment	(45.5)	1.0	(44.5)
Purchase of Intangible Assets	(13.4)	5.4	(8.0)
Net Change in other Financial Assets	5.0	-	5.0
Sale of Subsidiaries (Net of Cash and Cash Equivalent)	1.4	-	1.4
Sale of property, Plant and Equipment	9.3	-	9.3
Sale of Intangible Assets	-	-	-
Dividends Collected	0.1	-	0.1
CASH FLOW NET OF INVESTING ACTIVITIES	(43.3)	6.4	(36.9)
FINANCING ACTIVITIES			
Capital Increase in Consolidated Subsidiaries	0.9	(0.7)	0.2
Net Share Capital Change	2.6	-	2.6
Purchase of Treasury Stock	-	-	-
Dividends Paid from parent Company to Shareholders	(15.8)	-	(15.8)
Dividends Paid to Minority Interests	(1.1)	-	(1.1)
Accrued Costs for Stock Options	-	-	-
Exchange Difference on Equity/Minority	(1.4)	0.6	(0.8)
Issuance/Repayment of Convertible Bonds	-	-	-
Issuance/Repayment of Long Term Borrowing	17.5	0.8	18.3
Issuance/Repayment of Financial Leasing	(0.5)	-	(0.5)
Other Equity Movements	-	-	-
CASH FLOW NET OF FINANCING ACTIVITIES	2.2	0.7	2.9
(DECREASE) INCREASE OF CASH AND CASH EQUIVALENT	44.4	-	44.4
CASH AND CASH EQUIVALENT AT BEGINNING OF PERIOD	(5.7)	-	(5.7)
(DECREASE) INCREASE OF CASH AND CASH EQUIVALENT	44.4	-	44.4
CASH AND CASH EQUIVALENT AT THE END OF PERIOD	38.7	-	38.7

TABLE 7 BIS: RECONCILIATION OF THE 2004 CONSOLIDATED CASH FLOW STATEMENT BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IFRS (MANAGEMENT REPORTING FORMAT)

<i>(In millions of euro)</i>	Consolidated Annual Report SOGEFI	Adjustments IAS/IFRS	Consolidated Annual Report IAS/IFRS
Result for the Period	37.9	(7.9)	30.0
Minority Interests in the result for the Period	1.7	0.8	2.5
Depreciations, Amortizations, Write-downs and Revaluations	52.2	(7.1)	45.1
Net Change in Staff leaving indemnity and similar	3.8	(6.1)	(2.3)
Net Change in Other Allowances and Provisions	(0.5)	13.9	13.4
Result from Associated Companies	(0.2)	-	(0.2)
SELF-FINANCING	94.9	(6.4)	88.5
Changes in Net Working Capital	(0.3)	-	(0.3)
Changes in Other Long Term Assets and Liabilities	(2.7)	-	(2.7)
CASH FLOW GENERATED BY OPERATIONS	91.9	(6.4)	85.5
Sale of Equity Investments	1.4	-	1.4
Net Decrease from Sale of Assets	1.5	-	1.5
TOTAL SOURCES	94.8	(6.4)	88.4
Increase in Intangible Fixed Assets	13.4	(5.4)	8.0
Acquisitions of Tangible Fixed Assets	45.5	(1.0)	44.5
Acquisition of Equity Investments	-	-	-
TOTAL APPLICATION OF FUNDS	58.9	(6.4)	52.5
Net Financial Position of Subsidiaries Purchased/Sold in the Year	(0.2)	-	(0.2)
Exchange Difference on Long Term Assets/Liabilities and Shareholders' Equity	0.6	0.5	1.1
FREE CASH FLOW	36.3	0.5	36.8
Capital Increase of Parent Company	2.6	-	2.6
Capital Increase in Consolidated Subsidiaries	0.9	(0.7)	0.2
Dividends Paid by Parent Company	(15.8)	-	(15.8)
Dividends Paid to Minority Interests	(1.1)	-	(1.1)
Changes in Shareholders' Equity	(13.4)	(0.7)	(14.1)
CHANGE IN NET FINANCIAL POSITION	22.9	(0.2)	22.7
NET FINANCIAL POSITION AT THE BEGINNING OF THE PERIOD	(213.4)	(13.3)	(226.7)
NET FINANCIAL POSITION AT THE END OF THE PERIOD	(190.5)	(13.5)	(204.0)

TABLE 8: RECONCILIATION OF CONSOLIDATED SHAREHOLDERS' EQUITY FROM 1/1/2004 TO 1/1/2005 BETWEEN THE PREVIOUS ACCOUNTING PRINCIPLES AND IAS/IFRS

<i>(in millions of euro)</i>	Consolidated Shareholders' Equity 1/1/2004	Net Income 2004	Dividends and Other Movements	Consolidated Shareholders' Equity 31/12/2004	Adj. IAS 32/39	Consolidated Shareholders' Equity 1/1/2005
Consolidated Annual Report SOGEFI (Italian GAAP)	198.2	37.9	(14.0)	222.1		222.1
<u>Adjustments IAS/IFRS:</u>						
> IAS 38 – Intangible Assets	(3.6)	1.5		(2.1)		(2.1)
- Goodwill		5.7		5.7		5.7
- Start-up Costs	(1.9)	(3.8)		(5.7)		(5.7)
- Research and Development	(1.3)	(0.1)		(1.4)		(1.4)
- Other Intangible Assets	(1.2)	(0.4)		(1.6)		(1.6)
- Deferred Income Tax	0.8	0.1		0.9		0.9
> IAS 16 - Tangible Assets	1.6	(0.3)		1.3		1.3
- Adjustments Tangible Assets	1.3	(0.1)		1.2		1.2
- Deferred Income Tax	0.3	(0.2)		0.1		0.1
> IAS 37 – Restructuring and Other	12.4	(12.1)		0.3		0.3
- Restructuring Provisions	14.1	(14.3)		(0.2)		(0.2)
- Other Provisions	1.4	(0.7)		0.7		0.7
- Deferred Income Tax	(3.1)	2.9		(0.2)		(0.2)
> IAS 19 – Benefits for Employees	(15.1)	4.3		(10.8)		(10.8)
- Pension Funds/Employee Severance Indemnities (TFR)	(22.6)	6.2		(16.4)		(16.4)
- Deferred Income Tax	7.5	(1.9)		5.6		5.6
> IAS 17 - Leasing	(0.5)	(0.6)		(1.1)		(1.1)
- Assets	11.8			11.8		11.8
- Financial Liabilities	(12.5)			(12.5)		(12.5)
- Income Statement Impact		(0.7)		(0.7)		(0.7)
- Deferred Income Tax	0.2	0.1		0.3		0.3
> IAS 27 – Consolidated Financial Statements	(0.1)	(0.6)		(0.7)		(0.7)
> IAS 32 e 39 – Financial Instruments					(4.4)	(4.4)
- Treasury Stock					(3.8)	(3.8)
- Financial Instruments					(1.0)	(1.0)
- Deferred Income Tax					0.4	0.4
> IAS/IFRS Adjustments Attributable to Minority Interests	0.9	(0.1)		0.8		0.8
> Exchange Impact on IAS/IFRS	-	-	0.6	0.6		0.6
TOTAL IAS/IFRS Impact	(4.4)	(7.9)	0.6	(11.7)	(4.4)	(16.1)
Consolidated Annual Report IAS/IFRS	193.8	30.0	(13.4)	210.4	(4.4)	206.0

5. Analysis of the impacts of conversion to IAS/IFRS on consolidated shareholders' equity

- **IAS 38 – Intangible assets**

- *Goodwill:* the previous accounting principles provided for goodwill to be amortized. According to IAS/IFRS goodwill is considered an intangible asset with an indefinite useful life; it should therefore not be amortized, but subjected to periodic checks to verify whether it has lost any value (the so-called “Impairment Test”, IAS 36). In the consolidated financial statements at 1/1/2004, the total net value of goodwill (the sum of “Goodwill” and “Differences arising on consolidation”) was € 90.7 million (see "Intangible assets", page 9 of the consolidated balance sheet at 1/1/2004). In the 2004 income statement, there is € 5.7 million of amortization on goodwill charged in accordance with the previous accounting principles, which has been reversed in the income statement prepared according to IAS/IFRS (see "Depreciation and amortization", page 13 of the consolidated income statement)

The overall impact is to increase net intangible assets by € 5.7 million (see "Intangible assets", page 11 of the consolidated balance sheet at 31/12/2004), with a consequent increase in consolidated shareholders' equity at 31/12/2004.

Impairment tests were carried out to verify whether there was any reduction in the value of goodwill, following the procedure recommended by IAS 36. We used the method that involves discounting unlevered cash flows, based on forecasts for the period 2005-2008, as approved by management, and on a discounting rate of 6.2%, which reflects the average cost of capital. This cost of capital is essentially based on parameters for a group of firms operating in the European auto components sector which are considered by the leading sector analysts to be Sogefi's peers.

Our test based on the current value of the expected cash flows justifies a level of goodwill that is considerably higher than the amount shown in the balance sheet, so no write-down has been made.

- *Start-up costs:* the previous accounting principles provided for the capitalization of the costs incurred during the start-up phase of a business. Under IAS/IFRS, such costs can no longer be capitalized.

The principal impact concerns the costs incurred for the start-up of the new operating company Allevard Springs U.S.A. Inc. and its related production infrastructure, which was

begun in 2003 and completed in 2004. The extremely prudent approach taken by IAS/IFRS has entailed a € 1.9 million reduction in the intangible assets shown in the opening consolidated balance sheet at 1/1/2004 (see "Intangible assets", page 9 of the consolidated balance sheet at 1/1/2004), with a corresponding decrease in consolidated shareholders' equity and a € 3.8 million deterioration in the 2004 result due to the reversal of the start-up costs capitalized during the year, net of the amortization charge for the year (see "Manufacturing and R&D overheads", page 13 of the consolidated income statement, which increased by € 4.5 million and "Amortization" which decreased by € 0.7 million).

The overall impact is a € 5.7 million reduction in intangible assets (see "Intangible assets", page 11 of the consolidated balance sheet at 31/12/2004) with a consequent reduction in consolidated shareholders' equity at 31/12/2004.

- *Research and development*: the criteria previously used by SOGEFI for capitalizing R&D costs do not differ substantially from those laid down in IAS/IFRS. The main difference lies in the timing of capitalization. Under Italian GAAP, as soon as it was known that an R&D project had been assigned, the related costs were capitalized with retroactive effect from the start of the year. Under IAS/IFRS, such costs can only be capitalized once it is probable that the company will obtain future benefits. This moment in time has been identified by SOGEFI as the receipt of a binding letter from the customer involved in the project and without any retroactive effect even within the same financial year. The impact of this on the opening consolidated balance sheet at 1/1/2004 is a reduction in intangible assets of € 1.3 million (see "Intangible assets", page 9 of the consolidated balance sheet at 1/1/2004) with a corresponding reduction in consolidated shareholders' equity and a deterioration in the 2004 result of € 0.1 million (see "Manufacturing and R&D overheads" which increase by € 0.4 million and "Depreciation and amortization", page 13 of the consolidated income statement which decrease by € 0.3 million), the net of lower capitalizations and lower amortization of such costs.

The overall impact is a € 1.4 million reduction in intangible assets (see "Intangible assets" page 11 of the consolidated balance sheet at 31/12/2004), with a consequent reduction in consolidated shareholders' equity at 31/12/2004.

- *Other intangible assets*: these are essentially capitalized costs relating to the development of equipment not financed by car manufacturers, but recovered in the selling prices of the products made during the life cycle of the equipment in question. IAS/IFRS, with rather

excessive prudence in our opinion, do not allow such costs to be capitalized. This has led to a € 1.2 million reduction in intangible assets in the opening consolidated balance sheet (see "Intangible assets", page 9 of the consolidated balance sheet at 1/1/2004), with a corresponding decrease in consolidated shareholders' equity and a deterioration in the 2004 result of € 0.4 million (see "Manufacturing and R&D overheads", page 13 of the consolidated income statement).

The overall impact is a € 1.6 million reduction in intangible assets (see "Intangible assets", page 11 of the consolidated balance sheet at 31/12/2004) with a consequent reduction in consolidated shareholders' equity at 31/12/2004.

- *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS 16 – Property, plant and equipment***

Restatement of the useful life of property, plant and equipment according to IAS 16 did not have a significant impact, given that the previous accounting principles already provided for depreciation rates based on the assets' useful life.

The impact on the opening consolidated balance sheet (1/1/2004) is an increase in tangible assets of € 1.3 million (see "Property, plant and equipment" page 9 of the consolidated balance sheet at 1/1/2004) with a consequent increase in consolidated shareholders' equity, whereas the impact on the 2004 result is not significant (see "Depreciation and amortization", page 13 of the consolidated income statement)

The overall impact is to increase tangible assets by € 1.2 million (see "Property, plant and equipment", page 11 of the consolidated balance sheet at 31/12/2004), as a result also increasing consolidated shareholders' equity at 31/12/2004 by the same amount.

The main difference between the old and the new standards relates to land and buildings. The previous accounting principles allowed land and buildings to be booked as a single unit, with the result that land got depreciated; whereas, under IAS/IFRS, land has to be separated from buildings and not depreciated.

- *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS 37 – Restructuring and other provisions***

- *Restructuring provisions:* Sogefi used to provide for restructuring costs at the time that the restructuring plan was defined and approved by Group top management. This coincided with the provisions of IAS 37 which, though not obligatory, lays down that restructuring costs should only be provided for once the reorganization plans have been officially announced to all parties concerned.

The following restructuring provisions had been booked to the 2003 financial statements under the previous accounting principles.

a) € 9.9 million for the Filtration Division (€ 6 million for close of the Nottingham plant in the UK and € 3.9 million for other corporate reorganizations)

b) € 4.2 million for the restructuring of Sidergarda Mollificio Bresciano S.r.l.

Given that these restructurings were officially announced to all parties concerned during the course of 2004, the amounts were reversed out of the provisions in the opening consolidated balance sheet at 1/1/2004 (see "Long term provisions", page 10 of the consolidated balance sheet) with a consequent increase in consolidated shareholders' equity of € 14.1 million and charges to the 2004 consolidated income statement of € 14.3 million (see "Restructuring costs" of € 14 million and "Other non operating expenses (income)" of € 0.3 million), page 13 of the consolidated income statement). The difference between the opening consolidated shareholders' equity and the cost charged to the 2004 consolidated income statement is due to exchange differences.

The overall impact is an increase in restructuring provisions of € 0.2 million (see "Long term provisions", page 12 of the consolidated balance sheet) with a corresponding reduction in consolidated shareholders' equity at 31/12/2004).

- *Other provisions:* all other provisions for risks and charges shown in the consolidated financial statements prepared under the previous accounting principles have been reviewed in order to check whether all of the requisites of IAS 37 were complied with, in particular that each provision reflected a current obligation (legal or implicit), the consequence of a past event, and that it would probably be necessary to invest financial resources to comply with the obligation and that a reasonable estimate of the cost was available. We have therefore reversed out of the opening consolidated balance sheet at 1/1/2004 provisions of € 1.4 million (see "Long term provisions" and "Net trade receivables", pages 9 and 10 of the consolidated balance sheet) with a consequent increase in consolidated shareholders' equity.

This analysis has had a negative impact of € 0.7 million on the income statement (see "Manufacturing and R&D overheads", page 13 of the consolidated income statement).

The overall impact is a reduction in provisions of € 0.7 million (see "Long term provisions" and "Net trade receivables", page 11 and 12 of the consolidated balance sheet) with a corresponding increase in consolidated shareholders' equity at 31/12/2004.

- *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS 19 – Post-retirement benefits***

Italian law and GAAP do not specifically regulate the accounting treatment of long-term benefits to employees other than the allowance for employment termination indemnities. It was fairly widespread practice when dealing with problems not regulated by local GAAP to make reference to IAS, which as explained below do not require the recognition of actuarial differences below a certain threshold, while providing for the distribution of differences in excess of that threshold over the average working life of the current employees. The problem within the Sogefi Group is limited essentially to the pension funds of the UK affiliates for which, also in line with UK GAAP, pension fund deficits have not been provided for entirely because of the following considerations:

- a) being the balance between actualized future cash flows in and out of the company over the long and extremely long term, it was and is by its very nature subject to wide, continuous and at the same time unpredictable fluctuations;
- b) the impact on the income statement is, under normal circumstances, diluted over the foreseeable average residual working life of the employees concerned;
- c) the provision charged to the income statement, namely the contributions made to the pension fund, took into account not only the contractual obligations between the company and the fund, but also the trend in the deficit; this approach did in fact help reduce the impact mentioned in point b), while at the same time being appreciated for its objectivity, an aspect that was much more valued under the previous accounting principles than under IAS/IFRS.

On first time adoption of IAS/IFRS (1/1/2004), Sogefi has decided to accept the option offered by IFRS 1 to take full account of the actuarial deficits, increasing the long-term funds and reducing shareholders' equity.

Starting in 2004, Sogefi has applied the "corridor approach", which only takes into consideration actuarial differences that exceed 10% of the value of the assets invested or of the fund liabilities,

whichever is the larger, making pro quota provisions based on the residual average working life of the employees.

Consequently, the opening consolidated balance sheet shows an increase in long term provisions (see “Long term provisions” page. 10 of the consolidated balance sheet at 1/1/2004) of € 22.6 million (of which € 19 million to cover the deficits of the UK companies on total assets under management of € 87 million and € 3.3 million for the pension or similar funds of the other group companies) with a consequent reduction in consolidated shareholders' equity.

This decision is the fundamental reason for the reduction in Sogefi's consolidated equity under IAS/IFRS as opposed to the previous accounting principles.

The impact on the consolidated income statement for 2004, on the other hand, is positive for € 6.2 million (see consolidated income statement page 13: “Restructuring costs” decreased by € 4.5 million, “Administrative and general expenses” decreased by € 2.3 million and “Financial expenses (income), net” increased by € 0.6 million) mainly because of the following factors:

- a) after the announcement at the end of 2004 that the Nottingham plant (Filtrauto UK Ltd) was to be closed, under the previous accounting principles a provision had to be made to cover the deficit of € 4.3 million, as transferring the business to other Group facilities, located mainly in Wales, most of the workforce had to be laid off in the first few months of 2005, which meant spreading the deficit over an average residual working life of only a few months, no longer of a decade or two. Instead, this provision became redundant in the 2004 consolidated income statement prepared under IAS/IFRS, as the deficit has already been taken into consideration as a reduction in opening consolidated shareholders' equity at 1/1/2004.
- b) thanks to the positive trend in the pension funds during 2004, the operating and financial costs of the UK pension funds that are relevant for IAS/IFRS purposes, were € 1.9 million lower than the provisions made under the previous accounting principles.

As a result, the overall impact on consolidated shareholders' equity at the end of 2004 is negative for € 16.4 million.

- *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS 17 – Leasing***

We have reclassified as financial debts the leasing contracts for the plant used by Allevard Springs U.S.A. Inc. and the building used by Sogefi Filtration Ltd (Great Britain), which cannot be included

in the category of operating leases under IAS17, as the current value of the minimum payments due was similar to the economic value of the asset being leased, even though all of the other conditions required by the standards were complied with (above all, these contracts did not have a bargain-purchase option at the end of the lease term).

The impact on opening consolidated shareholders' equity at 1/1/2004, which was negative for € 0.7 million, refers exclusively to a building of SOGEFI Filtration Ltd (Great Britain) due to the lack of alignment between the net current value of the asset and the related financial liability (see "Property, plant and equipment", "Current portion of long term financial debts" and "Other long term financing", pages 9 and 10 of the consolidated balance sheet). The impact is greater on the opening consolidated net financial position which has deteriorated by € 12.5 million.

The impact on the 2004 consolidated income statement is negative for € 0.7 million, which reflects the depreciation and financial expenses of the two leasing contracts mentioned above, net of the reversal of the rental payments booked in accordance with the previous accounting principles (see "Depreciation and amortization" up by € 0.7 million, "Financial expenses (income)" up by € 1.2 million, and "Manufacturing and R&D overheads" down by € 1.2 million, on page 13 of the consolidated income statement).

The overall impact involved an increase in tangible fixed assets and financial liabilities (see "Property, plant and equipment", "Current portion of long term financial debts", "Other long term financing", pages 11 and 12 of the consolidated balance sheet at 31/12/2004) with a corresponding reduction of € 1.4 million in consolidated shareholders' equity at 31/12/2004 and a deterioration in the consolidated net financial position at 31/12/2004 of € 11.9 million.

- *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS 27 – Consolidated Financial Statements***

The opening consolidated financial statements (1/1/2004) prepared under the previous accounting principles included in shareholders' equity pertaining to minority interests the interest in Allevard Springs U.S.A. Inc. (€ 1.1 million) held by Simest S.p.A., while a memorandum account disclosed the Group's commitment to buy this interest on 30/6/2008.

Under IAS/IFRS, this commitment should already be considered a financial debt on the face of the balance sheet. The impact on the opening financial statements is an increase in long-term financial debts of € 1.1 million (see "Other long term financing" page 10 of the consolidated balance sheet), with a consequent negative impact on the opening consolidated net financial position at 1/1/2004 and a reduction in consolidated shareholders' equity of € 0.1 million, which is the difference

between the value of the portion due to Simest S.p.A. and the corresponding book net equity (see "Retained earning (accumulated losses)", "Other reserves" and "Minority interests" on page 10 of the consolidated balance sheet).

The impact on the consolidated income statement 2004 is negative for € 0.6 million which reflects the portion of losses incurred by Allevard Springs U.S.A. Inc. attributable to minority interests under the previous accounting principles and included in Sogefi's consolidated income statement after having accounted for the purchase of Simest S.p.A.'s portion according to IAS/IFRS (see "Loss (income) attributable to minority interests") page 13 of the consolidated income statement.

In the balance sheet at 31/12/2004 the increase in long term financial debts amounts to € 1.8 million (see "Other long term financing" page 12 of the consolidated balance sheet), whereas the increase compared with the commitment booked at 1/1/2004 reflects the subscription of Allevard Springs U.S.A. Inc.'s increases in capital by Simest S.p.A.

The overall impact results in a reduction in consolidated shareholders' equity at 31/12/2004 of € 0.7 million and a deterioration in the consolidated net financial position at 31/12/2004 of € 1.8 million (see "Retained earnings (accumulated losses)", "Other reserves", "Minority interests" and "Other long term financing" on page 12 of the consolidated balance sheet).

- ***IAS 32 and 39 – Financial instruments***

Sogefi has adopted IAS 32 and 39 from 1/1/2005, without retroactive application.

- *Treasury stock*: under the previous accounting principles, treasury stock was debited to financial assets and credited to shareholders' equity. IAS/IFRS do not allow treasury stock to be recorded in the balance sheet.

The treasury stock held for a value of € 3.8 million was therefore reversed out of the consolidated balance sheet at 1/1/2005. The overall impact was a reduction in financial assets of € 3.8 million (see "Equity investments in subsidiaries, associated and other companies" page 11 of the consolidated balance sheet) with a corresponding reduction in consolidated shareholders' equity at 1/1/2005.

- *Derivatives*: the impact of valuing interest rate hedging contracts (IRS) on medium term loans taken out by Sogefi S.p.A. at "fair value" was an increase in current financial liabilities for € 1.0 million (see "Bank overdrafts and other current loans", page 12 of the consolidated balance sheet) with a corresponding reduction in equity at 1/1/2005. There was an identical negative impact on the opening consolidated net financial position at 1/1/2005. Under the previous accounting principles, changes in value of financial instruments used for hedging

the exchange and interest risks on specific assets and liabilities in the balance sheet, were reflected in the income statement on an accruals basis. The amount of any hedging contracts and the economic burden on future years also had to be disclosed in the memorandum accounts.

– *Deferred income tax*: this is the tax effect of the matters explained above.

- ***IAS/IFRS adjustments to minority interests***

This item refers to the portion of the adjustments caused by adoption of IAS/IFRS attributable to minority interests.

The overall impact is an increase of € 0.8 million in consolidated shareholders' equity at 31/12/2004 (see "Retained earnings (accumulated losses)", "Other reserves" and "Minority interests", page 12 of the consolidated balance sheet at 31/12/2004).

- ***Exchange differences on IAS/IFRS adjustments***

These are the exchange differences relating to the various IAS/IFRS adjustments to the opening financial statements and the 2004 income statement, with an overall impact that increased consolidated shareholders' equity at 31/12/2004 by € 0.6 million.

- ***Stock options and other share-based payments (IFRS 2)***

To complete the general picture of the impacts of conversion to IAS/IFRS, we would like to point out that from 1/1/2005 the Sogefi Group is providing for the figurative cost of applying this standard.

The figurative annual cost in 2005 is € 0.4 million.

6. Analysis of impact of transition to IAS/IFRS on the net financial position

The following is a summary of the IFRS adjustments to the consolidated net financial position (table 6).

<i>(in millions of euro)</i>	1/1/2004	31/12/2004	1/1/2005
CONSOLIDATED NET FINANCIAL POSITION SOGEFI (Italian GAAP)	(213.4)	(190.5)	(190.5)
<u>Adjustments IAS:</u>			
- Leasing Contracts	(12.5)	(11.9)	(11.9)
- Financial Instruments			(1.0)
- Financing for Equity Investments Purchase	(1.1)	(1.8)	(1.8)
- Charges on Financing	0.3	0.2	0.2
TOTAL ADJUSTMENTS IAS/IFRS	(13.3)	(13.5)	(14.5)
CONSOLIDATED NET FINANCIAL POSITION IAS/IFRS	(226.7)	(204.0)	(205.0)

The main adjustment concerns the reclassification (discussed in paragraph 4) of the leasing contracts for the plant used by Allevar Springs U.S.A Inc. and a building used by Sogefi Filtration Ltd (Great Britain), which caused an increase in consolidated net financial debts of € 12.5 million in the opening balance sheets at 1/1/2004, which decreases to € 11.9 million at 31/12/2004.

The impact relating to derivatives, which was negative for € 1.0 million, concerns the valuation at "fair value" of the interest rate hedging contracts (IRS) in accordance with IAS 32 and 39, applied from 1/1/2005 (see paragraph 5 of "IAS 32 and 39 - Financial Instruments").

As regards "Loans for the purchase of equity investments", this concerns a commitment to buy the interest in Allevar Springs U.S.A. Inc. held by Simest S.p.A, with a related increase in debt (see paragraph 5 of "IAS 27 - Consolidated Financial Statements").

7. Analysis of impact of transition to IAS/IFRS on the cash flow statement

We have prepared a cash flow statement in the format recommended by IAS 7 (see page 14). However, Group management is of the opinion that this format is not suitable for the needs of a manufacturing group. We have therefore prepared another schedule (see page 15) which we believe

provides a better understanding of the Group's financial flows, while also being more in line with the cash flow statements presented in the consolidated financial statements of prior years.

The cash flow analysis for 2004 shows the changes that took place as a result of applying IAS/IFRS, as already described in section 5 "Analysis of the impacts of conversion to IAS/IFRS on consolidated shareholders' equity".

8. *SOGEFI S.p.A. – IFRS 1- Conversion to IAS/IFRS – Statutory Financial Statements*

Application of IFRS 1

SOGEFI S.p.A. (hereafter “SOGEFI”) has decided to take advantage of the possibility offered in Consob's Consultation Document 14990 of April 14, 2005, namely to apply IAS/IFRS in its statutory financial statements starting with the half-yearly report 2005: in other words, anticipating application compared with the instructions contained in Decree 38/05, which provides for obligatory adoption of IAS/IFRS in statutory financial statements from January 1, 2006.

The date of first time adoption of IAS/IFRS by SOGEFI is January 1, 2005; consequently, the financial statements for the year ending 31 December 2005 will be the first to be prepared according to the new accounting principles.

The "conversion" date is 1 January 2004, which is the date of the opening balance sheet prepared according to IAS/IFRS.

Given that this is the first time that international accounting principles are being applied, this document has been prepared in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards". It explains the impacts that the transition from Italian GAAP to IAS/IFRS has had on SOGEFI's balance sheet, income statement and cash flow statement.

SOGEFI has launched and managed the process of conversion to IAS/IFRS by activating and maintaining an ongoing dialogue with the independent auditors to ensure that they are kept constantly up-to-date on the outcome of analyses carried out, the options chosen and the decisions made.

Note that the valuation and measurement of accounting aggregates is based on the IAS/IFRS in force on the date of approval of the half-yearly report 2005 and on their current interpretation; we therefore cannot exclude that changes may be made during the course of 2005 or in the future which could involve amendments to the figures shown here, given the rapid and continuous evolution of the debate on IFRS during this transition phase.

Lastly, in accordance with Consob Circular DEM/5025723 of 15 April 2005, SOGEFI has appointed PricewaterhouseCoopers S.p.A. to audit the reconciliation schedules required by IFRS 1 and the main processes involved in the conversion to IFRS.

Application of the IFRS options

The following is an explanation of the decisions made by SOGEFI with regard to the optional exemptions foreseen by IFRS 1:

- *“fair value” for the valuation of property, plant and equipment*: The cost model has been chosen, rather than the fair value model, which involves restating the value of property, plant and equipment; these assets are therefore shown at historical cost, net of accumulated depreciation;
- *post-retirement benefits*: We have decided to recognize all of the cumulative actuarial differences as of the transition date, January 1, 2004. For subsequent periods, we have opted to use the "corridor approach" for all defined-benefit pension funds.
- *financial instruments*: We have adopted IAS 32 and 39 from January 1, 2005, without retroactive application.
- *stock options and other share-based payments*: We have decided to apply IFRS 2 from 1/1/2005 for instruments representing capital assigned after 7/11/2002;

Reconciliation of balance sheets and income statements

As regards the impacts of conversion to IAS/IFRS on the balance sheet and income statements, the main accounting items affected by significant adjustments compared with the previous accounting principles (Italian GAAP) are as follows:

- the accounting treatment of financial instruments in accordance with IAS 32 and 39, especially treasury stock;
- the accounting treatment of stock option plans, in accordance with IFRS 2;
- fixed assets, particularly as regards the separation of land and building.

The impacts on SOGEFI's balance sheet and income statement can be summarized very briefly as follows:

- shareholders' equity at 31/12/2004 increases by 1.5 million euro almost exclusively as a result of reversing the accumulated depreciation on land;
- applying IAS 32 and 39 at 1/1/2005 shareholders' equity decreases by 4.4 million euro compared with the situation at 31/12/2004, largely because of the reclassification of treasury stock;
- the change in the net result for 2004 is 0.1 million euro.

The following are the schedules of reconciliation and adjustment between local accounting principles (Italian GAAP) and the new reporting standards (IAS/IFRS), as required by IFRS 1, relating to the income statement, balance sheet and cash flow statement:

- opening situation at 1/1/2004;
- at 31/12/2004;
- at 1/1/2005 (as a result of applying IAS 32 and 39)

The reconciliation schedules are also accompanied by notes that explain the qualitative and quantitative adjustments brought about by conversion to IAS/IFRS.

Summary reconciliation of shareholders' equity (IFRS 1, p45b)

(in thousands of euro)	1/1/2004	31/12/2004	1/1/2005 (1)
SHAREHOLDERS' EQUITY – ITALIAN GAAP	161,336	170,233	171,766
a) Adjustment for intangible assets	(65)	(91)	-
b) Adjustment for fixed assets	1,427	1,536	-
c) Employment termination indemnities	31	86	-
d) Valuation of securities and cash flow hedging instruments at fair value	-	-	(915)
e) Treasury stock	-	-	(3,762)
f) Taxes on items booked directly to shareholders' equity	11	2	310
TOTAL ADJUSTMENTS	1,404	1,533	(4,367)
SHAREHOLDERS' EQUITY – IAS/IFRS	162,740	171,766	167,399

(1) – situation at 31/12/2004

Summary reconciliation of net result (IFRS 1, p45b)

(in thousands of euro)	2004
NET RESULT – ITALIAN GAAP	22,120
a) Adjustment to staff leaving indemnities	55
b) Depreciation and amortization	83
c) Taxes	(9)
TOTAL ADJUSTMENTS	129
NET RESULT – IAS/IFRS	22,249

Reconciliation of the balance sheet at 1/1/2004 (IFRS 1, p39a)i) and IFRS 1, p45b)

(in thousands of euro)	<i>Italian GAAP</i> <i>01/01/2004</i>	<i>Adjustments</i> <i>IAS/IFRS</i>	<i>IAS/IFRS</i> <i>01/01/2004</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2,503	-	2,503
Securities and financial assets held for trading	-	-	-
Loans and financial receivables similar to loans	15,200	-	15,200
WORKING CAPITAL			
Inventories	-	-	-
Trade receivables	406	-	406
Other receivables	53	-	53
Receivables from tax authorities	8,868	-	8,868
Other current assets	291	-	291
TOTAL WORKING CAPITAL	9,618	-	9,618
TOTAL CURRENT ASSETS	27,321	-	27,321
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	45	3,661	3,706
Property, plant and equipment	9,093	(2,234)	6,859
Other tangible fixed assets	55	-	55
<i>of which: leasing</i>	-	-	-
Intangible assets	445	(356)	89
TOTAL FIXED ASSETS	9,638	1,071	10,709
OTHER NON-CURRENT ASSETS			
Equity investments in subsidiaries	221,707	1,064	222,771
Equity investments in associated companies	1,441	-	1,441
Other financial assets available for sale	3,765	-	3,765
Loans and financial receivables similar to loans	66,102	-	66,102
Long term trade receivables	1	-	1
Deferred tax assets	-	-	-
<i>of which: leasing</i>	-	-	-
TOTAL OTHER NON-CURRENT ASSETS	293,016	1,064	294,080
TOTAL NON-CURRENT ASSETS	302,654	2,135	304,789
TOTAL ASSETS	329,975	2,135	332,110

Reconciliation of the balance sheet at 1/1/2004 (cont.)

(in thousands of euro)	<i>Italian GAAP</i> <i>01/01/2004</i>	<i>Adjustments</i> <i>IAS/IFRS</i>	<i>IAS/IFRS</i> <i>01/01/2004</i>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Bank overdrafts and other current loans	-	-	-
Current portion of long term financial debts	-	-	-
<i>of which: leasing</i>	-	-	-
TOTAL SHORT-TERM FINANCIAL DEBTS	-	-	-
Trade and other payables	2,377	-	2,377
Tax payables	724	-	724
Other current liabilities	1,170	-	1,170
TOTAL CURRENT LIABILITIES	4,271	-	4,271
NON-CURRENT LIABILITIES			
LONG TERM FINANCIAL DEBTS			
Bonds	80,000	(159)	79,841
Financial debts to bank	82,600	(132)	82,468
Other long term financing	-	1,064	1,064
<i>of which: leasing</i>	-	-	-
TOTAL LONG-TERM FINANCIAL DEBTS	162,600	773	163,373
OTHER LONG-TERM LIABILITIES			
Long-term provisions	1,123	(31)	1,092
Other long-term payables	581	-	581
Deferred tax liabilities	64	(11)	53
TOTAL OTHER LONG-TERM LIABILITIES	1,768	(42)	1,726
TOTAL NON-CURRENT LIABILITIES	164,368	731	165,099
SHAREHOLDERS' EQUITY			
Share capital	56,773	-	56,773
Retained earnings (accumulated losses)	87,463	1,404	88,867
Net income (loss) for the year	17,100	-	17,100
TOTAL SHAREHOLDERS' EQUITY	161,336	1,404	162,740
TOTAL LIABILITIES AND EQUITY	329,975	2,135	332,110

Reconciliation of the net result for the year 2004 (IFRS 1, p39b)

(in thousands of euro)	ITALIAN GAAP 2004	Adjustments IAS/IFRS	IAS/IFRS 2004
VALUE OF PRODUCTION			
Sales revenues	6,521	-	6,521
Other revenues and income	1,364	-	1,364
TOTAL VALUE OF PRODUCTION	7,885	-	7,885
PRODUCTION COSTS			
Raw, ancillary and consumable materials and goods for resale	-	-	-
Services received	4,921	(40)	4,881
Leases and rentals	469	-	469
Personnel:			
a) wages and salaries	3,210	-	3,210
b) social security payments	938	-	938
c) employment termination indemnities	218	(80)	138
e) other costs	91	-	91
Depreciation, amortization and writedowns			
a) amortization	267	(196)	71
b) depreciation	531	(110)	421
Provisions for risks	-	-	-
Other provisions	500	-	500
Other operating expenses	1,041	-	1,041
TOTAL PRODUCTION COSTS	12,186	(426)	11,760
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	(4,301)	426	(3,875)
FINANCIAL INCOME AND EXPENSES			
Investment income			
- from subsidiaries	31,898	-	31,898
Other financial income			
- from subsidiaries	5,613	-	5,613
- from others	144	-	144
Interest and other financial charges			
- from others	7,098	288	7,386
Exchange gains (losses)	(401)	-	(401)
TOTAL FINANCIAL INCOME AND EXPENSES	30,156	(288)	29,868

Reconciliation of the net result for the year 2004 (cont.)

	<i>ITALIAN GAAP 2004</i>	<i>Adjustments IAS/IFRS</i>	<i>IAS/IFRS 2004</i>
ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
Revaluations	-	-	-
Write-downs	-	-	-
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	-	-	-
NON OPERATING INCOME AND EXPENSES			
Income			
- gains on equity investments	3,279	-	3,279
Charges			
- losses on equity investments	6,695	-	6,695
NON OPERATING INCOME (LOSS)	(3,416)	-	(3,416)
INCOME BEFORE TAXES	22,439	138	22,577
Income taxes	319	9	328
NET INCOME	22,120	129	22,249

Reconciliation of the balance sheet at 31/12/2004 (IFRS 1 p39a)ii) and IFRS 1 p36A)

(in thousands of euro)	<i>Italian GAAP 31/12/2004</i>	<i>Adjustments IAS/IFRS</i>	<i>IAS/IFRS 31/12/2004</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	12,299	-	12,299
Securities and financial assets held for trading	5,203	-	5,203
Loans and financial receivables similar to loans	73,359	-	73,359
WORKING CAPITAL			
Inventories	-	-	-
Trade receivables	8,973	-	8,973
Other receivables	121	-	121
Tax credits	451	-	451
Other assets	274	-	274
TOTAL WORKING CAPITAL	9,819	-	9,819
TOTAL CURRENT ASSETS	100,680	-	100,680
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	45	3,661	3,706
Property, plant and equipment	8,683	(2,125)	6,558
Other tangible fixed assets	138	-	138
<i>of which: leasing</i>	-	-	-
Intangible assets	308	(257)	51
TOTAL FIXED ASSETS	9,174	1,279	10,453
OTHER NON-CURRENT ASSETS			
Equity investments in subsidiaries	175,607	1,824	177,431
Equity investments in associated companies	-	-	-
Other financial assets available for sale	3,765	-	3,765
Loans and financial receivables similar to loans	91,800	-	91,800
Long-term trade receivables	1	-	1
Deferred tax assets	-	-	-
<i>of which: leasing</i>	-	-	-
TOTAL OTHER NON-CURRENT ASSETS	271,173	1,824	272,997
TOTAL NON-CURRENT ASSETS	280,347	3,103	283,450
TOTAL ASSETS	381,027	3,103	384,130

Reconciliation of the balance sheet at 31/12/2004 (cont.)

(in thousands of euro)	<i>Italian GAAP</i> 31/12/2004	<i>Adjustments</i> IAS/IFRS	<i>IAS/IFRS</i> 31/12/2004
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Bank overdrafts and other current loans	5	-	5
Current portion of long term financial debts	80,023	(78)	79,945
<i>of which: leasing</i>	-	-	-
TOTAL SHORT-TERM FINANCIAL DEBTS	80,028	(78)	79,950
Trade and other payables	2,860	-	2,860
Tax payables	700	-	700
Other current liabilities	942	-	942
TOTAL CURRENT LIABILITIES	84,530	(78)	84,452
NON-CURRENT LIABILITIES			
LONG-TERM FINANCIAL DEBTS			
Financial debts to banks	124,820	(88)	124,732
Other long-term financial debts	-	1,824	1,824
<i>of which leasing</i>	-	-	-
TOTAL LONG-TERM FINANCIAL DEBTS	124,820	1,736	126,556
OTHER LONG-TERM LIABILITIES			
Long-term provisions	1,297	(86)	1,211
Other long-term payables	116	-	116
Deferred tax liabilities	31	(2)	29
TOTAL OTHER LONG-TERM LIABILITIES	1,444	(88)	1,356
TOTAL NON-CURRENT LIABILITIES	126,264	1,648	127,912
SHAREHOLDERS' EQUITY			
Share capital	57,656	-	57,656
Retained earnings (accumulated losses)	90,457	1,404	91,861
Net income (loss) for the year	22,120	129	22,249
TOTAL SHAREHOLDERS' EQUITY	170,233	1,533	171,766
TOTAL LIABILITIES AND EQUITY	381,027	3,103	384,130

Reconciliation of the balance sheet at 1/1/2005 (IFRS 1 p39a)ii) and IFRS 1 p36A)

(in thousands of euro)	IAS/IFRS 31/12/2004	Adjustments IAS 32/39	Statutory Financial Statements IAS/IFRS 01/01/2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	12,299	-	12,299
Securities and financial assets held for trading	5,203	25	5,228
Loans and financial receivables similar to loans	73,359	-	73,359
WORKING CAPITAL			
Inventories	-	-	-
Trade receivables	8,973	-	8,973
Other receivables	121	-	121
Tax credits	451	-	451
Other assets	274	-	274
TOTAL WORKING CAPITAL	9,819	-	9,819
TOTAL CURRENT ASSETS	100,680	25	100,705
NON-CURRENT ASSETS			
FIXED ASSETS			
Land	3,706	-	3,706
Property, plant and equipment	6,558	-	6,558
Other tangible fixed assets	138	-	138
<i>of which: leasing</i>	-	-	-
Intangible assets	51	-	51
TOTAL FIXED ASSETS	10,453	-	10,453
OTHER NON-CURRENT ASSETS			
Equity investments in subsidiaries	177,431	-	177,431
Equity investments in associated companies	-	-	-
Other financial assets available for sale	3,765	(3,762)	3
Loans and financial receivables similar to loans	91,800	-	91,800
Long-term trade receivables	1	-	1
Deferred tax assets	-	281	281
<i>of which: leasing</i>	-	-	-
TOTAL OTHER NON-CURRENT ASSETS	272,997	(3,481)	269,516
TOTAL NON-CURRENT ASSETS	283,450	(3,481)	279,969
TOTAL ASSETS	384,130	(3,456)	380,674

Reconciliation of the balance sheet at 1/1/2005 (cont.)

(in thousands of euro)	IAS/IFRS 31/12/2004	Adjustments IAS 32/39	Statutory Financial Statements IAS/IFRS 01/01/2005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Bank overdrafts and other current loans	5	-	5
Current portion of long term financial debts	79,945	224	80,169
<i>of which: leasing</i>	-	-	-
TOTAL SHORT-TERM BANK BORROWINGS	79,950	224	80,174
Trade and other long term payables	2,860	-	2,860
Tax payables	700	-	700
Other current liabilities	942	-	942
TOTAL CURRENT LIABILITIES	84,452	224	84,676
NON-CURRENT LIABILITIES			
LONG-TERM FINANCIAL DEBTS			
Financial debts to banks	124,732	-	124,732
Other long-term financial debts	1,824	716	2,540
<i>of which: leasing</i>	-	-	-
TOTAL LONG-TERM FINANCIAL DEBTS	126,556	716	127,272
OTHER LONG-TERM LIABILITIES			
Long-term provisions	1,211	-	1,211
Other long-term payables	116	-	116
Deferred tax liabilities	29	(29)	-
TOTAL OTHER LONG-TERM LIABILITIES	1,356	(29)	1,327
TOTAL NON-CURRENT LIABILITIES	127,912	687	128,599
SHAREHOLDERS' EQUITY			
Share capital	57,656	(882)	56,774
Retained earnings (accumulated losses)	91,861	(3,485)	88,376
Net income (loss) for the year	22,249	-	22,249
TOTAL SHAREHOLDERS' EQUITY	171,766	(4,367)	167,399
TOTAL LIABILITIES AND EQUITY	384,130	(3,456)	380,674

Reconciliation of the cash flow statement for the year 2004 (IFRS 1 p45a)ii)

(in thousands of euro)	<i>Italian GAAP</i>	<i>Adjustments IAS/IFRS</i>	<i>IAS/IFRS 2004</i>
SELF-FINANCING	23,058	(223)	22,835
Change in net working capital	28	-	28
Other medium/long term assets/liabilities	(467)	-	(467)
CASH FLOW GENERATED BY OPERATIONS	22,619	(223)	22,396
Sale of equity investments	75,467	-	75,467
Decreases in tangible and intangible fixed assets	27	-	27
TOTAL SOURCES OF FUNDS	98,113	(223)	97,890
Purchase of tangible and intangible fixed assets	361	(98)	263
Purchase of equity investments	27,923	760	28,683
TOTAL SOURCES	28,284	662	28,946
FREE CASH FLOW	69,829	(885)	68,944
Parent Company increases in capital	2,555	-	2,555
Dividends distributed by the Parent Company	(15,777)	-	(15,777)
CHANGES IN SHAREHOLDERS' EQUITY	(13,222)	-	(13,222)
Change in net financial position	56,607	(885)	55,722
Opening net financial position	(78,795)	(773)	(79,568)
CLOSING NET FINANCIAL POSITION	(22,188)	(1,658)	(23,846)

Reconciliation of the net financial position from 1/1/2004 to 1/1/2005 between Italian GAAP and IAS/IFRS

(in thousands of euro)

	1/1/2004	31/12/2004	1/1/2005
NET FINANCIAL POSITION (Italian GAAP)	(78,795)	(22,188)	(22,188)
IAS/IFRS adjustments:			
Derivatives and securities	-	-	(915)
Loan for the purchase of equity investments	(1,064)	(1,824)	(1,824)
Loan charges	291	166	166
TOTAL IFRS ADJUSTMENTS	(773)	(1,658)	(2,573)
NET FINANCIAL POSITION (IAS/IFRS)	(79,568)	(23,846)	(24,761)

Explanatory notes on the reconciliation schedules

- ***IAS 16 – Property, plant and equipment***

Restatement of the useful life of property, plant and equipment according to IAS 16 did not have a significant impact, given that Italian GAAP already provided for depreciation rates based on the assets' useful life. The main difference between the old and the new standards relates to land and buildings. Italian GAAP allowed land and buildings to be booked as a single unit, with the result that land got depreciated; whereas, under IAS/IFRS, land has to be separated from buildings and not depreciated.

The impact on the opening balance sheet (1/1/2004) is an increase in property, plant and equipment of € 1.4 million, also increasing consolidated shareholders' equity by the same amount, whereas the impact on the result for 2004 is not significant.

- ***IAS 19 – Post-retirement benefits***

Italian law and GAAP do not specifically regulate the accounting treatment of long-term benefits to employees other than the allowance for employment termination indemnities. It was fairly widespread practice when dealing with problems not regulated by local GAAP to make reference to IAS, which as explained below do not require the recognition of actuarial differences below a certain threshold, while providing for the distribution of differences in excess of that threshold over the average working life of the current employees.

On first time adoption of IAS/IFRS (1/1/2004), SOGEFI has decided to accept the option offered by IFRS 1 to take full account of the actuarial deficits, increasing the long-term funds and reducing shareholders' equity.

Starting in 2004, SOGEFI has applied the "corridor approach", which only takes into consideration actuarial differences that exceed 10% of the value of the assets invested or of the fund liabilities, whichever is the larger, making pro quota provisions based on the residual average working life of the employees.

- ***IAS 32 and 39 – Financial instruments***

Sogefi has adopted IAS 32 and 39 from 1/1/2005, without retroactive application.

- *Treasury stock*: under Italian GAAP, treasury stock was debited to financial assets and credited to shareholders' equity. IAS/IFRS do not allow treasury stock to be recorded in the balance sheet.

The treasury stock held for a value of € 3.8 million was therefore reversed out of the balance sheet at 1/1/2005. The overall impact was a reduction in financial assets of € 3.8 million with a corresponding reduction in shareholders' equity at 1/1/2005.

- *Derivatives*: the impact of valuing interest rate hedging contracts (IRS) on medium term loans taken out by SOGEFI S.p.A. at "fair value" was an increase in current financial liabilities for € 1 million with a corresponding reduction in shareholders' equity at 1/1/2005. There was an identical negative impact on the opening net financial position at 1/1/2005. Under Italian GAAP, changes in value of financial instruments used for hedging the exchange and interest risks on specific assets and liabilities in the balance sheet, were reflected in the income statement on an accruals basis. The amount of any hedging contracts and the economic burden on future years also had to be disclosed in the memorandum accounts.

- ***IAS 12 – Deferred taxation***

IAS/IFRS lay down that deferred tax has to be calculated on the taxable timing (or temporary) differences between the book value of assets and liabilities and their value for tax purposes. A deferred tax asset has to be recognized if it is probable that there will be sufficient taxable income against which the deductible timing difference can be offset.

Sogefi has recognized deferred tax assets and liabilities during the process of conversion to IAS/IFRS and on application of IAS 32 and 39 at 1/1/2005.

Auditor's Report on the IFRS Reconciliation Schedules illustrating the impact of the transition to International Financial Reporting Standards (IFRS)

To the Board of directors of
Sogefi SpA

1. We have audited the accompanying Reconciliation Schedules, comprising the consolidated balance sheets as of 1 January 2004 and 31 December 2004 and the consolidated income statement for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules"), of Sogefi SpA and related notes, presented in section "Transition to IAS / IFRS: consolidated and statutory financial statements of Sogefi SpA for 2004 – accounting schedules and explanatory notes" of the half-yearly financial report as of 30 June 2005. The aforementioned IFRS Reconciliation Schedules have been derived from the statutory and the consolidated financial statements of Sogefi SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our reports on 15 March 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of Sogefi SpA's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report taken as a whole, have been drawn up in compliance with the criteria and standards set out in article 81 of Regulation No. 11971/1999 adopted by CONSOB with its Deliberation No. 14990 of 14 April 2005.

4. We draw attention to the fact that, as illustrated in the explanatory notes, the IFRS Reconciliation Schedules have been prepared on the basis of the International Financial Reporting Standards presently in force. The values included therein could be subject to adjustment should any International Financial Reporting Standard be revised or amended before separate and consolidated financial statements of Sogefi S.p.A. as of 31 December 2005 are published.

Milan, 28 July 2005

PricewaterhouseCoopers SpA

Ezio Bassi
(Partner)

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