

**REPORT OF THE BOARD OF DIRECTORS ON
OPERATIONS AS OF MARCH 31, 2004**

2004 opened without confirmation of the expected signs of a recovery in demand on the world automotive market, whereas there are worrying price tensions for certain raw materials, steel in particular.

In Europe, the Group's main reference market, the economy is still seriously stagnant with consumers very reluctant to spend. As a result, the trend for the European automotive market in first quarter 2004 remained much the same as at the end of 2003, with new vehicle registrations improving by 3% on the equivalent period in 2003. Business is going better in the Mercosur area, where manufacturers are using their production capacity to the full to export a growing proportion of the vehicles built locally to NAFTA and European markets.

The filters aftermarket has not changed radically from first quarter 2003, confirming the cyclical weakness in demand that is seen at the beginning of each new year.

In this situation, where there have been no symptoms of inflation, steel prices shot up, as did the prices of ferrous metals in general, with a simultaneous reduction in their availability. The origin of the problem lies in China, where the economy is absorbing huge quantities of scrap and carbon coke, not to mention maritime freight capacity, altering the previous market equilibrium.

The negative impact of this trend in raw material prices was modest during the first quarter, but as the year continues it could become very significant if these price rises continue and passing on higher costs to selling prices becomes a problem.

Confirming the continuous improvement in our market shares in both of sectors of activity, in the first three months of 2004, the Group made consolidated sales of € 240.5 million, +7.7% on € 223.3 million in the same period last year.

This increase in the cost of ferrous metals did not prevent an improvement in operating profitability in all the main businesses.

The consolidated gross operating margin (EBITDA) amounted to € 33.5 million in the quarter, compared with € 30.9 million in the same period of 2003. This is 13.9% of sales compared with 13.8% in 2003.

Group operating income (EBIT) improved by 13.9% coming in at € 19.7 million, versus € 17.3 million in the first quarter of 2003, being 8.2% of sales compared with 7.7% in 2003. This result was made possible thanks to the full benefits of the rationalizations carried out in 2003, in addition to the higher business volumes.

Income before taxes and minority interests was helped by a capital gain of € 1.4 million as a result of the sale of the interest in Immobiliare Regis S.r.l. for € 2.4 million. After a provision of € 1 million for future restructuring costs of Sidergarda Mollificio Bresciano S.r.l. and a reduction in financial expenses from € 3.1 million to € 2.8 million, net income in the first three months of 2004 totals € 17 million, an increase of 26.6% compared with € 13.4 million in the first quarter of 2003.

Group consolidated net income rose by 16% passing from € 7.1 million (3.2% of sales) in the first quarter of 2003 to € 8.3 million (3.4% of sales).

At March 31, 2004 net financial indebtedness amounted to € 225.9 million, higher compared with € 213.4 million at December 31, 2003 due to the cyclical growth in payables which occurs in the first few months of each year, but lower compared with € 250.6 million at March 31, 2003.

Consolidated shareholders' equity, including minority interests, at March 31, 2004 was of € 227.7 million compared with € 212.6 million at December 31, 2003 and € 205.7 million at March 31 of the previous year.

The Group workforce increased during the period because of higher production volumes and now totals 6,612 persons compared with 6,548 at the end of 2003 and 6,667 at March 31, 2003.

PERFORMANCE OF THE FILTRATION DIVISION

In first quarter 2004 the filtration division showed an improvement in sales of 6.8% thanks to the growth in market share by ecological oil and diesel filtration systems, in addition to the excellent performance in Brazil and Argentina.

Consolidated revenues amounted to 128.4 million euro with respect to 120.2 million in the first quarter of 2003.

Despite the higher proportion of raw material costs, the filtration division still managed to improve its profitability.

The consolidated gross operating margin (EBITDA) amounted to € 17.1 million (13.3% of sales) compared with € 16.1 million (13.4% of sales) in the first quarter of 2003, an increase of 6.5%.

Consolidated operating income (EBIT) has similarly grown to € 11.4 million (8.9% of sales) compared with € 10.3 million (8.6% of sales) in the first quarter of 2003.

Corporate restructuring in the filtration area continued during the quarter, reducing the number of companies operating in this sector from 26 to 14. After the transfer of direct control over all of the European subsidiaries of Sogefi Filtration to Sogefi S.p.A. in December 2003, the following steps were taken during the quarter:

- the sale of the investment in Filtrauto B.V. from Filtrauto UK Ltd to Sogefi Filtration B.V.;
- transfer of the investment in Filtrauto UK Ltd from Filtrauto S.A. to Sogefi Filtration UK Ltd;
- sale of the interest in Filtrauto d.o.o. (Slovenjia) from Filtrauto S.A. to Sogefi S.p.A.;
- sale of the investment in Sogefi International B.V. from Sogefi S.p.A. to Sogefi Filtration S.A. (Spain)
- the elimination of Filtrauto Ireland Ltd.

The following steps have also been commenced:

- the merger of Filtrauto Italia S.r.l. and Sogefi Filtration S.p.A.;
- the merger of Filtrauto S.A., Efficiencia S.A. and Sogefi Filtration S.A.;
- the merger of Filtrauto Iberica S.A. and Sogefi Filtration S.A..

These mergers should be completed this summer.

PERFORMANCE OF THE SUSPENSION COMPONENTS AND PRECISION SPRINGS DIVISION

In the first quarter of 2004, the suspension components division also saw a remarkable increase in its sales volume in an European original equipment market by a substantially flat trend.

Group net sales amount to € 112.1 million, an increase of 9.4% compared with € 102.4 million in the first quarter of 2003. Turnover is rising both in the auto sector (+9.9%) and in the industrial vehicles sector (+8.2%) benefiting from the success of the “stabilinker” product line. On the other hand, there has been a slight reduction in precision springs.

Consolidated gross operating margin (EBITDA) came in at € 17.7 million, increasing by 14.5% compared with € 15.4 million in the first quarter of 2003. As a percentage of sales this has gone from 15.1% last year to 15.8% (13.8% reported by the industrial vehicle suspension components on its own).

Consolidated operating income (EBIT) of € 10.8 million, also progressed by 21.5% versus € 8.9 million in the first quarter of the previous year.

As a percentage of sales it was 9.6% versus 8.7% in the first three months of 2003.

The results of the companies operating on the Italian market (Rejna S.p.A. and Sidergarda Mollificio Bresciano S.r.l.) are still unsatisfactory, being more affected by the crisis at FIAT and IVECO and their procurement policies that require prices that are barely compatible with our profitability targets. Customers have been asked for higher selling prices due to the increase in steel costs, to avoid margins being eroded.

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

In first quarter 2004 Sogefi S.p.A achieved net income of € 5.2 million, which is a considerable improvement on the loss of € 1.1 million in the same period last year.

The result benefits from a € 1.4 million capital gain on the disposal of the investment in Immobiliare Regis S.r.l., from the booking € 4 million of dividends from the German subsidiary LPDN and the capital gain of € 1.9 million from the sale of the investment in Sogefi International B.V. to Sogefi Filtration S.A. (Spain).

OUTLOOK FOR THE REST OF THE YEAR

Faced with the anomalous increase in raw material prices, the Sogefi Group is taking various initiatives to neutralize their effect by adjusting selling prices, to be agreed with customers.

The positive outcome of these initiatives, together with the hoped-for decline in tensions on the raw material market and confirmation of the current trend in sales volumes should make it possible to maintain for the whole of the year the positive levels of profitability achieved in first quarter 2004.

ACCOUNTING SCHEDULES

RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

(in thousands of euro)	1st Quarter 2004		1st Quarter 2003		Change	
	amount	%	amount	%	amount	%
Sales revenues	240,468	100.0	223,267	100.0	17,201	7.7
Cost of production	175,631	73.0	163,498	73.2	12,133	7.4
GROSS INDUSTRIAL INCOME	64,837	27.0	59,769	26.8	5,068	8.5
Sales costs, R&D, overheads and administrative costs	45,150	18.8	42,483	19.1	2,667	6.3
OPERATING INCOME	19,687	8.2	17,286	7.7	2,401	13.9
Financial expenses, net	(2,836)	(1.2)	(3,122)	(1.4)	286	9.2
Income from equity investments	1,487	0.6	--	--	1,487	--
Miscellaneous income (expenses), net	(178)	(0.1)	98	--	(276)	(281.6)
Extraordinary expenses, net	(1,150)	(0.4)	(831)	(0.3)	(319)	(38.4)
INCOME BEFORE TAXES AND MINORITY INTERESTS	17,010	7.1	13,431	6.0	3,579	26.6
Income taxes for the period	8,036	3.4	5,803	2.6	2,233	38.5
INCOME BEFORE MINORITY INTERESTS	8,974	3.7	7,628	3.4	1,346	17.6
Loss (income) attributable to minority interests	(713)	(0.3)	(505)	(0.2)	(208)	(41.2)
NET INCOME FOR THE PERIOD	8,261	3.4	7,123	3.2	1,138	16.0

NET FINANCIAL POSITION

(in thousands of euro)	Situation as of 3.31.2004	Situation as of 12.31.2003	Situation as of 3.31.2003
Cash, banks, financial receivables and marketable securities	42,088	43,033	68,796
Medium/long term investments	38	38	40
Short-term borrowings (*)	(53,554)	(67,140)	(123,550)
Medium/long-term debt	(214,457)	(189,379)	(195,873)
NET FINANCIAL DEBT	(225,885)	(213,448)	(250,587)

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

COMMENTS ON THE ACCOUNTING SCHEDULES

The accounting and consolidation principles used in preparing these accounting schedules are consistent with those applied to the consolidated financial statements as of December 31, 2003.

In particular, the accounting schedules do not contain estimated figures, except for the inventory provisions for obsolete or slow-moving goods, or those made to write down the face value of receivables to their estimated realizable value and to update the amount of provisions for risks and charges, based on accounting principles and methods that are consistent with those used in preparing the consolidated financial statements as of December 31, 2003.

Changes in the Group share of shareholders' equity and in total shareholders' equity in the first quarter 2004 were as follows:

(in thousands of euro)	Consolidated shareholders' equity - Group	Capital and reserves pertaining to minority interests	Total Group and minority shareholders' equity
Balance as of December 31, 2003	198,161	14,443	212,604
Increase in share capital	1,023	735	1,758
Exchange gains	4,123	201	4,324
Net income for the period	8,261	713	8,974
Balance as of March 31, 2004	211,568	16,092	227,660

Sales amounted to Euro 240.5 million against 223.3 million in first quarter 2003. The increase of € 17.2 million is mainly due to the growing market shares in engine oil and diesel filtration systems and the success of the “stabilinker” product line.

The breakdown of sales by business sector is as follows:

(in millions of euro)	1st Quarter 2004		1st Quarter 2003		Change
	amount	%	amount	%	%
Filters	128.4	53.4	120.2	53.8	6.8
Suspension components	112.1	46.6	102.4	45.9	9.4
Other	--	--	0.7	0.3	--
TOTAL	240.5	100.0	223.3	100.0	7.7

The breakdown of sales by geographical area is the following:

(in millions of euro)	1st Quarter 2004		1st Quarter 2003		Change
	amount	%	amount	%	%
France	72.0	29.9	68.6	30.7	4.3
Italy	33.0	13.7	35.6	16.0	(7.4)
Great Britain	31.6	13.1	32.4	14.5	(2.5)
Other European countries	81.2	33.8	67.4	30.2	20.5
Mercosur	16.8	7.0	14.4	6.4	16.9
China	0.6	0.3	0.9	0.4	(32.2)
Rest of the World	5.3	2.2	4.0	1.8	32.4
TOTAL	240.5	100.0	223.3	100.0	7.7

At March 31, 2004 the Group had 6,612 employees compared with 6,548 at December 31, 2003 and 6,667 at March 31, 2003, broken down as follows:

	Situation as of 3.31.2004	Situation as of 12.31.2003	Situation as of 3.31.2003
Managers	103	107	112
Clerical staff	1,543	1,559	1,585
Blue collar workers	4,966	4,882	4,970
TOTAL	6,612	6,548	6,667

Mantua, April 20, 2004

THE BOARD OF DIRECTORS

