QUARTERLY REPORT
AT
30 JUNE 2003

CSP GROUP

CSP INTERNATIONAL INDUSTRIA CALZE S.p.A.

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CORPORATE BODIES

Board of Directors

Chairman and Managing director	Francesco	BERTONI (*)
Managing Director	Enzo	BERTONI (*)
Managing Director	Maria Grazia	BERTONI (**)
Managing Director	Carlo	BERTONI (**)
Directors	Massimo	ARMANINI
	Renato	ROSSI
	Arturo	TEDOLDI

Board of Statutory Auditors

Chairman	Vanna	STRACCIARI
Auditors	Marco	MONTESANO
	Luca	SAVOIA
Alternate auditors	Paolo	BERTOCCO
	Luca	GASPARINI

(*) Notes on exercising power: powers of ordinary and extraordinary administration, except for those reserved to the Board of Directors as per the law or by-laws, with single signature.
(**) Notes on exercising power: powers of ordinary administration.

DIRECTORS' REPORT ON GROUP OPERATIONS

The results for the first half of the year show the following variations compared to the first half of 2002:

- lower sales of 10.36 million euro, equal in percentage terms to a reduction of 13.8%;
- a lower gross margin of 6.8 million euro, which as a percentage on sales reduces by 4.4 percentage points;
- a net loss of 7.39 million euro, equal to 11.4% of sales, compared to a net profit of 0.93 million euro, equal to 1.2% of sales, in the same period in the previous year.

The principal reasons for the negative performance in the second quarter and thus for the entire first half of 2003 are as follows:

1) the sales in the second quarter were influenced by the decrease in the tights market, which also continued in the first months of 2003, at an international level and, in particular, in our three principal markets, Italy, France and Russia, where we monitor consumer trends with specialized agencies such as GFK and Nielsen. The decrease in the tights category was particularly important in France, which registered –17% in the first half of 2003, compared to the same period in the previous year, in the mass distribution channel (source Nielsen);
2) the negative result in the second quarter is historically influenced by a seasonal sales factor, which on average accounts for 45% of the annual revenues in the first six months of the year, compared to 55% in the second half of the year; in addition, the second quarter is always the weakest period, as indicated in the following table which shows the averages in recent years:

QUARTER	PERCENTAGE %
1st quarter	**25%**
2nd quarter	**20%**
Total 1st six months	**45%**
3rd quarter	**25%**
4th quarter	**30%**
Total 2nd six months	**55%**
Total year	**100%**

3) the gross margin was lower by 6.8 million euro and 4.4 percentage points on sales, for two principal reasons:
   - approximately 3.9 million euro attributable to the reductions in quantity and thus lower sales to cover the relative costs;
   - approximately 2.9 million euro attributable to unfavourable product mix;

4) the months of May-June saw exceptionally high temperatures, which resulted in the advance closing of the spring season compared to the historical period and put an almost complete stop to the consumption of tights;

5) provisions were also made in the second quarter for extraordinary charges of over 1 million euro, in relation to the reduction of personnel, equal to 65 units, in the subsidiary Le Bourget, through a Social Plan agreed with the personnel and trade union representatives.

Group performance

Summary statement of income

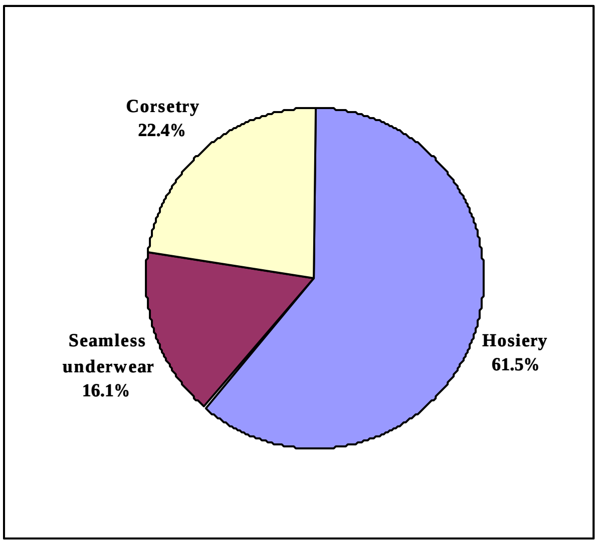
(in millions of Euro)	Quarter 01/04 - 30/06 2003		Quarter 01/04 - 30/06 2002		Period at 30 June 2003		Period at 30 June 2002		31 December 2002	
	valori	***%***	**valori**	***%***	**valori**	***%***	**valori**	***%***	**valori**	***%***
Net sales	24.17	*100.0%*	29.24	*100.0%*	64.99	*100.0%*	75.35	*100.0%*	159.52	*100.0%*
Cost of Sales	17.19	*71.1%*	18.94	*64.8%*	43.36	*66.7%*	46.92	*62.3%*	99.71	*62.5%*
Gross profit	**6.98**	*28.9%*	**10.30**	*35.2%*	**21.63**	*33.3%*	**28.43**	*37.7%*	**59.81**	*37.5%*
Selling, general and administrative costs	11.43	*47.3%*	12.55	*42.9%*	25.34	*39.0%*	24.86	*33.0%*	54.84	*34.4%*
Operating profit	**(4.45)**	*-18.4%*	**(2.25)**	*-7.7%*	**(3.71)**	*-5.7%*	**3.57**	*4.7%*	**4.97**	*3.1%*
Net financial charges	0.89	*3.7%*	1.00	*3.4%*	1.90	*2.9%*	1.98	*2.6%*	3.96	*2.5%*
Net other (income) and charges	0.60	*2.5%*	(0.10)	*-0.3%*	1.83	*2.8%*	0.54	*0.7%*	2.33	*1.4%*
Profit (loss) before taxes	**(5.94)**	*-24.6%*	**(3.15)**	*-10.8%*	**(7.44)**	*-11.5%*	**1.05**	*1.4%*	**(1.32)**	*-0.8%*
Income taxes	(*)	*(*)*	(*)	*(*)*	(*)	*(*)*	(*)	*(*)*	(2.81)	*-1.8%*
Net profit (loss) for the period	**(5.94)**	*-24.6%*	**(3.15)**	*-10.8%*	**(7.44)**	*-11.5%*	**1.05**	*1.4%*	**(4.13)**	*-2.6%*
Minority interests	0.03	*0.1%*	(0.01)	*0.0%*	0.05	*0.1%*	(0.12)	*-0.2%*	(0.09)	*-0.1%*
Net profit (loss) for the Group	**(5.91)**	*-24.5%*	**(3.16)**	*-10.8%*	**(7.39)**	*-11.4%*	**0.93**	*1.2%*	**(4.22)**	*-2.6%*

(*) Quarterly figures and figure as at 30 June do not include income taxes

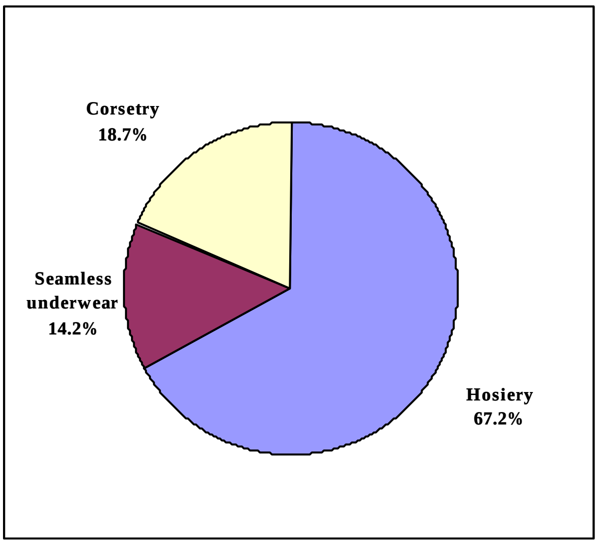
Net sales – Net sales in the second quarter of 2003 passed from 29.24 million euro to 24.17 million euro with a decrease of 17.3% compared to the same period in the previous year, while for the full six months sales passed from 75.35 million euro to 64.99 million euro with a decrease of 13.8%; this decrease is principally attributable to the decline in sales of stockings in the Russian market and the wholesale market in Italy, connected to the Russian market through the so-called "parallel sales", as well as the decrease of private label sales in France.

The following graphs show the breakdown of sales by product sector, brand and geographical area for the period under review compared with those of the same period of 2002:

PRODUCTS: % of sales at 30.06.2003

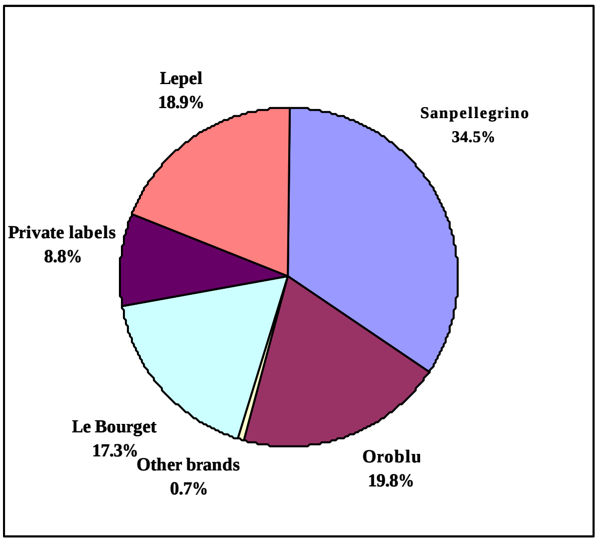


PRODUCTS: % of sales at 30.06.2002

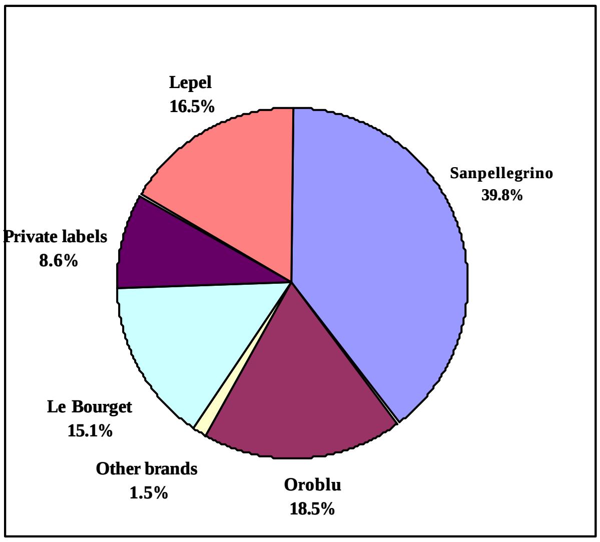


In the first six months of 2003 sales of hosiery declined by 21.1% compared to the same period in 2002, confirming the chronic trend in this type of merchandise, accentuated by the drop in consumption in the Russian market.
In the first six months of the year corsetry increased by 3.6% compared to 2002, while the seamless underwear and corsetry together passed from 32.9% to 38.5% of total turnover, in line with the diversification policy undertaken by the Group.

BRANDS: % of sales at 30.06.2003

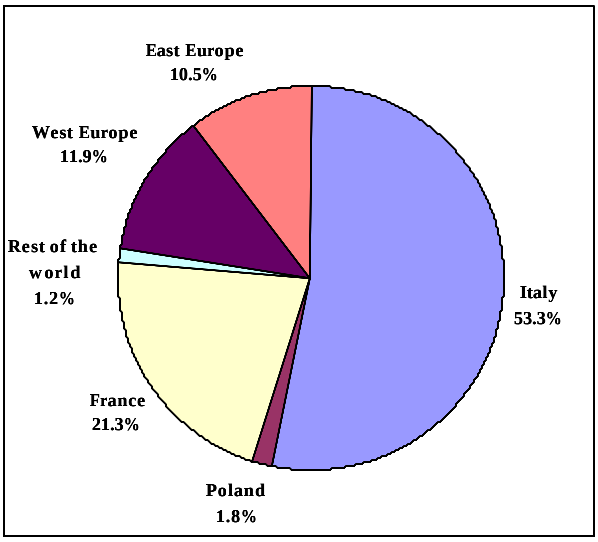


BRANDS: % of sales at 30.06.2002

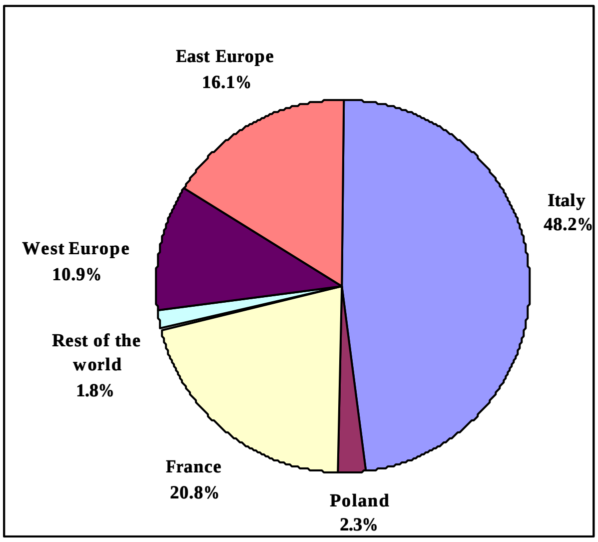


In the first six months of 2003 Sanpellegrino suffered from the negative effects of the already mentioned drop in hosiery consumption in Russia and in the wholesale in Italy, where however the brand obtained positive results in the mass distribution channel both in stockings (+ 3.7%) and in seamless underwear (+ 27.0%).
The brands Le Bourget and Lepel confirmed the value of sales made in the first half of 2002; in particular, the results achieved by the Le Bourget brand appears extremely positive in consideration of the recession that has characterized the French hosiery market.

AREAS: % of sales at 30.06.2003



AREAS: % of sales at 30.06.2002



As regards sales by geographical area, the first six months was characterised by a fall in sales in the three principal markets of the Group; in particular, Eastern Europe recorded a reduction of 5.27 million euro (-43.5%) while France, against the above-mentioned confirmation of the Le Bourget brand, saw a significant decline in private labels due to the non renewal of some contracts considered too costly.
Finally, in relation to the Italian market the fall in sales (- 4.7%) appears substantially in line with the general contraction in consumption.

Gross profit – the gross profit margin for the second quarter was 28.9% compared to 35.2% in the same period in the previous year, while for the full six months the gross profit margin passed from 37.7% to 33.3%.
The lower margins are principally attributable to the lower volume of sales leading to a lower absorption of fixed costs, as well as greater use of promotional leverage to compensate for the poor state of the market.

Selling, general and administrative costs – Selling, general and administrative costs, totalling 25.34 million euro, represent 39.0% of net sales in the period, compared to 33.0% in the same period in the previous year.
The increase compared to the first half of 2002, equal to 0.48 million euro, is principally attributable to higher advertising expenditure, up by 2.02 million euro, partially compensated by the decrease in personnel costs (in particular in France, where the rationalisation which began in 2002 has shown the first results) and other variable expenses related to the decrease in sales (mainly transport and sales costs).
The above-mentioned increase in advertising is principally due to scheduling changes of the advertising campaigns of the different brands of the Group; these costs for the full year are in line with the costs in previous years.

Operating result – The operating result in the first half of 2003 is a loss of 3.71 million euro, compared to an operating profit of 3.57 million euro in the same period in the previous year. This result is principally due to the above-mentioned reduction in the volume of sales and margins.

Financial charges, net – Net financial charges in the first half of 2003 amount to 1.90 million euro compared to 1.98 million euro in the same period in the previous year, in line with the substantial stability of the average indebtedness.

Other net income and charges – This caption, totalling 1.83 million euro compared to 0.54 million euro in the same period of 2002, refers for 0.79 million euro to the write-down of own shares held in portfolio, after their adjustment to market value at period-end (1.2668 Euro per share), and for 1.00 million euro to the provision for restructuring costs (Social Plan) at Le Bourget.

Income taxes – The quarterly financial statements do not include any provision for income taxes, as permitted by the applicable CONSOB regulations.

Summary balance sheet

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

(in millions of Euro)	30 June 2003	31 March 2003	31 December 2002	30 June 2002
Current assets	106.58	115.55	127.78	117.97
Current liabilities	(38.79)	(39.70)	(43.39)	(49.78)
Net working capital	**67.79**	**75.85**	**84.39**	**68.19**
Equity investments (including own shares)	3.31	2.84	4.13	6.58
Tangible and intangible fixed assets	58.05	60.14	62.67	66.29
Capital employed	**129.15**	**138.83**	**151.19**	**141.06**
Other medium/long-term liabilities	(12.43)	(11.46)	(11.64)	(10.42)
Net capital employed	**116.72**	**127.37**	**139.55**	**130.64**
Net debt	69.73	73.29	83.69	69.53
Shareholders' equity attributable to minority interests	1.30	1.37	1.53	1.56
Net equity	45.69	52.71	54.33	59.55
Total	**116.72**	**127.37**	**139.55**	**130.64**

Working capital – Net working capital at June 30, 2003 amounted to 67.79 million euro in line with the amount at June 30, 2002. The current assets reduce by 11.39 million euro due to the decrease in trade receivables, in relation to the fall in sales, and reductions in inventory following the implementation of the policy to contain inventory levels, reduced by 3.50 million euro.
The current liabilities reduce by 10.99 million euro principally due to the reduction in trade payables (- 9.33 million euro) as a consequence of the slowdown in production activity.

Capital invested – The capital invested passes from 141.06 million euro at June 30, 2002 to 129.15 million euro, principally caused by the decrease in fixed assets due to amortisation and the write-down in own shares held in portfolio.

Net debt – The net debt, as shown in the table below, is largely stable compared to the same period in the previous year.

The net financial position is comprised of:

(in millions of Euro)	30 June 2003	31 March 2003	31 December 2002	30 June 2002
Short-term bank borrowings	45.47	48.37	54.74	41.70
Current portion of medium/long-term debt	15.04	14.02	12.81	13.70
Cash and banks	(1.39)	(3.23)	(0.78)	(3.14)
Net short-term borrowings	**59.12**	**59.16**	**66.77**	**52.26**
Medium/long-term lending, net of the current portion	10.61	14.13	16.92	17.27
Net debt	**69.73**	**73.29**	**83.69**	**69.53**

Group performance company by company

In relation to the results of the individual companies, the most significant aspects and events in the first half of the year are noted.

Parent Company
The loss of the Parent Company was equal to 3.2 million euro, amounting to 6.4% of sales.
The Parent Company which, after the merger with Lepel, is organised in the two divisions of Sanpellegrino/Oroblù and Lepel, suffered the losses in the Sanpellegrino/Oroblù Division, as illustrated below.

Sanpellegrino / Oroblù Division
The Division suffered particularly from the decline in the sales of the Sanpellegrino brand, which halved sales in both the Russian market and in the wholesale channel in Italy, which is connected to Russia, through the "parallel sales". The difficulties in the Russian market are principally due to the revaluation of the Euro and the emergence of local brands and production.

Lepel Division
Lepel, which after the merger of January 27, 2003 became an operating Division, shows results in line with the first half of 2002, both in terms of sales and margins. The growth in the *Claudia Lemes* collection and the launch of the new *Revolution* brassiere were the most significant events from a commercial viewpoint.

The Le Bourget Group
The results of the French subsidiary are contrasting:
- positive for the performance of the Le Bourget brand, which held market share;
- negative for the necessary renunciation of the production of the private labels for French distribution chains, for the impossibility to practice prices below cost.

The loss was equal to 2.77 million euro, of which 1 million for the Social Plan, as already mentioned and also includes the costs relating to the liquidation of the Le Bourget Benelux subsidiary, no longer commercially relevant.

Sanpellegrino Polska
The Polish company, held for 50%, shows a loss of 0.14 million euro, equal to 5.6% of sales, for two principal reasons:
- the reduction of the production orders from the Parent Company, due to the difficulty related to the production capacity situation;
- the trend in demand in Poland and neighbouring countries.

Three-year prospects

Given the company's situation, and the size of the losses in the first half of 2003, this section of the report is necessarily wide ranging, for the need to indicate:
1. the new company objectives;
2. the prospects for the second half of the year and therefore the full results for 2003;
3. the identification of the principal problems that have caused the recent losses;
4. the illustration of the principal corrective actions, divided into three chapters
   - reduction of costs;
   - improvement of the margins;
   - stabilization of the sales;
5. the results expected, as a consequence of the foreseen initiatives.

1. The company objectives

The results for the previous two years and the first half of 2003 impose a series of actions which will permit

- the containment of the losses in the second half of 2003;
- the achieving of a pre-tax breakeven before extraordinary items in 2004;
- the return to net profit, after taxes, in 2005.

2. The prospects for the second half of 2003

The three-year plan illustrated in the following points must bear as much as possible the characteristics of practicability and soundness. For this reason the starting point must strictly derive from the current situation and from a precise identification of the cause of the problems, in order to confront and resolve them.
The containment of the losses in the second half of 2003 will not avoid a negative result for the financial year 2003, for several principal reasons:

- the size of the losses in the first half of the year, are not easy to compensate in the second half of the year;
- the fiscal aspect, which has not been applied to the first half of the year but, even in the absence of profits, will result in the provision of IRAP (regional tax) and other taxes that will amount to a couple of million euro;
- the typical mechanism of our market and clothing in general, where the actions of the first half of the year substantially determine the results in the second half of the year;
- the corrective actions in the second half of this year, which will be illustrated in the following paragraphs, will have an effect on the results of 2004, but will only marginally influence those of the second half of 2003.

For all of these reasons, the result expected at the end of 2003 will not be an improvement on the actual of 2002. The result at the end of the year 2003 may show a loss, for the full year, in line with that of the first half of the year.

3. The principal causes of the negative results

Before presenting the corrective actions announced, it is necessary to identify the principal causes of the losses in the years 2001, 2002 and 2003, on which it is necessary to make adjustments in order to invert the trend.
The list of the causes includes the following principal factors.

3.1. Production capacity of the Group

The chronic decline in the consumption of tights, which has affected the European and North American markets, commencing from the beginning of the 1990's, at an average annual rate of 5%, has resulted in excessive production capacity in the Group. The table below illustrates this:

Production sites	Annual production capacity
CSP Parent company	6.1 million dozen
Le Bourget	1.4 million dozen
Sanpellegrino Polka	0.7 million dozen
Total	**8.2 million dozen**
Sales 2002	6.5 million dozen

The difference between production capacity and sales indicates the size of the production capacity excess. However, the excess is even significant for two further reasons:

- the reduction of the sales in 2003, estimated at 8% in value terms and double this in quantity terms, due to the renunciation of private brands under cost, quantifiable in 1 million dozen;
- the necessity to reduce inventory, at least by another half million dozen.

The production capacity is thus almost 40% greater than that required, as the capacity of 8.2 million dozen compares to a necessity of 5 million dozen.

This results in two consequences:

- the plant cannot work to full capacity, so as not to needlessly increase inventory;
- production costs cannot be optimised, weighed down by depreciation and fixed costs in the technical area, which are a burden on limited production.

It should however be noted that the 33 machines for the production of underwear, with the seamless technology, have a production capacity of 2.5 million pieces, in three shifts. The sales in 2002 reached 3 million pieces, which will increase with the progressive widening of the offer. In the future, the growth of this merchandise can be produced in outsourcing, without the necessity for investments.

3.2. Other factors

The excess production capacity is the central problem, but not the sole problem. Here is a summary of the other critical elements, which contributed to the negative results:

- the high levels of inventory, which was over 6 months sales (and for which reductions are in course);
- increased level of working capital;
- the write-down of own shares, held by the Company, to adjust them to market values (the trend was inverted in the second quarter);
- the difficulties of maintaining breakeven at Le Bourget, reached in 2001 but then not achieved in the following year;
- the lower contributions from Sanpellegrino Polska, both for the reduced work provided by the Parent Company and the reduced opportunities offered from local market;
- finally, the difficulties in the Russian market, principally provoked by the Euro exchange rate and the emergence of local brands and production, has made the third market of the Group, after Italy and France, less open to the sales of our brands.

4. The actions programmed

The actions programmed for the elimination of the pre-tax losses before extraordinary items (objective for 2004) and the return to profit after tax (objective 2005) can be summarized under in three chapters

- reduction of costs;
- improvement of the margins;
- stabilization of the sales.
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The sequence of the chapters is intended to underline the priority importance of the actions to be undertaken, even if the three interventions will be realised simultaneously and which will provide results already in 2004.

4.1. The reduction of costs

In terms of cost reduction it is necessary to reduce the number of personnel employed. Before passing to the interventions foreseen, it is useful to show the personnel situation of the Group, in its different component parts, at December 31, 2002.

Operating unit	Personnel
CSP Parent Company	610 employees, of which 457 blue collar
Le Bourget	411 employees, of which 200 blue collar
Lepel	153 employees, of which 129 blue collar
Sanpellegrino Polska	185 employees, of which 148 blue collar

Total	**1,359 employees, of which 934 blue collar**

An element which can be usefully availed of is the staff turn-over. The situation of departures during the previous year is shown below.

Operating unit	Departures	% on personnel
CSP Parent Company	**77**	**12%**
Le Bourget	**24**	**6%**
Lepel	**8**	**5%**
Sanpellegrino Polska	**77**	**35%**
Total	**186**	**13%**

The interventions will be concentrated in the Parent Company and Le Bourget, with the procedure as illustrated in the following points.

4.1.1. Le Bourget Personnel

A Social Plan is in the completion phase which provides for:

- the reduction of 65 employees in Le Bourget;
- the elimination of 100 of the 200 machines installed at Le Bourget;
- the reduction of the production capacity from 1,400,000 to 300,000 dozen annually;
- extraordinary costs of 1 million euro, already provided for in the first half of 2003;
- a saving of 1.2 million euro on an annual basis, commencing from 2004.

4.1.2. Parent Company Personnel

The production of the Parent Company is principally located in the province of Mantova, where unemployment is at a marginal level of 3% and, in particular, in the production district for tights, where there is a situation of full employment and natural turn-over in the principal industries.

In 2002 the Parent Company recorded 77 departures, equal to 12% of the personnel at the beginning of the year of 657 units, and employed 30 new persons, with a resulting net turn-over of 47 units, equal to 7%. In the first half of 2003 the departures were more than half of the total departures in the previous year amounting to 46 units; there were 14 new persons employed, which gave a result of a net turn-over of 32 units, equal to 4%. As the trend in the turn-over will inevitably decrease over time, we can assume a decrease in personnel as follows.

Year	Net turn-over	Lower costs
2004	45	1,000,000 €
2005	35	850,000 €
2006	20	500,000 €
Total three-year	100	2,350,000 €

This decrease in personnel requires some organizational consultations, in order not to compromise the overall functioning of the production departments, which have already been evaluated and prepared.

4.1.3. Production capacity

The production capacity will be reduced from 8.2 to 5 million dozen annually, through the following actions:

- the Social Plan as already mentioned for Le Bourget;
- the reduction of personnel of the Parent Company, as indicated in the previous point;
- Integrative Public Subsidy (CIG) in the principal production departments of the sites in the district, with the exception of the seamless division, of the automatic packaging and of the automated department for Vat dyeing; the CIG, negotiated with the trade union representatives, can reach up to 52 weeks of activity in the final two-year period: we foresee at least 5 weeks of CIG in the final four-month period of 2003 and at least 15 weeks in 2004;
- the maintenance of the Robien law in France, with similar effects to the Italian CIG, for the year between August 2003 and August 2004, does not offer additional savings, but permits, together with the effects of the Social Plan, to reduce the production capacity of Le Bourget to the value indicated;

- the provisioning of "imaginative" tights, traditionally given in outsourcing, will in part be produced internally, utilising the production capacity of approximately 100 machines for this specific merchandise.

4.1.4. Simplification of the production activity

In addition to the necessary reduction of the production capacity it is also necessary to implement a general simplification of the production activity, through the criteria below:

- elimination of marginal articles (each offer is based on over 10,000 references);
- elimination of not perceived quality factors;
- unification of the Sanpellegrino collections for wholesale and mass distribution;
- clear operating division between the different production sites.

The operating division of the different production sites will follow the following criteria:

Ceresara-Rivarolo District:	innovative products
Sanpellegrino Polska:	"labour intensive" products
Le Bourget:	service to French mass distributors
Lepel Poggio Rusco:	development of corsetry product.

The rationalisation of the production sites could result in, other than the actions indicated in the previous points, to the movement of some workers from one factory to another and in particular between Ceresara and Rivarolo.

4.1.5. Procedure for sales to the mass distribution

The sales to the mass distribution will be organised in accordance with certain principal criteria:

- direct management with the buyers in the negotiations and contracts, already in place;
- direct management or coordination of the sales activity, based on the different geographical areas;
- delegation to organise out-sourcing of the merchandising activity on sales points and on shelves.

This will permit the opportunity of service savings, that we value at 1.5 million euro in the three year period with approx. half million euro per year.

4.1.6. Logistics

The unification of the CSP International and Lepel inventory, already in course for the service to the wholesale channel, will be extended to the mass distribution channel. The integration will relate to the main inventory warehouse, moved from Carpi (MO) to Ceresara (MN), and the deliveries to uniform customers of CSP International and Lepel, which have in common 350 Hypermarkets and 200 Supermarkets (Sanpellegrino has another 6,000 customers in the GD and DO channels). This, together with the modifications noted in the previous point, will offer savings opportunities of at least Euro 100,000 in 2004.

4.1.7. Advertising

The investment in advertising must be contained to 10% of sales, which constitutes a reasonable limit in the financial equilibrium and in any case offers adequate resources to the market requirements.

4.1.8. Amortisation and Depreciation

The current levels of amortisation and depreciation has reached 11 million euro, with a percentage on sales of 7%: included in amortisation and depreciation is 6.8 million euro of a technical-productive nature and 4.2 million euro of an administrative-managerial nature. We recall that the former includes the revaluation of assets in the production area, made in 2000 for approximately 2 million euro and the latter value includes amortisation of Le Bourget goodwill for 1.4 million euro and Lepel goodwill of 0.5 million, as a consequence of the two acquisitions.

The investments forecast in the next three years will be contained to 1.5 million euro per year, of which 1 million for technical maintenance interventions and the balance for SAP software and other minor interventions.

In light of the data indicated, the amount of the amortisation and depreciation will reduce by over 2 million euro in the next three years (0.2 million in 2004, 1.3 million in 2005 and 0.7 million in 2006).

4.1.9. Interest payable

The reduction of the inventory from over 6 months sales to 4.5 months will proportionally reduce the working capital.
The payments to suppliers are in advanced negotiations in order to be all brought to 120 days. The net financial position, which is currently equal to approximately half of annual sales, can be, as a consequence, reduced by 10 million euro per year, for the next 3 years.
We can calculate a reduction in interest payable of at least Euro 300,000 Euro per year.

4.1.10. Rationalisation of debt

We will negotiate for a change in the ratio between short-term indebtedness and medium term indebtedness, that is currently 80-20, in favour of a greater weight of medium/long term debt.
It should be noted that an operation in relation to this has just been concluded, at the end of July, with a primary banking institute, which granted a medium term line of credit of 10 million euro.

4.2. Improvement of the margins

The improvement of the margins can be substantially achieved from three components:
- the product mix resulting from the diversification;
- the improvement of the margins resulting from innovative products including corsetry;
- the maintenance of the price list.

The first objective is to be followed with great determination, as the necessity for the process of diversification is evident; the second objective is in the spirit of the innovative vocation of the company; the third objective is to be followed with great prudence, for the competitive implications and market in general.

4.2.1. Mix of product from diversification

As is known, the producers of tights have identified in the underwear, realised with the seamless technology, an interesting diversification, to compensate the now chronic recession in the consumption of tights. The situation is illustrated in the table below, which indicates the level of diversification achieved by the principal Italian operators in the year 2002.

Company	Percentage of products diversified compared to socks
Company A	49% of total sales
CSP International	30% of total sales
Company B	15% of total sales
Company C	7% of total sales
Company D	3% of total sales
Company E	1% of total sales

What we intend by diversification is shown in the following list:
- causal socks;
- men’s and sports socks;
- seamless technological products such feminine and male underwear; outwear and beachwear;
- classic corsetry;
- swim wear.

The diversification objective of CSP International is indicated in the following table:

Year	Percentage on sales
2002	30%
2003	35%
2004	40%
2005	45%
2006	50%

The impact of the diversification on margins is positive for the following reasons:
- the seamless underwear has contribution margins higher on average by 10 points, compared to tights;

- the high range of corsetry (Oroblù) has margins higher on average by 15 points, compared to tights;
- the competitive positioned corsetry (Lepel) has margins higher on average by 7 points, compared to tights.

Finally we come to the effect of the diversification: 5 higher percentage points per year of the products diversified, with margins greater than tights, give 1 million euro of greater contribution margin per year (1 million is exactly 0.7% of total sales).

4.2.2. innovative products

The table illustrates the principal innovations expected:

Merchandise	Brand	Innovation	Timing
Tights	**Sanpellegrino** **Oroblù** **Le Bourget**	Biocomplex Tights Cosmetic Collection Performance Collection	Sept./Dec. 2003 Ist half 2004 Ist half 2004
Seamless underwear	**Sanpellegrino** **Oroblù**	Cosmetic Collection Cosmetic treatment	Ist half 2004 2nd half 2004
Corsetry	**Lepel** “ **Oroblù**	Revolution Brassiere: extension line Xlady Brassiere: extension line Performance Brassiere	Ist half 2004 Ist half 2004 2nd half 2004
Swim wear	**Oroblù**	Mix of elegance and technology	Summer 2004

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The achievement of these projects are in the spirit of the historical innovation vocation of the company and is the indispensable instrument needed to manage a market in recession. In addition the innovation results in some evident advantages:

- gives greater freedom in pricing;
- takes away from a direct comparison with existing articles;
- offers greater margins;
- maintains the image of the brand up-dated.

We can estimate that the innovative products indicated in the table will reach 10% of sales, when fully operational, within the three-year period. This signifies not only an important contribution to the stabilization of the sales, but also an improvement in the margins: 10% of sales, with average margins higher by 10 points, compared to existing products, signifies a cumulative increase of approximately 1.5 million euro in the three year period.

4.2.3. Maintenance of the price list

The company has kept prices substantially unchanged over the last three years, against a cumulated inflation close to 10%, with the exception of some articles of the Oroblù collection, whose price list was partially up-dated, and some articles of the Sanpellegrino collection, whose prices decreased.

As an introduction each intervention on prices, in a highly competitive market and chronically recessional, can have counter-productive effects on market share and on the quantities sold (deteriorating therefore the imbalance between production capacity and capacity to sell); it is however indispensable to improve margins at least on the articles where there is no direct competition.

We have therefore assumed a prudent intervention, which provides fro an improvement in margins, deriving from prices,

- of two percentage points;
- diluted in three years;
- equal to an effect of one million euro per year in the next three years.

4.2.4. Valuing the most profitable distribution channels

The mass distribution is the channel with the most potential, for its current weight and for its future development.

Wholesale is the channel most in crisis, even if it has an historical role in the Italian market.

But the two most profitable channels for CSP International are independent retail and export: it is important to value these. For both these channels diversification is the instrument to use to increase our weight with customers of tights and to acquire new customers. In particular the offer to the Italy retail channel can be further expanded, including further new collections, such as Le Bourget, which is being presented at the present moment.

4.2.5. Disposal of non-strategic assets

Although this is not an aspect that relates to the contribution margins, we note the opportunity to sell land adjacent to the French site of Le Bourget, which does not have any present or future utility. The sale of the land (and of the factory located on it) will result in income that will contribute to the reduction of the indebtedness.

4.3. Stabilization of the sales

The actions prepared for the reduction of the costs and those for the improvement in the margins will not be sufficient for the company to achieve breakeven, without a stabilization of the sales.
A stabilization of the sales, hopefully at around 150 million euro, is feasible, in a recessional market, on the condition that there are new sources of business for each of the brands and merchandise offered to the market. The diversification of the offer and the launch of innovative products also within the hosiery, are two basis instruments in respond to this requirement.

4.3.1. Stabilization of sales in a recessional market

It is not realistic to assume an inversion in the consumer recessional trend in the market of socks/tights. We can however assume that the reduction of the market, estimated as on average 5% annually, can be countered with an increase in market share, stimulated by the innovative products in the previous table and/or by the increase in diversified sales.
The quantitative values of these factors are as follows:

- the reduction of 5% of the sock /tights market is equivalent to a reduction in sales of approx. 5 million euro;
- the increase of half a point in the sock /tights market share is equivalent to an increase in sales of approx. 5 million euro (as already verified in the past, on the occasion of the launch of products with innovative characteristics);
- the increase in the diversified sales of 10% is equivalent to an increase in sales of approx 5 million euro (the consumption of seamless underwear is estimated to have reached 20% of the Italian underwear market, with further growth potential).

The integration of these factors, or a mix of them, offers the possibility of the stabilization of the sales.

4.3.2. Maintenance of the Russian market

While the principal two markets of the Group, Italy and France, are protected respectively by the Parent Company and by Le Bourget, the Russian market, third by importance, is currently maintained by distributors. As a distributor does not have the same operating capacity as a direct presence in the territory, we are preparing an on-site production project, with the method to proceed in the course of definition, that can ensure greater competitiveness of the final product, through the following advantages:

- lower transport and duty taxes, due to the commencement in Russia of the industrial product;
- ironing and packaging on-site, using machinery already available in the productive sites of the Group and using labour at a lower cost than that in Italy;
- reduction of the overall production cost;
- reduction of the final price to the Russian public;
- final result of greater competitiveness in the market.

5. Expected results and prospects

We have covered the different actions programmed for the reduction of costs and for the improvement in margins. In all the cases where it was possible to quantification the effects we provided the resulting data, to the best of the available information. The combination of the actions, even though they are presented in detail, do not have the intention of being all-inclusive, nor definitive: on the contrary, further refining work will be necessary

- in the definition of the actions;
- in the quantification of their effect;
- in the implementation phase.

5.1. Results expected from the Three-Year Plan

The overall actions as previously illustrated, that register only the effects quantifiable with reasonable precision, and which do not include benefits deriving from actions of a qualitative nature and not strictly related to costs or margins, will place the Company in a condition to achieve

- economic equilibrium before taxes and before extraordinary items in 2004;
- a net profit, after taxes in 2005;
- an appreciable profitability in 2006.

5.2. Prospects and latest consumption trends

Despite the fact that the tights market is in recession for over a decade, some signs have been noticed recently that could favour a recovery in consumption in this specific market:

- the return of the miniskirt, which combines appropriately with tights (not by chance invented in 1964 following the presentation of the miniskirt by Mary Quant);
- the renewed interest by the principal stylists, lead by Armani, for stockings, as a fundamental clothing accessory;
- the tendency of the consumer to wear stockings with imaginative drawings and colours co-ordinated with the clothing.

It is impossible to quantify the effect of these tendencies and it would be very risky to overestimate these signs: however the trends cited could have a re-equilibrating function compared to the negative trends in the past.

Ceresara, August 5, 2003

Chairman of the Board of directors

Attachments:

1. Reclassified income statement
2. Reclassified balance sheet

Reclassified Consolidated Statement of Income

(figures in thousands of Euro)

	Quarter 01/04 - 30/06 2003 CONSOLIDATED	Quarter 01/04 - 30/06 2002 CONSOLIDATED	Period at 30 June 2003 CONSOLIDATED	Period at 30 June 2002 CONSOLIDATED	31 December 2002 CONSOLIDATED
Net sales	23,985	29,061	64,667	74,990	158,917
Income from royalties	180	178	321	363	602
NET REVENUES	**24,165**	**29,239**	**64,988**	**75,353**	159,519
COST OF SALES					
Purchases	12,673	18,166	22,684	31,543	55,252
Labour cost	4,773	5,337	9,648	10,491	19,443
Services	3,385	3,759	7,426	7,620	14,516
Depreciation and amortisation	1,681	1,869	3,459	3,777	7,472
Other costs	1,736	1,947	3,666	4,006	7,299
(Increase) decrease in inventories	(7,063)	(12,141)	(3,522)	(10,513)	(4,277)
	17,185	**18,937**	**43,361**	**46,924**	**99,705**
GROSS PROFIT	**6,980**	**10,302**	**21,627**	**28,429**	**59,814**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES					
Labour cost	3,270	3,706	7,067	7,591	14,316
Advertising expenses	3,957	3,682	8,385	6,366	18,551
Commissions (**)	721	829	1,756	1,820	3,022
Depreciation and amortisation	1,069	1,165	2,131	2,325	4,642
Other expenses (**)	2,414	3,168	6,001	6,757	14,316
	11,431	**12,550**	**25,340**	**24,859**	**54,847**
OPERATING PROFIT	**(4,451)**	**(2,248)**	**(3,713)**	**3,570**	**4,967**
Net Financial charges (income)	893	996	1,903	1,978	3,958
Writedown (writeup) of investments	0	0	0	0	0
Net other (income) and charges	(546)	(167)	685	(155)	1,864
	347	**829**	**2,588**	**1,823**	**5,822**
PROFIT (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**(4,798)**	**(3,077)**	**(6,301)**	**1,747**	**(855)**
Extraordinary charges and (income)	1,140	77	1,143	695	466
PROFIT (LOSS) BEFORE INCOME TAXES	**(5,938)**	**(3,154)**	**(7,444)**	**1,052**	**(1,321)**
Income taxes (*)	0	0	0	0	(2,810)
NET PROFIT (LOSS) FOR THE PERIOD	**(5,938)**	**(3,154)**	**(7,444)**	**1,052**	**(4,131)**
Minority interests	32	(5)	55	(125)	(88)
NET PROFIT (LOSS) FOR THE GROUP	**(5,906)**	**(3,159)**	**(7,389)**	**927**	**(4,219)**

(*) Quarterly figures and the figures at 30 June do not include income taxes.

(**) Figures at 30 June 2002 have been reclassified for an amount of 315,000 Euro in order to make them comparable to the figures at 30 June 2003

Reclassified Consolidated Balance Sheet - Assets
(figures in thousands of Euro)

	30 June 2003 CONSOLIDATED	31 March 2003 CONSOLIDATED	31 December 2002 CONSOLIDATED	30 June 2002 CONSOLIDATED
CURRENT ASSETS				
Cash and banks	1,389	3,232	777	3,139
Trade receivables	40,602	56,466	63,727	46,190
Trade receivables due from subsidiary and associated companies	100	100	100	235
Other receivables	4,484	4,249	5,296	6,563
Inventories	60,986	54,233	58,038	64,486
Accrued income and prepaid expenses	411	501	615	492
Own shares	2,988	2,509	3,774	6,007
TOTAL CURRENT ASSETS	**110,960**	**121,290**	**132,327**	**127,112**
FIXED ASSETS				
Financial fixed assets:				
Financial receivables	311	321	332	459
Equity investments	10	11	11	110
Total financial fixed assets	**321**	**332**	**343**	**569**
Tangible fixed assets	42,169	43,834	45,740	47,735
Intangible fixed assets	15,884	16,303	16,942	18,558
TOTAL FIXED ASSETS	**58,374**	**60,469**	**63,025**	**66,862**
TOTAL ASSETS	**169,334**	**181,759**	**195,352**	**193,974**

Reclassified Consolidated Balance Sheet - Liabilities and shareholders' equity
(figures in thousands of Euro)

	30 June 2003 CONSOLIDATED	31 March 2003 CONSOLIDATED	31 December 2002 CONSOLIDATED	30 June 2002 CONSOLIDATED
CURRENT LIABILITIES				
Short-term bank borrowings	45,471	48,375	54,741	41,698
Current portion of medium / long term debt	15,035	14,020	12,805	13,703
Trade payables due to third parties	31,042	31,010	35,614	40,373
Trade payables due to subsidiary / associated companies	0	0	0	6
Taxes payable	790	2,122	2,161	1,749
Other payables	6,774	6,042	4,960	7,392
Accrued liabilities and deferred income	191	519	654	257
TOTAL CURRENT LIABILITIES	**99,303**	**102,088**	**110,935**	**105,178**
MEDIUM/LONG-TERM LIABILITIES				
Medium / long-term debt,				
net of the current portion	10,612	14,129	16,918	17,271
Severance indemnities	7,023	6,928	6,796	6,416
Other provisions	5,404	4,532	4,845	4,007
TOTAL MEDIUM/LONG-TERM LIABILITIES	**23,039**	**25,589**	**28,559**	**27,694**
TOTAL LIABILITIES	**122,342**	**127,677**	**139,494**	**132,872**
MINORITY INTERESTS IN CAPITAL AND RESERVES	1,304	1,369	**1,528**	1,555
SHAREHOLDERS' EQUITY				
Share capital	12,740	12,740	12,740	12,740
Legal reserve	1,359	1,359	1,365	1,365
Share premium reserve	18,076	18,076	18,076	18,076
Other reserves	20,902	22,021	26,368	26,439
Net profit (loss) for the period (*)	(7,389)	(1,483)	(4,219)	927
TOTAL SHAREHOLDERS' EQUITY	**45,688**	**52,713**	**54,330**	**59,547**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**169,334**	**181,759**	**195,352**	**193,974**

(*) the figures at 30 June and at 31 March do not include income taxes.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Content and bases of the financial statements

These notes refer to the results of the second quarter of 2003 and first half 2003. They have been prepared in accordance with current legislation, with comparative figures for the corresponding period of 2002 and the full year 2002.

The accounting and consolidation policies used in preparing these financial statements have been applied consistently with the previous year's consolidated financial sheets as of 31 December 2002, except for the following difference:

INCOME TAXES: no provisions have been made against the income taxes of the individual consolidated companies or against deferred tax assets and liabilities pertaining to the period under review, as permitted by CONSOB regulations for the preparation of interim financial statements, which we deemed applicable to this document as well.

These amounts will be determined upon preparation of the financial statements as at 31 December 2003.
This method guarantees consistency in the figures with the consolidated annual report for the previous year, taking into account the above difference in accounting treatment.

Scope of consolidation

The scope of consolidation as of 30 June 2003, has changed with respect to the financial statements as of 31 December 2002 owing to the liquidation of Le Bourget Benelux, is made up as follows:

Name	Address	Controlling interest %
CSP International Industria Calze SpA (1)	Via Piubega, 5/c, 46040 Ceresara (Mantua - Italy)	Parent Company
Le Bourget S.A.	Rue J.P. Saltiel- 02230- Fresnoy Le Grand, France	99.97%
BO.MO. Srl (2)	Via San Martino 8/12 Fraz. Borgo Poncarale 25020 Poncarale (BS), Italy	60%
Sanpellegrino-Polska Sp.z.o.o.	Ul. Lodska, 27 95-050 Konstantynow (Lodz) (PL)	50%

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(1) On 27 January 2003, the Parent Company absorbed Lepel S.r.l., already consolidated line-by-line at 31 December 2002

(2) Owned by Le Bourget S.A.