STAR
SEGMENTO TITOLI CON ALTI REQUISITI

From Big Bang to Black Holes and Back

November 12, 2003 **UBM** **November 18, 2003**

Summary presentation of

- the successes of the recent past (the Big Bang)
- the current problems (the Black Holes)
- the plans for the near future (the Return)

of CSP International.

Big Bang

Explosion from which the history of the universe began.

Black Holes

The result of the collapse of a star under its own forces of gravitation.

"Whoever would be crazy enough to fall into a Black Hole,
would be lost forever.
It would no longer be possible, for him, to get out."

Stephen Hawking
From Big Bang to Black Holes

The aim of this presentation is to show that it is possible to get out of the Black Holes.

The years of the Big Bang

1993:	opening of new markets (first in Russia)
1994:	product innovation (premium price and high margins)
1995:	advertising campaigns (featuring Antonio Banderas and Valeria Mazza)
1996:	doubling of the share of the domestic market (from 5% to 10% in five years)
1997:	Stock Exchange quotation
1998:	establishement of Sanpellegrino Polska
1999:	acquisition of Le Bourget
2000:	acquisition of Lepel and diversification into seamless underwear

The years of the Black Holes

2001, 2002, 2003:   first losses recorded in the thirty years existence of the Company.

Before analysing the causes, a review of the Financial Statements.

Summary of results

The years of the Big Bang

Billions of Lire	Net Sales	Cash Flow	Net Profit after taxes
1994	120.8	12.2	0.2
1995	169.2	16.9	2.1
1996	202.3	22.5	10.0
1997	256.5	39.1	24.0
1998	231.6	18.9	3.0

Summary of results

The first consolidated accounts of the Group

Euro Millions	Net Sales	Net Profit after taxes	Note
1999	110.6	5.1	CSP+ Le Bourget
2000	160.3	2.9	CSP + Le Bourget + Lepel

Summary of results

The years of the Black Holes

Euro Millions	Net Sales	Pre-tax result	Net result
2001	163.3	2.0	- 0.4
2002	159.5	- 1.3	- 4.2
2003	146	- 7.5 *	- 10.0 **

* First half year results

** Full year forecast, announced with the first half year results

Objectives

2004	Breakeven pre-tax and before any extraordinary items
2005	Net profit after taxes

Identification of the problems

1. Chronic consumer recession in the stockings/tights market (halved in the last decade)

2. Over production capacity of the Group (30% not utilised)

3. Other factors related to the cost-margin relation (and Russian market, high working capital, write-down of treasury shares, etc.)

The solutions to the problems

Problems	Solutions
1. Chronic consumer recession in the stocking/tights market	-Diversification from stocking/tights market - Innovation in stocking/tights market
2. Over production capacity of the Group	- Rationalisation of capacity - Reduction in personnel - Stabilisation of sales
3. Other factors	Other solutions and, in particular, - reduction of costs - improvement of margins

Action plan

1. Reduction of costs
2. Improvement of margins
3. Stabilisation of sales

Reduction of costs

1.1. Personnel of Le Bourget

The Social Plan provides for:

- the reduction of 63 employees at 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 dozens annually;
- a corresponding extraordinary cost of Euro 1 million, already accrued in the first half of 2003;
- a saving of Euro 1.2 million on an annual basis, from 2004.

Reduction of costs

1.2. Personnel of the Parent Company

Year	Units at year-end	Annual variation
at	776	
1999	751	- 25
2000	706	- 45
2001	657	- 49
2002	610	- 47 (77 departures)
October 2003	563	- 47 (69 departures)
2003	560	- 50
2004	515	- 45
2005	480	- 35
2006	460	- 20

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

Reduction of costs

1.3. Production capacity

- Le Bourget: reduction of production capacity by 1 million dozens;
- Parent Company reduction of production capacity by 1.5 million dozens;
- Total: reduction of production capacity by 2.5 million dozens.

Remaining production capacity (8.2 – 2.5) = 5.7 million dozens.

Reduction of costs

1.4. Method of sales to Hyper and Supermarkets

Criteria:

- direct dealings with the buyers in the negotiating and contractual phase, already in place;
- direct management or coordination of sales activity;
- outsourcing externally merchandising activity at the sales point and on the shelves;
- reduction of the periphery warehouses for the agents with deposits.

Savings in services: Euro 1.5 million in the three year period at half million Euro per year.

Reduction of costs

1.5. Logistics

Unification of the warehouses of CSP International and Lepel:
- in course for the service to the wholesale channel;
- extended to the organised trade channel in 2004

Savings: at least Euro 100,000 in 2004.

Reduction of costs

1.6. Advertising

The investment promo-advertising will be contained to 10% of sales (11.6% in 2002 and 11.5% in 2003) and concentrating in:

- advertising, vital for the growth of the business;
- point of sales, which is the moment of truth and thus the choice of the consumer;

containing other less essential expenses.

Advertising investments will grow by almost 50%, compared to the year 2003.

Reduction of costs

1.7. Amortisation & Depreciation

- Current level of amortisation & depreciation:
  Euro 11 million, which is 7% of Sales.

- Amortisation and depreciation will reduce by over Euro 2 million
  in the coming three years
  - 0.2 million in 2004,
  - 1.3 million in 2005,
  - 0.7 million in 2006.

Reduction of costs

1.8. Rationalisation of the debt

Situation beginning of 2000:	80% short-term	20% medium term
Current situation:	70% short-term	30% medium term *
Objective:	60% short-term	40% medium term

* An operation of this kind was concluded, with a primary banking institution, which granted a medium term credit line of Euro 10 million.

Reduction of costs

1.9. Reduction of the Working Capital

- Stock held in inventory (Sanpellegrino + Oroblù):

Millions of dozens	End of 1st half year	End of year
2002	4.0	3.5
2003	2.9	2.0
2004	2.0	1.5 (equal to 3 months sales)

The reduction in inventory will proportionally reduce working capital.

- Payments to suppliers have been modified to 120 days.
- The net financial position will be, consequently, reduced by at least Euro 5 million per year.
- The financial charges will presumably be affected by two opposing factors:
  - lower indebtedness on which to calculate the interest charge;
  - a possible greater cost of money in the medium term.

Action plan

1. Reduction of costs
2. Improvement of margins
3. Stabilisation of sales

Improvement of margins

2. Improvement of margins

The improvement in margins will be principally through:

- the product mix resulting from diversification;
- the improvement of margins, resulting from innovative products also in hosiery;
- the Pricing differentiation by product category;
- the containment of discounts.

Improvement of margins

2.1. Product mix from diversification

Company	Percentage of products diversified compared to stockings
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

The objective of diversification of CSP International

Year	Percentage on sales
2002	30%
2003	35% (36% September YTD)
2004	40%
2005	45%
2006	50%

Improvement of margins

2.2. Innovation in diversification

Product	Brand	Innovation	Timing
Seamless underwear	**Sanpellegrino** **Oroblù** **Le Bourget**	Biocomplex Collection BioCosmetic Action Collection Cosmetic Collection	1st half 2004 2nd half 2004 2nd half 2004
Corsetry	**Lepel** **Oroblù** **Le Bourget**	Bra Line extension Revolution, X-Lady, Belseno Bra Lifting “	1st half 2004 1st half 2004 2nd half 2004
Swim wear	**Oroblù** **Sanpellegrino** **Le Bourget**	Mix of elegance and technology	Summer 2004 Summer 2005 Summer 2005

Improvement of margins

2.3. Innovation in the stocking/tights market

Product	Brand	Innovation	Timing
Tights	**Sanpellegrino**	BioComplex Collection	Sept. / Dec. 2003
	“	Line extension BioComplex	1st half 2004
	Oroblù	BioCosmetic Action	1st half 2004
	“	Line extension BioCosmetic Action	2nd half 2004
	Le Bourget	BioComplex Collection	1st half 2004

Improvement of margins

2.4. Innovation in the fashion and design products

- We can also add to the innovative component fashion and design innovations.
- The fashion articles, today particularly in a positive trend, will be produced more and more internally in the company.

Improvement of margins

<u>2.5. Impact of the innovation on margins</u>

Advantages :
- greater freedom in the pricing;
- eliminates direct comparison with existing articles;
- offers higher margins;
- maintains the brand image up-dated.

<u>Impact on the margins</u>

5 percentage points higher incidence per year from <u>diversification</u>,
with margins greater by 7 percentage points = + 0.5 million € per year

10% of sales of <u>innovative</u> tights,
with margins greater by 5 percentage points = + 1.0 million € in three years

10% of sales of <u>fashion</u> tights,
with margins greater by 3 percentage points = + 0.5 million € in three years

Improvement of margins

2.6. Pricing differentiated

PRODUCTS	FUNCTIONS	CRITERIA
- Tactic	To maintain distribution channels and exploit production capacity	Covering variable costs
- Classic	The continuative articles of the collections	Covering of variable costs + fixed, with low margins
- Innovative	With no direct competitive comparaison	Covering of variable costs + fixed, with good margins

The three categories each contribute about 1/3 of sales.

Improvement of margins, deriving from prices::
- one percentage point;
- diluted in three years;
- on the sales of the Parent Company;
- equal to an effect of Euro 1 million in the next three years.

Improvement of margins

2.7. Containment of discounts

- Contain the level of discounts on sales.
- Reduction of one percentage point per year, in the two year period 2004 and 2005.
- Termination of the perverse discounts relation Italy / Russia:
  -the discounts given to the Italian Wholesalers, are also given to the “parallel” Italian wholesalers, who sell in Russia and oblige the Company to give the same discounts to the Distributors operating in Russia;
  -the discounts will be terminated for the “parallel wholesalers” and the Russian Distributors (the brand leader in Russia, which is Omsa, has a lower price than Sanpellegrino of 20% in Italy, while in Russia it has a price higher than 50%).

Improvement of margins

2.8. Disposal of non-strategic assets

- Land adjacent to the French site of Le Bourget, which has no present or future utility.
- Machinery already depreciated and no longer necessary for the production activity.

Action plan

1. Reduction of costs
2. Improvement of margins
3. Stabilisation of sales

Stabilisation of sales

3.1. Instruments for the stabilisation of sales

- Stabilisation of turnover, at around Euro 150 million, in a market recession, thanks to new sources of business:

  - diversification of the offer;

  - launch of innovative products, also in the area of corsetry.

Stabilisation of sales

3.2. Maintaining of the Russian market

Three principal actions :

- resumption of the advertising activity : in autumn 2003 there is a campaign in favour of Sanpellegrino BioComplex;
- reorganisation of the distribution model, damaged by the perverse discounts circuit;
- evaluation of an on-site packaging project, in joint-venture with the principal distributor.

Stabilisation of sales

3.3. Brand Shops

Today the Oroblù brand shops are
- 1 in Italy (2 by December 2003 and 3 by January 2004)
- 3 in Russia
- 15 in Poland

The development is planned with the following two criteria:
- opening of own shops in commercial centres and where key money is not paid;
- opening in franchising in historical town centres and where key money is paid.

Results expected from the Three Year Plan

- Criteria for the Three-Year Plan
- Results of 3rd quarter 2003
- Progress made in the projects
- Conclusions

Effect of the Three-Year Plan

(million Euro)

ACTIONS		
LOWER COSTS	**GREATER MARGINS**	**TOTAL EFFECT**
- 0.4 Write-down treasury shares (*) - 1.0 Social Plan Le Bourget (*) - 2.3 Personnel Parent Company - 1.2 Personnel Le Bourget - 1.5 Large Store Distributors - 2.2 Amorti. & Depreciation - 0.1 Logistics	+ 0.5 Mix diversification + 1.0 Differentiation prices + 1.0 Product innovation + 0.5 Fashion tights + 1.5 lower discounts	
- 8.7	+ 4.5	+ 13.2

(*) In 2003, non-recurring in the three years

3rd quarter 2003: Summary of results

Financial results

Consolidated income statement

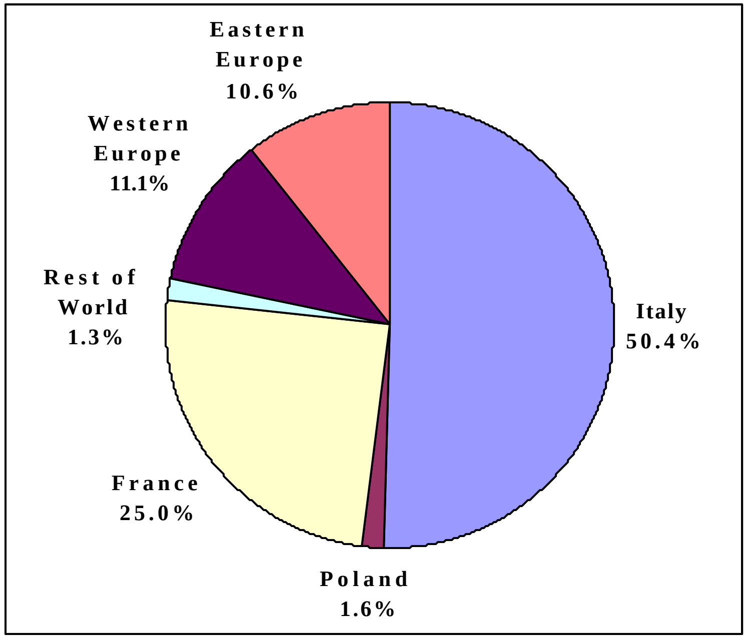
Thousands Euro

GROUP	2003 3Q	2002 3Q	2003 1H	2003 P9	2002 P9	2002 FY
REVENUES	38 069	41 156	64 988	103 057	116 509	159 519
EBITDA	4 438	7 018	1 877	6 315	16 690	17 081
	11,7%	*17,1%*	*2,9%*	*6,1%*	*14,3%*	*10,7%*
EBIT	1 823	4 008	(3 713)	(1 890)	7 578	4 967
	4,8%	*9,7%*	*-5,7%*	*-1,8%*	*6,5%*	*3,1%*
EBT	1 503	2 573	(7 444)	(5 941)	3 625	(1 321)
	3,9%	*6,3%*	*-11,5%*	*-5,8%*	*3,1%*	*-0,8%*

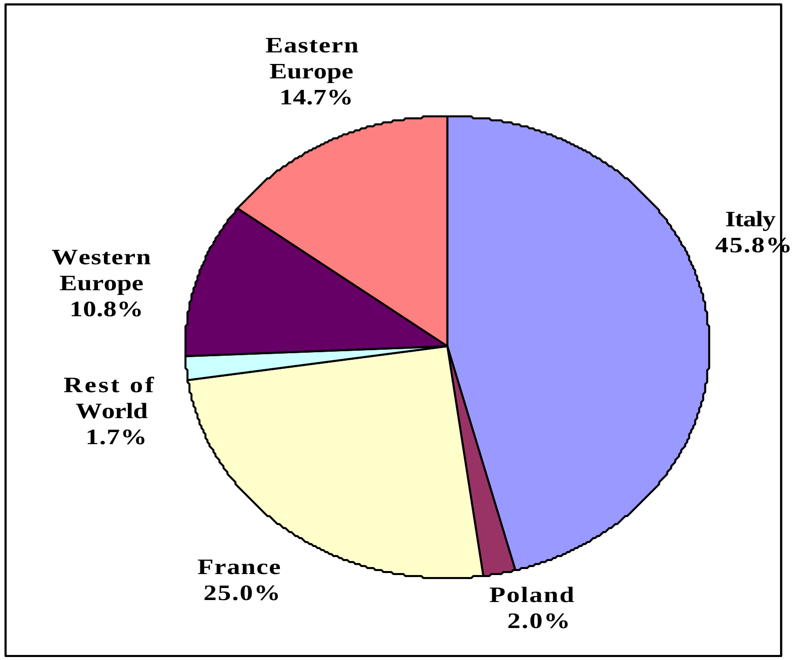
Financial results

Consolidated net sales by GEOGRAFIC AREA

% at 30.09.2003



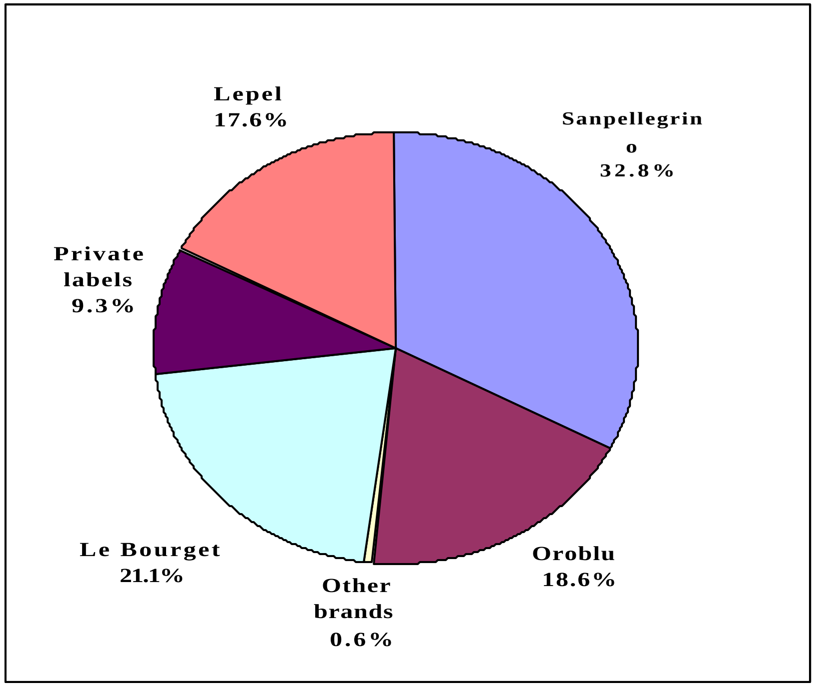
% at 30.09.2002



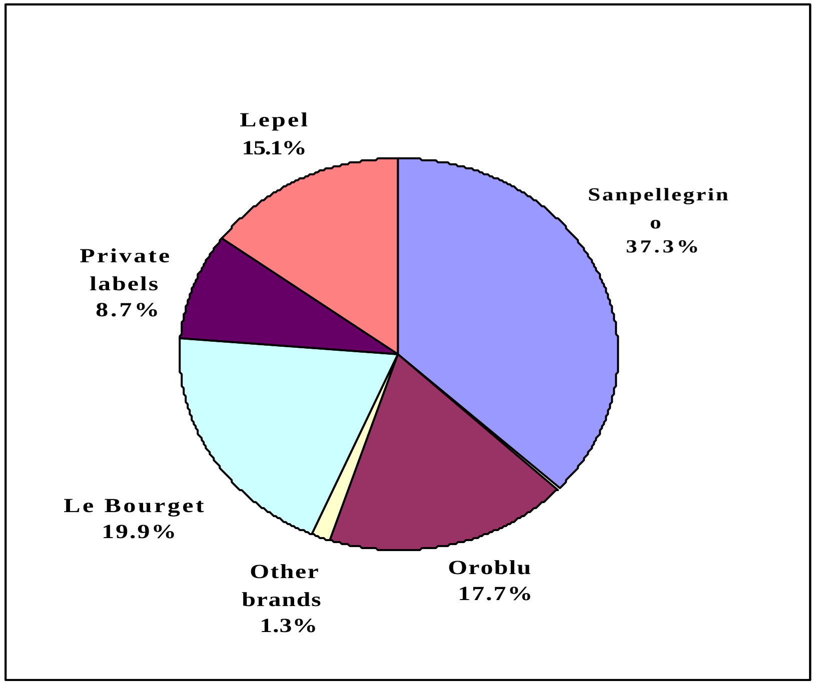
Financial results

Consolidated net sales by BRAND

% at 30.09.2003



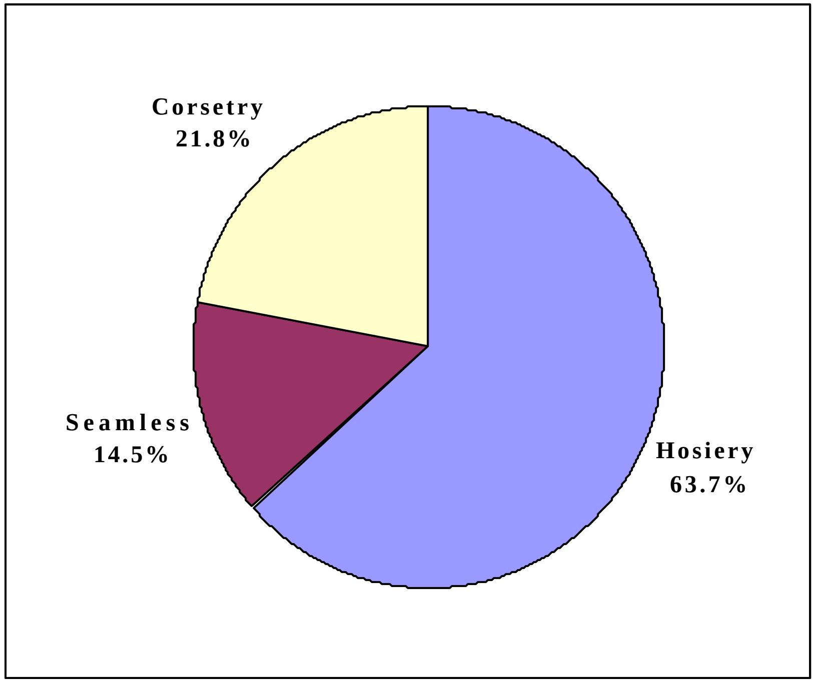
% at 30.09.2002



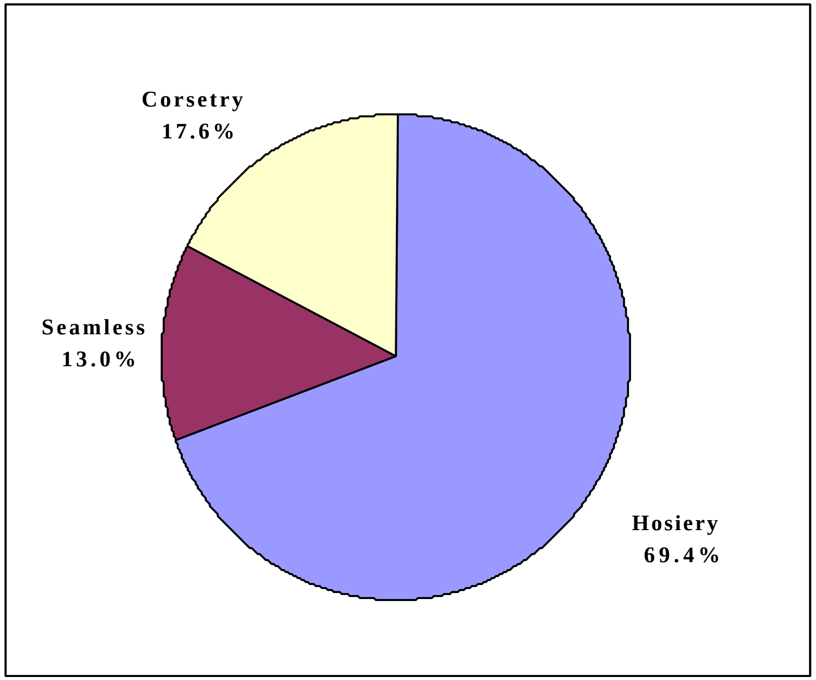
Financial results

Consolidated net sales by PRODUCT CATEGORY

% at 30.09.2003



% at 30.09.2002



Financial results
Consolidated working capital

Million Euro

	Sept. 30, 2003	June 30, 2003	Dec. 31, 2002	Sept. 30, 2002
Current assets	109,83	106,58	127,78	127,11
Current liabilities	(34,67)	(38,79)	(43,39)	(42,81)
Net working capital	**75,16**	**67,79**	**84,39**	**84,30**
Equity investments (including treasury share	3,68	3,31	4,13	6,04
Tangible and intangible fixed assets	56,04	58,05	62,67	64,57
CAPITAL INVESTED	**134,88**	**129,15**	**151,19**	**154,91**
Non-current liabilities	(12,47)	(12,43)	(11,64)	(10,63)
NET CAPITAL INVESTED	**122,41**	**116,72**	**139,55**	**144,28**
Net financial indebtedness	73,99	69,73	83,69	80,72
Minority interest net equity	1,23	1,30	1,53	1,52
Net equity	47,19	45,69	54,33	62,04
TOTAL	**122,41**	**116,72**	**139,55**	**144,28**

Figures at Sept. 30 and at June 30 are presented without taxes

Progress made by the projects

AREA	RESULT Jan./Sept. 2003 vs. Jan./Sept. 2002
Inventory	- Euro 11 million
Working capital	- Euro 9 million
Payables	- Euro 7 million to Banks - Euro 6 million to Suppliers - Euro 13 million total
Personnel Le Bourget	63 units less by end of year
Personnel Parent Company	47 units less since beginning of year
Cost of labour	- Euro 1.4 million

Conclusions

On the contrary to Stephen Hawking,
we believe that it is possible to get out of the Black Holes
(of the losses in the three-year period 2001-2002-2003).

Results expected from the Three-Year Plan

- Stabilisation of sales at around Euro150 million annually;
- Economic equilibrium before taxes and extraordinary items in 2004;
- Net profit, after taxes, in 2005.

Indicators:

- EBITDA above 10% during the three-year period;
- EBIT above 5% from 2006.

Thank you for your attention

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