

The group's management encountered the financial community

**SABAF:
Sales revenues +10% during the first 9 months of '99
End year sales and EBIT expected to increase by 12%**

By the year 2000, production activity will commence in Brazil

During the meeting with the financial community, the management of SABAF S.p.A., Italian company and world leader for the manufacture of components for domestic gas cooking appliances, illustrated results reached during the first half of 1999, market development, as well as the group's mid to long-term growth strategies. In addition, they supplied information regarding the progress of the third quarter 1999 as well as year end forecasts.

The first half of 1999

During the first half of 1999, the SABAF group registered an increase in their margin of income. The consolidated net income, in fact, increased by 15.7% reaching 7.2 billion lire, against 6.2 billion recorded during the same period of 1998. The consolidated cash flow (net income + amortisation and depreciation + deferred tax provision) equalled 14.1 billion lire (11.7 billion lire in June, 1998).

The value of production increased by 9%, to 57.7 billion lire against 52.9 billion lire in the first half of 1998. Sales totalled 54.6 billion lire, showing an increase of 5.9% compared to 51.6 billion in the first half of 1998. Value added equalled 30.1 billion lire (27.7 billion in June, 1998).

The gross operating margin increased significantly, reaching 18.7 billion (growing 9.2% with respect to 17.1 billion during the first half of 1998), and totalling 34.3% of sales (33.2% on the 30th of June, 1998).

After amortisation and depreciation totalling 5.7 billion lire, 22% more than the same period of 1998, linked to an investment strategy to increase production capacity and efficiency, the operating income reached 12.5 billion lire, with respect to the 11.9 billion lire reported during the first half of 1998. With reference to the income margins, ROS equals 22.8%, ROE equals 19.6%, while ROI reached 19.4%

The financial position of the Group shows the shareholders' equity of 73.3 billion lire, against 66.3 billion during June 1998, and net debt of 5.9 billion lire, against 170 million on June 30th, 1998.

As far as SABAF S.p.A. is concerned, the value of production equalled 57.7 billion lire, against 52.9 reported during the first half of 1998. Net sales reached 54.6 billion lire on June 30th, 1999 (51.6 billion on June 30th, 1998). Value added totalled 28.6 billion lire (26.3 last June). The gross operating margin equalled 17.3 billion lire against 15.7 billion lire on the 30th of June 1998. Net operating margin totalled 9.2 billion (9.7 billion in June, 1998), while net income reached 5.4 billion against 5 billion on June 30th, 1998. Cash flow (net income + amortisation and depreciation + deferred tax provision) equalled 12.8 billion (10.5 in the first half of 1998).

At present, SABAF sells 49% of their products in Italy, and 51% in markets abroad, of which 37% in Europe (UE and Extra UE). The remaining 14% is sold in the rest of the world.

Growth strategies: the BSPARKS joint-venture

SABAF S.p.A. announced a joint-venture with SIBER S.p.A., leader for the manufacture of electric and electronic components, marketed to several industries (domestic appliances, automotive, information technology, precision equipment). SIBER S.p.A. is the holding of a multinational group, with net sales of some 300 billion Lire in 1998.

The agreement will establish a new company, BSPARKS, with an initial share capital of 6 billion Lire, owned 50% by SABAF S.p.A. and 50% by SIBER S.p.A.

BSPARKS will specialise in the manufacture of electric and electronic components for gas cooking appliances, for example electronic ignition devices: in effect integrating the technological know-how of both groups. The agreement will lead to the common development and production of highly technological electronic components, while maintaining profitable margins.

The initial phase production will take place at SIBER's plants, located in Italy, Germany and China. These components will be made with machinery, equipment and patents property of the joint-venture. In addition to its range of mechanical components (valves, thermostats and burners for gas cooking appliances), SABAF will be in charge of marketing the electric and electronic components by BSPARKS. The new products will be specially designed for maximising the performance of SABAF's gas components.

Production and sales will start in the beginning of 2000.

BSPARKS's goal is to acquire, in 2/3 of a year, 25% of the world market for electronic components for gas cooking appliances, totalling approximately 100 billion lire.

BSPARKS's business is expected to total approximately 20% of SABAF's sales by the year 2001. After a start-up phase, consisting of a global promotion strategy, benefits from scale economies of the new joint investments will guarantee profit margins in line with those currently achieved at SABAF.

The strategies for growth: the "Brazil" project and new strategic alliances

SABAF's management has declared that by the end of 2000, production will commence in their new plant located in Brazil, a strategic market with an annual potential demand totalling approximately 5 million gas ranges. SABAF is currently present in Brazil with a marketing company named Sabaf do Brasil.

In detail, the project will develop in 3 phases:

- By the year 2000 production will commence, focussing this first phase on the machining and assembly on site of some of the burner components. The more technologically complex burner components will continue to be produced in Italy. Within 24 months, and a forecasted investment of 2-3 billion lire, 3-4 million pieces/year will be sold on site.
- By the end of 2002, complete burner production is expected to take place at the new plant, while responding to the most advanced technological standards. A forecasted investment of 25-28 billion lire will be required. The goal, within the first 12 months of production, is to reach 8 million pieces/year sold on site
- By the end of 2003, it is expected to produce on site the entire range of SABAF components, launching production of thermostats with safety devices and valves. These products will be destined for the entire Mercosur area. Through Mexico, growth will also follow in the NAFTA countries.

The North American market is extremely interesting for the SABAF group. The market for gas components has a value estimated at approximately 100 billion lire. It is expected that by the end of this year, a distributors agreement with a strategic partner will be signed for the sale of SABAF components in the United States.

“Our effort at this phase,” Bettinzoli, SABAF’s managing director, declared “is to bombard and take advantage of growth opportunities in the international markets, particularly from those countries outside the European Community, characterised as having strong vitality. Commencing production in Brazil and the commercial penetration to the United States represent a fundamental stage toward conquering such strategic world markets, like the Mercosur and Nafta area.”

Results of the third quarter and forecasts for year end 1999

During the third quarter, the sales of SABAF components progressed extremely positively: income from sales in fact grew by 20% with respect to the third semester in 1998, increasing sales revenues during the first 9 months of 1999 10% with respect to the same period in 1998.

“Based on the results registered in the past months and the dynamic demand”, Bettinzoli added, “we expect to reach a year end sales increase equal to 12% and an increase in line with operating profits.”