Group Consolidated Financial Statements 1998

Balance Sheet and Statement of Income
Explanatory Notes
Statutory Auditors' Report
Auditors' Report

Consolidated Financial Statements as at 31.12.1998
(in millions of Lire)

Balance Sheet-Assets

	31.12.1998	31.12.1997
B) Fixed Assets		
I. Intangible		
1) Start-up and expansion costs	17,420	1,816
2) Cost of research, development and advertising	5,859	2,446
3) Cost of industrial patents, know-how and usage rights	670	963
4) Concessions, licences, brand names and similar rights	8,435	9,536
5) Goodwill	3,710	4,447
5 bis) Consolidation differences	148,982	78,257
6) In progress and deposits	4,984	1,949
7) Others	28,453	22,556
	218,513	**121,970**
II. Tangible		
1) Land and buildings	270,189	288,878
2) Plant and machinery	164,297	181,584
3) Industrial and commercial equipment	7,658	8,714
4) Others	21,978	21,594
5) In progress and deposits	178,177	124,038
	642,299	**624,808**
III. Financial		
1) Stockholdings in:		
a) subsidiaries	20,210	11,511
b) associated companies	16,393	18,172
d) other companies	6,610	3,608
	43,213	**33,291**
2) Loans		
a) to subsidiaries		
– within one year		5,591
– over one year	1,621	
b) to associated companies		
– within one year	9	98
d) to others		
– within one year	1,528	27,514
– over one year	25,915	24,527
	29,073	**57,730**
3) Other securities	41,036	44,984
4) Treasury stock (total nominal value Lire 1,000,000,000)	6,180	
Total fixed assets (B)	**980,314**	**882,783**

	31.12.1998	31.12.1997
C) Current assets		
I. Inventory		
1) Raw materials, ancillaries and consumables	18,192	27,907
2) Products in progress and semi-finished products	10,048	15,125
4) Finished products and goods	245,357	199,699
5) Deposits	350	709
	273,947	**243,440**
II. Receivables		
1) Trade receivables		
– within one year	293,111	352,189
– over one year	5,253	3,852
	298,364	**356,041**
2) From subsidiaries		
– within one year	13,221	68,217
3) From associated companies		
– within one year	3,079	1,248
5) From others		
– within one year	127,722	116,494
– over one year	7,516	10,408
	135,238	**126,902**
	449,902	**552,408**
III. Financial current assets		
4) Other stockholdings	577	2,087
6) Other securities	3,050	6,853
	3,627	**8,940**
IV. Liquid assets		
1) Banks and post office accounts	100,691	13,347
2) Cheques on hand	823	404
3) Cash and securities on hand	1,243	1,779
	102,757	**15,530**
Total current assets (C)	**830,233**	**820,318**
D) Accrued income and prepaid expenses		
– various	**6,662**	**7,465**
TOTAL ASSETS (B + C + D)	**1,817,209**	**1,710,566**

Consolidated Financial Statements as at 31.12.1998
(in millions of Lire)

Net Equity and Liabilities

	31.12.1998	31.12.1997
A) Net equity		
I. Capital stock	140,620	102,000
II. Share premium reserve	210,746	
IV. Legal reserve	3,804	5,833
V. Reserve for treasury stock	6,180	
VII. Other reserves		
Extraordinary reserve		5,632
Shareholders - advance payments for capital stock		2,331
Reserve for anticipated amortization per Art. 67 DPR 917/86		1,652
Merger reserve		345
Consolidation reserve	9,364	9,558
VIII. Profit (loss) brought-forward	(27,473)	(41,456)
IX. Group's share of profit (loss) for the year	24,339	28,988
Total Group net equity	**367,580**	**114,883**
Minority interests in net equity	13,295	50,102
Minority's share of profit (loss) for the year	(112)	4,735
Total minority interests	**13,183**	**54,837**
Total (A) - net consolidated equity	**380,763**	**169,720**
B) Provision for liabilities and charges		
1) Provision for severance indemnities	1,673	1,323
2) Provision for taxation	1,214	820
3) Other	5,472	9,471
Total (B)	**8,359**	**11,614**
C) Staff severance indemnities	**45,633**	**45,422**

	31.12.1998	31.12.1997
D) Payables		
1) Bonds		
– within one year	3,300	56,100
– over one year	250,000	3,300
	253,300	**59,400**
3) Bank loans and overdrafts		
– within one year	377,116	604,518
– over one year	172,766	211,751
	549,882	**816,269**
4) Loans from other financial institutions		
– within one year	116,087	145,343
– over one year	15,521	15,127
	131,608	**160,470**
5) Deposits		
– within one year		12
6) Trade payables		
– within one year	334,844	326,662
– over one year		285
	334,844	**326,947**
7) Payables secured on credit instruments		
– within one year	1,000	
8) Payables to subsidiaries		
– within one year	2,344	8,602
9) Payables to associated companies		
– within one year	1,107	3,434
11) Tax payables		
– within one year	16,900	17,562
– over one year	2	79
	16,902	**17,641**
12) Payables to pension and social security institutions		
– within one year	7,432	8,412
13) Other payables		
– within one year	57,182	49,711
– over one year	3,747	4,373
	60,929	**54,084**
Total (D)	**1,359,348**	**1,455,271**
E) Accrued expenses and deferred income		
– various	**23,106**	**28,539**
TOTAL LIABILITIES (A + B + C + D + E)	**1,817,209**	**1,710,566**

Consolidated Financial Statements as at 31.12.1998
(in millions of Lire)

Memorandum accounts

	31.12.1998	31.12.1997
1) Real guarantees - sureties		
– subsidiaries	717,496	928,282
– associated companies	1	36
– affiliated companies	41,119	8,314
– other companies	173,303	108,595
	931,919	**1,045,227**
2) Real guarantees - letters of comfort		
– subsidiaries	115,262	175,924
– associated companies		300
– affiliated companies	7,700	3,100
– other companies	4,400	600
	127,362	**179,924**
3) Indirect guarantees - credit mandates		
– subsidiaries	95,990	111,790
– associated companies	10,500	
– other companies	8,500	
	114,990	**111,790**
4) Real guarantees - pledges		
– subsidiaries	2,850	44,495
– associated companies	5,360	
	8,210	**44,495**
5) Real guarantees - mortgages		
– other companies	484,529	542,447
	484,529	**542,447**
6) Assets on third party premises		645
7) Other risks and commitments	29,722	43,587
TOTAL MEMORANDUM ACCOUNTS	**1,696,732**	**1,968,115**

Consolidated Financial Statements as at 31.12.1998
(in millions of Lire)

Statement of Income

	31.12.1998	31.12.1997
A) Value of production		
1) Revenues from sales and services	1,970,891	2,066,933
2) Changes in product inventories and products in progress, semi-finished and finished	17,158	(17,102)
4) Increase in fixed assets produced internally	15,467	7,514
5) Other revenue and income		
– various	31,469	20,316
– subsidies	1,026	1,790
	32,495	**22,106**
Total value of production (A)	**2,036,011**	**2,079,451**
B) Costs of production		
6) For raw materials, ancillaries, consumables and goods	1,382,262	1,422,745
7) For services	276,131	276,894
8) For the use of third party assets	22,911	20,771
9) For personnel		
a) Salaries and wages	123,520	122,730
b) Social security costs	42,937	52,576
c) Severance indemnities	9,207	10,028
e) Other costs	2,687	2,209
	178,351	**187,543**
10) Amortization and write-downs		
a) Amortization of intangible fixed assets	17,321	16,227
b) Amortization of tangible fixed assets	42,777	44,418
d) Provision for bad debts and write-downs of other current assets	9,382	10,236
	69,480	**70,881**
11) Changes in inventories of raw material ancillaries, consumables and goods	(20,470)	(11,452)
12) Provision for risks	2,967	1,917
13) Other provisions	126	424
14) Sundry administration costs	25,856	35,777
Total costs of production (B)	**1,937,614**	**2,005,500**
Difference between value and costs of production (A-B)	**98,397**	**73,951**

	31.12.1998	31.12.1997
C) Financial income and expense		
15) Income from stockholdings		
– from subsidiaries	8,629	13,205
– from associated companies	400	8,583
– other	259	265
	9,288	**22,053**
16) Other financial income		
a) from fixed loans		
– from subsidiaries	33	
– other	1,432	1,963
	1,465	**1,963**
b) from long-term securities other than stockholdings	5,420	5,397
c) from current securities other than stockholdings	956	3,057
d) income other than described above		
– from subsidiaries	854	2,179
– from associated companies		8
– other	27,470	18,350
	28,324	**20,537**
	36,165	**30,954**
17) Interest and other financial costs		
– paid to subsidiaries	(9)	(368)
– paid to associated companies	(15)	(192)
– other	(94,534)	(99,378)
	(94,558)	**(99,938)**
Total financial income and expense (C)	**(49,105)**	**(46,931)**
D) Adjustments to the value of financial assets		
18) Write-ups		
a) of stockholdings	262	1,416
19) Write-downs		
a) of stockholdings	(461)	(3,996)
b) of financial fixed assets other than stockholdings	(899)	(300)
	(1,360)	**(4,296)**
Total adjustments to the value of financial assets (D)	**(1,098)**	**(2,880)**

Consolidated Financial Statements as at 31.12.1998
(in millions of Lire)

Statement of Income

	31.12.1998	31.12.1997
E) Extraordinary income and expense		
20) Income		
– surplus on sales	3,722	16,707
– various	5,572	26,463
	9,294	**43,170**
21) Expense		
– loss on sales	(588)	(5,973)
– various	(9,779)	(12,967)
– taxation relating to the preceding financial year	(10)	(15)
	(10,377)	**(18,955)**
Total Extraordinary items (E)	**(1,083)**	**24,215**
Profit before taxation (A – B ± C ± D ± E)	**47,111**	**48,355**
22) Taxation on the profit for the year	(22,884)	(14,632)
26) Net profit, after taxation, for the year		
– Profit (loss) for the year	24,227	33,723
– Minority interests' share of (profit) loss	112	(4,735)
Group's share of profit (loss)	**24,339**	**28,988**

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The business and structure of the group

The Companies forming the Cremonini Group operate in the following sectors:

- production (slaughtering, portioning and sale of beef, production and sale of cured-meats, spices and industrial aromas);
- the restaurant business (railways and commercial);
- distribution (to the catering industry and door-to-door);
- centralised activities (real-estate and investment management and provision of services).

The consolidated financial statements comprise the financial statements of the Parent Company, Cremonini S.p.A., and of those companies in which the Parent Company holds, either directly or indirectly, the majority of the voting rights. Subsidiaries in liquidation, or otherwise inactive, have been excluded from the consolidation, as have other companies if the value of their financial statements is individually and collectively immaterial; also excluded are those companies destined to be sold in the short-term.

A full list of the companies included in the scope of the consolidation as at 31 December 1998, together with the changes in the scope of the consolidation with respect to the year ended 31 December 1997, are shown in the relevant Exhibit.

Events which occurred during the 1998 financial year

The principal events which occurred during the 1998 financial year are described in the Directors' Report.

The structure and contents of the consolidated financial statements

The 1998 consolidated financial statements have been prepared in conformity with the requirements of Decree no. 127/1991, integrated and interpreted on the basis of the accounting principles recommended by the Commission of Accounting Principles of the National Board of Dottori Commercialisti and Ragionieri (Tax Advisers, Auditors and Accountants). These principles have been applied to the financial statements of the Parent Company as well as those of the

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subsidiary companies included within the scope of the consolidation. The financial statements of subsidiaries falling within the scope of the consolidation have been prepared, as at 31 December 1998, for approval by their respective Annual General Meetings. These financial statements have been reclassified and, if necessary, modified and altered to conform to the accounting principles of the Group and to remove unnecessary fiscal classifications.

The explanatory notes to the consolidated financial statements provide the illustrations, analyses and, in some cases, interpretations of the content of the consolidated financial statements and contain the information required by Article 38 of Decree no.127/1991. Moreover, all the complementary information, considered necessary to give a true and fair view of the consolidated financial statements, has been provided even if not required by a specific provision of the law.

The consolidated financial statements as at 31 December 1998 show the information from the preceding year for comparative purposes.

Moreover, to provide full information the net equity shown in the consolidated financial statements has been reconciled with that shown in the Parent Company's fiscal financial statements and a schedule of the differences in the consolidated equity and the consolidated cash flow is given as Exhibit 4 and 6, respectively.

The criteria and method of consolidation

The consolidated financial statements have been prepared using the global integration (line-by-line) method, which consists of aggregating all the assets and liabilities of the Parent Company with those of the consolidated subsidiaries.

The principal consolidation criteria adopted for the application of this method are the following:

- The carrying value of all of the consolidated subsidiaries was eliminated against the relative net equity at the time of the first consolidation (the 1994 financial year) if these existed at that time, or at the time of acquisition if the subsidiary was purchased after 31 December 1994. The resulting negative differences have been charged to a "Consolidation reserve". The positive differences have been charged to the consolidated financial statements and, where possible, to the asset element of the relevant company included in the consolidation, or deducted, in the case where the company's activities are such that the goodwill paid would be not be justified by future profitability, from the consolidation reserve. The resulting residual difference is shown under assets as "Consolidation

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differences" and amortized over a period of 25 years using the straight-line method because it is considered reasonable that there will be both future profitability in the sector in which each of the subsidiaries operates, and that they will continue to have a strategic value within the Group.

- The profits (or losses) arising after the first consolidation were charged in the consolidated balance sheet under the heading "Profit (loss) brought-forward".
- The reciprocal debits or credits, and costs or income, between consolidated companies, together with the effect of all material transactions, have been eliminated.
- The minorities share of net equity and profit for the year are shown separately under net equity in the consolidated balance sheet and in the statement of income.

The financial statements of Cremonini Finance Plc., a foreign subsidiary formed during the course of 1997, which were taken into the scope of the consolidation using the integration method commencing from the 1998 financial year, have been converted into Italian Lire using the historical rate of exchange for fixed assets and the rate of exchange at balance sheet date for other assets and liabilities, while the income statement has been converted using the average exchange rate for the year.

The exchange rates utilised are as follows:

Lira/Sterling rate as at 31 December 1998: Lire 2,763.16 average rate: Lire 2,876.66

Consolidated financial statements reference date

The reference date of the consolidated financial statements is 31 December 1998, which does not differ from the financial year-ends of the companies consolidated.

The scope of the consolidation

The Group consolidated financial statements as at 31 December 1998 include those of the Parent Company Cremonini S.p.A., and its subsidiaries controlled, directly or indirectly, as provided by Article 2359 of the Civil Code.

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Subsidiaries in liquidation, or otherwise inactive, have been excluded from the scope of the consolidation as the value of their financial statements is individually and collectively irrelevant. The consolidated financial statements as at 31 December 1998 exclude the following subsidiaries:

Bonora S.r.l. in liquidation
Ce France S. a r.l.
Cogea Sud S.r.l.
IN.AL.CA. Fleischhandel GmbH
IN.AL.CA. Hellas E.p.e.
IN.AL.CA. Pol. Spolka. Zoo. in liquidation
Pianeta Italia S.r.l.
S.I.I. Italia S.r.l. in liquidation
S.A.M. S.r.l.
S.A.R.A. S.r.l.
S.G.D. S.r.l.
Buona Italia Alimentos Ltda.
C.T.A. S.r.l. in liquidation
Buffet Suisse Milano S.r.l. in liquidation
Fe.Ber. Carni S.r.l.

The stockholding in these companies were valued at cost, with the exception of the stockholding in Fe. Ber Carni S.r.l., which was consolidated using the net equity method, as this is considered to show the profitability of that subsidiary more correctly.

With regard to the stockholdings in the following subsidiary companies:

Volo Nedda Buffet Stazione Brescia S.r.l.
Buffet Stazione di Belluno S.r.l.
Gestione Buffet Stazione FF.SS. di V. e L. S.r.l.
Multiservice S.p.A.
Cons. Centro Comm.le Ingrosso Carni S.r.l.

the majority of the above named companies were acquired towards the end of the 1998 financial year. As these companies are not material to the consolidated financial statements as at 31

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December 1998, they will only be consolidated using the global integration method with effect from the financial year ending 31 December 1999.

A list of the subsidiaries included within the scope of the consolidation, indicating the method of consolidation, is shown in Exhibit 7, which forms an integral part of these explanatory notes to the consolidated financial statements.

The principal changes in the scope of the consolidation for the financial year ended 31 December 1998 were:

- The acquisition of an additional stockholding in the subsidiary Marr S.p.A.; the aggregate stockholdings by Group companies increased from 63.44% to 99.89%.
- Europork S.p.A. and Transitexpress S.r.l. were both sold during the 1998 financial year and therefore excluded from the scope of the consolidated financial statements as at 31 December 1998. The exclusion of these companies has, respectively, contributed an extraordinary income of Lire 3,524 million and an extraordinary loss of Lire 189 million.
- The acquisition by Marr S.p.A. of about 74% of the capital stock of Adria Food S.r.l. which has its registered office at San Michele al Tagliamento (Venice). The options, exercisable before 10 July 1999, for the acquisition of 20% of the capital stock of the latter company by Marr S.p.A., and the options exercisable before 10 January 2001 for the residual balance of 5.91%, have been taken into account in the course of consolidating Adria Food S.r.l. As these options, are held by Marr S.p.A. itself, Marr's directors have already confirmed their willingness to complete the transaction to acquire the voting rights for, and thereby attaining the full benefits of, 100% of the capital stock of Adria Food within the time provided for by the contract.
- The consolidation, using the global integration method, of the subsidiaries - Compagnie delle Spezie S.r.l., which in the previous financial year was valued at cost - and Cremonini Finance Plc., formed in 1997, but which only commenced operations from the 1998 financial year.
- The acquisition, from related parties, of further stockholdings in Inalca. S.p.A., which is now 100% controlled by the Parent Company. Moreover, Inalca increased its stockholding in Ultrocchi Carni S.p.A. from 77.26% to 77.79% through the purchase, from third parties, of shares with a nominal value of Lire 4,205 million. This subsidiary subsequently sold shares of Ultrocchi of a total nominal value of Lire 4,066 million (equal to 15.37% of the total capital stock) at a price of Lire 15,000 million. This sale realised a profit for an unrelated foreign company of about Lire 8,591 million.
- The sale to third parties, by Marr S.p.A., of 3% of the share held in Marr Alisurgel S.r.l.. As at 31 December 1997 this subsidiary was 100% held by Marr.

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As described in the Directors' Report, the remaining shares of the subsidiary Vescom S.r.l. (77.77% held at 31 December 1997) were acquired during the course of 1998 - and this company, together with Agape S.p.A., Rici S.p.A. and Golden S.r.l., was subsequently merged into the Parent Company during 1998. To ensure compliance with the accounting principles applied for the preparation of the consolidated financial statements, the effects of these transactions have been eliminated in accordance with the valuation criteria described below.

Consolidation criteria

The criteria utilised for the consolidated financial statements as at 31 December 1998 do not differ from the criteria utilised for the 1997 consolidated financial statements, and have been prepared in terms of the law.

Certain classifications used in the consolidated financial statements differ from those used in the previous year's consolidated financial statements. As a consequence, the 1997 comparative figures have been reclassified to make them comparable. These reclassifications concern loans from other financial institutions, which have been added to the loans from banks.

With regard to the memorandum accounts, the balances as at 31 December 1997 have been adjusted to make them comparable to those as at 31 December 1998.

The more significant valuation criteria utilised by the Group for preparing the consolidated financial statements and, where necessary, restating the financial statements of each consolidated subsidiary, are as follows:

Intangible fixed assets

Intangible fixed assets are shown at either acquisition or production cost, including ancillary costs, and are subjected to amortization at rates considered reasonably chargeable to the financial year.

These relate to costs which are spread over a number of years and principally comprise consolidation differences (amortized as previously specified), brand names and goodwill purchased for value (amortized within a period of ten years) and advertising costs amortized over a period not exceeding five years. Intangible assets include, moreover, the costs relating to the Stock Market flotation, amortized over five years. The criteria adopted differ from that used by the Parent Company, as the amortization of start-up and expansion expenses commences from the moment from which the benefits of these costs are enjoyed.

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Intangible assets also include the costs of the Securitization and Eurobond transactions, described in another section of these explanatory notes, which are amortized over the period to which these transactions refer (8 years and 5 years, respectively).

The costs of start-up, expansion, research and development, advertising and goodwill with benefits over a number of years are shown under assets with the agreement of the Statutory Auditors.

Tangible fixed assets

Tangible fixed assets are shown at cost of purchase or manufacture, including ancillary costs, net of the relevant provision for amortization. The value in the consolidated balance sheet takes into account, the financial expense sustained for loans specifically established to purchase these assets, calculated with reference to the period of manufacture, until these assets are ready for use.

Some of these tangible assets were, in previous years, written-up in accordance with the provisions of the law. The value of certain land and buildings includes, in addition, the partial allocation of surpluses paid at the time of acquisition as determined at the time of the first consolidation (1994), or at the time of acquisition if this took place subsequently. The values resulting from these write-ups do not, however, exceed their estimated realizable values.

The provision for amortization is calculated on a straight-line basis using rates relative to the useful life of the assets. The period of amortization commences from the financial year in which the assets are brought into use.

The annual rates of amortization applied by the Group are as follows:

• Buildings	1.5 - 10%
• Plant and machinery	7.5 - 20%
• Industrial and commercial equipment	20 - 25%
• Other assets	10 - 40%

Ordinary repair and maintenance expenses are charged to the statement of income in the year in which they occur. The costs of improvements, modernisation and modifications which significantly increase production capacity, or the useful life of the assets, are capitalized.

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With regard to subsidies received in connection with plant and machinery purchased, up until 31.12.1997, in accordance with current laws these were credited directly to reserves, net of deferred taxation if applicable, in the financial year in which they are received (encashed). Commencing from the 1998 financial year these were booked as a direct credit against the investment to which they refer, or credited annually against the relative amortization charge. In particular, because some of these subsidies were relative to assets already brought into use in the 1996 financial year, in 1998 the pro rata portion of these subsidies for the 1996 and 1997 financial years were booked as extraordinary income. The 1998 financial year's portion has been reclassified as income for the year.

Financial fixed assets

Investments in non-consolidated subsidiaries (except for Feber Carni S.r.l.), other companies, treasury stock and other securities, are valued at cost, subsequently written-up in terms of the specific inflation revaluation law, and then written-down when it is judged that there is no enduring value.

Investments in associated companies in which the stockholding is between 20% and 50% are valued using the net equity method, unless these investments are immaterial in value, in which case they are valued as described in the previous paragraph.

Other fixed receivables are shown at their estimated realizable value.

Dividends and related tax credits are accounted for in the financial year in which they are encashed.

Inventory

Inventories are valued at the lower of purchase or production cost (including applicable expenses) and realizable market value. The realizable market value is calculated taking into account the remaining production costs and the direct costs of sale. Obsolete or slow moving items are written-down according to the estimate of their possible use or sale.

Cost, including ancillary costs, is calculated as follows:

- inventories of companies operating in the beef sector are valued at purchase cost, or average production cost for the year, in accordance with the degree of transformation;
- other producing companies, restaurant and distribution divisions use the FIFO method.

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Receivables

Receivables are shown at their estimated realizable value taking into account, however, both bad debts already identified and a provision for doubtful debts estimated by considering each individual debt and past experience.

Current Assets

Securities and other current assets are valued at the lower of cost or realizable value. Cost is purchase cost, including associated expenses, using the FIFO method.

Dividends and relative tax credits are accounted for in the financial year in which they are encashed.

Liquid assets

Liquid assets are shown at nominal value.

Provisions for liabilities and charges

Provisions for liabilities and charges are established to cover losses or other liabilities known to exist which, at the end of the financial year, cannot be precisely stated. The provisions are based on the best possible estimate of these items. Contingent liabilities are shown amongst the notes to the provisions, without being booked.

Staff severance indemnities

Provisions for leaving indemnities are made to cover the entire commitment to date towards employees, in conformity with current legislation and the collective and corporate labour contracts. This provision is subject to indexation.

Long and short-term payables

These are shown at nominal value.

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Accruals and prepaid expenses

Accruals and prepaid expenses are accounted for according to the period to which they refer.

These are adjusted, were necessary, to account for any changes which have taken place since the date on which they were provided.

Foreign currencies

Foreign currency transactions, which are not covered by a forward exchange contract for exchange risk, are normally converted into Italian Lire using the rate of exchange on the date of the transaction. At the end of the financial year outstanding assets or liabilities in foreign currencies are converted into Italian Lire at the rate applicable at balance sheet date. The differences, positive or negative, between the exchange rates at which these items were recorded and the values of these at the end of the year, is credited or charged to the Statement of Income.

Criteria of exchange rate differences used for currencies in the Euro area (ex Art. 18 Decree 213/98)

Assets or liabilities expressed in Euro area currencies have been converted at the irreversible exchange rates fixed as at 31 December 1998. Although the entire amount of positive and negative exchange differences was immaterial, these have been accounted for in the Statement of Income for the year ending 31 December 1998 according to the provision of Article 18, paragraph 3, of Decree 213/98.

Recognition of costs and revenues

Sales revenues are recorded on passage of ownership, generally the date of delivery; revenues from services to third parties are recorded according to the period that these services cover and income of a financial nature is recorded in the period to which it refers.

Costs are recorded in the period to which they refer.

Income tax on the profit for the year

Taxation is provided for on the basis of an estimate of tax payable for the financial year, with reference to the laws in force and taking account of applicable exemptions and tax benefits.

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Deferred taxation is accounted for taking into account both the fiscal effects of income and costs making up the profit for the financial year, which differ from those making up the fiscal profit, and the deferred taxation relative to consolidation movements. The provision for deferred taxation, of each company consolidated using the global integration method, is shown net of taxation paid in advance (principally recorded in the provision for taxation) and presumed to be recoverable in future years. Should the total of such taxes exceed the amount of the provision, the residual receivable is classified under other receivables.

Commitments, guarantees and risks

Commitments and guarantees are indicated in the memorandum accounts at their contractual values.

Risks for which the amount is certain or probable, are provided for according to the relevant criteria of each category of provisions for risks.

Contingent liabilities are described in the notes to the financial statements without charge to the relative provision.

OTHER INFORMATION

Securitization transaction

The securitization agreement, that commenced in December 1994 and was renewed in July 1997 (maturing in 2004) provides (together with a stand-by facility of Lire 70 billion, not utilised during the financial year) for the sale, without recourse, of trade receivables of up to a maximum of Lire 210 billion in aggregate on a rolling weekly basis, by the subsidiaries Corte Buona S.p.A., Inalca S.p.A., Marr S.p.A. and Ultrocchi Carni S.p.A., to the factoring company C.R.C. S.p.A., a subsidiary of East West Holding Ltd. These receivables are subsequently sold, without recourse, to Golden Castle Euro Finance Ltd., a subsidiary of Royal Exchange Trust Company Ltd.

Cremonini S.p.A. neither directly nor indirectly controls, either through a third party or by means of a nominee company, the factoring company C.R.C. S.p.A., or any of the aforesaid foreign companies. The role of Cremonini S.p.A is that of mandatory for the transfer of these trade receivables on behalf of its subsidiaries, and for the encashment of the net proceeds of the sales. Cremonini S.p.A. provides services to C.R.C. S.p.A; that is to say, it keeps the accounting records and manages the entire transfer of receivables.

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Receivables sold to C.R.C. S.p.A. during the course of 1998 totalled about Lire 902 billion.

Exemptions in terms of the 4th paragraph of Article 2423 of the Civil Code

The exemptions provided for by the 4th paragraph of Article 2423 of the Civil Code have not been applied.

Figures expressed in the consolidated financial statements

The figures in the financial statements are all shown in millions of Lire to facilitate reading and comprehension of the results.

Subsequent events occurring after 31 december 1998

The significant events which occurred subsequent to 31 December 1998 are detailed in the Director's Report.

Consolidated explanatory notes

Comment on the principal classification of assets, liabilities and the statement of income

Comments on the overall results and financial position of the companies included within the scope of the consolidation, and on the transactions between Group companies for the financial year, are given in the Directors' Report to which you should refer. With regard to the individual classifications used for the consolidated financial statements the following definitions are given.

ASSETS

B) FIXED ASSETS

Appropriate schedules are attached of the three fixed asset classes (intangible, tangible and financial) indicating for each heading the historic cost, previous provisions for depreciation and previous write-ups or write-downs. Also shown are the movements during the financial year and the final balances, as well as the total amount of revaluation (write-ups) as at 31 December 1998.

I. Intangible fixed assets

As at 31 December the balances of intangible fixed assets were as follows (in millions of Lire):

	31.12.1998	31.12.1997
Start-up and expansion costs	17,420	1,816
Cost of research, development and advertising	5,859	2,446
Industrial patents, know-how and usage rights	670	963
Concessions, licences, brand names and similar rights	8,435	9,536
Goodwill	3,710	4,447
Consolidation differences	148,982	78,257
Intangible fixed assets in progress and deposits	4,984	1,949
Other intangible fixed assets	28,453	22,556
Total	**218,513**	**121,970**

Consolidated explanatory notes

The heading “Start-up and expansion costs” includes the following (in millions of Lire):

	31.12.1998	31.12.1997
Costs of altering the Articles of Association	1,089	1,705
Expenses arising from the Stock Market flotation	16,238	
Company formation costs	38	57
Other minor costs	55	54
Total	**17,420**	**1,816**

The increase in this section is mainly due to the capitalisation of the expenses incurred for the Stock Market flotation. These expenses will be amortized over a five-year period, during which period the Group expects to draw the related benefits. The said expenses have been accounted for under intangible assets as they are expected to contribute to future profitability.

The make-up of the item “Costs of research, development and advertising” is shown below (in millions of Lire):

	31.12.1998	31.12.1997
Costs of market research and of new packaging development	310	317
Costs of television advertising	4,938	1,684
Other advertising costs	303	428
Other minor costs	308	17
Total	**5,859**	**2,446**

The increase in television advertising costs is principally due to expenses incurred during the 1998 financial year by IN.AL.CA. S.p.A. and Corte Buona S.p.A. for television advertising campaigns for their respective commercial brand names. This publicity campaign was undertaken to launch new products and the relative effect on sales volumes are expected in the next few years; for this reason these costs have been capitalized and amortized over 5 years in relationship to the anticipated future advantages from the campaign.

The heading “Concessions, licences, brand names and usage rights” includes principally Lire 7,219 million being the residual balance of the value of the brand name “MONTANA” belonging to IN.AL.CA. S.p.A., amortized over ten years. The decrease under this heading is due to the year’s amortization.

The heading “Goodwill” refers principally to the residual goodwill (Lire 1,800 million) of ACSAL S.p.A. merged with IN.AL.CA. S.p.A. in a previous year and the merger differences arising

Consolidated explanatory notes

from the mergers of various companies with Agape S.p.A. (now Cremonini S.p.A.) in previous years. With the agreement of the Statutory Auditors, the period of amortization of the goodwill is between five and ten years. The decrease during the 1998 financial year is due to the respective amortization charge.

The heading "Intangible fixed assets in progress and deposits" has increased due mainly to the capitalization, by Marr S.p.A., of acquisition costs (goodwill) at the end of the financial year. This principally refers to the purchase of an operation from Discom S.p.A. for Lire 3,924 million (for the goodwill mentioned above) and intangible fixed assets in progress in various branches of Marr S.p.A. (Lire 320 million) and other minor items.

The "Consolidation differences" represents the excess of the expense sustained for the acquisition of stockholdings in consolidated subsidiaries over the net equity value at the time of the first consolidation (1994), or at the time of acquisition if this took place subsequently.

The increase for the 1998 financial year relates to the consolidation for the first time of Compagnia delle Spezie S.r.l., the acquisition of control of Adria Food S.r.l. by Marr S.p.A. and the acquisition of further shares in Marr S.p.A., Vescom S.r.l. (subsequently merged with Cremonini S.p.A.), Ultrocchi Carni S.p.A. and IN.AL.CA. S.p.A.

The details of the movements in the consolidation differences, divided by subsidiary, is as follows (in millions of Lire):

	31.12.1997	Increases/ Decreases	Amortization	31.12.1998
Agape S.p.A.	16,777		(798)	15,979
Compagnia delle Spezie S.r.l.		4,517	(180)	4,337
Gepar Ltd.	12,096		(576)	11,520
IN.AL.CA. S.p.A.		1,872	(75)	1,797
Islandia S.p.A.	186		(8)	178
Marr S.p.A.	43,204	67,389	(2,073)	108,520
Marr Sames S.r.l.	1,132		(54)	1,078
Merigel S.r.l.	1,234		(54)	1,180
Polis S.r.l.	168		(8)	160
Sias S.p.A.	726		(35)	691
Ultrocchi Carni S.p.A.	1,870	212	(95)	1,987
Vescom S.r.l.	864	265	(46)	1,083
Adria Food S.r.l.		492	(20)	472
Total	**78,257**	**74,747**	**(4,022)**	**148,982**

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With the agreement of the Statutory Auditors the consolidation difference is amortized over a period of 25 years in equal annual instalments. This, with relationship to the business sector, and the strategic value of these subsidiaries within the Group, is reasonably considered to be the period of their future contribution to profitability.

The heading "Other intangible fixed assets" includes a residual amount of Lire 4,648 million being the costs sustained under various headings by the Parent Company in connection with the "securitization" of trade receivables belonging to certain subsidiaries, as previously discussed. The annual amortization charge is 12.5% of these costs. This heading also includes Lire 4,487 million relating to the expenses sustained for the Eurobond issue. The annual depreciation charge is 20% of those expenses, charged over the period of the issue. The residual value is almost entirely comprised of improvements to assets belonging to third parties where the Group's restaurant and distribution divisions are located. These costs are amortized in equal annual instalments over the duration of the relative rental contracts.

It should be emphasized that intangible assets have not been written-up, either in the current financial year, or in past financial years.

II. Tangible fixed assets

As at 31 December these were made up as follows (in millions of Lire):

	31.12.1998	31.12.1997
Land and buildings	270,189	288,878
Plant and machinery	164,297	181,584
Industrial and commercial equipment	7,658	8,714
Other assets	21,978	21,594
Fixed assets in progress and deposits	178,177	124,038
Total	**642,299**	**624,808**

Please refer to Exhibit 2 for details of the movements during the 1998 financial year.

During the year financial costs charged to tangible fixed assets totalled Lire 10,469 million as follows (in millions of Lire):

	31.12.1998	31.12.1997
Land and buildings	619	1,382
Fixed assets in progress	9,850	7,455
Total	**10,469**	**8,837**

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This represents interest on loans effectively applied to the manufacture of fixed assets.

The principal changes in tangible fixed assets, with the exception of the comments below regarding fixed assets in progress, are the normal replacement of, and additions to assets. The decreases, which are more significant, result from the removal of Europork S.p.A. from the scope of the consolidation. The amortization for the financial year is only partially compensated by the consolidation for the first time of Adria Food S.r.l. and Compagnia delle Spezie S.r.l.

The item "Fixed assets in progress" refers mainly to the Lire 168,808 million spent to date on the construction of the factory at Ospedaletto Lodigiano by the subsidiary Ultrocchi Carni S.p.A. that has still to be completed at 31 December 1998.

Tangible fixed assets totalling Lire 484,529 are pledged as described in the memorandum accounts.

Total write-ups of tangible fixed assets as at 31 December 1998

In terms of Article no. 10 of Law 72/1983, the historic cost of tangible fixed assets shown in the consolidated financial statements, which was written-up due to the law on inflation indexation, is as follows (in millions of Lire):

	31.12.1998
Land and buildings (Law 72/83 e 413/91)	6,380
Plant and machinery (Law 72/83)	2,065
Industrial and commercial equipment (Law 72/83)	82
Total	**8,527**

During the 1998 financial year the Ministry of Agricultural, Food and Forestry Resources approved and, in part, paid further subsidies to the subsidiaries Inalca S.p.A. and Ultrocchi Carni S.p.A. which relate to the farm development plan (called "Piano Carni"), being carried out in conjunction with other companies as provided for by Law no. 252 of 8 August 1991 and the regulations of the European Agricultural Fund. Based on Law no. 449/97 these subsidies for plant costs, that in the past have been partly accounted for as net equity reserves, are now entered as income and either subsequently reversed on the basis of the useful life of the assets forming part of the so-called "Piano Carni", or credited as a direct reduction of the value of the assets for which they were granted.

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On consolidation the surplus arising on the elimination of stockholdings against the respective net equities was, in part, attributed to land and buildings; this was credited to buildings (about Lire 30,181 million, net of the respective amortization - Lire 26,658 million as at 31 December 1997) and Lire 10,025 million to land (Lire 10,025 million as at 31 December 1997). The increase relative to the attribution to buildings derives principally from Marr S.p.A.'s acquisition of Adria Food S.r.l., the attribution of whose assets, net of amortization for the 1998 financial year, equalled Lire 4,432 million.

III. Financial fixed assets

1) **Stockholdings**

The following comments summarize the principal variations in stockholdings which are detailed in the attached exhibit. The principal movements concerned:

- The purchase, from related parties, of 17.33% of Gestimmobiliare S.p.A. for Lire 5,286 and the sale of the entire stockholdings as described later;
- the subscription for further shares at a cost of Lire 961 million in S.A.R.A. S.r.l., a company that disposes of the residue from the slaughterhouses;
- the purchase, for a total of Lire 2,975 million, of 100% of Volo Nedda Buffet Stazione Brescia S.r.l., Buffet Stazione Belluno S.r.l. and Gestione Buffet Stazione FF.SS. di Vallini e Leinati S.r.l.; these companies manage the buffets in the Italian State Railways stations at Brescia, Belluno and Novara, respectively;
- the purchase, for Lire 5,740 million, from an affiliated company of 82% of Multiservice S.p.A., which produces bread rolls and snacks destined for the "fast food" market;
- the purchase, for Lire 8,975 million, of 77,05% of Consorzio Centro Commerciale Ingrosso Carni S.r.l., a real-estate company.

It should be mentioned, moreover, that the stockholding in Grex S.r.l., a subsidiary consolidated using the global integration (line-by-line) method, was sold by the subsidiary C.e.i.be.c. S.r.l. to an affiliated company during the 1998 financial year and, during the same period, this holding was reacquired by the Parent Company. This transaction did not result in either a profit, or a loss, for the Group.

As at 31 December 1998 Compagnia delle Spezie S.r.l. and Cremonini Finance Plc. were consolidated using the global integration method.

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In addition, other movements related to the assignment, pro rata, to stockholders of holdings in companies no longer considered strategic. This was carried out by the use of reserves, in terms of Article 29 of Law 449/1997, for a total of Lire 19,069 million as follows (in millions of Lire):

Subsidiaries	
Alfa 95 S.p.A. in liquidation	2,033
Europork S.p.A.	13,283
Gestimmobiliare S.p.A.	3,253
Associated companies	
Cre.Am. S.r.l. in liquidation	500
Total	**19,069**

The initial value of stockholdings in subsidiaries includes the following previous write-ups and write-downs:

- Write-down of Lire 417 million related to C.T.A. S.r.l. , in liquidation;
- Write-down of Lire 35 million related to Bonora S.r.l. , in liquidation;
- Write-down di Lire 20 million related to Buffet Suisse Milano S.r.l. , in liquidation.

The other principal movements in stockholdings in associated companies are as follows:

- the reduction, due to the effect of using the net equity method of valuation, of stockholdings in Ligabue Catering S.r.l. and Ristochef S.p.A.;
- the sale, at book value of Cre.Mo.Fin. S.r.l., to an affiliated company;

The initial value of stockholdings in associated companies includes the write-up in terms of Law 72/1983 of Lire 68 million related to Fernie S.r.l. , in liquidation.

The most significant change in other stockholdings over the course of the financial year was the purchase of 13,04% of Nuova Campari S.p.A., based in S. Martino in Rio (RE), by the subsidiary Inalca S.p.A. for Lire 3,000 million.

The excess in the carrying value of each stockholding in subsidiary and associated companies, with respect to the corresponding share of net equity, cannot be considered an enduring loss in value, as this is either due to the fact that the underlying assets have market values which exceed book

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values, or the growth and profit potential of the industrial and commercial activity which these companies manage should be taken into account. In particular this excess is due to the following:

- Multiservice S.p.A., Buffet Stazione BL S.r.l., Volo Nedda Buffet Stazione BS S.r.l. and G. Buffet St. FF.SS. di V. e L. S.r.l. – the excess of the price paid over the net equity values of these companies is justified by their prospects of future profitability.
- Consorzio Comm.le Ingrosso Carni S.r.l. – This company owns the premises in which the subsidiary Marr carries out its meat processing. The market value of these premises justifies the carrying value of the stockholding.
- S.I.I. Italia S.r.l., in liquidation – S.A.M. S.r.l. – A provision for bad debts has been established which could be used to cover the losses of these companies.

2) Loans

Loans to subsidiaries due within 12 months

Details of these are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Alfa 95 S.p.A. in liquidation		3,891
S.G.D. S.r.l.		1,100
Ce France S. a r.l.		600
Total		**5,591**

The amount due from Alfa 95 S.p.A., in liquidation, was completely repaid during 1998.

Other movements principally result from reclassification as the relative items have become payable in the “After 12 months” period.

Loans to subsidiaries due after 12 months

The details of the items above are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Ce France S. a r.l.	600	
S.G.D. S.r.l.	870	
Buffet Stazione di Belluno S.r.l.	150	
Cogea Sud S.r.l.	1	
Total	**1,621**	

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These amounts, shown at nominal value, refer to interest-free financing. The principal change is the reclassification of the balance due by Ce France S. a r.l. and S.G.D. S.r.l.

Loans to associated companies due within 12 months

These, shown at nominal value, refer exclusively to interest-free financing of associated companies as follows (in millions of Lire):

	31.12.1998	31.12.1997
Serra della Spina S.r.l.	9	9
Cre. Am. S.r.l. in liquidation		89
Total	**9**	**98**

Other loans due within 12 months

These are shown at nominal value, net of the provision for bad debts, so as to reflect their estimated realisable value, and refer to deposits and loans due, other than from subsidiaries and associated companies. The details are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Interest-bearing loans to stockholders		13,282
Loan to Coop. Conduttori di Macellerie		3,195
Loan to Coop. Zoo-Mont		1,000
Other loans		1,413
Deposit for the purchase of shares		7,756
Others	1,828	1,168
Less – Provision for write-down	(300)	(300)
Total	**1,528**	**27,514**

The balance of the interest-bearing loan to stockholders, as at 31 December 1997, of Lire 13,282 million was a financing loan granted in previous years to a minority stockholder. During the first half of 1998, in the ambit of the reorganization of the Group Companies this loan was sold to an unrelated foreign company that simultaneously assumed the minority stockholder's shares in Cremonini S.p.A. The loan was repaid during the second half of 1998.

The loan to Coop. Conduttori di Macellerie was related to the acquisition of the stockholding in Centro Commerciale Ingrosso Carni S.r.l., the company that owns the premises where the

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subsidiary Marr S.p.A. carries out its activities. The loan was utilized to acquire the shares in Centro Commerciale Ingrosso Carni S.r.l

The loan to Coop. Zoo-Mont, which was outstanding as at 31 December 1997, was entirely repaid during the 1998 financial year.

"Deposit for the purchase of shares" at 31 December 1997 included the residual amount paid to third parties for the acquisition of shares in Marr S.p.A. and in Centro Commerciale Ingrosso Carni S.r.l., and the amount paid to a related party, at that time a stockholder of Cremonini S.p.A., for the purchase of shares in IN.AL.CA. S.p.A. The transfer of ownership of the above shares to the purchaser took place during the course of 1998, as previously described.

Other loans due after 12 months

These are shown at their nominal value, as this agrees with their realizable value, and the details are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Interest-bearing loan to East West Holding Ltd.	5,500	5,500
Deposit - C.R.C. securitization transaction	15,190	15,190
Due from the State Treasury	882	181
Tax credits on tax witholdings from severance indemnities	3,593	2,235
Others	750	1,421
Total	**25,915**	**24,527**

The items "Interest-bearing loan to East West Holding Ltd." and "Deposit - C.R.C. securitization transaction" are connected with the cession of trade receivables and these sums guarantee the securitization programme.

The item "Due from the State Treasury" principally comprises tax credits, for which reimbursement has been requested, and tax credits purchased from various companies.

"Tax credits on tax witholdings from severance indemnities" are related to the tax credits introduced by Law no.140 of 28 May 1997.

The heading "Others" principally includes deposits for utilities.

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3) Other securities

These represent State securities, certificates of deposit and bonds, for which the movements for the 1998 financial year were as follows (in millions of Lire):

	31.12.1997	Increases	Decreases	31.12.1998
C.C.T. 1.1.2003	38		(38)	
C.C.T. 1.10.2000	452		(452)	
C.D. Banca di Roma	3,235		(3,235)	
B.N.L. - 15.7.2003	38,783	6,090	(5,992)	38,881
B.N.L. - 1994/2004	1,223		(138)	1,085
B.N.L. - 1992/2002	1,253		(183)	1,070
Total	**44,984**	**6,090**	**(10,038)**	**41,036**

The abovementioned securities, valued at the lower of acquisition cost and estimated realization value, show the following:

- BNL bonds 93/2003 (Fixed rate) 12.90%;
- BNL bonds 94/2004 (Fixed rate) 9.30%;
- BNL bonds 92/2002 (Fixed rate) 12.60%.

The main increase for the 1998 financial year relates to the purchase of BNL bonds of a nominal value of Lire 5,536 million, while decreases are attributable principally to reimbursement (Lire 8,650 million) and write-downs of Lire 898 million to reflect the lower values realized on the reimbursement of all B.N.L. bonds after the end of the 1998 financial year. The sum of Lire 5,360 million in bonds has been frozen to guarantee overdraft facilities to the Group.

4) Treasury stock

This refers to 1,000,000 shares acquired at purchase cost during the 1998 financial year and these will remain in the portfolio for over one year. A further 300,000 treasury stock was purchased at a cost of Lire 1,367 million after 31 December 1998.

The market value of these shares at 31 Decmber 1998 was some Lire 559 million less than cost. It was not considered necessary to write these down in value as this was not considered an enduring loss due to the nature of the investment.

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C) Current assets

I. Inventory

The closing balance of the inventory includes (in millions of Lire):

	31.12.1998	31.12.1997
Raw materials, ancilliaries and consumables	18,192	27,907
Work in progress and semi-finished products	10,048	15,125
Finished products and goods	245,357	199,699
Deposits	350	709
Total	**273,947**	**243,440**

The inventory is valued as described in the paragraph "Consolidation criteria"; the valuation does not materially differ with respect to a valuation calculated on a current cost method.

The inventory is not pledged or subject to other restrictions on ownership.

The increase in finished products and goods results principally from the inceased stock volumes of IN.AL.CA. S.p.A. and other companies in the catering sector.

II. Receivables

Receivables are stated at realisable value on maturity and are subdivided as follows (in millions of Lire):

	Within 12 months	Between 1 and 5 years	Over 5 years	31.12.1998	31.12.1997
Trade receivables	293,111	5,253		298,364	356,041
Receivables from subsidiaries	13,221			13,221	68,217
Receivables from assoc. companies	3,079			3,079	1,248
Other receivables	127,722	7,516		135,238	126,902
Total	**437,133**	**12,769**		**449,902**	**552,408**

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Current receivables, totalling Lire 449,902 million (Lire 552,408 million as at 31 December 1997), net of provision for bad debts, are shown at net estimated realizable value.

The values shown above include, in particular, the following (in millions of Lire):

1) Trade receivables

These are shown at net realizable value, after provision for bad debts, as follows (in millions of Lire):

	31.12.1998	31.12.1997
Trade receivables due within 12 months	313,787	368,357
Trade receivables over 12 months	5,253	3,852
Less – Provision for bad debts	(20,676)	(16,168)
Total	**298,364**	**356,041**

The decrease in the balances is principally due to variations in the scope of consolidation.

The movements in the provision for bad debts are as follows (in millions of Lire):

	Opening balance	Provision	Utilized	Other mov.	Final balance
Provision for bad debts	12,484	8,903	(5,163)	489	16,713
Provision for unpaid interest	3,684	479	(200)		3,963
Total	**16,168**	**9,382**	**(5,363)**	**489**	**20,676**

Other movements result principally from changes in the scope of the consolidation.

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2) Receivables from subsidiaries

Receivables from non-consolidated subsidiaries are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Receivables from subsidiaries within 12 months:		
Alfa 95 S.p.A. in liquidation		6,685
Ce France S. a r.l.	240	342
Collizzolli S.p.A.		2,963
Compagnia delle Spezie S.r.l.		3.598
Fe.Ber. Carni S.r.l.	32	952
IN.AL.CA. Hellas Ltd.	4,215	4,467
Residence Nadini Le Cupole S.r.l.		43,653
S.A.M. S.r.l.	199	363
S.G.D. S.r.l.	67	577
Cons. Centro Commerciale Ingrosso Carni S.r.l.	8,331	
S.I.I. Italia S.r.l. in liquidation		795
Valchiana Carni S.r.l.		4,819
Other	360	3
Less – Provision for bad debts	(223)	(1,000)
Total	**13,221**	**68,217**
Receivables from subsidiaries over 12 months		
Total receivables from subsidiaries	**13,221**	**68,217**

The significant reductions in receivables from subsidiaries is principally due to the loss of control of certain companies, the consolidation of Compagnia delle Spezie S.r.l. using the global intergration method and the effects of the extraordinary transactions relating to Alfa 95 S.p.A., in liquidation, Collizzolli S.p.A. and Residence Nadini Le Cupole S.r.l.

The amount due from Consorzio Centro Commerciale Ingrosso Carni S.r.l. refers to a reciprocal current account with the Parent Company.

The provision for bad debts was utilized to cover the loss on S.I.I. Italia S.r.l., in liquidation.

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3) Receivables from associated companies

Details of receivables from associated companies are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Receivables from associated companies within 12 months:		
Agape Card S.r.l.	62	1,015
Ristochef S.p.A.	1,241	54
Ligabue Catering S.p.A.	123	
Compagnia delle Spezie France S.A.	1,570	
Others	83	179
Total	**3,079**	**1,248**
Receivables from associated companies over 12 months		
Total receivables from associated companies	**3,079**	**1,248**

5) Other receivables

Other receivables are detailed below (in millions of Lire):

	31.12.1998	31.12.1997
Other receivables within 12 months:		
Due from the State Treasury	31,376	20,784
Deposits to suppliers	16,916	11,019
Short-term loans	2,332	59,440
Deposit with Le Cupole S.r.l. for the purchase of shares	6,400	
Due from factoring companies	43,723	3,951
Due for cost reimbursement	5,119	5,573
Due from insurance companies	2,920	1,193
Due from banks for overcharged costs	573	769
Receivables from Ministry of Finance	347	850
Due from agents	1,372	4,368
Interest-free loan	727	3,053
Others	16,110	5,687
Less – provision for bad debts	(193)	(193)
Total	**127,722**	**116,494**
Other receivables over 12 months:		
Due from the State Treasury	3,279	1,135
Due from investment reimbursements		2,231
Due from factoring companies	2,863	6,100
Others	1,374	942
Total	**7,516**	**10,408**
Total other receivables	**135,238**	**126,902**

Consolidated explanatory notes

The short-term receivables due from the State Treasury refer principally to Value Added Tax credits and tax refunds.

Short-term loans were reduced with respect to the 1997 financial year following the recovery of a loan from the affiliated company Tre Holding S.r.l. The balance as at 31 December 1998 includes loans to the following affiliated companies:

- Europork S.p.A. Lire 885 million;
- Le Cupole S.r.l. Lire 539 million;
- Cre.Mo.Fin. S.r.l. Lire 53 million.

The "Deposit with Le Cupole S.r.l. for the purchase of shares" refers to the amount still due from the affiliated company to Gepar Ltd. for the purchase of a stockholding in Gestimmobiliare S.p.A. On the basis of the agreements, this loan will be repaid before 31 December 1999.

The receivables from factoring include a receivable from Eurco S.p.A. of Lire 15,000 million and the amount due from C.R.C. S.p.A. of Lire 26,064 million. The amount due from Eurco arises as a result of the sale, without recourse, of a receivable from State Company Iraq of US$ 5,127,510 which resulted in a profit of Lire 5,980 million. The receivable from C.R.C. S.p.A. refers to the sale of receivables for the last week in December 1998 within the securitization programme. Due to the public holidays at the end of the year the receivable from C.R.C. S.p.A. was encashed during the first few days of 1999 and not, as is usual, within a shorter period. The receivable of Lire 15,000 million was encashed after the year-end.

The heading "Due for cost reimbursement" refers to cost refunds due on the securitization transaction carried out in 1998.

The heading "Due from banks for overcharged costs" includes receivables for the reimbursement of interest and costs debited which were in excess of the contractual terms.

The heading "Interest-free loan" refers to the loan made by IN.AL.CA. S.p.A. to Consorzio Eccellenza nella Qualità and relates to a loan made, pending recovery of European Community subsidies, due to the latter company.

Other receivables include an amount due from the Ministry of Agriculture of Lire 1,778 million, encashable in 1999, being part of the FEOGA subsidies for plant of Lire 6,093 million due for 1998.

Consolidated explanatory notes

III. Financial current assets

4) Other stockholdings

The details for each company are as follows (in millions of Lire):

	31.12.1997	Increases	Decreases	Other mov.	31.12.1998
Residence Nadini Le Cupole S.r.l.	182			(182)	
Banca Popolare di Sondrio	1,335		(1,335)		
Cassa di Risparmio di Parma e Piacenza	417				417
Uno Holding S.p.A. in liquidation	103				103
Others	50	7			57
Total	**2,087**	**7**	**(1,335)**	**(182)**	**577**

In connection with the above stockholdings (all destined to be sold), following the year-end the shares in Cassa di Risparmio di Parma e Piacenza, with a carrying value of Lire 411 million, were sold for a profit of Lire 463 million.

6) Other securities

These are shown at the lower of cost or market value; the movements are as follows (in millions of Lire):

	31.12.1997	Increase	Decreases	31.12.1998
B.N.L. C.F. 12,9% 15.07.2003	6,470		(6,470)	
C.C.T. 01.01.2003 v.r. 7%	165		(165)	
Mutual fund	200			200
C.C.T. 01.01.1998 f.r. 12,50%	18		(18)	
Certificates of deposit		4,000	(1,150)	2,850
Total	**6,853**	**4,000**	**(7,803)**	**3,050**

The certificates of deposit are pledged for the guarantee requested by the subsidiary IN.AL.CA. S.p.A.

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IV. Liquid Assets

Liquid resources are made up follows (in millions of Lire):

	31.12.1998	31.12.1997
Bank and post office accounts	100,691	13,347
Cheques on hand	823	404
Cash and securities on hand	1,243	1,779
Total	**102,757**	**15,530**

The increase in liquid resources is due principally to temporary excess liquidity at the year-end following the Stock Market flotation.

D) Accrued income and prepaid expenses

Prepaid expenses and accrued income are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Accrued subsidies	197	118
Accrued interest on securities and bonds	2,508	2,827
Sundry accruals	281	381
Total accrued income	**2,986**	**3,326**
Prepaid rental	316	1
Prepaid expenses for product seasoning	177	155
Prepaid financial expense	1,238	58
Sundry prepayments	1,945	3,925
Total prepaid expenses	**3,676**	**4,139**
Total accrued income and prepaid expenses	**6,662**	**7,465**

The prepaid financial expense refers to an amount of Lire 1,154 million of expense on a loan obtained by the subsidiary IN.AL.CA. S.p.A., prepaid on the basis of the duration of this loan.

The reduction in sundry prepayments is principally due to the fact that the balance as at 31 December 1997 included expenses of Lire 1,294 million for the Stock Market flotation of Marr S.p.A., sustained for the increase of the capital stock of this subsidiary and the issue of shares to third parties, which took place in September 1997. Following the changes to the Group's development plans which led to the flotation of Cremonini S.p.A. this amount was booked as extraordinary expenses for the 1998 financial year.

Consolidated explanatory notes

Liabilities

A) Net equity

With regard to the changes under this heading please refer to the schedule of changes in consolidated net equity shown as Exhibit 4.

I. Capital stock

The capital stock as at 31 December 1998 is made up of 140,620,000, ordinary shares of Cremonini S.p.A. (Parent Company) of a nominal value of Lire 1,000 each, fully paid up and dividend bearing. The increase during the year of Lire 38,620 million is made up of:

- Lire 1,620 million relating to a bonus share issue by means of the utilization of reserves approved by an Extraordinary General Meeting of 24 September 1998. This stock was assigned to employees;
- Lire 37,000 million related to the placement on the Stock Market of 37,000,000 shares on 11 December 1998.

The Extraordinary General Meeting held on 24 September 1998 approved the split of the nominal value of ordinary shares from Lire 10,000 to Lire 1,000.

II. Share premium reserve

This is the share premium paid by stockholders for the Public Offering. The share premium was Lire 5,030 for each of the 230,000 shares issued to employees and Lire 5,700 for each of the 36,770,000 shares issued to other stockholders.

IV. Legal reserve

This is made up of Lire 3,804 million (Lire 5,833 million as at 31 December 1997) of provisions for reserves made by the Parent Company in accordance with Article 2430 of the Civil Code and of Article 24 of the company's Articles of Association. This reserve decreased during the 1998 financial year due to the utilization of Lire 2,029 million to constitute a reserve for Treasury Stock.

Consolidated explanatory notes

V. Reserve for Treasury Stock

This is an undistributable reserve for Treasury Stock purchased during the 1998 financial year and accounted for as a financial fixed asset.

VII. Other reserves

Other reserves include (in millions of Lire):

	31.12.1998	31.12.1997
Extraordinary reserve		5,632
Shareholders -advance payments for capital stock		2,331
Reserve for anticipated amortization per Art. 67 D.P.R. 917/86		1,652
Merger reserve		345
Consolidation reserve	9,364	9,558
Total	**9,364**	**19,518**

The extraordinary reserve reduced with respect to that at 31 December 1997 following the completion, during the first six months of 1998, of an assignment to members of the Parent Company in terms of Article 29 of Law 449/97. This transaction involved the utilization of a total of Lire 19,069 of the reserves, made up of Lire 4,188 million of extraordinary reserve and Lire 14,881 million of undistributed profits from previous years. The remaining decrease of Lire 1,444 million represents the utilization of this reserve to increase the capital stock for the bonus shares.

The heading “Shareholders-advance payments for capital stock” constitutes a pro rata payment from stockholders for a future increase in capital stock that is subjected to a registration tax in terms of the Law. Lire 176 million was utilized for a bonus share issue while the amount of Lire 2,155 million was utilized to constitute the reserve for Treasury stock.

The reserve for anticipated amortization in terms of Article 67 of Decree 917/86, constituted in previous financial years, following the merger in 1996 of Foodservice System Italia S.p.A. with the Parent Company, was entirely utilized for the constitution of the Treasury stock reserve.

The merger reserve also arose from the merger with the Parent Company of Foodservice System Italia S.p.A. This reserve was entirely utilized for the constitution of the Treasury stock reserve.

The heading “Consolidation reserve” is made up from the negative differences arising from elimination of the carrying values of subsidiaries against their relative net equities at the time of the first consolidation (1994), if these existed at that time, or at the time of acquisition if the

Consolidated explanatory notes

subsidiary was purchased after 31 December 1994. The movements for the financial year refer to the change in the scope of consolidation.

No provision for taxation for the reserves included in net equity as at 31 December 1998 has been made, as this was considered unnecessary.

The reconciliation between the net consolidated equity and the net equity of the Parent Company, is as follows (in millions of Lire):

	1998			1997		
	Capital stock and reserves	Profit (loss)	Net equity	Capital stock and reserves	Profit (loss)	Net equity
Parent Company's net equity and profit/(loss) for the year	**365,390**	**(364)**	**365,026**	**132,674**	**(1,821)**	**130,853**
Elimination of adjustments and provisions which are exclusively for fiscal purposes:						
– anticipated amortization	3,003	(1,371)	1,632	4,971	(1,990)	2,981
Valuation of subsidiaries and associated companies on the net equity basis	2,966	(643)	2,323	2,172	794	2,966
Elimination of inter-company transactions	(22,743)	3,310	(19,433)	(3,420)	(18,462)	(21,882)
Restating the balance sheets and statements of income of consolidated subsidiaries in accordance with Group accounting principles	(3,077)	2,379	(698)	(5,815)	2,795	(3,020)
Elimination of the carrying value of consolidated subsidiaries:						
– Differences between the carrying value pro rata to net equity	(196,485)	7,283	(189,202)	(179,707)	48,707	(131,000)
– Pro rata subsidiary profits		18,744	18,744		19,045	19,045
– Surpluses attributable to assets on first consolidation	41,183	(977)	40,206	37,592	(909)	36,683
– Consolidation differences	153,004	(4,022)	148,982	97,428	(19,171)	78,257
Total adjustments	**(22,149)**	**24,703**	**2,554**	**(46,779)**	**30,809**	**(15,970)**
Group's share of net equity and profit/(loss)	**343,241**	**24,339**	**367,580**	**85,895**	**28,988**	**114,883**
Minorities' share of net equity and profit	13,295	(112)	13,183	50,102	4,735	54,837
Consolidated financial statements net equity and profit/(loss) for the period	**356,536**	**24,227**	**380,763**	**135,997**	**33,723**	**169,720**

Consolidated explanatory notes

B) Provision for liabilities and charges

The provision for liabilities and charges can be identified under the following headings (in millions of Lire):

	31.12.1997	Increase	Decrease	Other mov.	31.12.1998
Provision for severance indemnities and similar obligations	1,323	496	(146)		1,673
Provision for taxation	820	966	(771)	199	1,214
Others	9,471	2,820	(381)	(6,438)	5,472
Total	**11,614**	**4,282**	**(1,298)**	**(6,239)**	**8,359**

The column "Other movements" represents, other than changes in the scope of consolidation, the utilization of a reserve of Lire 6,525 million, provided in the previous financial year to neutralize the effect of excluding the subsidiary Alfa 95 S.p.A., in liquidation from the scope of the consolidation.

The provision for severance indemnities and similar obligations principally comprises the indemnity provision for sales agents of about Lire 1,601 million (Lire 1,230 million as at 31 December 1997). This amount represents a reasonable estimate of the costs which would be incurred by Group companies in the case of termination of agency agreements.

The provision for taxation is made up of Lire 1,149 million for deferred taxation, originating from the fiscal effect of the timing differences between the profit for the financial year and taxable income. These timing differences principally derive from the fact that the deferment of taxation on surpluses and anticipated amortization, strictly fiscal accounts, were reversed in the consolidated financial statements as required by the relevant accounting principles.

The other provisions for risks including the following principal items:

- Lire 1,000 million, already provided as at 31 December 1997 which refers to a dispute in connection with a previous subsidiary company, subsequently sold to third parties;
- Lire 1,000 million provided during the 1998 financial year, being for costs relating to the compliance with legal requirements established by Law 626/1994 for some commercial activities forming part of a company sold to third parties in previous years:
- Lire 1,200 million of which Lire 550 million was provided during the1998 financial year for legal disputes in the catering sector;
- Lire 900 million provided for during the financial year for unfulfilled contracts;
- Lire 942 million (Lire 642 million as at 31 December 1997) for various losses by subsidiaries in liquidation and minor disputes and legal cases.

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C) Staff severance indemnities

Movements in the provision were as follows (in millions of Lire):

	31.12.1998	31.12.1997
Initial balance	**45,422**	**44,678**
Utilized during the year	(7,339)	(8,906)
Provided during the year	9,293	10,028
Other movements	(1,743)	(378)
Total	**45,633**	**45,422**

This amount totally covers the Group's liabilities to all employees as at 31 December, in accordance with the current legislative and contractual requirements.

Other movements result prevalently from changes in the scope of consolidation.

D) Payables

Long and short-term liabilities, totalling Lire 1,359,348 million (Lire 1,455,271 million as at 31 December 1997), were as follows (in millions of Lire):

	Within 12 months	Between 1 to 5 years	Over 5 years	31.12.1998	31.12.1997
Bonds	3,300	250,000		253,300	59,400
Bank loans	377,116	86,127	86,639	549,882	816,269
Loans from other financial institutions	116,087	6,025	9,496	131,608	160,470
Deposits					12
Trade payables	334,844			334,844	326,947
Bills of exchange	1,000			1,000	
Loans and payables to subsidiaries	2,344			2,344	8,602
Loans and payables to associated companies	1,107			1,107	3,434
Tax payables	16,900	2		16,902	17,641
Payables to pension and social security institutions	7,432			7,432	8,412
Others	57,182	3,747		60,929	54,084
Total	**917,312**	**345,901**	**96,135**	**1,359,348**	**1,455,271**

Consolidated explanatory notes

1) Bonds

Details, by maturity, are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Within 12 months	3,300	56,100
Over 12 months	250,000	3,300
Total	**253,300**	**59,400**

During the course of the year, non-convertible bonds of Lire 55,000 million with an original maturity of 1 December 2000 were repaid in advance, after a total acquisition of these bonds by the Parent Company. The terms of these bonds were no longer advantageous with respect to current market conditions. In addition, during the course of the 1998 financial year Lire 1,100 million of a five-year bond issue by Finagra S.p.A. of Lire 5,500 million was repaid in advance. The residual balance of Lire 3,300 million was repaid in advance in February 1999.

Bonds with a maturity of more than 12 months include Lire 250 billion being a bond issue, in Italian Lire, by the subsidiary Cremonini Finance Plc. For further details regarding this bond issue, please refer to the comments in the Director's Report.

3) Bank loans and overdrafts

The details, by maturity, are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Within12 months	377,116	604,518
Between 1 to 5 years	86,127	190,229
Over 5 years	86,639	21,522
Total	**549,882**	**816,269**

A schedule detailing mortgages and other bank loans is provided in the Exhibit.

The significant reduction in bank indebtedness is principally due to the bond issue, described under the previous heading, and the additional liquidity resulting from the Stock Market flotation which took place towards the end of the 1998 financial year.

Short-term bank facilities exceeded Lire 800 billion as at 31 December 1998. The average interest rate on short-term indebtedness during 1998 was 6.2% p.a. while the same rate for the month of December 1998 was 4.7% p.a.

Consolidated explanatory notes

Bank guarantees were given for both short and long–term liabilities as detailed in the Memorandum Accounts.

4) Loans from other financial institutions

Details of mortgages and loans from other financial institutions are provided in Exhibit 10. The subdivision, according to maturity, of these is as follows (in millions of Lire):

	31.12.1998	31.12.1997
Within 12 months		
Mortgages and loans	689	498
Factoring companies	112,846	143,442
Others	2,552	1,403
Total	**116,087**	**145,343**
Between 1 to 5 years		
Mortgages and loans	5,844	4,848
Others	181	1,660
Total	**6,025**	**6,508**
Over 5 years		
Mortgages and loans	9,496	8,619
Others		
Total	**9,496**	**8,619**
Total loans from other financial institutions	**131,608**	**160,470**

Payables to factoring companies refer to the sale, with recourse, of trade receivables.

6) Trade payables

These are shown at nominal value and the maturities are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Within 12 months	334,844	326,662
Between 1 to 5 years		285
Over 5 years		
Total	**334,844**	**326,947**

The balance refers principally to commercial payables to Italian suppliers.

Consolidated explanatory notes

7) Payables secured by bills of exchange

This figure represents agricultural bills of exchange issued by Azienda Agricola Corticella S.r.l. that are repayable within the next financial year.

8) Payables to subsidiaries

Details of payables to non-consolidated subsidiaries are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Payables due to subsidiaries within 12 months:		
Trade		
Ce France S. a r.l.	117	
IN.AL.CA. Hellas E.p.e.	150	
IN.AL.CA. Fleischhandel	11	
Compagnia delle Spezie S.r.l.		270
Multiservice S.p.A.	971	
Financing		
Fe.Ber. Carni S.r.l.	210	
Cremonini Finance Plc.		143
Gestimmobiliare S.p.A.		6,075
Marr Firenze S.r.l. in liquidation		1,456
Primagel S.r.l. in liquidation		291
S.G.D. S.r.l.	109	367
S.A.R.A. S.r.l.	776	
Total	**2,344**	**8,602**
Payables due to subsidiaries over 12 months		
Total payables to subsidiaries	**2,344**	**8,602**

Consolidated explanatory notes

9) Payables to associated companies

Details of payables to associated companies are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Payables to associated companies within 12 months:		
Trade		
Agape Card S.r.l.	30	2,190
Ristochef S.p.A.	89	156
Various associated companies	2	77
Financing		
Fernie S.r.l. in liquidation	986	1,011
Various associated companies		
Total	**1,107**	**3,434**
Payables to associated companies over 12 months		
Total payables to associated companies	**1,107**	**3,434**

11) Tax payables

Tax payables are subdivided as follows (in millions of Lire):

	31.12.1998	31.12.1997
Tax payables within 12 months:		
Tax withholdings	6,214	6,483
IRPEG/IRAP (ILOR)	8,321	8,381
Taxes on net equity		1,051
Tax payables on undistributed reserves	1,055	1,157
Sundry taxes	1,310	490
Total	**16,900**	**17,562**
Tax payables between 1 to 5 years:		
Others	2	79
Total	**2**	**79**
Tax payables, over 5 years		
Total	**16,902**	**17,641**

Consolidated explanatory notes

12) Payables to pension and social security institutions

Details are as follows (in millions of Lire):

	31.12.1998	31.12.1997
Payables to pension and social security institutions within 12 months:		
INPS/INAIL	6,213	7,107
INPDAI/PREVINDAI/FASI	419	542
ENASARCO/FIRR	578	443
Payables to various institutions	222	320
Total	**7,432**	**8,412**
Payables to pension and social security institutions over 12 months		
Total	**7,432**	**8,412**

The reduction in the above payables is principally due to the exclusion from the scope of the consolidation of Europork S.p.A.

13) Other payables

The amount of other payables consists of (in millions of Lire):

	31.12.1998	31.12.1997
Other payables, within 12 months:		
Deposits and other payables to customers	8,837	4,774
Payables to C.R.C. S.p.A.		12,621
Payables to employees	17,442	17,730
Payables for arbitration awards	2,600	
Payables for the acquistion of stockholdings	12,248	
Others	16,055	14,586
Total	**57,182**	**49,711**
Other payables, between 1 to 5 years:		
Payables for arbitration awards	1,300	3,900
Payables for the acquisition of stockholdings	2,445	
Others	2	473
Total	**3,747**	**4,373**
Other payables, over 5 years		
Total	**60,929**	**54,084**

Consolidated explanatory notes

The heading "Payable to C.R.C. S.p.A." as at 31 December 1997 refers to payables connected to the management of the cessions and encashment of receivables for the securitization arrangements. This was fully repaid during 1998.

Payables to employees include current remuneration outstanding as at 31 December 1998 and the relative provisions for pension and related costs.

The payables for arbitration awards relate to the amount laid down, in arbitration, between the Parent Company and another party for a controversy arising from price convergence and includes payables for guarantee violations. This was provided in the contract for the sale of a stockholding which took place in the preceding year. The division is between short and long-term instalments, based upon the dates defined for these payments.

The payables for the purchase of stockholdings are:

- Lire 4,800 million payable for the acquisition of Discom's business according to the contract signed on 28 December 1998, which takes effect in January 1999. This amount was paid on 4 January 1999.
- Lire 2,445 million being the balance of the acquisition price of the capital stock of Adria Food S.r.l. and the cost of exercising the option to purchase the residual 25.91% stock capital of this company (Lire 1,413 million);
- Lire 7,448 million being the residual amount payable for the acquisition of the following stockholdings (in millions of Lire):

Marr S.p.A.	4,555
Gestimmobiliare S.p.A.	1,138
Uno Holding S.p.A. in liquidation	103
Volo Nedda Buffet Stazione Brescia S.r.l.	667
Buffet Stazione di Belluno S.r.l.	400
Gestione Buffet FF.SS. di V. e L. S.r.l.	585
	7,448

Other payables include financial payables to affiliated companies, as follows:

- Marr Firenze S.r.l. in liquidation Lire 1,470 million;
- Primagel S.r.l. in liquidation Lire 263 million;
- Other Lire 6 million.

Consolidated explanatory notes

E) Accrued expenses and deferred income

Accrued expenses and deferred income constitute (in millions of Lire):

	31.12.1998	31.12.1997
Accrued interest on loans	3,506	12,184
Accruals for employee emoluments	1,279	1,023
Sundries	759	850
Total accrued expenses	**5,544**	**14,057**
Deferred income for "non-competition" agreement	10,093	14,093
Deferred M.I.P.A. Piano Carni subsidy	6,508	
Sundries	961	389
Total deferred income	**17,562**	**14,482**
Total accrued expenses and deferred income	**23,106**	**28,539**

The reduction in accrued expenses is due, in addition to the reduced indebtedness, to interest which arose during the 1996 and 1997 financial years, that was repaid during the course of 1998.

The deferred income for "non-competition" agreement relates to direct and indirect commitments not to carry out a business defined as "quick service restaurant" in competition against a large partner. Against this commitment, maturing in July 2001, an amount of Lire 20,000 million was received in 1996, which, from an accounting point of view, will be shown as income received in advance and credited to the statement of income pro rata over the duration of the contract. The non-competition clause formed part of the overall contract for the sale of the Burghy chain in 1996.

The deferred income from M.I.P.A. Piano Carni refers to the subsidies received from the Ministry, for "Piano Carni", towards the cost of plant. Further comments in this connection are given in the notes on tangible fixed assets.

As at 31 December 1998 deferred income for a period of over 5 years totalled Lire 4,045 million.

Consolidated explanatory notes

MEMORANDUM ACCOUNTS

1) Real guarantees - sureties

Sureties include the guarantees provided directly by Group companies, in favour of other Group companies and third parties, to financial institutions for loans or lines of credit. These also include the guarantees for which the Parent Company is jointly and severally committed. These guarantees, given by banks or assurance companies, are for various commercial transactions, Group Added Value Tax compensation and for contract tendering, etc.

2) Real guarantees - letters of comfort

Letters of comfort are exclusively in connection with guarantees given to financial institutions for the provision of financing, or lines of credit, including simple letters of comfort for:

	31.12.1998
Subsidiaries	57,950
Associated companies	
Affiliated companies	1,700
Others	4,400
Total	**64,050**

3) Indirect guarantees – credit mandates

Credit mandates relate to bank overdrafts and credit facilities, both for Group companies and third parties, secured by bank guarantees provided by the Parent Company's banks.

4) Real guarantees – pledges

Pledges relate to bonds and certificates of deposit given to banks to guarantee credit facilities to Group Companies.

Consolidated explanatory notes

5) Real guarantees – mortgages

These are mortgages on property owned by the following companies:

	31.12.1998	31.12.1997
IN.AL.CA. S.p.A.	315,000	328,000
Ultrocchi Carni S.p.A.	2,222	26,855
Marr S.p.A.	2,505	2,505
Ca.Ma. S.r.l.	28,800	28,800
Europork S.p.A.		36,300
Adria Food S.r.l.	3,100	
Romagna Center Gross S.r.l.	7,605	7,605
Elba Alimentari S.p.A.	1,863	1,863
Corte Buona S.p.A.	103,434	90,454
Polis S.r.l.	20,000	20,065
Total	**484,529**	**542,447**

The balances outstanding, as at 31 December 1997, of real guarantees for mortgages on real-estate and sureties were increased by Lire 90,454 million and Lire 36,874 million, respectively, in accordance with the requirements of Article 2423/ter of the Civil Code. This is because the amounts relating to the subsidiary Corte Buona S.p.A., were only shown in the explanatory notes to the financial statements and not shown in the memorandum accounts as at 31 December 1997.

Consolidated explanatory notes

Statement of income

The following is a detailed analysis of the principal headings of the consolidated statement of income.

A) Value of production

1) Revenues from sales and services

The following is a division of revenues, by geographical area (in millions of Lire):

	31.12.1998	31.12.1997
Italy	1,682,881	1,769,502
European Union	162,880	152,520
Outside the European Union	125,130	144,911
Total	**1,970,891**	**2,066,933**

For further details on the subdivision by category of activity please refer to the Directors' Report.

5) Other revenues and income

Other revenues and income are subdivided as follows (in millions of Lire):

	31.12.1998	31.12.1997
Sundry other revenues and income:		
Rentals	1,027	1,517
Insurance reimbursements	3,340	2,232
Supplier bonuses	6,483	5,988
Surplus on sale of fixed assets	2,199	1,598
Revenues from the sale of various products	159	1,300
Reimbursement of sundry costs	5,095	1,264
Services, consultancy and other minor items	13,166	6,417
Total	**31,469**	**20,316**
Subsidies for the year:		
Other	1,026	1,790
Total	**1,026**	**1,790**
Total other revenues and income	**32,495**	**22,106**

Consolidated explanatory notes

Current-year subsidies were principally those received by Inalca S.p.A. (Lire 742 million) from a State agricultural entity.

The increase under the heading “Services, consultancy and other minor items” is due mainly to the surplus of Lire 5,980 million realized by the Parent Company for the sale, without recourse, of receivables from State Company Iraq, as previously described.

Other revenues and income include amounts received from affiliated companies as follows (in millions of Lire):

	31.12.1998
Alfa 95 S.p.A. in liquidation	62
Collizzolli S.p.A.	5
Le Cupole S.r.l.	30
Valchiana Carni S.r.l.	7
I.C.A.R. S.p.A.	48
Tre Holding S.r.l.	3
Reno Carni S.r.l.	10
Intercom S.r.l.	18
Cre.Mo.Fin. S.r.l.	1
Europork S.p.A.	749
Others	2
Total	**935**

B) Costs of production

7) Costs for services

This includes (in millions of Lire):

	31.12.1998	31.12.1997
Energy consumption	19,899	19,991
Maintenance	10,329	8,914
Transport	52,553	49,131
Fees and commissions, commercial and distributive services	77,258	82,762
Third party services	25,334	31,234
Purchasing	15,658	24,636
Outwork	5,946	4,257
Technical, legal, administrative and general services	69,154	55,969
Total	**276,131**	**276,894**

Consolidated explanatory notes

8) Costs for the use of third party assets

The details under this heading are (in millions of Lire):

	31.12.1998	31.12.1997
Use of third party assets	13,701	14,193
Lease payments	379	308
Rentals	8,831	6,270
Total	**22,911**	**20,771**

12) Provision for risks

This relates to the provisions made to risk reserves as described under that section.

14) Sundry administration costs

Sundry administration costs are made up of the following (in millions of Lire):

	31.12.1998	31.12.1997
Bad debts	1,373	6,090
Indirect taxes	4,339	6,482
Loss on the cession to C.R.C.	14,256	22,954
Others	5,888	251
Total	**25,856**	**35,777**

The loss on the cession to C.R.C. refers to costs sustained by the companies taking part in the securitization transaction for the sale, without recourse, of commercial receivables to C.R.C. S.p.A.

Consolidated explanatory notes

C) Financial income and expense

The effects on the statement of income resulting from financial and treasury management are shown as follows (in millions of Lire):

15-16) Income from financing and stockholdings

	31.12.1998	31.12.1997
Income from stockholdings in subsidiaries	8,629	13,205
Income from stockholdings in associated companies	400	8,583
Income from other stockholdings	259	265
Income from long-term loans to subsidiaries	33	
Income from other long-term loans	1,432	1,963
Income from investments in securities	5,420	5,397
Income from current securities	956	3,057
Income from subsidiaries, other than described above	854	2,179
Income from associated companies, other than described above		8
Other financial income	27,470	18,350
Total	**45,453**	**53,007**

"Income from stockholdings in subsidiaries" includes about Lire 8,591 million that represents the surplus realized by Inalca S.p.A. from the sale of a part of its interest in Ultrocchi Carni S.p.A.

"Income from other long-term loans" principally constitutes interest from third parties.

Income from securities constitutes dividends and interest on State Securities and bonds.

Consolidated explanatory notes

"Income from subsidiaries, other than described above" is divided as follows (in millions of Lire):

	31.12.1998	31.12.1997
Alfa 95 S.p.A. in liquidation		724
Collizzolli S.p.A.		288
Compagnia delle Spezie S.r.l.		287
Fe.Ber. Carni S.r.l.	76	102
Marr Firenze S.r.l. in liquidation		2
Primagel S.r.l. in liquidation		2
Residence Nadini Le Cupole S.r.l.		234
S.A.M. S.r.l.	29	44
S.I.I. Italia S.r.l. in liquidation	10	14
Valchiana Carni S.r.l.		459
S.G.D. S.r.l.	24	
Cons. Centro Comm. Ingrosso Carni S.r.l.	715	
Other companies		23
Total	**854**	**2,179**

"Other financial income" includes (in millions of Lire):

	31.12.1998	31.12.1997
Foreign exchange conversion profits	2,009	9,597
Interest from trade receivables	188	1,556
Interest from affiliated companies	9,449	3,888
Other financial income	15,824	3,309
Total	**27,470**	**18,350**

Interest from affiliated companies for the year ended 31 December 1998 arose from (in millions of Lire):

	31.12.1998
Alfa 95 S.p.A. in liquidation	260
Collizzolli S.p.A.	117
Le Cupole S.r.l.	1,646
Valchiana Carni S.r.l.	196
I.C.A.R. S.p.A.	1,701
Reno Carni S.r.l.	51
Intercom S.r.l.	459
Pacor S.r.l.	157
Gestimmobiliare S.p.A.	18
Tre Holding S.r.l.	4,493
Cre.Mo.Fin. S.r.l.	81
Europork S.p.A.	270
Total	**9,449**

Consolidated explanatory notes

The heading "Other financial income" includes about Lire 11.6 billion of income from Silver Castle Ltd, connected with the Eurobond transaction described in the Directors' Report.

17) Interest and other financial costs

Details of financial expense follow (in millions of Lire):

	1998		1997	
	From subsidiaries	From others	From subsidiaries	From others
Interest on mortgages and loans.		27,664		24,263
Interest payable on overdrafts and other loans		38,451		57,296
Foreign exchange conv, losses		2,546		8,488
Commission and bank charges		1,879		3,890
Interest on bonds		19,347		3,248
Other fnancial expense	9	4,662	368	2,385
Total	**9**	**94,549**	**368**	**99,570**

Interest payable on overdrafts and other loans includes about Lire 11.6 billion paid to third parties for the swap, for exchange risk coverage, of the Yen loan provided by the subsidiary Cremonini Finance Plc., calculated on the difference between Yen interest rates and Lire interest rates.

Interest on bonds includes about Lire 18.3 billion being the interest on bonds issued by the subsidiary Cremonini Finance Plc.

Financial costs include transactions with affiliated companies, as follows (in millions of Lire):

	31.12.1998
Alfa 95 S.p.A. in liquidation	1
Le Cupole S.r.l.	5
Valchiana Carni S.r.l.	57
I.C.A.R. S.p.A.	2
Immobiliare Ci-Erre	3
Marr Firenze S.r.l. in liquidation	99
Primagel S.r.l. in liquidation	19
Reno Carni S.r.l.	2
Intercom S.r.l.	258
Gestimmobiliare S.p.A.	202
Cre.Mo.Fin. S.r.l.	1
Europork S.p.A.	902
Total	**1,551**

Consolidated explanatory notes

D) Adjustments to the value of financial assets

The revaluation of stockholdings refers to the valuation, using the net equity method, of the subsidiary Fe. Ber. Carni S.r.l. The write-down in the stockholdings result principally from the effect of the net equity valuation of associated companies (Lire 225 million) and the write-down of Lire 197 million of the stockholding in the subsidiary S.A.M. S.r.l.

E) Extraordinary income and expense

The surplus on sales is made up of Lire 3,542 million being the effect of excluding Europork S.p.A. from the scope of the consolidation. This amount corresponds to the difference of the carrying value in the consolidated financial statements as at 31 December 1997 and the relative realizable value.

Other income is principally made up of the gains by the subsidiary Inalca S.p.A., of which Lire 2,053 million represents payables provided for and now no longer required. In addition, this includes subsidies, equal to Lire 874 million, from the Ministry of Agriculture for machinery brought into use in the 1996 financial year, relating to the 1996 and 1997 amortization of this machinery, as well as an amount of Lire 410 million relating to lawsuit award received during the financial year.

Other costs principally refer to the extraordinary surpluses of which Lire 1,294 million is the write-off of the deferred cost of flotation of the subsidiary Marr S.p.A., already described under the heading accrued expenses and deferred income.

22) Taxation on the profit for the year

This heading relates to the direct income tax payable on the profit for the year, net of prepaid taxation of Lire 3,513 million.

Personnel

As at 31 December 1998 Group employees totalled 3,206, an increase of 57 with respect to 31 December 1997.

Consolidated explanatory notes

The division by category is shown below:

	Factory staff	Office staff	Managers	Total
Employees 31.12.1997	2,384	703	62	3,149
Employees 31.12.1998	2,451	694	61	3,206
	67	**(9)**	**(1)**	**57**
Average no. of employees for the year ended 31.12.1998	**2,414**	**680**	**62**	**3,156**

Directors and Statutory Auditors

Directors’ emoluments, detailed in the financial statements of the Parent Company, of the Board of Directors and the Statutory Auditors of the Parent Company for 1998, members of which also carry out those functions in other consolidated companies are as follows:

	Emoluments	Salaries	Other	Total
Board of Directors	2,753	1,188		3,941
Statutory Auditors	171		46	217
Total	**2,924**	**1,188**	**46**	**4,158**

Castelvetro, 15 April 1999

CHAIRMAN
OF THE BOARD OF DIRECTORS
(Luigi Cremonini)

Consolidated explanatory notes

Exhibits

The following exhibits contain information additional to that shown in the explanatory notes to the consolidated financial statements, of which they form an integral part:

- Schedule of the changes in intangible fixed assets for the financial year ended 31 December 1998;
- Schedule of the changes in tangible fixed assets for the financial year ended 31 December 1998;
- Schedule of the changes in financial fixed assets for the financial year ended 31 December 1998;
- Schedule of the changes in consolidated net equity for the financial year ended 31 December 1998;
- A list of stockholdings as at 31 December 1998;
- Consolidated cash flow for the financial years ended 31 December 1998 and 1997;
- List of the stockholdings in subsidiary and associated companies as at 31 December 1998 (Article 2427 no. 5 of the Civil Code) showing those companies included in the scope of the consolidation.
- List of changes in the scope of consolidation as at 31 December 1998 with respect to those of the previous financial year;
- Details of bank mortgages and loans as at 31 December 1998;
- Details as at 31 December 1998 of loans from other financial institutions;
- Consolidated Balance Sheet and Statement of Income as at 31 December 1998 and 1997 expressed in Euro.

Exhibit 1

Schedule of the changes in intangible fixed assets for the financial year ended 31 December 1998

(in millions of Lire)	Opening balances			Net effect	Movements during the year				Closing balances		
	Original cost	Provision for amortiz.	Balance 31.12.1997	of changes in scope of cons.	Purchases	Net decreases	Amortiz.	Reclassif./ Other mov.	Original cost	Provision for amortiz.	Balance 31.12.1998
Start-up and expansion costs	4,912	(3,096)	1,816	(50)	16,447	(14)	(796)	5	20,654	(3,234)	17,420
Research, development and advertising	4,305	(1,859)	2,446	113	5,060	(9)	(1,937)		10,265	(4,406)	5,859
Industrial patents and know-how	4,844	(3,881)	963	(27)	284	(17)	(288)	(40)	3,498	(2,828)	670
Licences, brand names and similar rights	12,496	(2,960)	9,536	146	47		(1,415)	122	14,271	(5,836)	8,435
Goodwill	10,744	(6,297)	4,447	978			(1,353)		9,785	(6,075)	3,710
Consolidation differences	125,000	(46,743)	78,257	74,747			(4,022)		199,747	(50,765)	148,982
Fixed assets in prog. and deposits	1,949		1,949		5,043	(73)		(1,935)	4,984		4,984
Others	49,007	(26,451)	22,556	250	10,985	(87)	(7,510)	1,879	63,909	(35,456)	28,453
Totals	**213,257**	**(91,287)**	**121,970**	**76,157**	**37,866**	**(200)**	**(17,321)**	**31**	**327,113**	**(108,600)**	**218,513**

Exhibit 2

Schedule of the changes in tangible fixed assets for the financial year ended 31 December 1998

(in millions of Lire)	Opening balances Original cost	Opening balances Write-up/ (down)	Opening balances Provision for amortiz.	Balance 31.12.1997	Net effect of changes in scope of cons.	Purchases	Movements for the year Net decrease	Movements for the year Reclass./ Other mov.	Amortiz.	Original cost	Opening balances Write-up/ (down)	Opening balances Provision for amortiz.	Balance 31.12.1998
Land and buildings	336,590	6,380	(54,092)	288,878	(16,444)	7,209	(793)	875	(9,491)	310,653	6,380	(46,844)	270,189
Plant and machinery	290,043	2,065	(110,524)	181,584	(11,872)	17,883	(3,819)	4,716	(23,897)	291,190	2,065	(128,958)	164,297
Industrial and comm. equipment	29,831	82	(21,199)	8,714	(866)	2,676	(103)	80	(2,854)	28,951	82	(21,375)	7,658
Other assets	61,478		(39,884)	21,594	(1,155)	9,961	(2,221)	2	(6,535)	64,067		(42,089)	21,978
Fixed assets in prog. and deposits	124,038			124,038		69,189		(15,050)		178,177			178,177
Totals	**841,980**	**8,527**	**(225,699)**	**624,808**	**(30,337)**	**106,918**	**(6,936)**	**(9,377)(*)**	**(42,777)**	**873,038**	**8,527**	**(239,266)**	**642,299**

(*) The amount of Lire 9,377 million refers to subsidies for thr acquisition of assets received by Ultrocchi Carni S.p.A. which has been accounted for as a reduction of the investment.

Exhibit 3

Schedule of the changes in financial fixed assets for the financial year ended 31 December 1998

(in millions of Lire)	Opening balances				Movements during the year						Closing balances	
	Original cost	Write-up	Write-down	Balance 31.12.1997	Increases	Reclass./ other	Decreases	Write-up	Write-down	Valuation N.E. method	Balance 31.12.1998	Of which: Write-up
Holdings in subsidiary and associated companies valued using the net equity method:												
– subsidiaries	372			372		116		262		750	750	262
– associated companies	13,324	3,270	(296)	16,298					(915)	15,383	15,383	2,059
Holdings in subsidiary and associated companies valued at cost:												
– subsidiaries	11,611		(472)	11,139	23,979	(11,689)	(3,724)		(245)		19,460	
– associated companies	1,874			1,874		(575)	(289)				1,010	
Other stockholdings	3,608			3,608	3,046	(44)					6,610	
Other securities	44,984			44,984	6,090		(10,038)				41,036	
Totals	**75,773**	**3,270**	**(768)**	**78,275**	**33,115**	**(12,192)**	**(14,051)**	**262**	**(1,160)**		**84,249**	**2,321**
Loans:												
– to subsidiaries	5,591			5,591			(3,970) (*)				1,621	
– to associated companies	98			98			(89) (*)				9	
– to others	52,041			52,041			(24,598) (*)				27,443	
Treasury stock					6,180						6,180	
Totals	**133,503**	**3,270**	**(768)**	**136,005**	**39,295**	**(12,192)**	**(42,708)**	**262**	**(1,160)**		**119,502**	**2,321**

(*) Net increase (decrease).

Exhibit 4

Schedule of the changes in consolidated net equity in the financial year as at 31 December 1998

(in millions of Lire)	Capital stock	Share premium reserve	Legal reserve	Other reserves including consolidation reserve	Reserve for treasury stock	Profit (loss) brought-forward	Group's share of net profits	Group's share of net equity	Minority interests	Minorities' share of net profits	Minorities' share of net equity	Totals
Balances as at 31 December 1997	**102,000**		**5,833**	**19,518**		**(41,456)**	**28,988**	**114,883**	**50,102**	**4,735**	**54,837**	**169,720**
Allocation of the profits for the 1997 financial year						28,988	(28,988)		4,735	(4,735)		
Utilized for assignments to shareholders in terms of Law 449\97				(4,188)		(14,881)		(19,069)				(19,069)
Utilization of reserves for capital stock increase	1,620			(1,620)								
Increase of capital stock for the subscription for												
37,000,000 shares of a nominal value of Lire 1,000 each	37,000	210,746						247,746				247,746
Utilization of reserves for treasury stock			(2,029)	(4,152)	6,180							
Variations due to changes in percentages												
in holdings and scope of the consolidation				(194)		(124)		(319)	(41,542)		(41,542)	(41,861)
Profit (loss) for the financial year ended 31 december 1998							24,339	24,339		(112)	(112)	24,227
Balances as at 31 December 1998	**140,620**	**210,746**	**3,804**	**9,364**	**6,180**	**(27,473)**	**24,339**	**367,580**	**13,295**	**(112)**	**13,183**	**380,763**

Consolidated explanatory notes

Exhibit 5

List of stockholdings as at 31 December 1998

(in millions of Lire if not otherwise indicated)	Registered Office	Capital stock	Percentage holding	Opening value	Acquired or subscribed	Sold	(Write-down) write-up	Other movements	Percentage holding	Closing value
Alfa 95 S.p.A. in liquidation	Spilamberto (MO)	700	100.00	2,033				(2,033)		
Bonora S.r.l. in liquidation	Castelvetro (MO)	50	100.00	15					100.00	15
Buffet Suisse Milano S.r.l. in liquidation	Milan	20	100.00						100.00	
Ce France S.a r.l.	Paris (France)	FF. 350,000	100.00	101					100.00	101
Cogea Sud S.r.l.	Salerno	100			30				99.00	30
Compagnia delle Spezie S.r.l.	Gattatico (RE)	2,000	100.00	6,500				(6,500)		
Cremonini Finance Plc.	London (GB)	GBP 50,000	100.00	143				(143)		
C.T.A. S.r.l. in liquidation	Castelvetro (MO)	20	100.00						100.00	
Fe.Ber. Carni S.r.l.	Castelvetro (MO)	190	100.00	372			262	116	100.00	750
Fernie Fleischhandel GmbH	Dormagen (Germany)	DM 50,000	95.00	39				(39)		
Gestimmobiliare S.p.A.	Rimini (RN)	1,396	7.09	1,691	5,286	(3,724)		(3,253)		
IN.AL.CA. Fleischhandel GmbH	Dormagen (Germany)	DM 80,000	90.00	52					90.00	52
IN.AL.CA. Hellas E.P.E.	Athens (Greece)	GRD 50,200,000	95.00	318					95.00	318
IN.AL.CA. Pol. Spolka. Zoo. in liquidation	Varsavia (Poland)	Zloty 55,500	100.00	51			(48)		100.00	3
Pianeta Italia S.r.l.	Castelvetro (MO)	100	99.00	50					99.00	50
Perutnina Marr Yutali S.r.l.	Ptuj (Slovenia)	USD 300,000	60.00						60.00	
S.I.I. Italia S.r.l. in liquidation	Sant'Arcangelo di R. (RN)	40	100.00	40					100.00	40
S.A.M. S.r.l.	Florence	90	100.00	90			(197)	197	100.00	90
S.A.R.A. S.r.l.	Santo Stefano Ticino (MI)	20	98.00	16	961				98.00	977
Volo Nedda Buffet Stazione Brescia S.r.l.	Brescia	23			1,165				100.00	1,165
Buffet Stazione di Belluno S.r.l.	Belluno	20			750				100.00	750
Gestione Buffet Stazione FF.SS. di V. e L. S.r.l.	Novara	20			1,060				100.00	1,060
Multiservice S.p.A.	Castelnuovo R. (MO)	1,250			5,740				82.00	5,740
Consorzio Centro Commerciale Ingrosso Carni S.r.l.	Bologna	3,000			8,975				77.05	8,975
Buona Italia Alimentos Ltda.	San Paolo (Brasil)	Reales 10,000			12				85.00	12
S.G.D. S.r.l.	Castelvetro (MO)	160						82	50.00	82
Totals subsidiaries				**11,511**	**23,979**	**(3,724)**	**17**	**(11,573)**		**20,210**
Agape Card S.r.l.	Milan	85	29.41	25					29.41	25
Compagnia delle Spezie Francia	Paris (France)	FF. 50,000						7	50.00	7
Cre.Am. S.r.l. in liquidation	S. Daniele del Friuli (UD)	1,000	50.00	500				(500)		
Fernie S.r.l. in liquidation	Modena	2,000	40.00	960					40.00	960
Ligabue Catering S.p.A.	Venice	11,300	20.00	9,563			(585)		20.00	8,978
Serra della Spina S.r.l.	Monacilioni (CB)	21	33.33	18					33.33	18
International Business Investment S.A.	Bucarest (Romania)	leu r. 12,000,000	25.00	64		(64)				
Immobiliare Athena S.r.l.	Rimini	1,000	34.00	1,946			(11)		34.00	1,935
Cre.Mo.Fin. S.r.l.	Castelvetro (MO)	20	49.12	225		(225)				
Ristochef S.p.A.	Milan	6,000	32.00	4,789			(319)		32.00	4,470
S.G.D. S.r.l.	Castelvetro (MO)	160	50.00	82				(82)		
Totals associated companies				**18,172**		**(289)**	**(915)**	**(575)**		**16,393**
EmiliaRomagna Factor S.p.A.				1,500						1,500
Futura S.p.A.				1,162						1,162
Nuova Campari S.p.A.					3,000					3,000
Other companies				946	46			(44)		948
Totals other companies				**3,608**	**3,046**			**(44)**		**6,610**
Totals stockholdings				**33,291**	**27,025**	**(4,013)**	**(898)**	**(12,192)**		**43,213**

Consolidated explanatory notes

Exhibit 6

Consolidated cash flow for the financial years ended 31 December 1998 and 1997

(in millions of Lire)	1998	1997
A) Opening net short-term indebtedness	**(783,578)**	**(715,006)**
B) Cash flow for the year		
Profit (loss) for the year	24,339	28,988
Amortization:		
– intangible fixed assets	17,321	33,543
– tangible fixed assets	42,777	44,418
(Gain) loss on sale of fixed assets	(1,854)	(1,598)
Changes in provision for liabilities and charges	(3,255)	3,774
Changes in staff severance indemnities	211	744
Profit for the year before changes in working capital	79,539	109,869
(Increase) decrease in investments	1,510	(1,927)
(Increase) decrease in receivables and others	102,511	(98,886)
(Increase) decrease in inventory	(30,507)	10,204
Increase (decrease) in payables to supplier and other payables	4,426	(42,366)
Increase (decrease) in accruals	(4,630)	5,639
	152,849	**(17,467)**
C) Cash flow from (for) investments		
Investments in fixed assets:		
– intangible	(37,866)	(23,522)
– tangible	(106,918)	(81,616)
– financial	(2,566)	25,550
Effect of changes in the scope of the cons. in int. and tang. fixed assets	(45,820)	(15,407)
Sale or reimbursement value of fixed assets	18,326	79,660
	(174,844)	**(15,335)**

Consolidated explanatory notes — Exhibit 6

(in millions of Lire)	1998	1997
D) Cash flow generated (absorbed) by changes in group and minority interests' net equity		
Increase in capital stock	37,000	
Share premium	210,746	
Changes in minority interests	(41,654)	30,609
Other changes	(319)	(4,355)
	205,773	**26,254**
E) Cash flow from (for) loans		
Net increase (decrease) in medium-long term bank loans	(38,985)	(12,966)
Net increase in other medium-long term loans	394	(47,958)
Increase in bonds	246,700	(1,100)
	208,109	**(62,024)**
F) Cash flow for the year (B + C + D + E)	**391,887**	**(68,572)**
G) Closing net short-term indebtedness	**(391,691)**	**(783,578)**
H) Extraordinary assignments to stockholders not having a financial effect		
Reduction in reserves	(19,069)	
Reduction in stockholdings:		
– in subsidiaries	18,569	
– in associated companies	500	

Note: The figures as at 31 December 1998 include the effects of changes in the scope of the consolidation, as summarized below:

Fixed assets	37,133
Inventory	9,349
Other current assets	18,608
Reserve for liabilities and charges	5
Provision for staff severance indemnities	(2,127)
Loans and other liabilities	(27,287)
Net effect on financial indebtedness	(39,438)

Exhibit 7

List of the stockholdings in subsidiary and associated companies as at 31 December 1998 (Article no. 2427 no. 5 of the Civil Code) showing those companies included in the scope of the consolidation

Name	Registered office	Capital stock (in Lire millions if not otherwise indicated)	Profit (loss) for the year	Net Equity	Percentage holding at 31.12.98	Effective holding at 31.12.98	Carrying value (A)	Value per-art.2426 Civ. Cod. (B)	Differences (A) - (B)	Holding company at 31.12.1998	Percentage holding at 31.12.97	Effective holding at 31.12.97	Notes
Companies consolidated using the global integration method:													
Adria Food S.r.l.	S. Michele al Tagliamento (VE)	650	(34)	400	74.09%	100.00%				Marr S.p.A.			(a)
Agape S.p.A.							N/A - merged with Cremonini S.p.A. in 1998				100.00%	100.00%	
Albatros Eurotrade S.r.l.	Santarcangelo di Romagna (RN)	190	909	1,100	100.00%	100.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Alisea Soc. Cons. a r.l.	Impruneta (FI)	90	82	1,068	55.00%	55.00%	N/A - Integrally consolidated			Marr S.p.A.	55.00%	34.89%	
Az. Agr. Corticella S.r.l.	Spilamberto (MO)	180	(1,279)	(284)	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Az. Agr. Pro.Mo.Zoo. S.r.l.	Modena	855	(2)	1,602	100.00%	100.00%	N/A - Integrally consolidated			Az. Agricola Corticella S.r.l.	100.00%	100.00%	
Battistini Elviro S.r.l.	Cesenatico (FO)	34	111	1,370	100.00%	100.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Cremonini S.p.A.	**Castelvetro (MO)**	**140,620**	**(364)**	**365,026**		Parent Company							
Ca-Ma S.r.l.	Modena	50	183	5,698	100.00%	100.00%	N/A - Integrally consolidated			Ceibec S.r.l.	100.00%	100.00%	
Carnemilia S.r.l.	Bologna	1,250	(222)	658	80.00%	80.00%	N/A - Integrally consolidated			IN.AL.CA. S.p.A.	80.00%	79.05%	
C.E.I.Be.C. S.r.l.	Modena	900	226	21,165	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Compagnia delle Spezie S.r.l.	Gattatico (RE)	2,000	21	2,004	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Corte Buona S.p.A.	Gazoldo degli Ippoliti (MN)	78,000	3,785	79,213	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	97.44%	
Cremonini Finance Plc.	Londra (Regno Unito)	GBP 50,000	(5,380)	(637)	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Elba Alimentari S.r.l.	Portoferraio (LI)	1,200	(12)	1,004	100.00%	100.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Gepar Ltd.	Sliema (Malta)	30,000	(3)	30,002	99.99%	99.99%	N/A - Integrally consolidated			Cremonini S.p.A.	99.99%	99.99%	
Golden S.r.l.							N/A - merged with Cremonini S.p.A. in 1998				100.00%	100.00%	
Grex S.r.l.	Modena	180	130	159	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Immobiliare Ciclamino S.r.l.	Modena	200	(192)	8	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
IN.AL.CA. S.p.A.	Castelvetro (MO)	120,000	12,040	134,272	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	99.21%	99.21%	
Interjet S.r.l.	Castelvetro (MO)	3,000	63	2,004	100.00%	100.00%	N/A - Integrally consolidated			Crem. S.p.A.: 80%.. Marr S.p.A.: 20%	100.00%	92.69%	
Islandia S.p.A.	Castelvetro (MO)	6,500	(3,453)	4,089	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Ital-Ristoro S.r.l.	Castelvetro (MO)	200	(396)	169	100.00%	100.00%	N/A - Integrally consolidated			Ceibec S.r.l.	100.00%	100.00%	
Marr S.p.A.	Rimini	49,450	11,318	110,656	99.89%	99.89%	N/A - Integrally consolidated			Crem. S.p.A.: 34.44%. Gepar Ltd.: 14.12%. Grex S.r.l.: 51.33%	63.44%	63.44%	
Marr Alisurgel S.p.A.	Palermo	190	1,356	1,646	97.00%	97.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Marr Sames S.r.l.	Santarcangelo di Romagna (RN)	200	381	1,185	100.00%	100.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Merigel S.r.l.	Monchiero (CN)	20	19	71	55.00%	55.00%	N/A - Integrally consolidated			Islandia S.p.A.	55.00%	55.00%	
Polis S.r.l.	Castelvetro (MO)	60	(332)	8,232	100.00%	100.00%	N/A - Integrally consolidated			Ceibec S.r.l.	100.00%	100.00%	
Progettazioni Industriali S.r.l.	Castelvetro (MO)	20	6	31	100.00%	100.00%	N/A - Integrally consolidated			Cremonini S.p.A.	100.00%	100.00%	
Ri-Ci S.p.A.							N/A - merged with Cremonini S.p.A. in 1998				100.00%	100.00%	
Romagna Centro Gross S.r.l.	Santarcangelo di Romagna (RN)	2,850	215	16,002	66.24%	66.24%	N/A - Integrally consolidated			Marr: 64.45%. Battistini: 1.78%	66.34%	42.08%	
Staff Service S.r.l.	Castelvetro (MO)	150	(227)	(123)	100.00%	100.00%	N/A - Integrally consolidated			Progettazioni Industriali S.r.l.	100.00%	100.00%	
S.I.A.S. Società Italiana Appalti e Servizi S.p.A.	Santarcangelo di Romagna (RN)	500	448	1,281	100.00%	100.00%	N/A - Integrally consolidated			Marr S.p.A.	100.00%	63.44%	
Ultrocchi Carni S.p.A.	S. Stefano Ticino (MI)	26,445	(1,141)	45,235	77.79%	77.79%	N/A - Integrally consolidated			IN.AL.CA. S.p.A.	77.26%	76.65%	
Vescom S.r.l.							N/A - merged with Cremonini S.p.A. in 1998				77.77%	77.77%	

Consolidated explanatory notes

Exhibit 7

Name	Registered office	Capital stock (in Lire millions if not otherwise indicated)	Profit (loss) for the year	Net Equity	Percentage holding at 31.12.98	Effective holding at 31.12.98	Carrying value (A)	Value per-art.2426 Civ. Cod. (B)	Differences (A) - (B)	Holding companiy at 31.12.1998	Percentage holding at 31.12.97	Effective holding at 31.12.97	Notes
Stockholdings valued using the net equity method:													
Ligabue Catering S.p.A.	Venice	11,300	1,098	19,488	20.00%	20.00%	8,978	8,978		Cremonini S.p.A.	20.00%	20.00%	(c)
Ristochef S.p.A.	Milan	6,000	1,112	10,069	32.00%	32.00%	4,470	4,470		Cremonini S.p.A.	32.00%	32.00%	
Fe.Ber. Carni S.r.l.	Castelvetro (MO)	190	613	749	100.00%	100.00%	750	749	(1)	Cremonini S.p.A.	100.00%	100.00%	
Immobiliare Athena S.r.l.	Rimini	1,000	102	1,653	34.00%	21.57%	1,935	1,935		Marr S.p.A	34.00%	21.57%	(c)
Stockholdings valued at cost:													
Subsidiaries:													
Bonora S.r.l. in liquidation	Castelvetro (MO)	50	(6)	(429)	100.00%	100.00%	15	(429)	(444)	Cremonini S.p.A.	100.00%	100.00%	
Buffet Stazione di Belluno S.r.l.	Belluno	20	(9)	11	100.00%	100.00%	750	11	(739)	Cremonini S.p.A.			
Buffet Suisse Milano S.r.l. in liquidation	Milan	20	244	(34)	100.00%	100.00%		(34)	(34)	Cremonini S.p.A.	100.00%	100.00%	
Buona Italia Alimentos Ltda.	San Paolo (Brasile)	Reales 10,000			85.00%	85.00%	12			Corte Buona S.p.A.			(b)
Ce France S. a r.l.	Paris (France)	FF. 350,000	(37)	66	100.00%	100.00%	101	66	(35)	Cremonini S.p.A.	99.00%	99.00%	
Cogea Sud S.r.l.	Salerno	100			99.00%	99.00%	30			Cremonini S.p.A.			(b)
Consorzio Centro Commerciale Ingrosso Carni S.r.l.	Bologna	3,000	(160)	3,112	77.05%	77.05%	8,975	2,398	(6.577)	Cremonini S.p.A.			
C.T.A. S.r.l. in liquidation	Castelvetro (MO)	20	(6)	(148)	100.00%	100.00%		(148)	(148)	Cremonini S.p.A.	100.00%	100.00%	
Gestione Buffet Stazione FF.SS. di V. e L. S.r.l.	Novara	20	1	28	100.00%	100.00%	1,060	28	(1.032)	Cremonini S.p.A.			
IN.AL.CA. Fleischhandel GmbH	Dormagen (Germany)	DM 80,000	(8.484)	60,112	90.00%	90.00%	52	54	2	IN.AL.CA. S.p.A.	90.00%	89.29%	
IN.AL.CA. Hellas E.P.E.	Athens (Greece)	GRD 50,200,000	GRD 847,832	GRD 36,719,311	95.00%	95.00%	318	205	(113)	IN.AL.CA. S.p.A.	95.00%	94.25%	
IN.AL.CA. Pol. Spolka. Zoo. in liquidation	Varsavia (Poland)	ZLOTY 55,500			100.00%	100.00%	3		(3)	IN.AL.CA. S.p.A.	100.00%	99.21%	
Multiservice S.p.A.	Castelnuovo R. (MO)	1,250	299	5,128	82.00%	82.00%	5,740	4,205	(1.535)	Cremonini S.p.A.			
Perutnina Marr Yutali S.r.l.	Ptuj (Slovenia)	USD 300,.000	53	89	60.00%	60.00%				Marr S.p.A.	60.00%	38.06%	
Pianeta Italia S.r.l.	Castelvetro (MO)	100	(4)	96	99.00%	99.00%	50	95	45	Cremonini S.p.A.	99.00%	99.00%	
S.I.I. Italia S.r.l. in liquidation	Sant'Arcangelo di Romagna (RN)	40			100.00%	100.00%	40		(40)	Cremonini S.p.A.	100.00%	100.00%	(c)
S.A.M. S.r.l.	Florence	90	(101)	72	100.00%	100.00%	90	72	(18)	Cremonini S.p.A.	100.00%	100.00%	
S.A.R.A. S.r.l.	S. Stefano Ticino (MI)	1,000	(1)	1,003	98.00%	76.23%	977	982	5	Ultrocchi Carni S.p.A.	98.00%	76.23%	
S.G.D. S.r.l.	Castelvetro (MO)	160	7	239	50.00%	50.00%	82	120	38	Cremonini S.p.A.	50.00%	50.00%	
Taormina Catering S.r.l. in liquidation	San Angelo in Vado (PS)	20	17		60.00%	60.00%				Marr S.p.A.	60.00%	38.06%	
Volo Nedda Buffet Stazione Brescia S.r.l.	Brescia	23	(157)	(52)	100.00%	100.00%	1,165	(52)	(1.217)	Cremonini S.p.A.			
Associated companies:													
Agape Card S.r.l.	Milano	85	(6)	77	29.41%	29.41%	25	23	(2)	Cremonini S.p.A.	29.41%	29.41%	(c)
Compagnia delle Spezie France S.A.	Paris (France)	FF. 50,000	FF. (573.436)	FF. (390,291)	50.00%	50.00%	7	(50)	(57)	Compagnia delle Spezie S.r.l.			(c)
Fernie S.r.l. in liquidation	Modena	2,000	(4)	2,205	40.00%	40.00%	960	882	(78)	Cremonini S.p.A.	40.00%	40.00%	
Serra della Spina S.r.l.	Monacilioni (CB)	21	4	49	33.33%	33.33%	18	16	(2)	Cremonini S.p.A.	33.33%	33.33%	

Notes (a) Companies acquired in 1998 with the option to acquire 100% control (see "Scope of the consolidation" section for futher details)
(b) Figures not avaiable as the companies were formed during 1998. The first financial statements will be for the year ending 31.12.1999
(c) Figures related to the last financial statements approved (31.12.1997)

Consolidated explanatory notes

Exhibit 8

List of changes in the scope of consolidation as at 31 December 1998 with respect to 31 december 1997

Subsidiaries consolidated using the global integration (line-by-line) method as at 31 december 1997 and no longer within the scope of the consolidation:

Name	Registered Office	Capital stock (in millions of Lire if not otherwise indicated)	Percentage holding as at 31.12.1998	Effective holding as at 31.12.1998	Holding company as at 31.12.1997	Notes
Europork S.p.A.	Spilamberto (MO)	22,000	92.85%	92.85%	Cafin S.p.A: 60.37%; Agape S.p.A.: 32.48%	(1)
Transitexpress S.r.l.	Campogalliano (MO)	20	99.00%	99.00%	Cafin S.p.A.	(2)

Subsidiaries consolidated using the global integration method as at 31 december 1998, that fell within the scope of consolidation for the first time or for which the group's stockholding has changed:

Name	Registered Office	Capital stock (in millions of Lire if not otherwise indicated)	Percentage holding as at 31.12.1998	Effective holding as at 31.12.1998	Holding company as at 31.12.1997	Notes
Compagnia delle Spezie S.r.l.	Gattatico (RE)	2,000	100.00%	100.00%	Cremonini S.p.A.	(3)
Cremonini Finance Plc.	London (United Kingdom))	GBP 50,000	100.00%	100.00%	Cremonini S.p.A.	(4)
Marr S.p.A.	Rimini	49,450	99.89%	99.89%	Cremonini S.p.A.: 34.44%; Gepar Ltd.: 14.12%; Grex S.r.l.: 51.33%	(5)
IN.AL.CA. S.p.A.	Castelvetro (MO)	120,000	100.00%	100.00%	Cremonini S.p.A.	(6)
Adria Food S.r.l.	San Michele al Tagliamento (VE)	650	74.09%	100.00%	Marr S.p.A.	(7)
Ultrocchi Carni S.p.A.	S. Stefano Ticino (MI)	26,445	77.79%	77.79%	IN.AL.CA. S.p.A.	(8)
Vescom S.r.l.					Company merged with Cremonini S.p.A.	(9)
Marr Alisurgel S.r.l.	Palermo	290	97.00%	97.00%	Marr S.p.A.	(10)

Subsidiaries consolidated using the net equity method as at 31 December 1998 for the first time

Name	Registered Office	Capital stock (in millions of Lire if not otherwise indicated)	Percentage holding as at 31.12.1998	Effective holding as at 31.12.1998	Holding company as at 31.12.1997	Notes
Fe.Ber. Carni S.r.l.	Castelvetro (MO)	190	100%	100%	Cremonini S.p.A.	(11)

NOTES
(1) Companies for which the Parent Company's stockholding was assigned to stockholders in the first six months of 1998, and for which the stockholding of Agape S.p.A. (now merged into Cremonini S.p.A.) was sold to third parties during the second six months of 1998.
(2) Companies sold to third parties during the first six months of 1998.
(3) Companies acquired during the 1997 financial year and, in that year's financial statements, valued at cost.
(4) Companies formed during the 1997 financial year and, in that year's financial statements, valued at cost.
(5) The percentage held was increased (63.44% as at 31 December 1997) due to additional acquisitions.
(6) The percentage held was increased (99.21% as at 31 December 1997) due to additional acquisitions.
(7) Companies acquired during 1998 and for which there is an option to acquire 100% control (see section "Scope of consolidation" for further details).
(8) The percentage held was increased (77.26% as at 31 December 1997) due to additional acquisitions (see section "Scope of consolidation" for further details).
(9) The company, in which the Group held 77,77% as at 31 December 1998, became a 100% subsidiary during 1998 and was later merged into Cremonini S.p.A.
(10) The holding in this Company, which was 100% as at 31 December 1997 reduced to 97% as at 31 December 1998, due to the sale al 3% of the capital stock during 1998.
(11) In the consolidated financial statements for the year ended as at 31 December 1997 this company was valued at cost.

Consolidated explanatory notes

Exhibit 9

Details of bank mortgages and loans as at 31 December 1998

Mortgages and Loans	Interest Rate	Maturity	Current amount	Within 5 years net of current amount	Over 5 years	Balance as at 31.12.1998
B.N.L. Cred. Industriale 20,000 million	5.75%	30/06/99	2,222			2,222
B.N.L. Cred. Fondiario - Piano Carne	3.50%	31/12/13	3,017	15,111	71,872	90,000
I.M.I. Applied Research	10.75%	01/07/03	783	3,486		4,269
I.M.I. Applied Research	6.20%	01/07/03	288	1,009		1,297
Banca Roma London Branch - 120,000 million	4.20%	31/12/99	60,000			60,000
Efibanca - 5,582 milioni	3.85%	30/06/03	660	2,520		3,180
Mediocredito Roma 52397 - 25,000 million	6.00%	31/12/01	4,094	9,699		13,793
Centrobanca	Variable	30/06/10	173	1,549	3,278	5,000
Mediocredito del Sud	Variable	11/05/99	30,000			30,000
Mediocredito Umbria	Variable	03/09/99	10,000			10,000
Mediocredito Umbria	Variable	29/12/99	5,000			5,000
Credito Fondiario e Industriale S.p.A.	Variable	20/12/99	5,000			5,000
Banca Popolare Emilia Romagna	Variable	16/10/06		9,145	6,855	16,000
Pool Banco di Sardegna	Variable	14/11/99	21,000			21,000
Credito Agrario n. 60/357291 (with interest subsidies)	15.23% gross	31/12/03	70	407		477
Credito Agrario n. 83/356906 (with interest subsidies)	13.83% gross	30/06/04	514	2,905	485	3,904
Credito Agrario n. 2E/358274 (with interest subsidies)	14.30% gross	30/06/99	1,018			1,018
Credito Agrario n. 2F/356595 (with interest subsidies)	14.30% gross	30/06/99	1,018			1,018
Credito Agrario n. 84355731	Variable	11/12/99	200			200
ISVEIMER	5.05%	30/11/00	933	980		1,913
Carisbo - Contr. 1007510	Variable	31/12/05	689	3,533	2,353	6,575
Carisbo - Contr. 1017035	Variable	31/12/04	1,016	4,655	1,329	7,000
Carim. S.p.A. n. 916	Variable	31/12/06	14	97	54	165
Carim. S.p.A. n. 6088	Variable	11/08/09	41	266	413	720
ICCREA	Variable	31/07/02		24,000		24,000
Other loans and current accounts			229,366	6,765		236,131
Totals			**377,116**	**86,127**	**86,639**	**549,882**

Consolidated explanatory notes

Exhibit 10

Details as at 31 December 1998 of mortagages and loans from other financial institutions

Mortgages and Loans	Interest Rate	Maturity	Current amount	Within 5 years net of current amount	Over 5 years	Balance as at 31.12.1998
M.I.C.A - Lire 4,283 million	8.91%	31/07/05	366	1,819	1,171	3,356
M.I.C.A - Lire 2,254 million	8.73%	31/05/06	178	880	883	1,941
M.I.C.A Compost - Lire 1,603 million	1.64%	27/09/09		653	1,350	2,003
M.I.C.A ex Icar - Lire 3,280 million	1.58%	16/05/09		1,066	2,178	3,244
M.I.C.A P.	1.57%	31/07/12		397	1,642	2,039
Ministero Industria n. 2061	2,32% (before repayments)	16/02/08	145	723	1,351	2,219
Ministero Industria n. 0161	2,12% (before repayments)	24/05/11		306	921	1,227
Totals			**689**	**5,844**	**9,496**	**16,029**

Exhibit 11

Consolidated Financial Statements 31.12.1998
(in thousands of Euro)

€

Balance Sheet -Assets

	31.12.1998	31.12.1997
B) Fixed assets		
I. Intangible		
1) Start-up and expansion costs	8,997	938
2) Cost of research, development and advertising	3,026	1,263
3) Cost of industrial patents, know-how and usage rights	346	497
4) Concessions, licences, brand names and similar rights	4,356	4,925
5) Goodwill	1,916	2,297
5 bis) Consolidation differences	76,943	40,416
6) In progress and deposits	2,574	1,007
7) Others	14,695	11,649
	112,853	**62,992**
II, Tangible		
1) Land and buildings	139,541	149,193
2) Plant and machinery	84,852	93,780
3) Industrial and commercial equipment	3,955	4,500
4) Others	11,351	11,152
5) In progress and deposits	92,021	64,060
	331,720	**322,685**
III, Financial		
1) Stockholdings in		
a) subsidiaries	10,438	5,945
b) associated companies	8,466	9,385
d) other companies	3,413	1,863
	22,317	**17,193**
2) Loans		
a) to subsidiaries		
– within one year		2,888
– over one year	837	
b) to associated companies		
– within one year	5	51
d) to others		
– within one year	789	14,210
– over one year	13,384	12,667
	15,015	**29,816**
3) Other securities	21,193	23,232
4) Treasury stock (total nominal value Euro 516,456,90)	3,192	
Total fixed assets (B)	**506,290**	**455,918**

Exhibit 11

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	31,12,1998	31,12,1997
C) Current assets		
I, Inventory		
1) Raw materials, ancillaries and consumables	9,395	14,413
2) Products in progress and semi-finished products	5,189	7,811
4) Finished products and goods	126,716	103,136
5) Deposits	181	366
	141,481	**125,726**
II, Receivables		
1) Trade receivables		
– within one year	151,379	181,890
– over one year	2,713	1,989
	154,092	**183,879**
2) From subsidiaries		
– within one year	6,828	35,231
3) From associated companies		
– within one year	1,590	645
5) From others		
– within one year	65,963	60,164
– over one year	3,882	5,375
	69,845	**65,539**
	232,355	**285,294**
III, Financial current assets		
4) Other stockholdings	298	1,078
6) Other securities	1,575	3,539
	1,873	**4,617**
IV, Liquid assets		
1) Banks and post office accounts	52,003	6,893
2) Cheques on hand	425	209
3) Cash and securities on hand	642	919
	53,070	**8,021**
Total current assets (C)	**428,779**	**423,658**
D)Accrued income and prepaid expenses		
– various	**3,441**	**3,855**
TOTALE ASSETS (B + C + D)	**938,510**	**883,431**

Exhibit 11

Consolidated Financial Statements 31.12.1998
(in thousands of Euro)

€

Net equity and liabilities

	31,12,1998	31,12,1997
A) Net equity		
I. Capital stock	72,624	52,679
II. Share premium reserve	108,841	
I. Legal reserve	1,965	3,012
V. Reserve for treasury stock	3,192	
VII. Other reserves		
Extraordinary reserve		2,909
Shareholders - advance payments for capital stock		1,204
Reserve for anticipated amortization per Art. 67 DPR 917/86		853
Merger reserve		178
Consolidation reserve	4,836	4,936
VIII. Profit (loss) brought-forward	(14,188)	(21,410)
IX. Group' share of profit (loss) for the year	12,570	14,971
Total Group net equity	**189,840**	**59,332**
Minority interests in capital and reserves	6,866	25,876
Minority's share of profit (loss) for the year	(58)	2,445
Total minority interests	**6,808**	**28,321**
Total (A)	**196,648**	**87,653**
B) Provision for liabilities and charges		
1) Provision for severance indemnities	864	683
2) Provision for taxation	627	423
3) Other	2,826	4,891
Total (B)	**4,317**	**5,997**
C) Staff severance indemnities	**23,567**	**23,459**

Exhibit 11

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	31,12,1998	31,12,1997
D) Payables		
1) Bonds		
– within one year	1,705	28,973
– over one year	129,114	1,704
	130,819	**30,677**
3) Bank loans and overdrafts		
– within one year	194,764	312,207
– over one year	89,226	109,360
	283,990	**421,567**
4) Loans from other financial institutions		
– within one year	59,954	75,063
– over one year	8,016	7,812
	67,970	**82,875**
5) Deposits		
– within one year		6
6) Trade payables		
– within one year	172,932	168,707
– over one year		147
	172,932	**168,854**
7) Payable secured by bills of exchange		
– within one year	516	
8) Payables to subsidiaries		
– within one year	1,211	4,443
9) Payables to associated companies		
– within one year	572	1,774
11) Tax payables		
– within one year	8,728	9,070
– over one year	1	41
	8,729	**9,111**
12) Payables to pension and social security institutions		
– within one year	3,838	4,344
13) Other payables		
– within one year	29,533	25,674
– over one year	1,935	2,258
	31,468	**27,932**
Total (D)	**702,045**	**751,583**
E) Accrued expenses and deferred income		
– various	**11,933**	**14,739**
TOTAL LIABILITIES (A + B + C + D + E)	**938,510**	**883,431**

Exhibit 11

Consolidated Financial Statements 31.12.1998
(in thousands of Euro)

€

Memorandum accounts

	31,12,1998	31,12,1997
1) Real guarantees-surities		
– subsidiaries	370,556	479,418
– associated companies	1	19
– affiliated companies	21,236	4,294
– other companies	89,504	56,085
	481,297	**539,816**
2) Real guarantees - letters of comfort		
– subsidiaries	59,528	90,857
– associated companies		155
– affiliated companies	3,977	1,601
– other companies	2,272	310
	65,777	**92,923**
3) Indirect guarantees - credit mandates		
– subsidiaries	49,575	57,735
– associated companies	5,423	
– other companies	4,390	
	59,388	**57,735**
4) Real guarantees - pledges		
– subsidiaries	1,472	22,980
– associated companies	2,768	
	4,240	**22,980**
5) Real guarantees - mortgages		
– other companies	250,238	280,150
	250,238	**280,150**
6) Assets on third party premises		333
7) Other risks and commitments	15,350	22,511
TOTAL MEMORANDUM ACCOUNTS	**876,290**	**1,016,448**

Exhibit 11

Consolidated Financial Statements 31.12.1998
(in thousands of Euro)

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Statement of Income

	31,12,1998	31,12,1997
A) Value of production		
1) Revenues from sales and services	1,017,880	1,067,482
2) Charges in product inventories and products in progress, semi-finished and finished	8,861	(8,832)
4) Increase in fixed assets produced internally	7,988	3,881
5) Other revenue and income		
– various	16,252	10,492
– subsidies	530	924
	16,782	**11,416**
Total value of production (A)	**1,051,511**	**1,073,947**
B) Costs of production		
6) For raw materials, ancillaries, consumables and goods	713,879	734,786
7) For services	142,610	143,004
8) For the use of third party assets	11,833	10,727
9) For personnel		
a) Salaries and wages	63,793	63,385
b) Social security costs	22,175	27,153
c) Severance indemnities	4,755	5,179
e) Other costs	1,388	1,141
	92,111	**96,858**
10) Amortization and write-downs		
a) Amortization of intangible fixed assets	8,946	8,381
b) Amortization of tangible fixed assets	22,092	22,940
d) Provision for bad debts and write-downs of other current assets	4,845	5,286
	35,883	**36,607**
11) Changes in inventories of raw material ancillaries, consumables and goods	(10,572)	(5,914)
12) Provision for risks	1,532	990
13) Other provisions	65	219
14) Sundry administration costs	13,354	18,477
Total costs of production (B)	**1,000,695**	**1,035,754**
Difference between value and costs of production (A – B)	**50,816**	**38,193**

Exhibit 11

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	31,12,1998	31,12,1997
C) Financial income and expense		
15) Income from stockholdings		
– from subsidiaries	4,457	6,820
– from associated companies	207	4,433
– other	134	137
	4,798	**11,390**
16) Other financial income		
a) from fixed loans		
– from subsidiaries	17	
– other	740	1,014
	757	**1,014**
b) from fixed securities other than stockholdings	2,799	2,787
c) from current securities other than stockholdings	494	1,579
d) income other than described above		
– from subsidiaries	441	1,125
– from associated companies		4
– other	14,187	9,477
	14,628	**10,606**
	18,678	**15,986**
17) Interest and other financial costs		
– paid to subsidiaries	(5)	(190)
– paid to associated companies	(8)	(99)
– other	(48,822)	(51,324)
	(48,835)	**(51,613)**
Total financial income and expense (C)	**(25,359)**	**(24,237)**
D) Adjustments to the value of financial assets		
18) Write-ups		
a) of stockholdings	135	731
19) Write-downs		
a) of stockholdings	(238)	(2,064)
b) of financial fixed assets other than stockholdings	(464)	(155)
	(702)	**(2,219)**
Total adjustments to the value of financial assets (D)	**(567)**	**(1,488)**

Exhibit 11

Consolidated Financial Statements 31.12.1998
(in thousands of Euro)

Statement of income

	31,12,1998	31,12,1997
E) Extraordinary income and expense		
20) Income		
– surplus on sales	1,922	8,628
– various	2,878	13,667
	4,800	**22,295**
21) Expense		
– loss on sales	(304)	(3,085)
– various	(5,050)	(6,697)
– taxation relating to the preceding financial year	(5)	(8)
	(5,359)	**(9,790)**
Total extraordinary items (E)	**(559)**	**12,505**
Profit before taxation (A – B ± C ± D ± E)	**24,331**	**24,973**
22) Taxation on the profit for the year	(11,819)	(7,557)
26) Net profit, after taxation for the year		
– Profit (loss) for the year	12,512	17,416
– Minority interests' share of (profit) loss	58	(2,445)
Group's share of profit (loss)	**12,570**	**14,971**

Statutory Auditors' Report

Stockholders,

the Cremonini Group financial statements, prepared by the Board of Directors as at 31 December 1998 show the following summarized results:

	Lire millions
I. Balance-sheet	
Assets	1,817,209
Liablities	1,436,446
Capital stock	140,620
Reserves	230,094
Loss brought-forward	(27,473)
Group net profit for the year	24,339
Minority interests (including minorities' share of loss-Lire 112 million)	13,183

with a total of Lire 1,696,732 shown in the memorandum accounts.

	lire milioni
II. Statement of income	
Value of production	2,036,011
Costs of production	(1,937,614)
Financial income and expense	(49,105)
Adjustments to asset values	(1,098)
Extraordinary income and expense	(1,083)
Taxation on the profit for the year	(22,884)
Minority interests	112
Group net profit for the year	24,339

In the Directors' Report and the Explanatory Notes forming an integral part of the Consolidated Financial Statements the Directors provide, in addition to the consolidation method ("Line-by-line" for the Parent Company and most subsidiaries - "net equity" for associated companies and one subsidiary) and the consolidation criteria, information on the companies included in the scope of the consolidation and comments the events which took place during the financial year.

The Statutory Auditors, within the limits of their authority and on the basis of the information provided to them, certify that:

- the consolidated financial statements have been prepared in terms of Law no. 127/1991 and in accordance with Consob's recommendations and contain the accounting information of the

Statutory Auditors' Report

Parent Company integrated with relative information from associated companies included in the scope of the consolidation;

- the Directors' Report gives a true and fair view of the results shown in the consolidated financial statements.

In addition, and in accordance with the recommendations of Consob, the Statutory Auditors state that:

- the information supplied by the Board of Directors in their Report including the transactions with affiliated companies, is considered to be complete. In this connection neither conflicts of interest, nor atypical or unusual transactions sufficiently material to have affected the profitability, financial situation, net equity or other, either of the Company or of the Group of which it is the Parent Company, were revealed;
- during the financial year information has been exchanged with Price Waterhouse, the firm appointed to audit the financial statements of the Parent Company and the consolidated financial statements of the Group. At the date of writing, in view of the fact that we do not yet have the Auditors' Report, we are assuming that, except for the comment made in their report for the six-months ended 30 June 1998, there are no significant matters resulting from their examination of the consolidated financial statements;
- the measures taken by the Directors to protect Group companies against the "year 2000 problem" are considered adequate.

The Statutory Auditors hereby agree that the consolidated financial statements of the Group as at 31 December 1998 adeguately describe the Group's financial position and results for the year ended that date.

Castelvetro, 11 May 1999

THE STATUTORY AUDITORS

Dott. Alessandro Artese

Alessandro Artese

Dott. Giovanni Zanasi

Dott. Franco Colombo

Auditor's Report

Price Waterhouse

To the Shareholders of
CREMONINI SpA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

AUDIT CERTIFICATE IN ACCORDANCE WITH ARTICLE 4 DPR 31 MARCH 1975 N.136

We have audited the consolidated financial statements of the CREMONINI Group (formerly CA.FIN. Group) for the year ended 31 December 1998. We also verified that the Directors' report agrees with the consolidated financial statements.

Our examination was carried out in accordance with the principles and criteria for the audit of accounts recommended by the National Commission for Companies and the Stock Exchange (CONSOB) and we carried out such tests as we considered necessary for the purpose of our audit. The financial statements of certain subsidiaries (mainly MARR and its subsidiaries) which reflect total assets constituting 13,3 per cent of consolidated assets and sales revenues constituting 38,1 per cent of consolidated sales revenues, have been audited by other auditors who have provided us with their audit reports. Our opinion, as expressed in the audit certificate, insofar as it relates to the accounts of those companies included in the consolidated financial statements is based also on the audit performed by other auditors. For the opinion on the prior year consolidated financial statements, data from which are presented for comparative purposes as required by law, reference should be made to our report issued on 29 June 1998.

The consolidated net income for the year ended 31 December 1998 is understated by some Lire 16,306 million, with no effects on the consolidated shareholders equity as of 31 December 1998, related to the recording of a gain of the same amount as of 31 December 1997. This gain was realised through the sale of the subsidiary Residence Nadini Le Cupole Srl to a related party in 1998 and therefore relates to the year ended 31 December 1998.

In our opinion, except for the effects of the matter referred to in the preceding paragraph, the consolidated financial statements as a whole have been properly prepared and give a true and fair view of the group's financial position and of the consolidated results of its operations in conformity with Italian law governing consolidated financial statements. Therefore we issue this audit certificate to the consolidated financial statements of the CREMONINI Group for the year ended 31 December 1998.

Member Firm of PRICEWATERHOUSECOOPERS

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Auditor's Report

Price Waterhouse SpA Member Firm of PRICEWATERHOUSECOOPERS

As described in the notes to the financial statements, in connection with the restructuring and streamlining of the financial structure of the parent company, accounts receivable for Lire 113,914 million were sold at the net book value and without recourse to a company controlled by the majority shareholders. In addition, investments in subsidiaries of Lire 19,069 million were assigned to the shareholders pro-quota, in accordance with article 29 of law 449/1997.

Price Waterhouse SpA

Giovanni Galli
(Partner)

Parma, 11 May 1999

THIS REPORT HAS BEEN TRANSLATED FROM THE ORIGINAL WHICH WAS ISSUED IN ACCORDANCE WITH ITALIAN PRACTICE

Summary of proceedings

Annual General Meeting held on 29 May 1999

Following a notice published in the Official Gazette of the Republic of Italy - Page 95, dated 24 April 1999 - Stockholders were advised that the Annual General Meeting of Cremonini S.p.A. was to be held on 29 May 1999 (first call) and, if necessary, postponed until 5 June 1999 (second call).

The Annual General Meeting was held at 53 Via Modena, Castelvetro di Modena, was chaired by Chairman, Luigi Cremonini.

Thirteen stockholders were present, in person or by proxy, holding an aggregate of 80,653,000 ordinary shares, equal to 57.36% of the capital stock.

Following the reading of the Directors' Report, the Statutory Auditors' Report and the External Auditors' Report the Financial Statements as at 31 December 1998, the Directors' Report and the proposals contained therein were approved by a majority of the Stockholders present at the Meeting, with a motion in favour proposed by twelve Stockholders (who held, in aggregate, 80,652,000 shares) and the abstention of one Stockholder who held 1,000 shares.

The Directors' proposals, as detailed by the first, second and third items of the Agenda for the Meeting, were unanimously approved.