



GABETTI GROUP

**BOARD OF DIRECTORS' REPORT
ON OPERATIONS**

To the shareholders,

The condensed consolidated income statement and balance sheet are presented below.

CONDENSED CONSOLIDATED INCOME STATEMENT

(in millions of lire)	1999	1998
REAL ESTATE REVENUES AND EXPENSES		
Commissions from real estate trading	74,931	54,737
Franchising revenues	6,286	5,092
Mortgage loan and lease brokerage revenues	7,018	3,763
Real estate consulting and service revenues	2,125	872
Other income	2,775	4,326
Revenues from real estate sales	10,435	12,815
Cost of real estate sold	(10,539)	(13,071)
Write-down of real estate in inventory	(467)	(2,523)
Operating costs and expenses	(78,039)	(68,216)
OPERATING RESULTS	14,525	(2,205)
FINANCIAL INCOME AND EXPENSES		
Interest income on mortgage loans	31,194	44,965
Interest income on finance leases	691	2,004
Other income	2,389	5,070
Differentials on interest rate swaps	(1,126)	(1,938)
Financial charges, net	(11,387)	(24,984)
Operating costs and expenses	(13,289)	(12,142)
OPERATING RESULTS	8,472	12,975
GROUP HOLDING COMPANY COSTS (net of income)	(10,273)	(9,432)
GROSS OPERATING PROFIT FROM ORDINARY OPERATIONS	12,724	1,338
EXTRAORDINARY INCOME AND EXPENSES		
Extraordinary income	0	6,437
Extraordinary expenses	0	(893)
TOTAL EXTRAORDINARY INCOME AND EXPENSES	0	5,544
INCOME BEFORE INCOME TAXES	12,724	6,882
INCOME TAXES	(7,096)	(4,125)
NET INCOME - GROUP	5,628	2,757

CONDENSED BALANCE SHEET

(in millions of lire)

December 31, 1999 December 31, 1998

Mortgage loans receivable from customers (short-term)	129,746	133,602
Finance lease receivables from customers (short-term)	3,278	5,458
Real estate to be sold (from cancelled finance leases)	6,372	5,745
Trading real estate	22,681	33,435
Trade receivables	12,298	7,542
Other payables (short/medium-term), accruals/prepayments	(21,833)	(12,820)
Net working capital	152,542	172,962
Mortgage loans receivable from customers	129,582	184,126
Finance lease receivables from customers	9,677	17,745
Intangible assets, net	4,243	4,313
Tangible assets, net	8,371	8,711
Investments	1,797	1,776
Loans receivable from unconsolidated Group companies	145	237
Other assets	2,177	2,104
Treasury shares and other securities	3,152	2,085
Net fixed assets	159,144	221,097
Employees' severance pay	(12,814)	(11,737)
Invested capital, net of current liabilities	298,872	382,322
Financed by:		
Short-term debt	144,712	192,709
Cash and banks	(9,784)	(9,704)
Medium/long-term debt	90,629	130,240
Net financial debt	225,557	313,245
Shareholders' equity – Group	73,315	69,077
Total as above	298,872	382,322

The net financial debt of the Group, equal to Lire 226 billion (Lire 313 billion in 1998), should be view in relation to the financial assets (mortgage loans and leases) of the Group.

PERFORMANCE OF THE GROUP'S BUSINESS SECTORS

A) Commissions from real estate brokering

In 1999, the sector reported commission revenues of Lire 74.9 billion (Lire 54.7 billion in 1998).

As part of the strategy for the development of the direct sales network over the territory, the number of branches was increased from 96 to 109.

The plan to consolidate and expand the sales network through franchises continued during the year; the contracts stipulated at December 31, 1999 numbered 261 (232 at December 31, 1998), in addition to 36 preliminary franchise contracts (40 at December 31, 1998).

During the year, revenues from commissions, royalties and insurance contributions from the franchise sales network totaled Lire 6.3 billion (Lire 5.1 billion in 1998).

B) Revenues from real estate trading and building promotions

Again in 1999, there were no new deals entered into in this sector; during the year, thanks to extended revived efforts in marketing, revenues from real estate sales during the year totaled Lire 10.2 billion (Lire 12.2 billion in 1998). The trading real estate inventory at December 31, 1999 amounted to Lire 22.7 billion (Lire 33.4 billion in 1998). The movements in trading real estate inventories are fully described in the notes. In order to adjust certain buildings in the real estate inventory to market value, write-downs were made for a total of Lire 0.5 billion (Lire 2.5 billion in 1998).

Mergers by absorption were also concluded for Orfeo S.r.l. and Larissa S.r.l. in Agedil S.p.A.. This transaction gave rise to a merger surplus of Lire 0.4 billion.

In addition to the above sales, preliminary sales agreements were also stipulated for Lire 9.1 billion.

C) Mortgage loans

Excellent developments in mortgage brokering with designated banks, especially Banca Woolwich S.p.A., took place in 1999. This business produced revenues in 1999 equal to Lire 7.0 billion (Lire 3.8 billion in 1998) against Lire 213 billion in mortgage loans (Lire 112.6 billion in 1998).

The management of the existing loan portfolio refers to loans made up to December 31, 1997 which cover total installments due in future years of Lire 245 billion at December 31, 1999 (Lire 358 billion at December 31, 1998), of which Lire 168 billion is principal (Lire 230 billion at December 31, 1998).

D) Real estate leases

This business segment refers to the management of outstanding real estate finance leases which total Lire 15 billion at December 31, 1999 (Lire 19 billion at December 31, 1998), of which Lire 11 billion refers to principal including the purchase option (Lire 14 billion at December 31, 1998).

E) Real estate consulting and service revenues

The real estate consulting and service segment, engaged in by Patrigest S.p.A. and directed to clientele of excellent standing formed mainly by institutional investors and international merchant banks, continues with a strong trend in growth. Revenues recorded in 1999 were Lire 2.1 billion (Lire 0.9 billion in 1998).

F) Receivables recovery and litigation management

In the previous year, Patrigest S.p.A. commenced activities for receivables recovery and litigation management with respect to loans covered by mortgages with the twofold objective of accelerating and stepping up the recovery of the Group's receivables and, later, to extend this business to outside clients, especially to credit institutions carrying non-performing loans. The revenues invoiced to Group companies during the year, equal to Lire 2.4 billion, were eliminated on consolidation.

INFORMATION REGARDING THE "YEAR 2000 PROBLEM"

As regards information on the "year 2000 problem", reference should be made to the directors' report on operations of Gabetti Holding S.p.A..

R&D ACTIVITIES

The Group companies, in relation to their business, which is all directly or indirectly connected with the real estate sector, have not engaged in R&D activities.

INFORMATION REGARDING TREASURY SHARES

437,500 treasury shares were purchased by the Group holding company during the year at an average cost per share of Lire 2,602 and 27,500 treasury shares were sold.

At March 27, 2000, there were 1,508,500 treasury shares in portfolio of par value Lire 1,000 each, equal to 4.714% of share capital, at an average cost of Lire 2,089 per share and a total of Lire 3,152 million.

The purchase and sale of treasury shares, authorized by the shareholders' meeting on April 30, 1999, were effected to meet market requirements.

SIGNIFICANT SUBSEQUENT EVENTS AND FUTURE OUTLOOK

As far as significant events subsequent to the end of the year and the future outlook are concerned, reference should be made to the directors' report on operations of Gabetti Holding S.p.A..

Milan, March 28, 2000

for the Board of Directors
The Deputy Chairman
(Dott. Elio Gabetti)

GABETTI GROUP

CONSOLIDATED BALANCE SHEET

(in millions of lire)

ASSETS		December 31, 1999		December 31, 1998	
A)	SUBSCRIBED CAPITAL UNPAID	0		0	
B)	FIXED ASSETS				
I	Intangible assets				
1	Start-up and formation costs	64		83	
3	Patents and rights for the use of intellectual properties	869		1.344	
4	Concessions, licenses, trademarks and similar rights	33		10	
6	Intangible assets in progress and payments on account	331		156	
7	Other intangible assets	2.947		2.720	
	Total intangible assets	4.244		4.313	
II	Tangible assets				
1	Land and buildings	5.168		5.777	
4	Other tangible assets	3.193		2.906	
5	Tangible assets under construction and payments on account	10		28	
	Total tangible assets	8.371		8.711	
III	Long-term financial assets				
1	Investments in				
a	subsidiaries	8		47	
b	associated companies	1.789		1.729	
	Total investments	1.797		1.776	
2	Receivables	**	**		
b	loans receivable from associated companies	145	145	237	237
d	trade finance leases	3.278	12.955	5.458	23.203
e	trade mortgage loans	129.746	259.328	133.602	317.728
f	other receivables	24	2.177	24	2.104
	Total receivables	274.605		343.272	
3	Other securities	0		0	
4	Treasury shares (total par value of Lire 1,508)	3.152		2.085	
	Total long-term financial assets	279.554		347.133	
	TOTAL FIXED ASSETS	292.169		360.157	

** due within 1 year

GABETTI GROUP

CONSOLIDATED BALANCE SHEET

(in millions of lire)

ASSETS		December 31, 1999	December 31, 1998
C)	CURRENT ASSETS		
I	Inventories		
4	Real estate to be sold (from cancelled finance leases)	6.372	5.745
6	Trading real estate	22.681	33.435
7	Advances	228	228
	Total inventories	29.281	39.408
II	Receivables		
1	Trade	12.298	7.542
5	Other	6.327	6.551
	Total receivables	18.625	14.093
III	Current financial assets	0	0
IV	Cash and banks		
1	Bank and postal deposits	8.522	8.480
3	Cash	1.262	1.223
	Total cash and banks	9.784	9.703
	TOTAL CURRENT ASSETS	57.690	63.204
D)	ACCRUED INCOME AND PREPAID EXPENSES		
1	Accrued income	111	609
2	Prepaid expenses	2.874	4.118
	TOTAL ACCRUED INCOME AND PREPAID EXPENSES	2.985	4.727
TOTAL ASSETS		352.844	428.088

GABETTI GROUP

CONSOLIDATED BALANCE SHEET

(in millions of lire)

LIABILITIES AND SHAREHOLDERS' EQUITY		December 31, 1999		December 31, 1998	
A)	SHAREHOLDERS' EQUITY				
I	Share capital	32.000		32.000	
II	Share premium reserve	6.000		6.000	
III	Revaluation reserve	189		189	
IV	Legal reserve	2.227		1.820	
V	Reserve for treasury shares in portfolio	3.152		2.085	
VI	Statutory reserves	0		0	
VII	Other reserves				
1	Extraordinary reserve	19.226		24.124	
5	Other reserves	1.426		2.460	
	Total other reserves	20.652		26.584	
VIII	Retained earnings (accumulated deficit)	3.467		(2.358)	
IX	Net income for the year	5.628		2.757	
	SHAREHOLDERS' EQUITY	73.315		69.077	
B)	PROVISIONS FOR LIABILITIES AND CHARGES				
2	For taxes	104		948	
3	Other	1.474		1.931	
	TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	1.578		2.879	
C)	PROVISION FOR EMPLOYEES' SEVERANCE PAY				
		12.814		11.737	
D)	PAYABLES AND OTHER LIABILITIES				
3	Bank debt	90.629	235.341	130.240	298.349
4	Debt from other financial institutions		0		24.600
5	Advances received		1.646		1.755
6	Trade		9.870		6.302
11	Taxes		6.109	91	2.959
12	Social security contributions		3.609		2.830
13	Other		8.011		6.499
	TOTAL PAYABLES AND OTHER LIABILITIES		264.586		343.294
E)	ACCRUED LIABILITIES AND DEFERRED INCOME				
1	Accrued liabilities		547		1.094
2	Deferred income		4		7
	TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME		551		1.101
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			352.844		428.088

** after 1 year

GABETTI GROUP

CONSOLIDATED BALANCE SHEET

(in millions of lire)

MEMORANDUM ACCOUNTS		December 31, 1999	December 31, 1998
1	PERSONAL GUARANTEES GRANTED		
a	Sureties for		
	- others	0	400
b	Real guarantees and collaterals	128.452	205.556
	TOTAL PERSONAL GUARANTEES GRANTED	128.452	205.956

GABETTI GROUP

CONSOLIDATED INCOME STATEMENT

(in millions of lire)

	1999	1998
A) VALUE OF PRODUCTION		
01 Revenues from sales and services	99.382	76.254
02 Changes in inventories of buildings under construction and destined for sale	(10.546)	(15.584)
05 Other revenues and income	5.919	8.013
TOTAL VALUE OF PRODUCTION	94.755	68.683
B) COSTS OF PRODUCTION		
06 Real estate purchases	98	10
07 Services	38.211	34.302
08 Lease and rent expenses	6.330	5.448
09 Personnel costs		
a salaries and wages	31.861	27.879
b social security contributions	10.299	9.100
c employees' severance pay	2.259	2.215
e other costs	4	9
Total personnel costs	44.423	39.203
10 Depreciation, amortization and write-downs		
a amortization of intangible assets	1.918	2.015
b depreciation of tangible assets	1.603	1.422
d doubtful accounts expense	207	39
Total depreciation, amortization and write downs	3.728	3.476
12 Accruals for liabilities	660	625
14 Other operating expenses	5.372	5.007
TOTAL COSTS OF PRODUCTION	98.822	88.071
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	(4.067)	(19.388)

GABETTI GROUP

CONSOLIDATED INCOME STATEMENT

(in millions of lire)

	1999	1998
C) FINANCIAL INCOME AND EXPENSES		
15 Investment income		
a From subsidiaries	23	0
Total investment income	23	0
16 Other financial income		
a Income from receivables held as fixed assets		
2 associated companies	0	0
4 finance leases	691	2.004
6 mortgage loans	31.194	44.965
7 other companies	57	84
Total income from receivables held as fixed assets	31.942	47.053
b Income from securities held as fixed assets, non representing equity investments	0	12
c Income from securities held as current assets, not representing equity investments	84	18
d Income other than the above		
4 interest and commissions from others, and sundry income	660	2.770
Total income other than the above	660	2.770
Total other financial income	32.686	49.853
17 Interest and other financial expenses		
4 other	(13.055)	(29.101)
Total interest and other financial expenses	(13.055)	(29.101)
TOTAL FINANCIAL INCOME AND EXPENSES	19.654	20.752

GABETTI GROUP

CONSOLIDATED STATEMENT OF INCOME

(in millions of lire)

	1999	1998
D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS		
18 Revaluations		
a of investments	72	174
b of long-term financial assets not representing equity investments	0	1.710
Total revaluations	72	1.884
19 Write-downs		
a of investments	(60)	(159)
b of long-term financial assets not representing investments	(2.875)	(1.751)
Total write-downs	(2.935)	(1.910)
TOTAL VALUATION ADJUSTMENTS TO FINANCIAL ASSETS	(2.863)	(26)
E) EXTRAORDINARY INCOME AND EXPENSES		
20 Extraordinary income		
a gains on disposals	0	6.230
b other	0	206
Total extraordinary income	0	6.436
21 Extraordinary expenses		
a losses on disposals	0	(55)
b other	0	(837)
Total extraordinary expenses	0	(892)
TOTAL EXTRAORDINARY INCOME AND EXPENSES	0	5.544
INCOME BEFORE INCOME TAXES	12.724	6.882
22 Income taxes	7.096	4.125
NET INCOME FOR THE YEAR	5.628	2.757

GABETTI GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 1999 have been prepared in accordance with the provisions of Legislative Decree 127/91, paragraph III, which introduce the VII Directive of the EEC, integrated and interpreted by the accounting principles of the National Boards of Dottori Commercialisti and Ragionieri and, in their absence, those issued by the International Accounting Standards Committee (I.A.S.C.).

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCOPE OF CONSOLIDATION

The consolidated financial statements include the financial statements of Gabetti Holding S.p.A., the Group holding company, and the companies that it controls, directly or indirectly. The companies included in the scope of consolidation and consolidated line-by-line, and the related percentages of ownership attributable to Gabetti Holding S.p.A. are as follows:

Company Location	Tax code CCIAA No	Share capital (in millions of lire)	No. of shares/quotas	% holding through
Gabetti S.p.A. Milan, C.so Venezia 5	00815040159 577241	7,000	900,000	100.000 Direct
Gabetti Mutuicasa S.p.A. Milan, Via T. Speri 8	80053390151 685389	20,000	20,000,000	51.429 Direct 48.571 Gabetti S.p.A.
Patrigest S.p.A. Milan, C.so Matteotti 9	04508760156 1017042	3,000	300,000	100.000 Direct
Agedil S.p.A. Milan, C.so Matteotti 9	09642250154 1308669	3,000	300,000	100.000 Direct
Euridice S.r.l. Milan, Via T. Speri, 8	10216730159 1358118	20	20,000	100.000 Agedil S.p.A.
Brunilde S.r.l. Milan, C.so Matteotti 9	07396020153 1157158	20	20,000	100.000 Agedil S.p.A.

The companies valued using the equity method according to paragraphs 1 and 3 of art. 36 of Legislative Decree No. 127/91 are as follows:

Company Location	Tax code CCIAA No	Share capital (in millions of lire)	No. of shares/quotas	% holding through
Impresa Gadola S.p.A. Milan, Via Tiziano 21	00846230159 326129	7,000	7,000,000	23.750 Direct
Itinform S.r.l. in liquidation Milan, Via T. Speri 8	04493520151 1016889	20	20,000	70.000 Agedil S.p.A.

The company Itinform S.r.l. in liquidation has been excluded from the scope of consolidation since it is in liquidation. The company Gabetti Consult S.r.l. has filed the final liquidation financial statements; its cancellation from the companies' register has been requested for the first months of 2000.

The following company, being a non-operating company, has been valued at cost (adjusted for any permanent diminution in value):

Company Location	Tax code CCIAA No	Share capital (in millions of lire)	No. of shares/quotas	% holding through
Eracle S.r.l. in liquidation Milan, Via T. Speri 8	10307620152 1363262	20	20,000	50.000 Agedil S.p.A.

On December 9, 1999, the merger plan was stipulated between Agedil S.p.A., the merging company, and Larissa S.r.l. and Orfeo S.r.l. (the merged companies), by canceling the quotas constituting the entire share capital of the merged companies. This merger became operative on December 22, 1999, with retroactive effect for the accounting entries of the merged companies in the merging company's financial statements to January 1, 1999. This transaction gave rise to a merger surplus which was used to reduce the write-downs made to the building units in Rescaldina, Via Piave.

FINANCIAL STATEMENTS OF REFERENCE

The consolidated financial statements have been prepared using the statutory financial statements at December 31, 1999 of the companies included in consolidation, drawn up by the respective boards and approved by the shareholders' meetings, with the exception of Impresa Gadola S.p.A., whose

financial statements at December 31, 1998 were used since those at December 31, 1999 had not yet been approved.

FINANCIAL STATEMENTS INCLUDED IN CONSOLIDATION

The financial statements used in consolidation are the statutory financial statements of the individual companies in consolidation.

Such financial statements have been adjusted to reverse entries made solely for tax purposes, such as accelerated depreciation and portions of accumulated depreciation formed by transferring gains to be reinvested, and to record the effects in the income statement and balance sheet deriving from the adoption of the finance lease method, and reclassified for purposes of comparison within the Group and to conform with the accounting principles adopted by the Group holding company, Gabetti Holding S.p.A., which are in line with those set forth by article 2423 and subsequent articles of the Italian Civil Code and those recommended by CONSOB. The financial statements for the year of Gabetti Mutuicasa S.p.A., prepared according to the provisions of Legislative Decree 87/92, have been adjusted to conform with the provisions of Legislative Decree 127/91, to better represent the business of the Group which performs services associated either directly or indirectly with the real estate sector.

PRINCIPLES OF CONSOLIDATION

- The financial statements of the subsidiaries included in consolidation have been consolidated using the line-by-line method. The accounting value of the investments held by the Group holding company and other companies included in consolidation has been eliminated against the related underlying net equity and the assets, liabilities, costs and revenues of such subsidiaries have been recorded for their full amounts. The differences arising from the elimination of the carrying value of the subsidiaries against the share of the underlying net equity of the same companies at the date of acquisition have been allocated to the consolidated financial statements in the “consolidation reserve” recorded under shareholders’ equity, or whenever the difference is due to forecasts of future losses, to the “consolidation provision for risks and future expenses” and eventually used to cover the losses effectively reported by the company; if the difference is positive, it is recorded in “consolidation difference” under assets.
- Receivables and payables, costs and revenues from all significant intergroup transactions have been eliminated. Any significant gains deriving from intergroup transactions which have not been realized with third parties at the balance sheet date have been eliminated.
- Companies in liquidation or dormant are excluded from consolidation and valued at cost. Cost is reduced for any permanent diminution in value in the event the companies have reported losses, and the profits are not expected to be sufficient to absorb such losses in the immediate future; the original amount is reinstated when the reasons for the write-down no longer apply.

The reconciliation between the shareholders' equity and the results for the year of Gabetti Holding S.p.A. at December 31, 1999 and the corresponding figures of the consolidated financial statements of the Group are presented in an attachment. The significant accounting principles adopted in the preparation of the financial statements at December 31, 1999, in compliance with article 35 of Legislative Decree 127/91, are stated as follows:

Intangible assets

Intangible assets are recorded at purchase cost, including accessory charges, and amortized on the straight-line method over the period of future benefit.

Tangible assets

Tangible assets are valued at cost, including accessory charges, and depreciated on the straight-line method at the maximum rate allowed by tax laws, which reflect the estimated useful lives of the assets. The rates applied have been reduced by half for additions put into operation during the year.

In the event of a permanent diminution in value, regardless of the depreciation taken to date, the asset is correspondingly written down; if in future years the reasons for the write-down no longer apply, the original amount is reinstated.

Buildings are recorded in the consolidated financial statements at cost which has been revalued in accordance with the monetary revaluation laws 72/1983 and 413/1991.

Long-term financial assets

Investments in unconsolidated subsidiaries are valued using the equity method; other investments are valued at cost and eventually adjusted to take into account any permanent diminution in value; the original value is reinstated in future years if the reasons for the write-down no longer apply.

Receivables are stated at estimated realizable value.

Mortgages receivable from customers are stated at estimated realizable value which takes into account the mortgages on the properties.

Finance lease contracts

Real estate properties under finance lease contracts with third parties are recorded in the consolidated financial statements using the finance method which calls for recording the principal portion of lease payments under receivables and the reversal of the assets and related accumulated depreciation. Under this method, the receivables on the lease contracts are stated at estimated realizable value, taking into account the collateral guarantees given by third parties and the estimated value of the asset covered by the lease.

The portion of lease payments regarding interest is credited to the income statement over the lease term and in relation to the prefixed maturity date, and the principal portion is charged against the residual receivable balance.

Treasury shares

Treasury shares are valued at cost, eventually adjusted to take into account any permanent diminution in value.

Inventories

Real estate is valued at the lower of purchase or construction cost and estimated realizable value in reference to market value.

Receivables (recorded in current assets)

Receivables, like receivables under long-term financial assets, are stated at estimated realizable value.

Provisions for liabilities and charges

Provisions for liabilities and charges are set aside to cover losses or liabilities that are likely to be incurred but uncertain as to the amount or as to the date on which they will arise. The accruals to the provisions reflect the best possible estimates on the basis of available information.

Provision for employees' severance pay

The provision for employees severance pay covers the entire liability due to employees in accordance with existing legislation and collective national labor contracts and company agreements. Such liability is subject to revaluation using indexes.

Payables

Payables are recorded at nominal value.

Costs and revenues

Revenues from sales and services, interest income and expense, as well as other income and expenses for the year, are recorded on the accrual basis.

Dividends and tax credits

Dividends from unconsolidated companies, and related tax credits, are recorded in the year received; dividend tax credits are directly deducted from income taxes.

Income taxes

Current income taxes refer to the Irpeg and Irap taxes of the consolidated companies, accrued on the basis of estimates of taxable income in conformity with the laws in effect; such taxes are divided between current and deferred income taxes; Irpeg taxes are reduced by any DIT (dual income tax).

As set forth by Accounting Principle No. 25 of the National Boards of Dottori Commercialisti and Ragionieri, which is applicable beginning from financial statements ending after March 31, 1999, deferred income taxes should be calculated on the timing differences between the amount attributed to assets and liabilities for statutory purposes and the amount attributed to the same assets and liabilities for tax purposes and are recorded on the basis of the tax rate in effect when the timing differences reverse.

Deferred taxes are not recorded if there is little probability that the corresponding tax liability will arise.

Deferred tax assets are recorded when there is a reasonable certainty of reporting sufficient taxable income, within a specific number of years, to cover the timing differences that will reverse in the future.

Translation of balances in foreign currency

Receivables and payables originally expressed in foreign currency are translated into Italian lire at historical exchange rates as of the date of transaction. Exchange differences realized upon collection or payment are recorded in the income statement. When outstanding receivables and payables translated at year-end exchange rates give rise to a net loss, after taking into account eventual hedging agreements, it is recorded in the income statement of the period with a contra-entry to a provision for exchange fluctuations; in the case of a gain, the amount is recorded in the income statement of the period with a contra-entry to accounts receivable.

Interest rate swap contracts

Interest rate swap contracts are used to hedge the interest risk on fixed rate loans. The differentials collected or paid on the basis of such contracts are allocated to the income statement; the related differentials on contracts extending beyond year-end are recorded on the accrual basis in relation to revenues or costs known at that time.

OTHER INFORMATION

Comparison with prior year's figures

Whenever reclassifications are necessary, the previous year's figures are also reclassified for purposes of comparison.

Related party transactions

Related party transactions among Gabetti Group companies are effected at normal market terms. Significant transactions among Group companies in consolidation giving rise to revenues and costs, receivables and payables, are eliminated. Other transactions among unconsolidated Group companies are disclosed in the notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

FIXED ASSETS

For intangible assets, tangible assets and investments in long-term financial assets, specific tables have been prepared and are attached to these notes which present the historical cost, accumulated amortization or depreciation, the movements during the year and the ending balances.

Intangible assets

Start-up and formation costs

Start-up and formation costs are composed of the following:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Formation and by-law amendment costs	44	29
Share capital increase costs	20	54
Total start-up and formation costs	64	83

Intangible assets show an increase of Lire 33 million due principally to costs connected with amendments to the by-laws. Such costs are amortized over five years. The decrease in the balance is due to the amortization charge for the year of Lire 52 million.

Patents and rights for the use of intellectual properties

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Software	869	1,344

The balance shows a net change of Lire 475 million due to purchases of Lire 151 million, reclassifications from the category of payments on account of Lire 19 million and the amortization charge of Lire 645 million. Software is amortized over a period of not more than three years for applications software in general and in five years for corporate information systems.

Concessions, licenses, trademarks and similar rights

These assets are composed of costs incurred for filing and protecting trademarks used by the subsidiary Gabetti S.p.A.. This caption increased during the year as a result of acquisitions of Lire 27 million, and show a reduction of Lire 5 million due to the amortization charge for the year.

Intangible assets in progress and payments on account

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Total intangible assets in progress and payments on account	331	156

This category includes assets which will be capitalized but which are not subject to amortization since they have not yet been completed or utilized; they mainly consist of costs for the purchase of software applications. This category increased by Lire 331 million and decreased by Lire 156 million during the year as a result of the reclassification of completed or utilized costs to the individual asset categories.

Other intangible assets

These are composed of:

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Furnishings of new offices	1,605	1,604
Deferred loan charges	195	254
Sundry	1,147	862
Total other intangible assets	2,947	2,720

The balance shows a net increase of Lire 227 million compared to the prior year due to increases of Lire 1,458 million mainly in reference to the furnishing of the new offices (Lire 781 million) and costs incurred to take-over lease contracts (Lire 664 million), and decreases of Lire 1,231 million, of which Lire 13 million relates to net disposals and Lire 1,218 million to the amortization charge.

The account *Sundry* chiefly includes the costs for hooking up telephone lines, perks paid to occupants of offices taken over under rent contracts and extraordinary maintenance costs which qualify for capitalization.

Amortization is charged according to the type of cost as follows:

- Furnishings of new offices over the contract / 5 years
- Deferred loan charges over the loan period
- Sundry 5 years

Tangible assets

Tangible assets and related accumulated depreciation are composed as follows:

Balance Dec. 31, 1999	Balance Dec. 31, 1998
------------------------------	--------------------------

	Gross value	Accumulated depreciation	Net book value	Net book value
Land and buildings	9,488	(4,320)	5,168	5,777
Other tangible assets	10,661	(7,468)	3,193	2,906
Total	20,149	(11,788)	8,361	8,683
Tangible assets under construction and payments on account	10	0	10	28
Total	20,159	(11,788)	8,371	8,711

The additional price of Lire 5,234 million paid in 1988 for the purchase of 20% of Gabetti S.p.A. shares was eliminated in 1997 following the sale of the buildings to which the amount was allocated. The buildings have been revalued by Lire 1,100 million under Law 413/1991.

The analysis of the movements in tangible assets and accumulated depreciation during the year (excluding tangible assets under construction and payments on account) is as follows:

	Gross value	Accumulated depreciation
Balances at December 31, 1998	19,783	11,099
Increase (Decrease) during year:		
- additions	1,447	
- depreciation		1,232
- sales and disposals	(1,080)	(542)
Balances at December 31, 1999	20,150	11,789

Additions mainly refer to the category "Other tangible assets".

The sales principally regard the building in Varese, Via XX Settembre 5, with an original cost of Lire 218 million, and Monza, Via Italia 28, with an original cost of Lire 400 million; such sales gave rise to a gain, in the consolidated financial statements, of Lire 402 million.

Other tangible assets consist of:

	Gross value	Accumulated depreciation
- Office furniture and equipment	2,148	1,648
- Electronic office machines	3,214	2,136
- EDP, security systems and air conditioners	4,381	2,923
- Motor vehicles	235	228
- Other tangible assets	683	533
Total	10,661	7,468

Depreciation is calculated using the following rates:

Land and buildings	
- buildings	3%
Other assets:	
- office furniture and equipment	12%-15%
- electronic office machines	20%
- EDP, security systems and air conditioners	20%-30%
- motor vehicles	25%
- other tangible assets	20%

Long-term financial assets

Investments in subsidiaries, associated companies

These are composed of the following:

	Amount	% holding
Investments valued using the equity method:		
- Subsidiaries:		
Itinform S.r.l. in liquidation	8	70.00
Total investments in subsidiaries	8	
- Associated companies:		
Impresa Gadola S.p.A.	1,789	23.75
Eracle S.r.l. in liquidation	0	50.00
Total investments in associated companies	1,789	
Total investments	1,797	

The changes in investments held have already been described in the "Scope of consolidation". The changes in the balances are analyzed in a table attached to these notes.

The provisions for liabilities and charges include the provision for investment write-downs (Lire 47 million) which covers the loss of the unconsolidated associated company Eracle S.r.l. in liquidation for the amount exceeding its carrying value.

Loans receivable from associated companies

These represent interest-free loans given to associated companies in proportion to the interest held therein, detailed as follows:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Eracle S.r.l. in liquidation	145	237
Total loans receivable from associated companies	145	237

Trade finance leases receivable

Trade finance leases receivable from customers may be analyzed as follows:

	Due within 1 year	Due from 2 to 5 years	Due beyond 5 years	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Gross receivables	4,219	6,256	3,421	13,896	27,783
Allowance for default interest	(451)			(451)	(2,667)
Allowance for risks	(490)			(490)	(1,913)
Total allowances	(941)			(941)	(4,580)
Total net receivables	3,278	6,256	3,421	12,955	23,203

Such receivables showed a reduction of Lire 10,248 million due to the normal amount of principal repayments by contract.

As for receivables due beyond 5 years, the amount will fully become due by the year 2010.

Gross receivables due within one year include doubtful accounts, net of receivables for default interest, of Lire 499 million, for which steps have been taken to obtain recovery.

Trade mortgage loans receivable

These include receivables from customers for loans on the purchase or renovation of buildings secured by mortgages on the properties, and can be analyzed as follows:

	Due within 1 year	Due from 2 to 5 years	Due beyond 5 years	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Gross receivables	294,635	95,336	40,948	430,919	463,101
Allowance for default interest	(7,107)	(4,709)	(1,993)	(13,809)	(14,333)
Allowance for risks	(157,782)			(157,782)	(131,040)
Total allowances	(164,889)	(4,709)	(1,993)	(171,591)	(145,373)
Total net receivables	129,746	90,627	38,955	259,328	317,728

Receivables, net of default interest, include overdue receivables of Lire 99,728 million, for which steps have been taken to obtain recovery.

As for receivables due beyond 5 years, about 87% of the amount will become due by December 31, 2008.

At the end of 1999, the principal portion of receivables due is as follows (in lire):

- principal at fixed rates

- principal at indexed rates	77,744
- principal at rates subject to revision	<u>89,409</u>
	167,781

Partially hedging the risk inherent to loans at fixed rates are interest rate swaps outstanding at December 31, 1999 for Lire 5 billion.

Other receivables

These mainly represent cash security deposits against lease contracts on the offices used for the Group's business and receivables for IRPEF taxes paid in advance on employees' severance pay according to the law.

Treasury shares

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Gabetti Holding S.p.A. shares	3,152	2,085

Treasury shares number 1,508,500, equal to 4.714% of share capital, and correspond to an average carrying price per share of Lire 2,089 (Euro 1.079), purchased in accordance with the authorizations granted by the shareholders' meetings.

437,500 treasury shares were purchased during the year at an average cost per share of Lire 2,602 and 27,500 treasury shares were sold.

CURRENT ASSETS

Inventories

Real estate to be sold (from canceled finance leases)

This refers to real estate coming from cancelled finance lease contracts that will be re-leased or otherwise destined as trading real estate. These properties refer to buildings in:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Grosseto - Via Senese	0	96
Vigevano - Via della Gioia	5	6
Naples - Via Ottaviano	276	290
Rome - Via Pacchiarotti	2,211	2,325
Milan - Via Larga	1,095	1,153
Rome - Viale del Vignola	700	736
Mazzè - Via Cernaia	290	326
La Maddalena - Località la Ricciolina	328	349
Cameri - Via Matteotti	137	144
Taranto - Viale Virgilio	27	31
Naples - Via Scipione Rovito	28	34
Rome - Via Ottavilla	241	255
Rome - Via D. di Buoninsegna	1,034	0
Total real estate to be sold (from cancelled finance leases)	6,372	5,745

The increase for the year, equal to Lire 627 million, derives from the reclassification to this category of the building in Rome at Via D. di Buoninsegna for Lire 1,034 million, the sale of the building in Grosseto for Lire 96 million and value adjustments made during the period for Lire 311 million.

Trading real estate

These properties are located in:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Milan, Corso Garibaldi	50	522
Busto Arsizio, Piazza Garibaldi	2,110	3,404
Turin, Via Arsenale	1,389	1641
Genoa, Via del Molo	2,547	3,287
Isola Piana	3,357	3,547
Brescia, Via C. Zima	344	787
Turin, Via Arcivescovado	0	720
Udine, Via Caccia	512	551
Rome, Via XX Settembre	0	815
Bologna, Via S.Vitale	2,580	2,874
Biella, Via Gramsci	788	1,015
Milan, Via Gianicolo	0	623
Milan, Via Messina	190	210
Rescaldina, Via Piave	8,814	13,439
Total trading real estate	22,681	33,435

The net decrease of Lire 10,754 million relates to the sales made during the period which carry a cost of Lire 10,648 million and the write-downs effected for Lire 467 million, net of the merger surplus of Lire 361 million used to reduce the write-down of Rescaldina.

The movements in real estate to be sold (from cancelled finance leases) and trading real estate can be summarized by the following table:

	Real estate to be sold	Trading real estate
Balance at December 31, 1998	5,745	33,435
Cost of sales	(96)	(10,648)
Write-downs during year		(467)
Merger surplus used		361
Reclassification of buildings	1,034	
Value adjustments	(311)	
Balance at December 31, 1999	6,372	22,681

The following write-downs were also carried out during the year in view of the market trend:

Milan, Via Messina	20
Brescia, Via Carlo Zima	53
Biella, Via Gramsci	32
Total	105

Receivables

Trade receivables

The balance is composed as follows:

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Customers for real estate commissions	5,941	4,945
Customers for commissions on financial brokerage services	1,247	558
Customers for questions in dispute	373	304
Customers for invoices to be issued	3,566	1,326
Other	1,750	975
Total	12,877	8,108
Allowance accounts	(579)	(566)
Total net receivables	12,298	7,542

These receivables refer mainly to real estate commissions and increased by Lire 4,756 million.

“Other” includes receivables referring to real estate valuations and consulting services for Lire 696 million.

Other receivables

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Advances to suppliers	243	225
Tax receivables	5,601	5,671
Receivables from employees	106	160
Sundry	377	495
Total other receivables	6,327	6,551

Such receivables, which are due within one year, are all considered collectible and have therefore not been adjusted.

Tax receivables refer to refund requests for direct taxes of prior years, including interest receivable calculated in accordance with the law.

Cash and banks

Cash and banks at December 31, 1999 show no significant changes compared to the prior year.

Accrued income and prepaid expenses

Accrued income and prepaid expenses can be analyzed as follows:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Accrued income:		
- interest rate swaps	64	404
- finance lease interest	39	72
- other	8	133
Total accrued income	111	609
Prepaid expenses:		
- commissions on financial brokerage	1,965	3,253
- interest on commercial paper	0	177
- other costs	909	688
Total prepaid expenses	2,874	4,118
Total accrued income and prepaid expenses	2,985	4,727

SHAREHOLDERS' EQUITY

The statement of changes of shareholders' equity is presented in the attachments. The following is a commentary on the main items of shareholders' equity and related changes.

Share capital

The share capital of the Group holding company totals Lire 32,000 million (par value) and consists of 32,000,000 ordinary shares of par value Lire 1,000 each.

Revaluation reserve

The revaluation reserve has been recorded in accordance with Law 413/91 for the revaluation effected on the properties used by Gabetti S.p.A..

Shareholders' equity – minority interests

At December 31, 1999, there are no companies in consolidation in which there are minority interests.

PROVISIONS FOR LIABILITIES AND CHARGES

For taxes

Balance	Balance
Dec. 31, 1999	Dec. 31, 1998
104	948

These mainly refer to deferred taxes calculated on accelerated depreciation and on reinvested gains relating to the investments made in 1987.

The decrease mainly refers to the accrual made in the financial statements of Gabetti Mutuicasa S.p.A. for deferred tax assets refer principally in reference to the provisions for liabilities deductible in future years.

Other provisions for liabilities and charges

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Provision for investment write-downs	47	141
Other provisions:		
- consolidation provision for liabilities and charges	559	920
- other	868	870
Total provisions for liabilities and charges	1,474	1,931

The provision for investment write-downs covers the losses of unconsolidated associated companies in excess of the carrying value of investments.

The consolidation provision for liabilities and charges reflects the differences which arose from the elimination of the carrying value of the investment held in the company Orfeo S.r.l. compared to the underlying amount of net equity at the date of acquisition. Following the merger of this company during the year, the provision account decreased by Lire 362 million, which corresponds to the surplus arising from the merger.

The other provisions have been set aside to cover disputes, the outcome of which is not yet possible to determine with certainty; the accrual therefore represents the best possible estimate of potential expenses deriving from such disputes.

PROVISION FOR EMPLOYEES' SEVERANCE PAY

The movements in this account are as follows:

Balance at December 31, 1998	11,737
Utilized to pay indemnities	(1,183)
Utilized to pay advances	(11)
Accrual	2,271
Balance at December 31, 1999	12,814

The total number of employees of the companies included in consolidation, by category, is as follows:

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Managers	14	12
White collar	497	472
Total	511	484

PAYABLES AND OTHER LIABILITIES

Bank debt

Bank debt may be analyzed as follows:

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Short-term	100,087	119,723
Medium/long-term:		
- due within one year	44,625	48,386
- due beyond one year	90,629	130,240
Total medium/long-term	135,254	178,626
Total bank debt	235,341	298,349

Medium/long-term bank debt presented the following movements:

Balance at December 31, 1998	178,626
New loans	19,500
Repayments	(62,872)
Balance at December 31, 1999	135,254

The average interest rate at December 31, 1999 for all the above medium and long-term loans was equal to 4.301%.

The long-term bank debt obligations are as follows:

	2000	44,814
	2001	29,401
	2002	16,062
	2003	13,961
	2004	12,018
	Beyond 2004	18,998
	Total	135,254

The bank debt with regards to Centrobanca S.p.A., Mediocredito Toscano S.p.A. and Mediocredito Lombardo S.p.A., which amount to Lire 80,222 million, is guaranteed by liens on mortgage receivables. The debt payable to I.C.C.R.I. is guaranteed by the pledge of mortgage bills on loans granted to the clientele. Bank debt include loans for Lire 639 million from Italfondario S.p.A. and Banca Nazionale del Lavoro S.p.A., guaranteed by mortgages on the buildings located in Rescaldina and Genoa.

Debt from other financial institutions

These include:

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Commercial paper	0	24,600
Total debt from other financial institutions	0	24,600

Advances received

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Down-payments received from real estate buyers	1,646	1,755
Total advances received	1,646	1,755

Trade payables

These trade payables are mainly in respect of commercial payables for services received during the year by the consolidated companies.

	Balance	Balance
	Dec. 31, 1999	Dec. 31, 1998
Trade payables:		

- for invoices received	4,114	2,772
- for invoices to be received	5,756	3,530
Total trade payables	9,870	6,302

Taxes payable

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
- IRPEG taxes	3,406	542
- ILOR taxes	0	5
- VAT taxes	208	20
- Substitute taxes	91	202
- Withholding taxes	1,528	1,128
- Irap taxes	848	59
- Other	28	1,003
Total taxes payable	6,109	2,959

At the date of December 31, 1999, all tax years up to December 31, 1992 are considered closed for the Group companies.

Social security contributions payable

These amount to Lire 3,609 million (Lire 2,830 million at December 31, 1998) and mainly refer to social security contributions payable to INPS and INAIL.

Other payables

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Payables to employees	5,391	3,672
Payables to customers	338	739
Payables to shareholders	1	0
Other	2,281	2,088
Total other payables	8,011	6,499

As additional disclosure, payables to customers refer to deposits made by buyers, sellers and lessees in the real estate sector; the contra-entry to such payables is cash and banks under assets.

There are no payables due beyond five years.

ACCRUED LIABILITIES AND DEFERRED INCOME

These consist of the following:

	Balance Dec. 31, 1999	Balance Dec. 31, 1998
Accrued liabilities:		
- interest rate swaps	253	986
- for forward transactions	161	24
- other	133	84
Total accrued liabilities	547	1,094
Deferred income:		
- other	4	7
Total deferred income	4	7
Total accrued liabilities and deferred income	551	1,101

Accrued liabilities relating to employees for the prior year have been reclassified as follows:

- accruals for bonuses, the 14th month salary, holidays, and paid days off, amounting to Lire 2,296 million, to other payables;
- accruals for social security contributions payable for the employer's and employees' portion due on bonuses, the 14th month salary, holidays, and paid days off, referring to the prior year and amounting to Lire 743 million, to social security contributions payable.

MEMORANDUM ACCOUNTS

Personal guarantees granted

Real guarantees and collaterals

These refer to bills to guarantee bank lines of credit (Lire 127,813 million) and mortgage on properties (Lire 639 million) to guarantee loans.

CONSOLIDATED INCOME STATEMENT

VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales and services consist of the following:

	1999	1998
Commissions from real estate trading*	72,790	52,585
Valuations and technical assistance *	728	1,126
Franchising commissions and royalties	6,286	5,092
Revenues from real estate sales	10,435	12,816
Mortgage loan and lease brokerage revenues	6,950	3,763
Other revenues	2,193	872
Total revenues from sales and services	99,382	76,254

All revenues were earned in Italy even if invoiced to foreign clients.

Other revenues and income

	1999	1998
Rent income	330	328
Compensation from clients for brokerage services*	1,413	1,026
Expenses recovered from customers	1,691	1,617
Advertising contributions	351	270
Indemnities for extinguishing loans in advance	867	1,414
Sundry prior period revenues	699	506
Gains on disposal of tangible assets	424	2
Other income	144	2,850
Total other revenues and income	5,919	8,013
*Revenues from real estate trading, brokerage and related services	74,931	54,737

COSTS OF PRODUCTION

Real estate purchases

Real estate purchases reflect additional costs of Lire 98 million relating to the building units in Udine, Bologna, Rescaldina, Rome and Turin.

Services

These are composed of the following:

	1999	1998
Advertising costs	11,012	10,579
Commissions expense	10,217	8,431
Professional consulting fees	3,717	3,128
Legal consulting fees	2,536	1,911
Remuneration to directors	798	804
Remuneration to statutory auditors	197	216
Mailing, telephone, telex and electricity	3,087	3,519
Insurance	210	230
Personnel-related services	1,302	1,353
Office cleaning	972	905
Ordinary repairs and maintenance	899	609
Condominium expenses	61	96
Expenses for services related to trading real estate	523	809
Other costs	2,680	1,712
Total services	38,211	34,302

The remuneration for 1999 due directors and statutory auditors of the Group holding company, also to carry out such functions in other consolidated companies, amounts to Lire 729 million and Lire 134 million, respectively.

Lease and rent expenses

These expenses relate to leases on the offices used for real estate activities. The change compared to the prior year is due to additional offices opened during 1999.

Depreciation, amortization and write-downs

The breakdown of these charges is shown on the face of the income statement.

Other operating expenses

Other operating expenses are composed of the following:

	1999	1998
Sundry taxes	2,460	1,948
Stamp taxes	113	108
Consumable stores	1,072	1,268
Loss on receivables	11	85
Prior period expenses	839	758
Other costs	877	840
Total sundry operating expenses	5,372	5,007

FINANCIAL INCOME AND EXPENSES

For finance leases

	1999	1998
Interest income on building finance leases	558	1,755
Default interest collected	133	249
Total interest income on finance leases	691	2,004

For mortgage loans

These are composed as follows:

	1999	1998
Loan interest income from customers	28,393	41,397
Default interest collected	2,801	3,568
Total interest income on mortgage loans	31,194	44,965

Interest and commissions from others, and sundry income

These are composed of the following:

	1999	1998
Bank interest income	42	176
Interest income on swaps	432	1,970
Other	186	624
Total interest and commissions from others, and sundry income	660	2,770

INTEREST AND OTHER FINANCIAL EXPENSES

Other

These are represented by:

	1999	1998
Bank interest expense	9,863	18,514
Other loan interest expense	704	5,266
Swaps interest expense	1,558	3,908
Other financial charges	930	1,413
Total interest and other financial expenses	13,055	29,101

There are no financial charges capitalized to assets in the balance sheet.

VALUATION ADJUSTMENTS TO FINANCIAL ASSETS

Write-downs

Write-downs of investments amount to Lire 60 million and refer to associated companies valued using the equity method.

Write-downs of long-term financial assets not representing equity investments

These are composed as follows:

	1999	1998
- Accruals for risks on mortgage loans receivable	2,675	1,551
- Accruals for risks on finance leases receivable	200	200
Total write-downs of long-term financial assets not representing equity investments	2,875	1,751

EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income

Extraordinary income includes:

	1999	1998
Gains on sale of lease contracts to Leasing Rome S.p.A.	0	2,049
Gains on sale of treasury shares	0	4,181
- Other extraordinary gains	0	206
Total extraordinary income	0	6,436

Extraordinary expenses

There were no extraordinary expenses during the period.

INCOME TAXES

The amount recorded in the financial statements of Lire 13,841 million represents the tax charge for the current year, net of dividend tax credits of Lire 5,901 million and the release of the deferred tax provision of Lire 844 million. The income taxes for the year refer to the consolidated companies which closed the year with a taxable income.

SUPPLEMENTARY INFORMATION AND ATTACHMENTS

Reconciliation between the financial statements of the Group holding company and the consolidated financial statements at December 31, 1999	I
Statement of changes in consolidated shareholders' equity	II
Consolidated statement of cash flows	III
Changes in intangible assets	IV
Changes in tangible assets	V
Changes in long-term financial assets	VI

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF THE GROUP HOLDING
COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1999
(in millions of lire)

	Net income 1999	Shareholders' equity December 31, 1999
As per Gabetti Holding S.p.A. financial statements	4.032	53.972
	= = = = =	= = = = =
Adjustment to bring carrying value of consolidated companies into line with underlying share of net equity with effect on results for the year	11.167	17.733
Elimination of intergroup dividends	(10.040)	-
Effect of application of finance method to account for leases	(92)	(30)
Elimination of the provision for gains to be reinvested and the portion already attributed to the accumulated depreciation of the subsidiary Gabetti S.p.A.	79	1.010
Reversal of the share of the deficit on merger attributed to buildings, generated by the incorporation of Gabetti Leasing S.p.A. in Gabetti Mutuicasa S.p.A., net net of the depreciation charge for the year and the positive tax effect	77	(302)
Valuation of unconsolidated companies using the equity method	70	58
Other minor consolidation adjustments	335	874
	- - - - -	- - - - -
As per consolidated financial statements	5.628	73.315
	= = = = =	= = = = =

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1999**

(in millions of lire)

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Reserve for treasury shares in portfolio	Other reserves	Retained earnings (Accumulated deficit)	Net income for the year	Total shareholders' equity
Balances at Dec. 31, 1998	32.000	6.000	189	1.820	2.085	26.584	(2.358)	2.757	69.077
Appropriation of net income 1998									
- to legal reserve				407				(407)	-
- to other reserves						(4.865)	5.825	(960)	-
- dividends of Lire 45 paid for each of the 30,891,500 shares								(1.390)	(1.390)
Utilization of extraordinary reserve for treasury share purchases					1.067	(1.067)			-
Net income for the year								5.628	5.628
Balances at Dec. 31, 1999	32.000	6.000	189	2.227	3.152	20.652	3.467	5.628	73.315

GABETTI GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS (in millions of lire)

	Dec.31, 1999	Dec.31, 1998	
A	NET SHORT-TERM DEBT - BEGINNING BALANCE	(183.006)	(241.936)
B	CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
	Net income	5.628	2.757
	Amortization and depreciation	3.521	3.437
	Investment write-downs (revaluations)	(12)	159
	Change in employees' severance pay	1.077	792
	Change in provisions for liabilities and charges	(1.301)	136
	Change in minority interest	-	(3)
		8.913	7.278
	Decrease (increase) in real estate inventories	10.127	(4.158)
	Decrease (increase) in other receivables accrued income, prepaid expenses and other assets	(3.341)	(1.179)
	Increase (decrease) in trade payables other payables and other liabilities	8.900	(8.501)
		24.599	(6.560)
C	CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
	Investments in fixed assets:		
	- intangible assets	(1.849)	(2.327)
	- tangible assets	(1.263)	(694)
	- long-term financial assets	(1.076)	4.752
	Decrease (increase) in receivables for finance leases	10.248	41.314
	Decrease (increase) in loans receivables	58.400	59.998
	Decrease in long-term receivables from Group companies	92	3.479
	Increase in medium/long-term loans	(39.611)	(40.088)
		24.941	66.434
D	CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
	Decrease in medium/long-term loans	(73)	(944)
	Dividends	(1.389)	-
		(1.462)	(944)
E	TOTAL CASH FLOWS PROVIDED (USED) (B+C+D)	48.078	58.930
F	NET SHORT-TERM DEBT - ENDING BALANCE (A+E)	(134.928)	(183.006)

GABETTI GROUP

CHANGES IN INTANGIBLE ASSETS DURING YEAR ENDED DECEMBER 31, 1999
(in millions of lire)

Beginning balance	Original cost	Revaluations	Acc. amortization	Write-downs	Balance 1.1.1999
Start-up and formation costs	586		(503)		83
Patents and rights for use of intellectual properties	3.377		(2.033)		1.344
Concessions, licenses, trademarks and similar rights	23		(13)		10
Intangible assets under development and payments on account	156		0		156
Other	6.653	41	(3.974)		2.720
Total	10.795	41	(6.523)	0	4.313

Movements during year	Additions	Reclassifications	Disposals	Use of acc. amortization	Amortization	Revaluations
Start-up and formation costs	33	0	(494)	494	52	
Patents and rights for use of intellectual properties	152	19	(177)	177	645	
Concessions, licenses, trademarks and similar rights	27		(5)	5	(5)	
Intangible assets under development and payments on account	331	(156)	0	0	0	
Other	1.321	137	(1.481)	1.467	1.218	
Total	1.864	0	(2.157)	2.143	1.910	0

Ending balance	Original cost	Revaluations	Write-downs	Acc. amortization	Balance 12.31.1999
Start-up and formation costs	125			(61)	64
Patents and rights for use of intellectual properties	3.369			(2.500)	869
Concessions, licenses, trademarks and similar rights	45			(12)	33
Intangible assets under development and payments on account	331			0	331
Other	6.632	41		(3.726)	2.947
Total	10.502	41	0	(6.299)	4.244

GABETTI GROUP

CHANGES IN TANGIBLE ASSETS DURING YEAR ENDED DECEMBER 31, 1999 (in millions of lire)

Beginning balance	Original cost	Revaluations	Accumulated depreciation	Write-downs	Balance 1.1.1999	
- Land and buildings	8.847	1.259	(4.329)		5.777	
- Plant and machinery						
- Industrial and commercial equipment						
- Other	9.677		(6.771)		2.906	
- Assets under construction and payments on account	28				28	
Total	18.552	1.259	(11.100)	-	8.711	
	=====	=====	=====	=====	=====	
Movements during year	Additions	Reclassifications	Disposals	Depreciation	(Write-downs) Reinstatements	Revaluations
- Land and buildings	0		(A) (402)	(206)		(A)
- Plant and machinery						
- Industrial and commercial equipment						
- Other	1.447		(135)	(1.025)		
- Assets under construction and payments on account	10		(28)			
Total	1.457	-	(565)	(1.231)	-	-
	=====	=====	=====	=====	=====	=====
(A) Of which						
Original cost			949			-
Revaluation			159			-
Ordinary depreciation			543			-
Total			565			-
			=====			=====
Ending balance	Original cost	Revaluations	Write-downs	Accumulated depreciation	Balance 12.31.1999	
- Land and buildings	8.388	1.100		(4.320)	5.168	
- Plant and machinery						
- Industrial and commercial equipment						
- Other	10.661			(7.468)	3.193	
- Assets under construction and payments on account	10				10	
Total	19.059	1.100	-	(11.788)	8.371	
	=====	=====	=====	=====	=====	

GABETTI GROUP

LIST OF INVESTMENTS AT DECEMBER 31, 1999

(in millions of lire)

	Opening balance	Provision for write-downs	Purchases and subscriptions	Loss covered	Sales/ disposals	Write-downs/ revaluations	Closing balance	Provision for write-downs
Subsidiaries:								
Itinform S.r.l. in liquidation	10					(2)	8	
Gabetti Consult S.r.l. in liquidation	37				(50)	13	-	
Total subsidiaries	47	-	-	-	(50)	11	8	-
Associated companies:								
Impresa Gadola S.p.A.	1.729					60	1.789	
Eracle S.r.l. in liquidation	-	(141)		152		(58)	-	(47)
Total associated companies	1.729	(141)	-	152	-	2	1.789	(47)
Total investments	1.776	(141)	-	152	(50)	13	1.797	(47)