ANNUAL REPORT
31 DECEMBER 1998

CSP INTERNATIONAL INDUSTRIA CALZE S.p.A.
Via Piubega, 5/C - 46060 CERESARA (MN)
Share Capital L. 24.500.000.000 fully paid-in
Mantua Companies Register No. 4898 Vol. 5648

INDEX

Members of the Board of Directors

Chairman of the Board	Enzo BERTONI (*)
Managing Director	Francesco BERTONI (*)
Directors	Gianfranco BOSSI Maria Grazia BERTONI Mario BERTONI

Members of the Statutory Board of Auditors

President	Sergio GHIDELLI
Auditors	Danilo ANCESCHI Marco MONTESANO
Alternate Auditors	Giuseppe COLLOT Luca SAVOIA

Auditors

Arthur Andersen S.p.A.

(*) Comments on the exercise of powers: powers of ordinary and extraordinary administration, except for the ones that the law or the company by-laws reserve to the board of directors.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998
DIRECTORS' REPORT ON OPERATIONS

Shareholders,

The financial statements for the year ended 31 December 1998 are submitted for your review. The key figures are as follows:

– total revenues, Lire 270.7 billion;

– net sales of stockings, Lire 231.6 billion;

– depreciation and amortisation, Lire 14.3 billion, of which Lire 3.5 billion is accelerated depreciation;

– operating profit prior to financial charges and income taxes, Lire 19 billion (8.2% of net sales);

– pre-tax profit, Lire 8.1 billion;

– income taxes, Lire 5.1 billion;

– net profit, Lire 3 billion.

The financial statements are expressed in lire, but an attachment provides a conversion into euros of the balance sheet and statement of income.

1. Comparison with the prior year

The following observations on the statement of income all refer to reclassified net sales of stockings and not to total revenues for statutory purposes.

The following changes have taken place compared with last year:

- net sales of stockings decreased from Lire 256.5 billion to Lire 231.6 billion (-9.7%);
- depreciation and amortisation rose from Lire 10.9 to 14.3 billion; within that total, accelerated depreciation increased from Lire 2.1 to 3.5 billion;
- the operating profit fell from Lire 41.2 to 19 billion, and from 16.1% to 8.2% of net sales;
- the after-tax profit dropped from Lire 24 to 3 billion, although we remind readers that the net profit in 1997 enjoyed tax breaks in relation to the company's Stock Exchange listing.

2. Performance over the past five years

A summary of the key financial indicators for the years 1994-98 is set out below (stated in lire):

Year	*Revenues statutory purposes*	*Net sales of stockings*	*Operating profit*	*Amortization*	*Free cash flow prior to dividends*	*Profit after tax*
1994	130.6 billion	120.8 billion	10,424 million	3,535 million	12,164 million	201 million
1995	191.3 billion	169.2 billion	29,836 million	4,294 million	16,940 million	2,118 million
1996	231.5 billion	202.3 billion	32,655 million	6,944 million	22,514 million	9,957 million
1997	328.6 billion	256.5 billion	41,181 million	10,870 million	39,115 million	24,022 million
1998	270.7 billion	231.6 billion	19,013 million	14,266 million	18,851 million	3,032 million

3. Sales in 1998

The company's results for 1998 should be seen in the context of a shrinking market in Italy and abroad. Conditions were especially poor in Russia, which used to be our primary market outside Italy. The Italian hosiery market suffered a decline in quantity of 4.5% (according to Nielsen), while the European market lost 10% (source: Moda Industria/Eurocolor).

Due to the economic and financial crisis in Russia, that country's market shrank drastically starting in the month of August. The effects on CSP International's sales can be quantified as follows:

- over the last few months of the year there was a swift decline in exports to Russia, which accounted for 12% of turnover in 1997;
- there was also a significant decrease in "parallel sales" from the wholesale channel to Russia; this traffic cannot be quantified precisely like direct export sales, but it is probably worth much the same amount. We can estimate, therefore, that in 1997 the Russian market accounted for no less than 20% of CSP International's overall sales.

Exports by CSP International to Russia in 1998 can be distinguished as follows:

- from January to August, before the crisis came to a head, exports amounted to Lire 24.4 billion - up 56% on the same period in '97;
- from September to December, exports fell from Lire 14.5 billion in 1997 to Lire 2.9 billion in 1998.

Net sales in Italy decreased by around Lire 21 billion on 1997 (-13.6%), due in good part to Sanpellegrino's retreat in the wholesale channel, which suffered from the shrinkage of parallel sales to Russia, and to the discontinuation of the Sanpellegrino Hi-Fi collection which was no longer deemed strategic. Figures were up, however, for Sanpellegrino's sale to the large-scale retail channel (+2.6%) and for sales by Oroblù (+2.9%) and Star Way (+35.3%).

4. Profitability in 1998

Main factors penalising operating margin in 1998 were:

- the 6% decline in quantity, from 8.2 million dozen in 1997 to 7.7 million dozen in 1998;
- the decrease in the average net price per dozen, which fell 4.2% from Lire 31,200 to Lire 29,900. This was caused by the shift in the product mix toward low-priced low-margin articles, which was not sufficiently offset by the rise in high-price articles;
- the drastic reduction in inventories, from 3.8 to 2.8 million dozen in the second half of the year; this is good news from the financial viewpoint but was achieved through the less than optimal use of our plant and machinery;
- the temporary diseconomies generated by the reorganisation of the production cycle, as part of current investment plans;
- the higher incidence of advertising costs due to lower sales compared with budget.

Some of these factors are contingent in nature, and should therefore not recur. Others, however, require corrective action. The steps we are taking to regain profitability are described at the end of this report in the section "prospects for 1999".

5. Analysis of the main captions in the statement of income

A more detailed analysis and comparison of the main balances is given in the notes to the reclassified financial statements. The key figures are commented on below and refer to net sales of stockings.

- *Cost of sales* came to 67.9% of net sales versus 63.2% in 1997. The main reasons for the increase were described under point 4 above.
- *Advertising expenses* went from 9.2% to 10.9% of net sales, since the budgeted investment was maintained but the sales figure went down.
- *Selling, general and administrative costs* rose by a point and a half, from 11.5% to 13.0%, due to the reduction in sales.
- Because of the higher incidence of cost of goods and advertising, general and administrative costs, the *operating margin* fell from 16.1% to 8.2% of net sales.
- *Financial charges* increased from 2.1% in 1997 to 2.4% of net sales in 1998.

6. Analysis of the main captions in the balance sheet

As in with the statement of income, a more detailed analysis and comparison of the items in the balance sheet is given in the notes to the reclassified financial statements. The main changes between the balance sheets at 31 December 1997 and 1998 are as follows:

- *Trade receivables* fell from Lire 119.0 to 101.5 billion.
- *Trade payables* were practically halved, from Lire 125.2 to 69.4 billion, due to scaled-back production and the decrease in inventories.
- *Inventories* were intentionally reduced from Lire 84.9 to 68.9 billion, in order to limit the need for working capital.
- *Tangible fixed assets*, net of depreciation, rose from Lire 49.8 to 71.6 billion as a result of technical and production investments made during the year.
- *Net bank debt* increased from Lire 32.6 to 88.5 billion, of which about half is long-term and about a quarter consists of advances on bank collection orders.
- *Operating working capital* increased as shown in the table:

Operating working capital	*1996*	*1997*	*1998*
Trade and other receivables	83.5 billion	121.8 billion	110.9 billion
+ Inventories	43.9 billion	84.9 billion	68.9 billion
– Trade and other payables	84.3 billion	132.0 billion	73.6 billion
= Working capital	43.1 billion	74.7 billion	106.2 billion
Percentage of sales	21.3%	29.1%	45.8%

7. Production, sales and inventories

In order to understand the company's results better, it is useful to explain production, sales and inventory figures as shown in the following table.

	1996	*1997*	*1998*
Production			
• '000 dozen	6,635	9,990	7,181
Net sales of stockings			
• '000 dozen	6,323	8,215	7,746
• '000 lire/dz	32.0	31.2	29.9
• billions of lire (net of all discounts)	202.3	256.5	231.6
Inventories			
• n '000 dozen (total)	2,127	3,530	2,830
Of which:			
• n '000 dozen finished goods	937	1,682	1,562

The figures in the above table have the following logic:

- in a year of "normal" growth (1996), production was slightly higher than sales;
- in a year of "exceptional growth" (1997), production was significantly higher than sales, in order to support the upward trend;
- in a year of market crisis (1998), production was lower than sales, in order to reduce inventories accordingly.

8. The market situation

According to statistics from the Istituto Sita/Nielsen for 1992-97 and the new Nielsen Hosiery Consumer Index for 1998, the Italian market has been showing a downward trend in consumption in quantity since the start of the decade:

1992	- 6.2%	compared with previous year
1993	-10.7%	"
1994	- 3.0%	"
1995	- 2.0%	"
1996	+ 0.4%	"
1997	- 8.3%	"
1998	- 4.5%	"

Assuming the market in 1991 to be 100, consumption in 1998 was equal to 70, due to the accumulated decline in consumption in the intervening years.
The figures provided so far refer to Italy. As for the other European countries, the trend towards a reduction in consumption has been even more accentuated than in Italy. This is illustrated by the statistics collected by Moda Industria, a trade association. If consumption volume at the start of the decade was equal to 100, by 1998 it had fallen as follows:

- USA to about 70;
- Europe to about 60;
- Japan to less than 50.

It should be noted that despite this downward trend, the company's production has still increased over the last five years, from 49.1 million pairs in 1993 to 86.1 million pairs in 1998.

9. CSP International's market share in Italy

Below is CSP International's share of the Italian market, where there are about 300 different manufacturers. The figures are provided by Sita Nielsen for the period 1992-97 and by the Nielsen Hosiery Consumer Index as from 1997. For the year of overlap we have used both sources, for the sake of consistent comparison.

Year	*Market share in quantity*	*Market share in value*	*Premium price*
1992	5.2%	5.7%	+ 9.6%
1993	6.5%	8.0%	+23.1%
1994	7.3%	9.0%	+23.3%
1995	8.1%	10.0%	+23.5%
1996	8.7%	11.1%	+27.6%
1997 Sita	9.8%	12.3%	+25.5%
1997 Nielsen	9.9%	12.4%	+24.5%
1998	10.1%	12.1%	+19.8%

In 1998 we confirmed our price differential (or "premium price") with respect to the competition, although it was less marked than in previous years. This is because of the increase in low priced products in CSP International's sales mix, as cited earlier. In any case, consumers are still willing to pay higher prices for our products because of their better quality and performance.

10. CSP International's activities abroad

CSP International operates in 55 countries other than Italy:

- for more than a decade in all Western European countries;
- since 1993 in the main Eastern European countries;
- since 1995 in some major countries outside Europe.

Our brands are sold by all the best European department stores, and by 25 non-European chains.
The following table shows foreign sales growth for the past several years (expressed in Lire):

Year	*Foreign sales*
1993	30 billion
1994	40 billion
1995	63 billion
1996	89 billion
1997	100 billion
1998	96.5 billion

The role of Russia was explained at the beginning of this report.
Sales outside Italy in 1998 can be broken down as follows:

47.6 billion in Western Europe;
44.4 billion in Eastern Europe;
4.5 billion outside Europe.

11. CSP International product range

CSP International manufactures three separate brands:

- Oroblù covers the top end of the market in terms of quality and price, with an image of class and international elegance. This is our primary brand for the Western European markets;
- Sanpellegrino offers the best value for money, and is our top brand for the Eastern European markets;
- Star Way was launched in 1997 at an intermediate price between Oroblù and Sanpellegrino. Its image is dynamic and innovative, with younger consumers in mind. Just a year from its launch, Star Way is now sold in 25 different countries.

In addition to promoting its own brands, CSP International is also involved in private-label production for Europe's major department stores. The company has been supplying Marks & Spencer, the largest private-label stocking sales organization in the world, for six years. In 1998 we began to supply the Esselunga chain with private-label hosiery for sale through its 100 supermarkets in Italy. Private label products account for around 4.5% of the company's total sales.

12. Research and development

The following table lists the most successful new product launches in recent years, along with the novelties launched in 1998:

Year	*Sampellegrino*	*Oroblù*	*Star Way*
1993	SLIM	REPOS SILHOUETTE	
1994	SUPPORT	CARAT	
1995	BRAZIL EFFECT	SHOCK UP REMEDE	
1996	DAY	GEO EXCELL	
1997	CELLU-line	EXCELL LIGHT BODY COLLECTION	
1997/98	PLANET 3 DIMENSION	PROGRESS 3 DIMENSION	3 DIMENSION WORLD
1998	RIO BENEFIT ACTION VITAL BABY GIRL	CHARME LEG ON LINE MASTER	ROMANTIC MASSAGER

The contribution of these new products is illustrated by the following figures, which show sales of new products as a percentage of the total:

Year	*New product sales as percentage of total*	*Of which: products launched the previous year*
1994	24%	
1995	39%	
1996	54%	27%
1997	66%	26%
1998	66%	24%

Note that the definition of new products does not include the Moda/Fantasie collections for the Autumn/Winter and Spring/Summer seasons. They are new by definition, because they only survive for a brief six-month season. They represent about 5% of total sales.

The company is still promoting the new "3 Dimension" technology, which defines the third generation of stockings. Collections produced using 3 Dimension technology offer:

- a perceptible improvement in performance and quality;
- higher than average prices and margins.

During the year we also launched other new products that do not use 3 Dimension technology.

13. Diversification

Since 1997, alongside our traditional products - stockings, thigh-highs, knee-highs and ankle socks - we have also been selling leotards under the Oroblù label. Our first collection of seamless leotards brought in about Lire 0.5 billion in 1997, and subsequent collections, produced using 3 Dimension technology, enjoyed sales of more than Lire 1.5 billion in 1998. These figures are broken down in the table below.

Year	*Quantity*	*Unit revenues*	*Total revenues*
1997	16,200 articles	32,000 lire	526 million
1998	40,300 articles	40,000 lire	1,646 million

The results are still modest in absolute terms, but they seem promising in terms of growth potential. They are an incentive to develop this business further, for Oroblù as well as other labels.

14. Operations under licence

The company has also moved into licensing operations during the past two years, in consideration of the following factors:

- the potential of CSP International's brand names can be extended to markets and sectors other than stockings;
- the company still wants to concentrate on its core business, namely women's stockings and leotards;
- licensing is a solution which allows the company to exploit the brands' potential without distracting it from its traditional business, because in return for the payment of royalties, it involves granting concessions for use of the brand names in areas other than stockings;
- licensing allows brand-to-consumer contacts to multiply, thus increasing the brands' visibility and enhancing their image;
- lastly, licensing provides resources in the form of royalties. These resources may be reinvested in the brands or used to improve the company's profitability.

Current licensing operations are as follows:

Brand	*Collection*	*Licensee*
Oroblù	• Men's stocks	Niga Calze
	• Casual & Sport Socks	Hosiery Center
	• Lingerie	Delmar
	• Swimwear	Delmar
Sanpellegrino	Men's socks	Niga Calze
	Children's socks	Niga Calze
Star Way	Men's stocks	Calze Scanzi

Royalties maturing in 1997 came to Lire 188 million, while those maturing in 1998 came to Lire 527 million. We are currently negotiating other licences, which will take effect in 1999.

15. Production and the investment plan

The three production units at Ceresara, Rivarolo del Re and Tintoria allow the company to enhance its quality/price ratio, which is one of CSP International's recognised strengths on both the domestic and international markets.

In compliance with Law 626, we have introduced all measures needed to ensure safety in the workplace. These measures include personnel training, risk mapping and the updating of organisational structures and internal procedures.

In addition to relying on in-house production resources, the company has always worked with a select group of subcontractors and out-workers. However, in 1997 and the first half of 1998, outsourcing exceeded 50% of total output. To avoid logistical and organisational problems arising from an excessive dependence on outside work, the company has launched a technical and production investment plan that has two main objectives:

- to increase production capacity in order to keep outsourcing at more manageable levels;
- to raise the level of process automation, so as to shorten overall production times.

These investments will also produce benefits by reducing inventory and working capital in general.

The following table shows the timing and amount of the investments being carried out.

Year	*Capital investments*		*Production capacity*
1996	21.9 billion	plant upgrading and increased automation at Ceresara, Rivarolo and Tintoria	
1997	17.5 billion		4.2 million dozen
1998	32.5 billion		6.7 million dozen
1999	11.4 billion		7.3 million dozen (est.)
2000	5 billion (est.)		8.1 million dozen (est.)
2001	5 billion (est.)		
2002	5 billion (est.)		

Under this investment plan, the relationship between internal and outsourced production has changed as follows:

Year	*% Outsourcing*
1997	61%
1998 1st half	56%
1998 2st half	25%
1998 average	44%
1999 estimate	10%

Our goal is not to eliminate outsourcing, which does offer a degree of flexibility, but to reduce it to more manageable levels.

16. In-house personnel

Employee growth and the relative costs are shown in the table below:

Year	*Average no. of employees*	*Personnel cost*	*As percentage of net stocking sales*
1994	429	18.7 billion	15.5%
1995	463	21.3 billion	12.6%
1996	570	26.9 billion	13.3%
1997	717	35.1 billion	13.7%
1998	776	36.1 billion	15.6%

The cost of labour increased by 3% in 1998, despite lower social security contributions. As a percentage of sales it rose to 15.6% due to the decline in the use of outsourcing.
The company has adopted the procedures called for by Law 675/96 with regard to employee privacy.

17. The sales network

The number of employees does not include sales personnel, as they are paid on a commission basis.

In Italy the sales force is organised by brand/collection and by distribution channel, according to the following criteria:

- Sanpellegrino Wholesale Sales Force, with 17 agents
- Sanpellegrino Large-Scale Retail Sales Force, with 15 distributors and 150 merchandisers
- Oroblù Retail and Merchandisers Sales Force, with 32 agents
- Star Way Retail and Merchandisers Sales Force, with 28 agents.

Italy is covered by a total of 92 agents or distributors, who use portable terminals for real-time order transmission, and 150 merchandisers, who visit 4,000 supermarkets and hypermarkets every week. Outside Italy, the company works with exclusive distributors in 55 countries.

18. Promotion and advertising

Advertising and promotional investments go about two thirds to media advertising and one third to point of sale materials. Roughly one third of the money is spent during the first half of the year, and the remaining two thirds during the last six months.
Advertising expenditure has developed as follows over the past five years (in lire):

Year	*Advertising expenditure*
• 1994	9.7 billion
• 1995	12.5 billion
• 1996	19.0 billion
• 1997	23.6 billion
• 1998	25.2 billion

In terms of technique, advertising is carried out at two levels:

- brand advertising, in order to build the brand image over time;
- product advertising, in order to promote new items on the market.

All of CSP International's advertising campaigns have certain features in common:

- they are results-oriented and communicate quality perceptible to the consumer;
- they highlight the functional and emotional benefits of the products.

19. Equity investments

CSP International has two minority (20%) investments in its French and British distributors. The purpose is to maintain closer control over their activities in these key markets, but without the expense and inconvenience of running a branch of our own. We have nearly finished liquidating a German subsidiary, which has been dormant for about 10 years.
Our new joint venture in Poland began production activities in early 1999. Our partner is our Polish distributor, and ownership is divided 50-50%. CSP International has two members on the Board of Directors and the Polish company has one.

20. Related Party Disclosures

In accordance with the Consob regulations, we declare that there were no transactions during the year between the company and related parties.

21. Investments held by directors, statutory auditors and general managers as per the implementation protocol for Art. 33, Decree Law 58 of 24 February 1998

As required by Consob regulations, we attach schedule 2C on investments held by the individuals or entities stated in Art. 33.

22. Year 2000 compliance

With reference to Consob circular DAC/98079574 of 9 October 1998, we would like to point out that CSP International's current computer system - in the course of implementation since 1996 - was designed partly in response to the year 2000 problem. Therefore, we have not taken and do not plan to take additional action in order to modify or adapt our system, and no further investments will be needed in this regard.

23. Share capital

Share capital amounts to Lire 24.5 billion and is made up of 24,500,000 shares with a par value of Lire 1,000 each. As of 31 December 1998 the company did not own any of its own shares, either directly or through trustees.
We remind readers that the shareholders' meeting of 17 November 1998 authorized the purchase of own shares up to a ceiling of 10% of share capital.

24. Trends at the start of 1999

Sales for the first two months of 1999 came to Lire 31.2 billion. This is in line with the budget, which calls for full-year turnover at 1998 levels. The first half of the year will show a decline with respect to the same period in '98, when sales to Russia were extremely high. However, we expect to recover this ground during the second six months, which will be compared to a period in 1998 that was already suffering from the Russian crisis and which will see some benefits from the measures we have taken.

25. Significant subsequent events

The main events that have taken place since the end of the year are as follows:

Capital investments: at Rivarolo we have installed the power looms purchased in late 1998; at Ceresara we are moving machinery to the new production unit; and at Tintoria we have started using the new automated dyeing process.

New products: we have launched the products Sanpellegrino Action Vital, a version for the wholesale market of Sanpellegrino Benefit, which has been a great success in the major retail channel. We have also started selling our new collection Sanpellegrino Baby Girl, for 2- to 12-year olds. Lastly, we have launched Oroblù Master, a control-top stocking which massages the legs while letting the skin breathe, and the knee-high Star Way Massager with a "pumping" action on the sole. More new products will be introduced to the market this spring.

Licensing: our new collections are Sanpellegrino for Men (wholesale), and Star Way Free Way for men, women and children (retail). Two new licensed collections will be presented this spring.

Joint venture: the Sanpellegrino Polska joint venture started production activities at the beginning of the year.

Advertising: we have resumed the Sanpellegrino TV campaign publicising the new Planet Collant 3 Dimension technology and its special snag-resistance and with Antonio Banderas and Valeria Mazza as testimonials.

26. Prospects for 1999

As mentioned in section 4, below are the main factors that affected operations and profitability in 1998, and the corrective action we have planned for 1999.

	Main factors that hurt the operating Profit In 1998	*Corrective Action For 1999*
1. Quantities sold	• Decrease of 6% on 1997	• Same quantities in '99 and '98
2. Average price per dozen	• Decrease of 4.2% on 1997	• Same price per dozen in '99 and '98
3. Net sales	• Decrease of 9.7% on 1997	• Sales at 1998 levels
4. Product mix	• Increase in percentage of low-price, low-margin products	• Increase in list prices of low-price, low-margin products
5. Inventories	• Significant and rapid reduction during the second half of '98, from 3.8 to 2.8 million dozen, achieved through diseconomies in the production process	• Control over inventory levels, with additional gradual reduction
6. Investments	• Temporary harm caused by outsourcing reduction: 1st half: 56% 2nd half: 25%	• Limit outsourcing to 10% and , exploit all internal production capacity
7. Product cost	• As a percentage of sales, up 4.7 points on 1997, due to the six previous factors	• The above measures will reduce cost of goods by at least one percentage point per year
8. Advertising	• As a percentage of sales, up 1.7 points percentuali vs. 1997	• Keep incidence at 1997 levels
9. Selling, general and administrative costs	• As percentage of net sales, up by a point and a half on 1997, due to the decline in sales	• Keep incidence at 1998 levels
10. Operating margin	• Down from 16.1% to 8.2%	• Recover at least 2-3 points, bringing operating margin above 10% in 1999 • Recover another 1-2 points per year for the next three years, bringing operating margin to around 16%

More specifically, we have found the following sources of business in order to make up for the loss of the Russian market:

New growth opportunities	*Planned action*
1. Territories	• Development of Oroblù in Germany and Scandinavia and of Sanpellegrino in France; • Growth in Eastern Europe, especially the Baltic countries; • Expansion outside Europe, namely to the U.S. and Japan.
2. Joint ventures	• Start of operations for Sanpellegrino Polska
3. Brands	• Growth of the Star Way brand in Italy; • Distribution of Star Way in 25 countries; • Star Way sales tests in the U.S.
4. Collections	• New paramedical collections: Sanpellegrino Benefit and Action Vital; • New Sanpellegrino Baby Girl collection.
5. Products	• Growth of private labels in Great Britain (Marks & Spencer), Germany and Italy (Esselunga).

Combined, our new sources of business and these steps to recover profitability will lead to two main results:

- the stabilisation of 1999 sales at 1998 levels;
- the recovery of at least two points for the operating margin, which will come back above 10% as early as 1999.

27. Allocation of profits

We cannot recommend the same dividend as last year, for a few obvious reasons:

- the net profit is significantly smaller than in 1997;
- the company is completing its capital investment plans;
- the payment of the same dividend as last year would mean dipping into the reserves. Although such reserves are abundant, they could be used in part for the purchase of own shares;
- there are tax breaks on the horizon for reinvested profits.

For all of these reasons, we recommend a dividend of 50 lire per share. A comparison with previous years is shown in the table below, where figures have been adjusted to compare them directly with the current shares.

Year	*Total Dividends*	*Number Of Shares*	*Dividends Per Share*
1995	2,000 million	22 million	91 lire
1996	5,000 million	22 million	227 lire
1997	7,497 million	24.5 million	306 lire
1998	1,225 million	24.5 million	50 lire

28. Approval of the financial statements

The financial statements are accompanied by the statutory auditors' report and by Arthur Andersen's audit report. We invite the shareholders to approve the 1998 financial statements and the profit allocation, as illustrated in the table below:

Net profit for the year:	**3,031,974,046 Lire**
5% to the legal reserve	151,598,702 lire
total dividends	1,225,000,000 lire
dividend per share	50 lire
number of shares	24,500,000
balance to transfer to reserves	1,655,375,344 lire

The dividends will be payable from 14 June 1999.

Our thanks go the statutory auditors and the external auditors for their work and to all of our staff, who made a vital contribution to the year's results.

Ceresara, 16 March 1999

Attachments:

1. Reclassified statement of income
2. Reclassified balance sheet
3. Comments on the reclassified financial statements
4. Schedule 2C

Attachment 1

Reclassified Statement of Income (in millions of Lire)

	31 December 1998	*31 December 1997*	*31 December 1996*
NET SALES	**231,579**	**256,450**	**202,310**
COST OF SALES			
Purchases	85,430	145,085	80,345
Labour cost	25,846	25,438	18,869
Services	15,533	20,358	20,758
Depreciation & amortisation	7,250	5,706	4,493
Other costs	7,216	6,602	4,850
(Increase) decrease in inventories	15,992	(41,020)	(2,687)
	157,267	**162,169**	**126,628**
GROSS PROFIT	**74,312**	**94,281**	**75,682**
SELLING, GENERAL AND ADMINISTRATIVE COSTS			
Labour cost	10,232	9,636	7,992
Advertising expenses	25,244	23,650	18,999
Commissions	6,419	7,517	5,458
Other expenses	13,404	12,297	10,578
	55,299	**53,100**	**43,027**
OPERATING PROFIT	**19,013**	**41,181**	**32,655**
Financial charges (income), net	5,535	1,826	5,313
Writedown of investments	25	3,694	4,000
Other (income) and charges	(1,861)	(734)	(629)
	3,699	**4,786**	**8,684**
PROFIT BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**15,314**	**36,395**	**23,971**
EXTRAORDINARY ITEMS	**7,164**	**3,403**	**984**
PROFIT BEFORE INCOME TAXES	**8,150**	**32,992**	**22,987**
Income taxes	(5,118)	(8,970)	(13,030)
NET PROFIT FOR THE YEAR	**3,032**	**24,022**	**9,957**

Attachment 2

Reclassified Balance sheet (in millions of lire)

ASSETS	*31 December 1998*	*31 December 1997*	*31 December 1996*
CURRENT ASSETS			
Cash and banks	254	11,857	3,570
Trade receivables	100,774	118,071	79,397
Due from subsidiary and associated companies	738	948	1,083
Other receivables	4,322	2,407	1,223
Inventories	68,947	84,939	43,918
Accrued income and prepayments	5,040	420	1,760
TOTAL CURRENT ASSETS	**180,075**	**218,642**	**130,951**
FIXED ASSETS			
Financial fixed assets:			
Financial receivables	235	231	214
Equity investments	1,567	76	4,122
Total financial fixed assets	**1,802**	**307**	**4,336**
Tangible fixed assets	71,614	49,819	39,374
Intangible fixed assets	3,118	5,006	2,338
TOTAL FIXED ASSETS	**76,534**	**55,132**	**46,048**
TOTAL ASSETS	**256,609**	**273,774**	**176,999**

LIABILITIES & SHAREHOLDERS' EQUITY	*31 December 1998*	*31 December 1997*	*31 December 1996*
CURRENT LIABILITIES Short-term bank borrowings	48,220	18,373	23,217
Current portion of medium/long term debt	21,523	10,539	5,117
Trade payables	69,420	125,199	67,128
Taxes payable	1,006	2,891	5,654
Other payables	2,553	3,109	10,543
Accrued liabilities and deferred income	677	847	965
TOTAL CURRENT LIABILITIES	**143,399**	**160,958**	**112,624**
MEDIUM/LONG TERM LIABILITIES Medium/long term debt, net of the current portion	18,992	15,529	21,068
Severance indemnities	6,014	4,969	7,194
Other provisions	1,996	1,620	1,408
TOTAL MED/LONG-TERM LIABILITIES	**27,002**	**22,118**	**29,670**
TOTAL LIABILITIES	**170,401**	**183,076**	**142,294**
SHAREHOLDERS' EQUITY Share capital	24,500	24,500	22,000
Legal reserve	2,049	848	351
Share premium reserve	35,000	35,000	0
Other reserves	21,627	6,328	2,397
Net profit for the year	3,032	24,022	9,957
TOTAL SHAREHOLDERS' EQUITY	**86,208**	**90,698**	**34,705**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**256,609**	**273,774**	**176,999**

MEMORANDUM ACCOUNTS	***55,485***	***80,824***	***73,102***

Attachment 3

1. Analysis of the results for the year ended 31 December 1998 with comparative figures for the year ended 31 December 1997

Net profit for the year ended 31 December 1998 came to Lire 3,032 million compared with Lire 24,022 million last year.

The pre-tax profit for the year ended 31 December 1998 was Lire 8,150 million compared with Lire 32,992 million last year.

Net sales – net sales of stockings in 1998 amounted to Lire 231,579 million, decreasing Lire 24,871 million (-9.7%) on 1997. Exports in 1998 amounted to around 41.68% of total sales. These include Lire 47,567 million to Western European countries, Lire 44,412 million to Eastern European countries and Lire 4,547 million to other countries.

The decline in net sales during 1998 is principally due to the decrease in quantities sold (about 6% lower compared with last year) and in the net average selling price per dozen, which at Lire 29,900 was Lire 1,300 lower than the average price in 1997.
The reduction in the net average selling price is due to the significant proportion of low-priced product sales in 1998.

Cost of sales – cost of sales in 1998 came to Lire 157,267 million, a decrease of Lire 4,902 million on 1997. Cost of sales represented 67.91% of net sales in 1998 compared with 63.24% in 1997.

The higher proportion of 4.67% is due to the following principal factors:
- pressure on prices connected to oversupply following the crisis on the Russian market;
- change in product mix, characterised by the growth in importance of low-priced low-margin articles;
- loss of productivity connected to the transfer of part of the machinery in the new production unit;
- temporary diseconomies generated by the re-organisation of the production cycle after taking back in-house previously outsourced production processes. This decision involved a significant rise in set-up costs given the large number of articles produced in outsourcing.

Starting from April 1998, the company began to use sub-contractors less. As a result production in outsourcing fell from 61% of the total last year to 44%. Outside production was at its lowest in the last few months of the year when it accounted for about 15% of total production against an average in the second half of 1998 of about 25%.

Labour costs are basically the same (increasing Lire 408 million on last year), while as a proportion of net sales these costs climbed from 9.92% to 11.16% due to the lower amount of sales.

Costs for services, amounting to Lire 15,533 million, represented 6.71% of net sales compared with 7.94% last year. The decrease in this percentage is mainly due to taking back in-house work previously carried out by sub-contractors.

Depreciation of industrial plant, amounting to Lire 7,250 million and representing 3.13% of net sales, went up by Lire 1,544 million compared with last year. This is mainly because of fixed asset investments entering into operation.

The production investments called for by the three-year business plan gradually came on-line during the year, causing depreciation and labour costs to increase as a result.
Since most of these investments entered service in the second part of the year, the benefits in terms of internal production were extremely modest in 1998. However, productive capacity at the end of the year has risen considerably compared with the same period last year.

It is believed that the benefits of completing the investment plan will become fully apparent during the second half of 1999.

Other costs, amounting to Lire 7,216 million and representing 3.1% of net sales, principally include power, heating and maintenance. These costs are basically proportionate to production volumes.

Inventories have decreased by Lire 15,992 million following the strategic decision to contain the amount of working capital. Once the production investments start operating, it will be possible to make further progress in this area.

Gross profit – the gross profit of Lire 74,312 million has gone down by Lire 19,969 million compared with last year, and represents 32.1% of net sales.

Selling, general and administrative costs – selling, general and administrative costs, amounting to Lire 55,299, represent 23.9% of net sales for the year, compared with 20.7% in 1997.
The most important item is advertising expenses. These have increased to Lire 25,244 million (up Lire 1,594 million) representing 10.9% of net sales. This is due to the strategic decision to keep the investment in advertising the same, despite the contraction in turnover.
Other costs have increased by Lire 1,107 million compared with the prior year, mainly due to the increase in amortisation and depreciation.

Operating profit – operating profit amounted to Lire 19,013 million compared with Lire 41,181 million last year. It represented 8.2% of net sales compared with 16.1% for 1997.

Financial charges (income), net – net financial charges of Lire 5,535 million have increased by Lire 3,709 million compared with last year, representing 2.4% of net sales. Note that the corresponding amount in the prior year included financial income of Lire 3,604 million, by way of dividends from Tintoria di Ceresara S.r.l., now liquidated.
If the dividends are excluded, net financial charges are in line with last year's amount. This reflects the combined effect of reduced interest rates and an increase in borrowing.

Other income, net – Other income, net has increased by Lire 1,127 million compared with the prior year, mainly due to higher royalty income and gains on the disposal of assets.

Extraordinary charges (income) – extraordinary items, which amount to Lire 7,164 million, comprise Lire 3,456 million for accelerated depreciation booked in accordance with current tax rules, Lire 1,349 million for amortising costs incurred in floating the company on the Italian Stock Exchange, and Lire 3,559 million of writedowns on receivables not considered recoverable, from companies belonging to a distributor on the Russian market who terminated activities in 1997. The caption also includes allowance of Lire 1,200 million granted by suppliers for purchases made in prior years.

Pre-tax profit – pre-tax profit amounted to Lire 8,150 million compared with Lire 32,992 million in 1997.

Income taxes – income taxes amount to Lire 5,118 million and represent 63% of pre-tax profits. Half of this amount is attributable to the introduction of the regional tax on production activities (IRAP), whose taxable base is linked to value added. Its impact is particularly high given the modest amount of pre-tax profit.

2. Analysis of capital expenditure for the year ended 31 December 1998

In line with its growth and the need to redress the balance between internal and sub-contracted production, in 1998 the company continued and accelerated its three-year investment plan.

The most important investments carried out in 1998 were as follows:

- completion of automation and strengthening of the production capacity of the dye plant which is now able to satisfy all the company's production requirements;
- completion of the new production unit at Rivarolo;

– completion of the building work and a good part of the plant for the new production area at Ceresara, where twisting machinery was being installed as of 31 December 1998;
– completion of the building work for the new automated packaging department at Ceresara; this area will be used temporarily for storage.

3. Analysis of the net financial position as at 31 December 1998

Net debt at 31 December 1998 came to Lire 88,481 million compared with Lire 32,584 million at 31 December 1997. The company's financial position is as follows (in millions of lire):

	31 December	
	1998	*1997*
Short-term bank borrowings	48,220	18,373
Current portion of medium/long-term debt	21,523	10,539
Cash and banks	(254)	(11,857)
Net short-term debt	**69,489**	**17,055**
Medium/long-term lending, net of the current portion	18,992	15,529
Total net debt	**88,481**	**32,584**

The main reason net debt has changed is the additional use of short-term borrowing needed to cope with the drastic drop in payables due to suppliers.

4. Analysis of the trend in net working capital and free cash flow for the year ended 31 December 1998

Net working capital at 31 December 1998 and 1997 is shown in the following table (in millions of lire):

	31 December	
	1998	*1997*
Trade receivables	101,512	119,019
Other receivables, accrued income and prepayments	9,362	2,827
Inventories	68,947	84,939
	179,821	206,785
Trade payables	(69,420)	(125,199)
Other payables, accrued liabilities and deferred income	(4,236)	(6,847)
	(73,656)	(132,046)
Working capital	**106,165**	**74,739**
Net short-term debt	(69,489)	(17,055)
Net working capital	**36,676**	**57,684**

Net working capital as of 31 December 1998 has decreased significantly compared with last year.

In particular, current assets have fallen by Lire 26,964 million, principally as a result of the Lire 17,507 million decrease in trade receivables and of the Lire 15,992 million decrease in inventories. This decrease mainly reflects actions taken in 1998 to reduce inventories. In addition, payment terms were about 15 days longer, based on average monthly exposure, than last year.

The reduction in current assets is not proportionate to the decrease in payables due to suppliers (Lire 55,779 million). The drastic reduction in these payables is the consequence of cutting back purchases in the second half of the year.

During the year, the company generated cash flow of Lire 18,851 million, which was fully absorbed by the increase in working capital.

The company's investment plan absorbed Lire 35,692 million in liquidity.

Lastly, the company distributed dividends during the year amounting to Lire 7,497 million.

Overall, financing requirements increased by Lire 52,434 million during 1998.

Attachment 4 - Table 2C - Chart 3

Shares held by Directors, Statutory Auditors and General Managers

Name	*Company*	*Number of shares held at the end of the prior year*	*No. of shares purchased*	*No. of shares sold*	*No. of shares held at the end of the current year*
BERTONI ENZO	Csp Intern. Ind. Calze S.p.A.	3,609,340	114,750	247,310	3,476,780
BERTONI FRANCESCO	Csp Intern. Ind. Calze S.p.A.	3,609,340	114,750	247,310	3,476,780
BERTONI MARIA GRAZIA	Csp Intern. Ind. Calze S.p.A.	2,787,470			2,787,470
BERTONI MARIO	Csp Intern. Ind. Calze S.p.A.	930,157			930,157
BOSSI GIANFRANCO	Csp Intern. Ind. Calze S.p.A.	222,222	28	50,000	172,250
BARDINI VALTER *	Csp Intern. Ind. Calze S.p.A.	342,160	9,250		351,410

* Bardini Valter is the husband of Bertoni Maria Grazia

CSP INTERNATIONAL INDUSTRIA CALZE S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998

BALANCE SHEET (stated in Lire)

ASSETS:	*31.12.1998*	*31.12.1997*
A) RECEIVABLES FROM SHAREHOLDERS:	0	0
B) FIXED ASSETS		
I. Intangible fixed assets		
3. industrial patents and intellectual property rights	779,518,210	1,031,459,344
4. concessions, licences, trade marks and similar rights	17,214,165	32,224,597
5. goodwill	656,540,627	984,028,315
7. others	1,664,231,412	2,958,247,978
Total I.	**3,117,504,414**	**5,005,960,234**
II. Tangible fixed assets		
1. land and buildings	27,068,145,058	25,179,110,199
2. plant and machinery	28,838,397,934	22,286,547,515
3. industrial and commercial equipment	303,114,764	123,025,820
4. other fixed assets	1,592,216,064	1,500,970,166
5. construction in progress and advances	13,811,700,543	729,115,951
Total II.	**71,613,574,363**	**49,818,769,651**
III. Financial fixed assets		
1. Equity investments in:		
a) subsidiary companies	6,083,316	30,911,873
b) associated companies	1,553,448,068	44,926,426
d) other companies	7,202,967	350,000
Total 1.	**1,566,734,351**	**76,188,299**
2. Financial receivables:		
a) from subsidiary companies:		
a.a. due within 12 months	2,195,765	2,195,765
b) from associated companies		
b.a. due within 12 months	123,679,882	119,137,957
Total 2.	**125,875,647**	**121,333,722**
Total III.	**1,692,609,998**	**197,522,021**
TOTAL FIXED ASSETS (B)	**76,423,688,775**	**55,022,251,906**

	31.12.1998	31.12.1997
C) CURRENT ASSETS		
I. Inventories:		
1. raw, ancillary and consumable materials	14,612,769,438	22,699,208,847
2. semi-finished products, work-in- progress	20,408,216,388	30,441,942,713
4. finished products and goods	33,925,661,641	31,797,617,006
Total I.	**68,946,647,467**	**84,938,768,566**
II. Receivables:		
1. trade accounts:		
1.a. due within 12 months	100,775,832,290	118,180,503,281
3. associated companies		
3.a. due within 12 months	738,347,892	948,168,806
5. others:		
5.a. due within 12 months	4,322,418,684	4,572,065,959
5.b. due beyond 12 months	109,027,358	109,227,358
Total 5.	**4,431,446,042**	**4,681,293,317**
Total II.	**105,945,626,224**	**123,809,965,404**
III. Current financial assets	0	0
IV. Liquid funds:		
1. cash at banks and post offices	150,135,016	9,554,870,240
2. cheques	0	3,230,000
3. cash and equivalents on hand	103,605,565	70,115,409
Total IV.	**253,740,581**	**9,628,215,649**
TOTAL CURRENT ASSETS (C)	**175,146,014,272**	**218,376,949,619**
D) ACCRUED INCOME AND PREPAYMENTS	5,039,713,704	420,437,228
TOTAL ASSETS	**256,609,416,751**	**273,819,638,753**

BALANCE SHEET

LIABILITIES	*31.12.1998*	*31.12.1997*
A) SHAREHOLDERS' EQUITY:		
I. Share capital	24,500,000,000	24,500,000,000
II. Share premium reserve	35,000,000,000	35,000,000,000
III. Revaluation reserves	1,195,810,187	347,913,909
IV. Legal reserve	2,049,478,741	848,365,376
V. Reserve for own shares in portfolio	0	0
VI. Statutory reserves	0	0
VII. Other reserves:		
a. undistributed profit	20,032,393,807	5,556,136,146
b. capital grants reserve	398,324,000	398,324,000
c. reserve for gains on disposals	0	25,283,269
Total VII.	**20,430,717,807**	**5,979,743,415**
VIII. Profit carried forward	0	0
IX. Net profit for the year	3,031,974,046	24,022,267,304
TOTAL SHAREHOLDERS' EQUITY (A)	**86,207,980,781**	**90,698,290,004**
B) RESERVES FOR CONTINGENCIES AND OTHER CHARGES:		
2. taxation	754,167,131	481,136,859
3. other	1,347,687,573	1,139,101,724
TOTAL RESERVES FOR CONTINGENCIES AND OTHER CHARGES (B)	**2,101,854,704**	**1,620,238,583**
C) RESERVE FOR SEVERANCE INDEMNITIES	**6,014,314,904**	**4,969,337,365**
D) PAYABLES:		
3. banks		
a. due within 12 months	69,743,482,034	28,911,503,248
b. due beyond 12 months	18,991,980,539	15,528,876,073
Total 3.	**88,735,462,573**	**44,440,379,321**
6. trade accounts:		
a. due within 12 months	69,418,799,089	125,181,217,991
11. taxes payable:		
a. due within 12 months	1,006,446,486	2,935,645,304
12. payables to social security institutions		
a. due within 12 months	1,500,137,530	1,866,281,800
13. other payables:		
a. due within 12 months	947,080,038	1,260,922,047
TOTAL PAYABLES (D)	**161,607,925,716**	**175,684,446,463**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	677,340,646	847,326,338
TOTAL LIABILITIES	**256,609,416,751**	**273,819,638,753**

MEMORANDUM ACCOUNTS	*31.12.1998*	*31.12.1997*
– Lease payments due	30,132,000	78,574,000
– Value of leased assets	240,000,000	240,000,000
– Mortgages for loans	45,000,000,000	45,000,000,000
– Guarantees given to third parties	563,366,000	67,000,000
– Assets held by third parties	590,040,000	1,211,170,000
– Currency sales hedging contracts	0	6,250,760,000
– Purchasing commitments	4,180,000,000	12,775,000,000
– Repurchase agreements	0	2,232,446,361
– Assets deposited with third parties	4,621,145,488	12,293,307,567
– Third party assets	259,945,280	675,315,700
Total	**55,484,628,768**	**80,823,573,628**

CSP INTERNATIONAL INDUSTRIA CALZE S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998

STATEMENT OF INCOME

	1998	*1997*
A) PRODUCTION VALUE		
1. Revenues from sale of goods and services	270,696,633,721	328,607,989,326
2. Changes in inventories of work-in-progress, semi-finished	(7,905,681,690)	28,855,235,976
5. Other income:		
a. other income	4,406,997,496	2,421,865,535
b. operating grants	0	16,024,655
TOTAL PRODUCTION VALUE (A)	**267,197,949,527**	**359,901,115,492**
B) PRODUCTION COSTS		
6. Raw, ancillary and consumable materials and goods	118,682,031,405	215,664,168,307
7. Services	65,918,281,388	67,762,885,755
8. Use of third party assets	267,138,915	301,456,548
9. Labour costs: a. wages and salaries	25,322,173,105	23,628,618,605
b. social security contributions	8,736,603,058	9,557,580,492
c. severance indemnities	1,867,979,991	1,738,388,343
e. other costs	43,563,417	24,648,697
Total 9.	**35,970,319,571**	**34,949,236,137**
10. Depreciation, amortisation and writedowns:		
a, amortisation of intangible fixed assets	2,745,908,565	2,506,044,835
b. depreciation of tangible fixed assets	11,520,043,077	8,364,305,922
d. writedown of doubtful accounts included in current assets	4,400,155,502	782,535,440
Total 10.	**18,666,107,144**	**11,652,886,197**
11. Changes in inventories of raw, ancillary and consumable materials and goods	8,086,439,409	(12,165,081,789)
12. Provisions for contingencies and other charges	187,126,654	223,525,844
14. Other operating expenses	1,528,878,104	5,206,605,049
TOTAL PRODUCTION COSTS (B)	**249,306,322,590**	**323,595,682,048**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**17,891,626,937**	**36,305,433,444**

	1998	1997
C) FINANCIAL INCOME AND (CHARGES)		
15. Income from investments:		
a. in subsidiary companies	0	3,604,462,186
16. Other financial income:		
d. other than above:		
d. from third parties	406,973,409	1,491,777,215
17. Interest and other financial charges:		
d. from third parties	(5,615,170,665)	(6,621,069,399)
TOTAL OTHER FINANCIAL INCOME (CHARGES) (C)	**(5,208,197,256)**	**(1,524,829,998)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS:		
19. Writedowns:		
a. of equity investments	(24,828,557)	0
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (D)	**(24,828,557)**	**0**
E) NON-RECURRING INCOME AND CHARGES:		
20. Non-recurring income		
b. other non-recurring income	1,358,975,276	3,502,850
Total 20.	**1,358,975,276**	**3,502,850**
21. Non-recurring charges:		
c. other non-recurring charges	5,867,122,583	1,791,950,047
Total 21.	**5,867,122,583**	**1,791,950,047**
TOTAL NON-RECURRING INCOME AND (CHARGES) (E)	**(4,508,147,307)**	**(1,788,447,197)**
PROFIT BEFORE TAXES (A-B+/-C+/-D+/-E)	**8,150,453,817**	**32,992,156,249**
22. Income taxes for the year	(5,118,479,771)	(8,969,888,945)
26. NET PROFIT FOR THE YEAR	**3,031,974,046**	**24,022,267,304**

CSP INTERNATIONAL INDUSTRIA CALZE S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998

BALANCE SHEET (stated in Euro)

ASSETS:	*31.12.1998*	*31.12.1997*
A) RECEIVABLES FROM SHAREHOLDERS:	0.00	00.00
B) FIXED ASSETS		
I. Intangible fixed assets		
3. industrial patents and intellectual property rights	402,587.56	532,704.29
4. concessions, licences, trade marks and similar rights	8,890.37	16,642.62
5. goodwill	339,074.94	508,208.21
7. others	859,503.79	1,527,807.58
Total I.	**1,610,056.66**	**2,585,362.70**
II. Tangible fixed assets		
1. land and buildings	13,979,530.26	13,003,925.18
2. plant and machinery	14,893,789.57	11,510,041.22
3. industrial and commercial equipment	156,545.71	63,537.53
4. other fixed assets	822,310.97	775,186.40
5. construction in progress and advances	7,133,148.03	376,556.96
Total II.	**36,985,324.55**	**25,729,247.29**
III. Financial fixed assets		
1. Equity investments in:		
a) subsidiary companies	3,141.77	15,964.65
b) associated companies	802,288.97	23,202.56
d) other companies	3,720.02	180.76
Total 1.	**809,150.76**	**39,347.97**
2. Financial receivables:		
a) from subsidiary companies:		
a.a. due within 12 months	1,134.02	1,134.02
b) from associated companies		
b.a. due within 12 months	63,875.33	61,529.62
Total 2.	**65,009.35**	**62,663.64**
Total III.	**874,160.11**	**102,011.61**
TOTAL FIXED ASSETS (B)	**39,469,541.32**	**28,416,621.60**

	31.12.1998	31.12.1997
C) CURRENT ASSETS		
I. Inventories:		
1. raw, ancillary and consumable materials	7,546,865.59	11,723,163.01
2. semi-finished products, work-in- progress	10,539,964.15	15,721,951.34
4. finished products and goods	17,521,142.01	16,422,098.68
Total I.	**35,607,971.75**	**43,867,213.03**
II. Receivables:		
1. trade accounts:		
1.a. due within 12 months	52,046,373.85	61,035,136.26
3. associated companies		
3.a. due within 12 months	381,324.86	489,688.32
5. others:		
5.a. due within 12 months	2,232,342.95	2,361,275.01
5.b. due beyond 12 months	56,307.93	56,411.22
Total 5.	**2,288,650.88**	**2,417,686.23**
Total II.	**54,716,349.59**	**63,942,510.81**
III. Current financial assets	0.00	0.00
IV. Liquid funds:		
1. cash at banks and post offices	77,538.26	4,934,678.66
2. cheques	0.00	1,668.16
3. cash and equivalents on hand	53,507.81	36,211.59
Total IV.	**131,046.07**	**4,972,558.40**
TOTAL CURRENT ASSETS (C)	**90,455,367.42**	**112,782,282.23**
D) ACCRUED INCOME AND PREPAYMENTS	2,602,794.91	217,137.71
TOTAL ASSETS	**132,527,703.65**	**141,416,041.54**

BALANCE SHEET

LIABILITIES	*31.12.1998*	*31.12.1997*
A) SHAREHOLDERS' EQUITY:		
I. Share capital	12,653,194.03	12,653,194.03
II. Share premium reserve	18,075,991.47	18,075,991.47
III. Revaluation reserves	617,584.42	179,682.54
IV. Legal reserve	1,058,467.44	438,144.15
V. Reserve for own shares in portfolio	0.00	0.00
VI. Statutory reserves	0.00	0.00
VII. Other reserves:		
a. undistributed profit	10,345,867.99	2,869,504.84
b. capital grants reserve	205,717.18	205,717.18
c. reserve for gains on disposals	0.00	13,057.72
Total VII.	**10,551,585.16**	**3,088,279.74**
VIII. Profit carried forward	0.00	0.00
IX. Net profit for the year	1,565,883.91	12,406,465.68
TOTAL SHAREHOLDERS' EQUITY (A)	**44,522,706.63**	**46,841,757.61**
B) RESERVES FOR CONTINGENCIES AND OTHER CHARGES:		
2. taxation	389,494.82	248,486.45
3. other	696,022.54	588,296.94
TOTAL RESERVES FOR CONTINGENCIES AND OTHER CHARGES (B)	**1,085,517.36**	**836,783.39**
C) RESERVE FOR SEVERANCE INDEMNITIES	**3,106,134.43**	**2,566,448.57**
D) PAYABLES:		
3. banks		
a. due within 12 months	36,019,502.46	14,931,545.32
b. due beyond 12 months	9,808,539.38	8,019,995.18
Total 3.	**45,828,041.84**	**22,951,540.50**
6. trade accounts:		
a. due within 12 months	35,851,817.72	64,650,703.67
11. taxes payable:		
a. due within 12 months	519,786.23	1,516,134.27
12. payables to social security institutions		
a. due within 12 months	774,756.38	963,854.11
13. other payables:		
a. due within 12 months	489,126.02	651,211.89
TOTAL PAYABLES (D)	**83,463,528.18**	**90,733,444.44**
E) ACCRUED LIABILITIES AND DEFERRED INCOME	349,817.25	437,607.53
TOTAL LIABILITIES	**132,527,703.65**	**141,416,041.54**

MEMORANDUM ACCOUNTS	*31.12.1998*	*31.12.1997*
– Lease payments due	15,561.88	40,580.08
– Value of leased assets	123,949.66	123,949.66
– Mortgages for loans	23,240,560.46	23,240,560.46
– Guarantees given to third parties	290,954.26	34,602.61
– Assets held by third parties	304,730.23	625,517.10
– Currency sales hedging contracts	0.00	3,228,248.13
– Purchasing commitments	2,158,789.84	6,597,736.89
– Repurchase agreements	0.00	1,152,962.32
– Assets deposited with third parties	2,386,622.47	6,348,963.51
– Third party assets	134,250.53	348,771.45
Total	**28,655,419.32**	**41,741,892.21**

CSP INTERNATIONAL INDUSTRIA CALZE S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998

STATEMENT OF INCOME

	1998	*1997*
A) PRODUCTION VALUE		
1. Revenues from sale of goods and services	139,803,144.05	169,711,863.18
2. Changes in inventories of work-in-progress. semi-finished	(4,082,943.85)	14,902,485.69
5. Other income:		
a. other income	2,276,024.26	1,250,789.16
b. operating grants	0.00	8,276,04
TOTAL PRODUCTION VALUE (A)	**137,996,224.46**	**185,873,414.09**
B) PRODUCTION COSTS		
6. Raw, ancillary and consumable materials and goods	61,294,153.92	111,381,247.61
7. Services	34,043,951.20	34,996,609.85
8. Use of third party assets	137,965.74	155,689.31
9. Labour costs: a. wages and salaries	13,077,811.00	12,203,163.09
b. social security contributions	4,512,078.92	4,936,078.38
c. severance indemnities	964,731.15	897,802.65
e. other costs	22,498.63	12,729.99
Total 9.	**18,577,119.70**	**18,049,774.12**
10. Depreciation, amortisation and writedowns:		
a. amortisation of intangible fixed assets	1,418,143.42	1,294,264.14
b. depreciation of tangible fixed assets	5,949,605.72	4,319,803.50
d. writedown of doubtful accounts included in current assets	2,272,490.67	2,272,490.67
Total 10.	**9,640,239.81**	**6,018,213.47**
11. Changes in inventories of raw. ancillary and consumable materials and goods	4,176,297.42	(6,282,740.42)
12. Provisions for contingencies and other charges	96,642.85	115,441.46
14. Other operating expenses	789,599.64	2,688,987.10
TOTAL PRODUCTION COSTS (B)	**128,755,970.29**	**167,123,222.51**
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)	**9,240,254.17**	**18,750,191.58**

	1998	1997
C) FINANCIAL INCOME AND (CHARGES)		
15. Income from investments:		
a. in subsidiary companies	0.00	1,861,549.36
16. Other financial income:		
d. other than above:		
d. from third parties	210,184.22	770,438.63
17. Interest and other financial charges:		
d. from third parties	(2,899,993.63)	(3,419,496.97)
TOTAL OTHER FINANCIAL INCOME (CHARGES) (C)	**(2,689,809.40)**	**(787,508.97)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS:		
19. Writedowns:		
a. of equity investments	(12,822.88)	0.00
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (D)	**(12,822.88)**	**0,00**
E) NON-RECURRING INCOME AND CHARGES:		
20. Non-recurring income		
b. other non-recurring income	701,852.16	1,809.07
Total 20.	**701,852.16**	**1,809.07**
21. Non-recurring charges:		
c. other non-recurring charges	3,030,115.94	925,464.96
Total 21.	**3,030,115.94**	**925,464.96**
TOTAL NON-RECURRING INCOME AND (CHARGES) (E)	**(2,328,263.78)**	**(923,655.89)**
PROFIT BEFORE TAXES (A-B+/-C+/-D+/-E)	**4,209,358.10**	**17,039,026.71**
22. Income taxes for the year	(2,643,474.19)	(4,632,561.03)
26. NET PROFIT FOR THE YEAR	**1,565,883.91**	**12,406,465.68**

CSP INTERNATIONAL INDUSTRIA CALZE S.p.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

The administrative and registered offices of CSP INTERNATIONAL INDUSTRIA CALZE S.p.A. are in Via Piubega, 5c - Ceresara (Mantua). Production is carried out in three plants: two in Ceresara and one in Rivarolo Del Re (Cremona). The company also owns a building in Ceresara, which is used as a shop for retail sales of its products.

Form and content of the financial statements

The financial statements have been prepared in accordance with the Italian Civil Code. They comprise the balance sheet (prepared using the format set out in articles 2424 and 2424bis of the Italian Civil Code), the statement of income (prepared using the format set out in articles 2425 and 2425bis and the notes), and these notes including the information required by article 2427 and other disclosures relating to financial statements required by the Code and by other prior legislation. In the interests of providing a true and fair view, additional information is also provided, even where this is not required by specific legislation. For the sake of greater clarity, items in the Code's balance sheet and statement of income formats indicated with arabic numbers, have been omitted where the value is zero, as permitted by article 2423 ter.
In addition, for ease of understanding, amounts in the notes have been expressed in millions of Lire in the narrative and thousands of Lire in the tables.

Accounting policies

Pursuant to article 2426 of the Italian Civil Code, the more important accounting policies adopted for the preparation of the financial statements as of 31 December 1998 are explained below. Except where expressly indicated, they have been applied consistently with the previous year.

Intangible fixed assets – These are recorded at purchase or production cost, including related charges. They are amortised on a systematic basis over their estimated useful life.

Tangible fixed assets – These are recorded at purchase or production cost. This cost is adjusted for certain assets in application of specific revaluation laws (as detailed in the attached schedule). Cost includes the related charges, direct costs and the share of indirect costs that is reasonably attributable to the asset.
Tangible fixed assets are depreciated every year on a straight-line basis using rates that reflect the residual technical and economic useful lives of the assets concerned. The rates applied are indicated in the relevant section in the notes. If, independently of the depreciation already accounted for, there is a permanent loss in value, the asset's value is written down accordingly; if, in the future, the bases for the writedown no longer apply, the original value may be written back, as adjusted for accumulated depreciation.
Ordinary maintenance costs are wholly expensed to income as incurred. Maintenance costs which improve assets, are capitalised and depreciated using the rates applying to those assets.

Equity investments held as fixed assets – Equity investments are stated at cost as described in the relevant part of the notes. The value at which they are recorded in the books is based on purchase or subscription price or on the value attributed to conferred assets. The cost is written down where there is a permanent loss in value and when there is no prospect of future profits by the company in question, which would absorb the losses. The original value may be written back if, in the future, the bases for the writedown no longer apply.

Inventories – Inventories are stated at the lower of purchase or production cost, using the L.I.F.O method, and their estimated realisable value. Cost is calculated using the same criteria as that applied to fixed assets. Estimated realisable value is calculated taking account of manufacturing costs to be incurred and direct selling costs. Obsolete and slow-moving items are written down to their utilisable or realisable value.

Receivables – Receivables are stated at their estimated realisable value.

Accruals and deferrals – Income and expenses which relate to more than one accounting period are recorded in these captions in order to respect the principle of matching income and expenses to the period to which they refer.

Reserves for contingencies and other charges – These reserves cover known or probable losses, whose timing and amount could not be determined at the year end. Provisions reflect the best estimate based on the information available.
The agents' supplementary indemnity reserve is included in these reserves. This amount is paid by the company when agents terminate their service.

Reserve for severance indemnities – The reserve for severance indemnities is provided to cover the liability maturing in respect of employees. It is accrued in accordance with current legislation, collective labour contracts and in-house agreements.

Payables – Payables are stated at their nominal value.

Capital grants reserve – Capital grants, collected in prior years, were recorded under the caption "Other reserves" of shareholders' equity in order to benefit from the favourable tax treatment permitted by the legislation.

Revenue recognition – Revenues from product sales are recognised at the time ownership passes, which is generally upon shipment to the customer.

Lease contracts – Payments for lease contracts are recorded in costs according to their due dates and the contract's duration, in accordance with the acceptable tax treatment. The initial advance payments are recorded in prepayments and expensed evenly over the life of the contract.

Income taxes for the year – The provision for income tax is based on the estimated taxable income, which is calculated in accordance with current fiscal regulations and which takes account of relevant exemptions and tax credits. Provision is also made, using current tax rates, for deferred tax liabilities on timing differences between net profit for the year and taxable income.

Adjustments and provisions recorded solely for fiscal purposes – Adjustments and provisions recorded solely for fiscal purposes comprise accelerated depreciation, which is recorded in line B.10 of the statement of income. As allowed by article 2426.2 of the Italian Civil Code, its contra-entry is to the accumulated depreciation reserve, which is deducted directly from tangible fixed assets recorded on the assets side of the balance sheet.

Translation of foreign currency balances

Receivables and payables originally denominated in foreign currency are translated into Lire using the exchange rates prevailing at the transaction dates. Exchange differences realised upon collection of receivables or the settlement of payables are recorded in the statement of income, after taking account of any provisions already accrued in the exchange fluctuation reserve.
Foreign currency receivables and payables are translated using the average exchange rate of the last month of the period (in accordance with article 72 of the Tax Consolidation Act). Net losses arising from this translation are charged to the period's statement of income with the contra-entry being booked to the exchange fluctuation reserve. Any net gains are not recognised.

Items in currencies of the countries participating in Monetary Union are translated at the fixed, irreversible rates. Exchange differences arising from this translation have been fully expensed to the statement of income.

Other information

Preparation of consolidated financial statements – The company has not prepared consolidated financial statements because its subsidiary companies are not relevant to the presentation of a true and fair view since they are either dormant or in a start-up phase. In particular, during the year a company called Sanpellegrino Polska was set-up, jointly owned with our local distributor. The company started production activities during 1999.
In fact the consolidation of these subsidiaries would not materially alter any of the captions in the holding company's financial statements.

Exceptions allowed under article 2423.4 – No exceptions have been made in the application of the established accounting principles, as would be permitted in certain circumstances under article 2423.4 of the Italian Civil Code.

Comparison with the prior year financial statements – The captions "Revenues from sale of goods and services", "Costs for raw, ancillary and consumable materials and goods", "Services", "Labour costs", "Other operating expenses" and "Non-recurring income and charges" have been reclassified in the prior year financial statements in order to make them comparable with the 31 December 1998 financial statements. A schedule reconciling these reclassifications is provided in attachment No. 7.

The year 2000 and the Euro: The new computer system being used since 1996 is already able to cope with problems linked to the year 2000 and therefore the company has not incurred any expenses directly attributable to its operation.
There were also no costs directly connected to the transition to the Euro because the new computer system is able to process several currencies. A project is being studied to transfer the entire accounting-administrative system over to the Euro.

ANALYSIS OF THE CAPTIONS APPEARING IN THE FINANCIAL STATEMENTS

BALANCE SHEET

COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

B. FIXED ASSETS

B.I. Intangible fixed assets

Movements in intangible fixed assets during the period are set out in Attachment no.1.
"Goodwill" refers to the excess purchase price of Tintoria di Ceresara S.r.l., a company acquired in 1996, compared with its actual value, which was formulated by a third party expert. The goodwill is amortised over 5 years. Other intangible fixed assets include costs incurred for the registration and renewal of trade marks, and for the raising of finance. The latter is amortised over the life of the related loans while the former are amortised over 5 years.
This item also includes the costs relating to the quotation on the screen-traded market of the Italian Stock Exchange. These amount to Lire 4,048 million and are being amortised over 3 years.

B.II. *Tangible fixed assets*

Movements in tangible fixed assets are set out in Attachment No.2. The main increases are as follows:

- completion of new industrial premises at Ceresara;
- construction in progress of new premises at Ceresara temporarily used as a warehouse;
- completion of a new warehouse at the dyeing plant;
- extension of the purification plant at the dyeing plant;
- purchase of new machinery for all the production units.

Ordinary depreciation has been calculated using rates considered to reflect the residual useful lives of the related assets. The rates applied are as follows:

Buildings	3.00%
Plant and machinery	12.50%
Industrial equipment	25.00%
Electronic office machines	20.00%
Office furniture and fittings	12.00%
Vehicles	20.00%
Cars	25.00%

Accumulated depreciation of tangible fixed assets at 31 December 1998 includes accelerated depreciation, as permitted by article 2426.2 of the Italian Civil Code, amounting to about Lire 9,525 million. Accelerated depreciation has increased by about Lire 3,990 million, which represents the charge for the period. Accelerated depreciation has decreased by about Lire 535 million due not only to reversals for higher depreciation for the period, not recorded as the assets have been fully depreciated, but also to disposals. The net profit for the year and shareholders' equity are therefore underestimated by Lire 2,030 million and Lire 5,596 million respectively, net of deferred tax, which has been calculated using current tax rates.

The list of assets by category at 31 December 1998, which under article 10 of Law No.72/83 have been subject to revaluation laws, is set out below:

Assets in existence at 31/12/98	*Historical cost*	*Revaluation Law 576/75*	*Revaluation Law 72/83*	*Revaluation Law 413/91*	*Total*
Buildings/light construction	31,732,749	40,409	272,906	906,291	32,952,355
Plant/machinery	62,900,101	19,078	185,980	0	63,105,159
Equipment	1,075,053	0	28,769	0	1,103,822
Furniture/office machines	2,050,348	633	15,162	0	2,066,143
Electronic office equipment	3,169,518	336	17,587	0	3,187,441
Cars/other vehicles	2,197,608	1,163	7,716	0	2,206,487

Mortgages and charges over tangible fixed assets are detailed in the section on memorandum accounts.

B.III. *Financial fixed assets*

Attachments 3a and 3b set out both the movements in financial fixed assets (consisting of equity investments and loans) and the information required by article 2427.5 of the Italian Civil Code for each subsidiary and associated company.

During the year a company called Sanpellegrino Polska was set up in Poland. The company is jointly owned (50-50%) with our local distributor and will produce socks and stockings in that country. The subscription was made partly through cash for Lire 363 million and partly through contribution (machinery) for Lire 1,168 million.

C.S.P. Hosiery UK LTD., has not been written down as it is believed that it will generate sufficient profits in the future to cover past losses.

Instead, C.S.P. Strumpfvertrieb Gmbh has been written down due to the difference between the original cost and the amount realised from the company's liquidation in January 1999.

C. CURRENT ASSETS

C.I. Inventories

Inventories are made up as follows:

	31/12/1998	*31/12/1997*
Gross value	69,683,431	85,675,553
Writedown reserve	(736,784)	(736,784)
Net value	**68,946,647**	**84,938,769**

The Lire 15,992 million decrease compared with 1997 is due to a reduction in sales volumes and the policy started by the company during the year to downsize inventories. The cost of raw, ancillary and consumable materials and of finished goods and products has been derived using the L.I.F.O. method of valuation, with the first layer using the valuation at 31 December 1995. Work-in-progress has been valued using the average production cost during the year.

If inventories valued at L.I.F.O. had been valued at average cost at 31 December 1998, their value would have been about Lire 808 million higher. Consequently the net profit for the year would have been Lire 84 million lower, while shareholders' equity would have been Lire 475 million higher, net of tax.

C.II.1 Trade accounts

Trade receivables may be analysed as follows:

	31/12/1998	*31/12/1997*
Trade receivables – Italy	55,695,059	49,212,826
Trade receivables – abroad	27,172,245	24,815,575
Bills subject to collection	26,072,818	49,755,339
Customers – invoices to be issued	758,871	398,507
Credit notes to be issued	(3,295,241)	(3,623,329)
Reserve for doubtful accounts	(5,627,920)	(2,378,415)
Total	**100,775,832**	**118,180,503**

This caption also includes Lire 25,867 million of collection orders and bills presented to banks for settlement.

Total trade receivables have decreased compared with the prior year as a function of the decrease in sales. Collection times have become longer by about 15 days, based on average monthly exposure. This applies mostly to the Italian sales channels due to the difficulties being experienced by the sector.

All receivalbles are due within 12 months.

Movements during the year in the doubtful receivables reserve are as follows:

	Reserve at 01/01/98	*Utilisation*	*Provisions*	*Reserve at 31/12/98*
Article 71 of the Tax Consolidation Act	652,493	(652,493)	520,156	520,156
Additional reserve	1,725,922	(498,158)	3,880,000	5,107,764
Total	**2,378,415**	**(1,150,651)**	**4,400,156**	**5,627,920**

During the year receivables deemed to be completely uncollectable have been written off to the reserve. Provisions, increasing the reserve, have been made for expected future losses on receivables which are included in the year-end financial statements.

The increase in the reserve is primarily the result of writing down a receivable due from the former distributor in the Russian market, who has ceased operating. The company continues to operate in Russia through a group of Dealers, despite the country's current economic difficulties.

C.II.3 Due from associated companies

This item is made up as follows:

	31/12/1998	*31/12/1997*
ROZAL	254,191	335,459
CSP HOSIERY (UK)	484,157	612,710
Total	**738,348**	**948,169**

These are trade receivables and are due within 12 months. They are considered to be recoverable, so no adjustments have been made.

C.II.5 Other receivables

The balance includes various receivables comprised as follows

	31/12/1998	*31/12/1997*
VAT credits	865,745	1,993,437
Income taxes advances, net	3,257,507	44,778
Advances to suppliers	0	214,805
Employees' travel advances	12,630	14,630
Repurchase agreements	0	2,232,446
Other current receivables	145,793	31,572
Foreign VAT credits	40,744	40,398
Total other current receivables	**4,322,419**	**4,572,066**
Guarantee deposits	109,027	109,227
Total other medium/long term receivables	**109,027**	**109,227**
Total other receivables	**4,431,446**	**4,681,293**

The item other current receivables has been written down by Lire 113 million, by providing for a relevant taxed reserve in 1996.

The guarantee deposits are due within 5 years.

C.IV. Liquid funds

These represent cash on hand and bank current accounts open at 31 December 1998.

D. Accrued income and prepayments

This caption is comprised as follows:

	31/12/1998	*31/12/1997*
Prepaid TV commercial	2,924,140	0
Advance lease payments	4,040	12,120
Accrued customer interest receivable	14,755	10,593
Prepayments	2,002,293	0
Others	94,486	397,724
Total	**5,039,714**	**420,437**

The caption prepaid TV commercial refers to the making of a new Sanpellegrino advertisement, whose cost is being expensed according to the duration of the film's related copyright. The cost expensed to 1998 is recorded in production costs under the caption "services".

If lease contracts were accounted for as finance leases, the difference would be immaterial.

Prepayments include Lire 1,503 million for advertising in 1999 and Lire 499 million in respect of consulting fees.

COMMENTS ON THE PRINCIPAL LIABILITY CAPTIONS

A. Shareholders' equity

Movements in shareholders' equity during the year are detailed in Attachment No. 4

A.I. Share capital

The share capital at 31 December 1998, which is fully subscribed and paid-in, comprises 24,500,000 ordinary shares with a par value of Lire 1,000 each.

A.II. Share premium reserve

The share premium reserve (Lire 35,000 million) refers to the increase in share capital carried out in 1997 when the company was floated on the screen-traded market of the Italian Stock Exchange.

A.III. Revaluation reserves

These reserves are broken down as follows:

		31/12/1998	*31/12/1997*
Revaluation Law 596/75	Lire/000	61,619	0
Revaluation Law 72/83	Lire/000	372,907	0
Revaluation Law 413/91	Lire/000	761,284	347,914
Total		**1,195,810**	**347,914**

The Lire 848 million increase compared with the prior year is due to the re-establishment of the revaluation reserve, as resolved at the shareholders' meeting on 16 April 1998.

A.IV. Legal reserve

This reserve has increased by Lire 1,201 million compared with 1997 following the allocation of part of last year's net profit.

A.VII. Other reserves

Other reserves are comprised as follows:

		31/12/1998	*31/12/1997*
Undistributed profit	Lire/000	20,032,394	5,556,136
Capital grants reserve	Lire/000	398,324	398,324
Reserve for gains on disposals	Lire/000	0	25,283
Total		**20,430,718**	**5,979,743**

Undistributed profit has increased by Lire 14,476 million as a result of allocating last year's net profit to it.

For the sake of completeness, it is worth mentioning that adjustments and provisions recorded solely for fiscal purposes have resulted in an understatement of shareholders' equity and net profits by Lire 5,596 million and Lire 2,030 million respectively, after accounting for the tax effect. These adjustments consist entirely of accelerated depreciation, which has been carried out in the current and previous accounting periods, and which is recorded in the accumulated depreciation.

A.IX. Net profit for the year

This caption refers to the net profit for the 1998 financial year.

Amount of taxes for calculating the tax credit on profits distributed by the company (Decree Law No. 467 of 18 December 1997):

As required by Decree Law No. 467/97, the following are the taxes effectively paid by the company (article 105.1a of the Tax Consolidation Act 917/86), as well as unpaid taxes (nominal taxes, article 105.1b of the Tax Consolidation Act 917/86) for the purposes of calculating the ordinary tax credit and the limited tax credit:

Amount pursuant to article 105.1a of the Tax Consolidation Act 917/86	10,475,808
Amount pursuant to article 105.1b of the Tax Consolidation Act 917/86	7,135,044

As required by article 3.4 of Decree Law No. 467/97, the company will increase the taxes under article 105.1a of the Tax Consolidation Act 917/86 (taxes effectively paid) by a residual amount of Lire 7,018 million, to be spread evenly in the tax returns of the next eight years.

B. Reserves for contingencies and other charges

The movement in this item is set out below:

	31/12/97	*Provisions*	*Utilisations*	*31/12/98*
Taxation reserve	481,137	308,125	(35,095)	754,167
Others:				
– Exchange fluctuation reserve	0	106,622	0	106,622
– Agents' supplementary indemnity reserve	1,139,102	185,874	(83,910)	1,241,066
Total others	1,139,102	292,496	(83,910)	1,347,688
Total	**1,620,239**	**600,621**	**(119,005)**	**2,101,855**

The taxation reserve relates to deferred taxes provided against gains on the disposal of assets.

The exchange fluctuation reserve is the result of translating balances denominated in currencies not participating in Monetary Union at the average rates for the month of December (as detailed in the accounting policies note).

Foreign currency balances are detailed below:

	Historic value	*Recalculated value*	*Exchange differences*
Trade payables	1,239,097	1,218,743	20,354
Foreign VAT credit	572	570	(2)
Trade receivables	5,532,746	5,400,420	(132,326)
Bank accounts in foreign currency	65,607	62,288	(3,319)
Receivables from subsidiary companies	63,185	71,856	8,671
Total exchange differences			**(106,622)**

The agents' supplementary indemnity has been accrued in accordance with the current collective labour contract.

C. Severance indemnity

Movements during the year have been as follows:

	31/12/97	*Utilisation*	*Advance taxes*	*Charge for period*	*31/12/1998*
Severance indemnity	4,969,337	(592,940)	(160,546)	1,798,464	6,014,315

Utilisations include Lire 308 million paid to leavers and an advance of Lire 285 million granted to employees.

The total amount in the reserve is adjusted by advance taxes paid on severance indemnities, as required by Decree Law no. 79 of 28 March 1997.

D. Payables

D.3 Banks

Indebtedness has increased by Lire 44,295 million, going from Lire 44,440 million to Lire 88,735 million, reflecting the significant reduction in trade payables.

This caption includes Lire 69,743 million of advances subject to collection, export advances and the current portion of medium/long-term loans and Lire 18,992 million of medium/long-term loans and other borrowings.

The due dates of the loans are set out below:

	during 1999	*within 5 years*	*beyond 5 years*	*total*
Loans	21,523,116	18,991,980	0	40,515,096

Three new loans for a total of Lire 25,000 million were raised during 1998.

Mortgage guarantees have been given as security against part of the above loans. These guarantees are dealt with in greater detail in the section on memorandum accounts.

D.6 Trade accounts

This item decreased by Lire 55,762 million compared with 1997. This is explained by the drastic reduction in purchases implemented in the second half of 1998, linked to both the downsizing of inventories and the reduction in the volume of turnover.

D.11 Taxes payable

Taxes payable are made up as follows:

	31/12/1998	*31/12/1997*
Taxes relating to subsidiaries	0	2,091,549
Withholding taxes on payments to consultants/agents	118,306	106,117
Withholdings on wages and salaries	888,140	737,979
Total	**1,006,446**	**2,935,645**

D.12 Payables to social security institutions

These include the following items:

	31/12/1998	*31/12/1997*
Employees social security/industrial accident insurance (INPS/INAIL)	1,390,152	1,759,760
Agents’ social security (Enasarco)	29,619	21,750
Agents’ social security (F.I.R.R.)	80,367	84,772
Total	**1,500,138**	**1,866,282**

D.13 Other payables

These are comprised as follows:

	31/12/1998	*31/12/1997*
Payable to employees	858,914	1,170,769
Other payables	88,166	90,153
Total	**947,080**	**1,260,922**

The payables to employees include holiday pay of Lire 686 million at 31 December 1998.

The other payables are all due within 12 months.

E. Accrued liabilities and deferred income

	31/12/1998	*31/12/1997*
Accrued loan interest payable	285,950	254,410
Other accruals	391,391	592,916
Total	**677,341**	**847,326**

The item "other accruals" refers to the accrual for employees' bonuses maturing up to 31 December 1998.

Memorandum accounts

Lease payments due – Finance lease commitments amount to Lire 30 million. This is the total value of payments due excluding payments to date and including the redemption payments provided under the contracts.
These assets are accounted for under the method currently used in Italy for statutory accounting purposes. This method records lease payments in the statement of income in the accounting period in which they fall due. If the finance lease method were adopted it would involve recording interest on the residual capital financed rather than lease payments in the statement of income. Furthermore, assets purchased under lease would be depreciated based on the residual useful lives of those assets. The assets would be recorded among fixed assets and the residual payable among liabilities. The effects of this recalculation would not have a material impact on net profit for the year or on shareholders' equity.

Mortgages for loans – These are mortgages on company assets in guarantee of loans granted by banks, whose residual value amounts to about Lire 13,877 million.

Guarantees given to third parties – The caption relates to guarantees granted to third parties.

Assets held by third parties – These relate to portable computers and printers on loan to agents.

Purchasing commitments – At 31 December 1998, there are commitments based on signed contracts for the purchase of tangible fixed assets amounting to Lire 4,180 million. These commitments consist of Lire 438 million for the construction of new warehouses with the remainder relating to purchases of new plant and machinery.

Assets deposited with third parties – The caption refers to the value of goods sent to subcontractors for processing.

Third party assets – This includes Lire 80 million of rented temporary structures used for goods storage and Lire 180 million of third party goods for re-dyeing.

STATEMENT OF INCOME

COMMENTS ON THE PRINCIPAL STATEMENT OF INCOME CAPTIONS

A. Production value

A.1 Revenues from sale of goods and services

Revenues are analysed by geographical area and by type of product below:

	1998	*1997*
– Italy:		
– stockings	145,461,208	162,899,467
– woven products	24,629,319	61,272,016
– raw materials/other	580,798	602,501
Western Europe:		
– stockings	49,858,346	45,794,083
– other	746,545	3,410,289
Eastern Europe:		
– stockings	44,296,895	49,708,307
– other	470,397	0
Non-European countries:		
– stockings	4,606,947	4,921,290
– other	46,179	36
Total	**270,696,634**	**328,607,989**

Revenues for sales of stockings in Italy have been influenced by the question of reinvoicing to large-scale retailers. This operation, at Lire 7,353 million, involves the company repurchasing stockings sold to some dealers with their subsequent resale to large-scale retailers. Net sales of stockings include Lire 1,646 million in sales relating to the Body line.

Sales of woven products, amounting to Lire 24,629 million, consist of sales of raw materials to sub-contractors, who in turn reinvoice them together with the cost of the work performed.

Revenues are shown net of returns, discounts and allowances.

Net sales of stockings at Lire 244,223 million have decreased by Lire 19,100 million on 1997. This is mainly due to the economic crisis hitting the Russian market, and to its repercussions on the Italian wholesale trade, also involved in exporting to Russia, through the mechanism of parallel sales.

It should also be mentioned that sales in Eastern Europe went from Lire 49,708 million in 1997 to Lire 44,297 million in 1998.

During 1998 there were no revenues from the Sanpellegrino Hi.Fi line, which ceased production. During 1997 the line had generated sales of about Lire 4,000 million, mainly in Italy.

A.2 Changes in inventories of work-in-progress, semi-finished and finished products

	Opening inventories	*Closing inventories*	*change +/-*
Finished products	31,797,617	33,925,661	2,128,044
Work-in-progress	30,441,943	20,408,217	(10,033,726)
Total	**62,239,560**	**54,333,878**	**(7,905,682)**

The decrease in inventories is linked to the smaller volume of sales during the year and to the policy to scale back inventories introduced by the company during the year.

A.5.a Other income

This caption is made up as follows:

	1998	*1997*
Transport & production expenses reinvoiced to customers	1,428,911	1,597,077
Advertising contributions	842,487	150,000
Expenses reinvoiced to customers	143,113	98,805
Royalties	527,398	188,403
Gains on disposal of assets	969,248	164,526
Out-of-period income for taxes	362,603	0
Other	133,237	223,055
Total	**4,406,997**	**2,421,866**

The more significant increases refer to:

– Royalties, Lire 399 million higher due to new licences and the establishment of those in operation over the past year;

– Gains on the disposal of assets, increased by Lire 805 million mainly in relation to the contribution of machinery to Sanpellegrino Polska;

– Advertising contributions, rose by Lire 692 million, due to the contribution by suppliers for placing their trade marks on our products.

B. Production costs

B.6 Raw, ancillary and consumable materials and goods

The balance of Lire 118,682 million consists of Lire 101,735 million of purchases of raw materials for manufacturing (Lire 193,591 million in 1997), and Lire 16,947 million for packaging and consumable materials (Lire 22,073 million in 1997).
The overall increase of Lire 96,982 million compared with 1997 is explained by the lower volume of sales during the year and the policy of scaling down inventories.

B.7 Services

This caption is made up as follows:

	1998	*1997*
Outside contractors	15,504,838	20,111,439
Advertising	26,792,831	23,649,839
Agents	6,491,325	7,588,267
Transportation	5,072,413	5,116,758
Power	3,730,746	3,393,878
Directors emoluments	975,720	880,400
Statutory Auditors emoluments	60,374	61,811
Maintenance	2,260,023	2,111,577
Heating	1,395,569	1,431,073
Insurance	632,411	990,062
General and commercial consulting	529,442	520,887
Travel	469,949	432,582
Postage	359,340	406,194
Other transport costs	334,037	277,640
Legal	312,229	115,037
Commercial information and communications costs	262,849	147,144
Bank charges	326,607	316,901
Other	407,578	211,397
Total	**65,918,281**	**67,762,886**

The most significant increase during the year relates to advertising expenses (Lire 3,143 million), while important decreases were recorded for costs relating to agents (Lire 1,097 million), and outside contractors (Lire 4,606 million).

Attachment No. 6 gives further details on the emoluments of the directors.

B.8 Use of third party assets

This caption includes lease payments for vehicles and machinery and the rental of temporary structures for goods storage. The decrease compared with last year is due to the termination of some of the contracts.

B.9 Labour costs

This caption includes all the costs incurred in respect of employees in 1998. The detail of the caption is set out on the face of the statement of income.

Labour costs have gone up by Lire 1,021 million compared with 1997. This is due to new staff hires (rising from 717 in 1997 to 776 in 1998) and partially offset by lower social security charges for 1998.

Movements in staff numbers during the year are set out below:

	01/01/98	*new hires*	*leavers*	*31/12/98*	*98 average*
Manager	8	1	1	8	8
Supervisors	19	4	1	22	21
Office staff	111	32	29	114	113
Workers	644	48	68	624	634
Total	**782**	**85**	**99**	**768**	**776**

Note that new hires and leavers also include internal promotions.

B.10 Depreciation, amortisation and writedowns

These comprise:

a. amortisation of intangible fixed assets

– Software	946,718
– Goodwill	328,139
– Deferred charges	92,371
– Flotation costs	1,349,383
– Other	29,297
Total	**2,745,908**

b. Depreciation of tangible fixed assets

	Ordinary	*Accelerated*	*Total*
Buildings	804,867	229,572	1,034,439
Light constructions	6,095	0	6,095
Plant/machinery	5,751,333	3,147,067	8,898,400
Equipment	100,851	76,238	177,089
Furniture, electrical equipment	136,826	16,552	153,378
Electronic office machinery	334,399	332,492	666,891
Cars	89,943	70,769	160,712
Vehicles	127,933	117,738	245,671
Assets worth under 1 million	177,368	0	177,368
Total	**7,529,615**	**3,990,428**	**11,520,043**

Tangible fixed assets have been depreciated at 50% of the normal rate in their year of purchase. Accelerated depreciation has also been recorded. Its effect has already been dealt with in the note on tangible fixed assets.

d. Writedown of doubtful accounts included in current assets

The caption "Writedown of doubtful accounts included in current assets" consists of the provision required to adjust the value of receivables to their estimated realisable value. Losses during the year have been expensed to income with a corresponding utilisation of the reserve for doubtful accounts. Most of the writedown refers to the provision against receivables due from the former Russian distributor.

B.11 Changes in inventories of raw, ancillary and consumable materials and goods

	Opening inventories	*Closing inventories*	*Changes +/-*
Raw materials	17,812,124	10,792,538	(7,019,586)
Packaging/ dyeing materials	4,887,085	3,820,232	(1,066,853)
Total	**22,699,209**	**14,612,770**	**(8,086,439)**

B.12 Provisions for contingencies and other charges

This caption relates to the provision for contingencies and to charges for agents' supplementary indemnity maturing in the year.

B.14 Other operating expenses

This item is comprised as follows:

	1998	*1997*
Entertaining	463,506	389,396
Membership fees	155,157	142,564
Stationery & other materials	215,469	203,295
Non deductible VAT on gifts	50,989	39,028
Taxes and duties	247,312	230,472
Losses on sale of assets	190,197	10,543
Loss on liquidation of equity investment	0	3,694,341
General expenses	109,901	282,381
Other charges	96,347	214,585
Total	**1,528,878**	**5,206,605**

C. Financial income and charges

C.16.d.d Other financial income from third parties

This caption is analysed as follows:

	1998	*1997*
Interest receivable on current accounts	53,194	106,601
Interest receivable from customers	241,895	254,842
Exchange gains	109,147	1,107,045
Other interest receivable	0	21,863
Discounts & positive roundings	2,737	1,426
Total	**406,973**	**1,491,777**

The exchange differences on translating balances in currencies participating in Monetary Union at the fixed irreversible parities against the Euro are set out below:

	Exchange gains	*Exchange losses*
Customers	9,923	1,311
Suppliers	69	163
Receivables from associated companies	4,542	0
Other	206	31
Total	**14,740**	**1,505**

C.17.d Interest and other financial charges from third parties

This caption comprises:

	1998	*1997*
Interest payable on current account	1,671,454	1,452,559
Interest payable on borrowings	1,285,478	645,717
Interest payable on loans	2,175,565	2,158,237
Interest payable – Sabatini Law	0	49,948
Other interest and charges payable	9,263	10,742
Provision to the exchange fluctuation reserve	106,622	0
Exchange losses	366,789	2,303,866
Total	**5,615,171**	**6,621,069**

E. Non-recurring income and charges

E.20.b Other non-recurring charges

The caption includes allowances granted by suppliers for purchases made in prior years.

E.21.c Other non-recurring charges

The caption includes adjustments to revenues (for returns and discounts) earned in prior years.

E.22 Income taxes for the year

Income taxes for the year have been calculated using current tax rates and after making the necessary adjustments to increase or decrease the statutory profit. The tax charge amounts to Lire 5,118 million, representing a tax rate of 63%.
Half of this amount is attributable to the regional tax on production activities (IRAP), whose taxable base is linked to added value.

Ceresara, 16 March 1999

The Board of Directors

ATTACHMENTS

These attachments contain supplementary information to that provided in the Notes, of which they form an integral part.

This information is included in the following attachments:

1 – Schedule of movements in intangible fixed assets for the year ended 31 December 1998

2 – Schedule of movements in tangible fixed assets for the year ended 31 December 1998

3 – 3a) Schedule of movements in financial fixed assets for the year ended 31 December 1998
– 3b) List of equity investments in accordance with article 2427.5 of the Italian Civil Code

4 – Schedule of changes in shareholders' equity for the year ended 31 December 1998

5 – Cash flow statement for the years ended 31 December 1998 and 1997

6 – Schedule of remuneration paid to the Directors, Statutory Auditors and General Managers for the year ended 31 December 1998

7 – Reconciliation of the 1997 statement of income

Attachment n. 1 – Schedule of movements in intangible fixed assets for the year ended 31 December 1998

Description	*Historical cost*	*Amortisation at 31/12/97*	*Writedowns at 31/12/97*	*Net book value at 31/12/97*	*Additions 1998*	*Reclassifications 1998*	*Amortisation 1998*	*Net book value at 31/12/98*
Industrial patents and intellectual property rights								
– Software	2,145,377	(1,113,918)	0	1,031,459	694,777	0	(946,718)	779,518
Concessions, licences, trade marks & similar rights								
– CSP trade mark	75,052	(42,828)	0	32,224	0	0	(15,010)	17,214
Goodwill	1,640,047	(656,019)	0	984,028	652	0	(328,139)	656,541
Other								
– Flotation costs	4,048,148	(1,349,383)	0	2,698,765	0	0	(1,349,383)	1,349,382
– Deferred loan charges	63,229	(23,714)	0	39,515	25,000	0	(14,287)	50,228
– Other intangible	324,827	(104,859)	0	219,968	137,024	0	(92,371)	264,621
Total others	**4,436,204**	**(1,477,956)**	**0**	**2,958,248**	**162,024**	**0**	**(1,456,041)**	**1,664,231**
Total	**8,296,680**	**(3,290,721)**	**0**	**5,005,959**	**857,453**	**0**	**(2,745,908)**	**3,117,504**

Attachment n. 2 – Schedule of movements in tangible fixed asset for the year ended 31 December 1998

Summary of assets

	Opening balances				*Movements during the year*						*Closing balances*			
Description	*Historical cost*	*Revaluations*	*Accumulated depreciation at 31/12/97*	*Net book value at 31/12/97*	*Additions 1998*	*Decreases 1998*	*Decreases revaluations*	*Reversal depreciation*	*Riclassifications 1998*	*Depreciation 1998*	*Historical cost*	*Revaluations*	*Accumulated depreciation at 31/12/98*	*Net book value at 31/12/98*
Land & buildings	28,803,181	1,219,606	(4,843,677)	25,179,110	2,221,790	0	0	0	707,778	(1,040,534)	31,732,749	1,219,606	(5,884,211)	27,068,144
Plant & machinery	50,310,042	214,721	(28,238,215)	22,286,548	16,093,587	(3,523,921)	(9,978)	(2,870,170)	20,393	(8,898,400)	62,900,101	204,743	(34,266,445)	28,838,399
Equipment	719,926	30,204	(627,104)	123,026	359,505	(4,378)	(1,435)	(3,485)	0	(177,088)	1,075,053	28,769	(800,707)	303,115
Other assets	6,832,753	42,912	(5,374,695)	1,500,970	1,570,804	(491,879)	0	(416,342)	0	(1,404,021)	7,911,678	42,912	(6,362,374)	1,592,216
Construction in progress	729,116	0	0	729,116	13,810,755	0	0	0	(728,171)	0	13,811,700	0	0	13,811,700
Total	**87,395,018**	**1,507,443**	**(39,083,691)**	**49,818,770**	**34,056,441**	**(4,020,178)**	**(11,413)**	**(3,289,997)**	**0**	**(11,520,043)**	**117,431,281**	**1,496,030**	**(47,313,737)**	**71,613,574**

Attachment n. 3a – Schedule of movements in financial fixed assets for the year ended 31 december 1998
(Amounts in thousands of lire)

	Opening balance				*Movements during the year*					*Closing balance*	
Fixed assets	*Original cost*	*Revaluations*	*Writedowns*	*Balance at 31/12/97*	*Increases*	*Reclassi-fications*	*Decreases*	*Revaluations*	*Writedowns*	*Balance at 31/12/98*	*Of which revalued*
EQUITY INVESTMENTS											
SUBSIDIARY COMPANIES											
CSP STRUMPFVERTRIEB - RHEINE (Germany) Loesstrasse, 7	30,912			30,912					(24,829)	6,083	
TOTAL SUBSIDIARY COMPANIES	**30,912**	**–**	**–**	**30,912**	**–**	**–**	**–**	**–**	**–**	**6,083**	**–**
ASSOCIATED COMPANIES											
ROZAL SARL - PARIS (France) Rue Turbigo, 30	17,943			17,943						17,943	
CSP HOSIERY (UK) LTD - LONDON (UK) Action Park, 28	4,821			4,821						4,821	
SANPELLEGRINO POLSKA SP.z.oo - Ul.Laska, 7-KONSTANTYNOW (LODZ) (Poland)					1,530,684					1,530,684	
ESCOS GMBH - NEUFFEN (Germany) Paulustrasse, 51	22,163			22,163			(22,163)			–	
TOTAL ASSOCIATED COMPANIES	**44,927**	**–**	**–**	**44,927**	**1,530,684**	**–**	**(22,163)**	**–**	**–**	**1,553,448**	**–**
OTHER COMPANIES											
CASSA RUR.ED ART. CASTELGOFFREDO (Mantua) Via Giotto, 2	350			350						350	
FONDO PENSIONE PREVIMODA - MILAN Viale Sarca, 223					3,755					3,755	
CONAI - ROME Viale dell'Astronomia, 30					3,098					3,098	
TOTAL OTHER EQUITY INVESTMENTS	**350**	**–**	**–**	**350**	**6,853**	**–**	**–**	**–**	**–**	**7,203**	**–**
TOTAL EQUITY INVESTMENTS	**76,189**	**–**	**–**	**76,189**	**1,537,537**	**–**	**–**	**–**	**–**	**1,566,734**	**–**
FINANCIAL RECEIVABLES											
SUBSIDIARY COMPANIES											
BENETTON LEGS loan				2,196						2,196	
TOTAL RECEIVABLES FROM SUBSIDIARIES	**–**	**–**	**–**	**2,196**	**–**	**–**	**–**	**–**	**–**	**2,196**	**–**
ASSOCIATED COMPANIES											
ROZAL SARL loan				55,953	4,542					60,495	
CSP HOSIERY (UK) LTD loan				63,185						63,185	
TOTAL RECEIVABLES FROM ASSOCIATES	**–**	**–**	**–**	**119,138**	**4,542**	**–**	**–**	**–**	**–**	**123,680**	**–**
TOTAL RECEIVABLES	**–**	**–**	**–**	**121,334**	**4,542**	**–**	**–**	**–**	**–**	**125,876**	**–**

Attachment n. 3b – List of equity investments in subsidiary and associated companies at 31 december 1998 (in accordance with article 2427.5 of the Italian Civil Code)

(Amounts in thousands of lire)

Name		*Share Capital in currency*		*Shareholders equity Lire/000*	*Profit or loss*	*Stake-Holding %*	*Share of Share Holders' equity Lire/000*	*Share of profit loss Lire/000*	*Book value*	*Difference between book value and share shareholders' equity*
EQUITY INVESTMENTS										
SUBSIDIARY COMPANIES										
CSP STRUMPFVERTRIEB - RHEINE (Germany) Loesstrasse, 7	D.M.	50,000	(***)	28,520	(11,349)	99	28,235	(11,235)	30,912	(2,677)
ASSOCIATED COMPANIES										
ROZAL SARL - PARIS (France) Rue Turbigo, 30	F.F.	300,000	(*)	147,691	702	20	29,538	140	17,943	11,595
CSP HOSIERY (UK) LTD - LONDON (UK) Action Park, 28	LGS	10,000	(**)	(255,741)	165,018	20	(51,148)	33,004	4,821	(55,969)
SANPELLEGRINO POLSKA SP.z.oo Ul.Laska, 7-KONSTANTYNOW (LODZ) (PL)	Zloty	6,000,000	(****)	-	-	50	-	-	1,530,684	-

NOTES: (*) as per the financial statements at 31 December 1997, translated at 1997 year-end exchange rates

(**) as per the financial statements at 31 March 1998, translated at 31 March 1998 exchange rates

(***) as per financial statements at 31 December 1996; company placed in liquidation (the value of the investment at 31 December 1998 is written down in consideration of the net value realized during liquidation, which took place in January 1999)

(****) the company, formed in 1998, has not yet approved the financial statements for its first year of operations

Attachment n. 4 – Schedule of changes in shareholders' equity for the year ended 31 december 1998
(in thousands of Lire)

Description	*Share capital*	*Share premium reserve*	*Revaluation reserves*	*Legal reserve*	*Other reserves*	*Net profit (loss) for the year*	*Total shareholders' equity*
Balances at 1 January 1998	**24,500,000**	**35,000,000**	**347,914**	**848,365**	**5,979,745**	**24,022,266**	**90,698,290**
Allocation of 1997 net profit (General meeting of 16 April 1998)							
– 5% allocation to legal reserve				1,201,113		(1,201,113)	–
– Dividends distributed						(7,497,000)	(7,497,000)
– Profits carried forward					14,476,257	(14,476,257)	–
– Re-establishment of revaluation reserve			847,896			(847,896)	
Other movements					(25,283)		(25,283)
Net profit for the year						3,031,974	3,031,974
Balances at 31 December 1998	**24,500,000**	**35,000,000**	**1,195,810**	**2,049,478**	**20,430,719**	**3,031,974**	**86,207,981**

Attachment n. 5 – Cash flow statement for the years ended 31 December 1998 and 1997
(in millions of Lire)

	1998	*1997*
A. OPENING NET DEBT	**(17,055)**	**(24,763)**
B. CASH FLOWS FROM (FOR) OPERATING ACTIVITIES		
Net profit for the year	3,032	24,022
Depreciation and amortization	14,266	10,870
Losses on and writedowns of financial fixed assets	25	3,694
Net change in severance indemnities for employees and agents	1,148	529
Provision for contingencies and other charges	380	0
Cash flows from operating activities before changes in working capital	**18,851**	**39,115**
(Increase) decrease in current receivables	17,408	(38,787)
(Increase) decrease in inventories	15,992	(41,021)
Increase (decrease) in trade and other payables	(58,542)	48,354
Changes in other working capital items	(6,392)	336
	(12,683)	**7,997**
C. CASH FLOWS FROM (FOR) INVESTMENT ACTIVITIES		
(Purchase) disposal of fixed assets:		
Intangible	(857)	(5,175)
Tangible	(33,315)	(18,808)
Financial	(1,520)	356
	(35,692)	**(23,627)**
D. CASH FLOWS FROM (FOR) FINANCING ACTIVITIES		
Subscription to the increase in share capital, issued at a premium, net of leaving indemnity used by employees to subscribe to the issue	0	34,871
New borrowings net of the current portion transferred to current payables	3,463	(5,538)
Repayment of payables represented by credit instruments	0	(467)
Dividends paid	(7,497)	(5,000)
Other changes in shareholders' equity	(25)	(528)
	(4,059)	**23,338**
E. TOTAL CASH FLOWS FOR THE YEAR (B+C+D)	**(52,434)**	**7,708**
F. CLOSING NET DEBT (A+E)	**(69,489)**	**(17,055)**

Attachment n. 6 – Remuneration paid to directors, statutory auditors and general managers

	Description of office		*Remuneration*			
Surname and firts name	*Position held*	*Duration of office*	*Emoluments for the office*	*Non-cash benefits*	*Bonuses and other incentives*	*Other remuneration*
BERTONI ENZO	chairman Board of Directors	16.04.97 for 3 years	433,680,000			
BERTONI FRANCESCO	managing director #	16.04.97 for 3 years	542,040,000			
BERTONI MARIA GRAZIA	director	16.04.97 for 3 years				78,445,000*
BERTONI MARIO	director	16.04.97 for 3 years				64,206,000*
BOSSI GIANFRANCO	director and general manager #	16.04.97 for 3 years			100,000,000*	528,953,000*
GHIDELLI SERGIO	chairman Board of Auditors	16.04.97 for 3 years	25,405,000			
MACCARI ENRICO	auditor	16.04.97 for 1 year	5,550,000			
ANCESCHI DANILO	auditor	16.04.98 for 2 years	11,500,000			
MONTESANO MARCO	auditor	16.04.97 for 3 years	17,070,000			

* salaries as employees.

member of executive committee.

Attachment n. 7 – Reconciliation of the 1997 statement of income
(in thousands of Lire)

Description	*amounts*	*Financial statement captions 31.12.97*	*Financial statement captions 31.12.98*
Prior year returns from customers	1,791,950,047	A 1	E 21 c
Prior year credits from suppliers	3,502,850	B 6	E 20 b
Emoluments of Directors and Statutory Auditors	951,353,248	B 14	B 7
Costs for industrial transport vehicles	40,796,610	B 14	B 7
Costs for insurance and personnel training	124,815,602	B 9 e	B 7

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998

Shareholders,
The draft financial statements as at 31 December 1998, duly consigned by the Directors to the Board of Auditors, together with the Auditors report issued by Arthur Andersen S.p.A., closes with a profit of Lire 3,031,974,046.
Arthur Andersen S.p.A. has not raised any major objections, while confirming that the report on operations agrees with the draft financial statements.
As well as attending shareholders' meetings, directors' meetings and carrying out the prescribed quarterly audits, we have checked compliance with the law and with the articles of association, respect for the principles of correct administration, the adequacy of the Company's organizational structure for aspects concerning the internal control and accounting systems, as well as the latter's reliability in correctly recording all aspects of the company's operations.
In other words, we have concentrated our activities on checking the correctness and legality of the Company's administration, without overlooking an examination of the accounting records for any observations on the financial position of the Company as required by article 2466 of the Italian Civil Code, or findings regarding administrative irregularities.
We have also ascertained that the organizational structure of the Company and the internal control and accounting systems can be considered reliable in correctly recording all aspects of the company's operations.
Lastly, we acknowledge that meetings of the Board of Directors and of the Shareholders have been called and held properly, with resolutions being passed according to the rules.
Management decisions have been taken not only legitimately, but also on the basis of prior checks, valid financial plans and credible market research; in other words, with professionalism, technical care and reasonableness and therefore with the necessary diligence.
In the light of the above, we would invite the shareholders to approve both the financial statements as at 31 December 1998 as proposed by the Board of Directors, and the allocation of net income.

Mantua, Italy, 31 March 1999

The Board of Statutory Auditors

ARTHUR
ANDERSEN

Arthur Andersen S.p.A.

Via Albere 19
37138 Verona

Report of the Independent Auditors pursuant to art. 4
Of Presidential Decree no. 136 of March 31, 1975
(Translation from the original issued in Italian)

To the Shareholders of
CSP International Industria Calze S.p.A.:

1. We have audited the financial statements of CSP INTERNATIONAL INDUSTRIA CALZE S.p.A. as of and for the year ended December 31, 1998. We have also checked the consistency of the Board of Directors' report on operations with the financial statements.

2. Our examination was made in accordance with the auditing standards and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") and included such tests as we considered necessary for the purposes of our engagement. For our opinion on the prior years' financial statements, which are presented for comparative purposes as requested by the law, reference should be made to our auditors' report dated March 19, 1998.

3. In our opinion, the financial statements, taken as a whole, have been prepared clearly and give a true and fair view of the financial position and results of operations of the Company, in accordance with the law related to the financial statements. Therefore, we certify the financial statements of CSP International Industria Calze S.p.A. as of December 31, 1998.

Sede Legale: Via della Moscova 3 20121 Milano
Reg Soc 297992 7540 42 CCIAA 960046
Cod Fisc 02466670581 Part Iva 09869140153
Capitale Sociale Lire 3.000.000.000 int. versato

Milano Roma Torino Treviso Genova Bologna
Napoli Verona Firenze Parma Brescia Padova Bari

ARTHUR
ANDERSEN

4. For a better understanding of the financial statements, we call the attention on the fact that, as allowed by the existing law to avail of the benefits granted by the tax rules, in the current and in prior years the Company provided for accelerated depreciation exclusively in application of tax regulations. This accounting treatment determined an understatement of the net equity and of the net income as of December 31, 1998, respectively, of Lire 5,596 million and Lire 2,030 million, net of tax effect.

ARTHUR ANDERSEN S.p.A.

Giancarlo De Marchi

Giancarlo M. De Marchi - Partner

Verona, Italy,
March 26, 1999