

MEDIOLANUM S.P.A.

1998
ANNUAL REPORT
AND CONSOLIDATED
ACCOUNT



MEDIOLANUM
GRUPPO MEDIOLANUM

Mediolanum's mission
is to enhance
the financial resources
of Italian families and satisfy
their insurance, pension, savings and
investment needs.

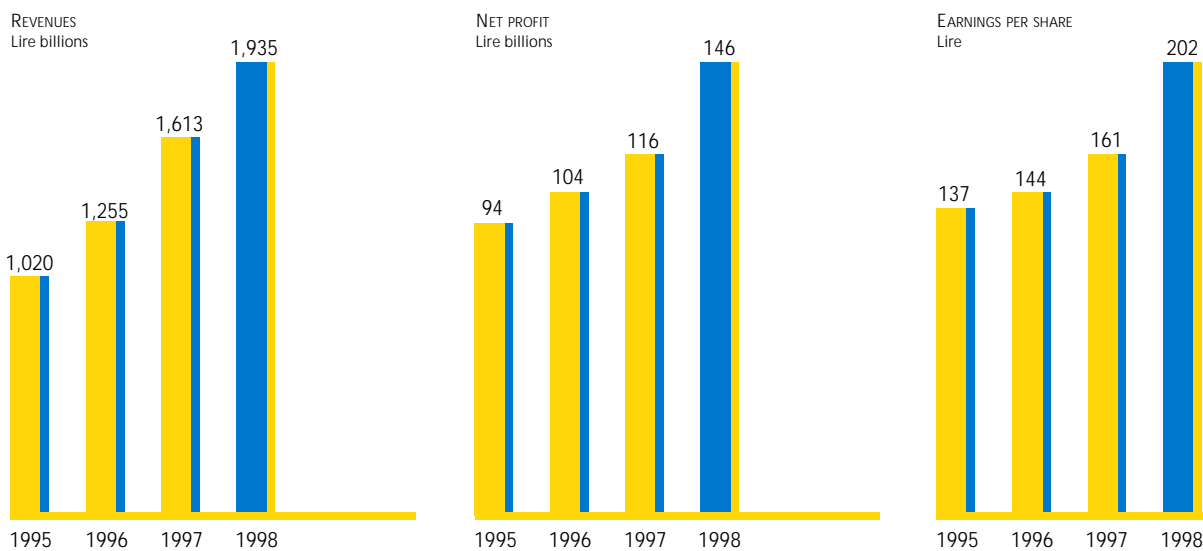
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Results at a glance

Lire billions	1998	1997	Change
Revenues	1,935	1,613	+20%
Profit before taxation and extraordinary items	231	270	-14%
Taxation	92	134	-31%
Net profit	146	116	+26%
Dividends	80	65	+23%
Lire			
Earnings per share	202	161*	+25%
Dividends per share	110	90*	+22%

* Values adjusted after the stock split of the ordinary shares at par value from 1,000 Lire to 200 Lire.



Mediolanum S.p.A. Officers of the Company

BOARD OF DIRECTORS

Stefano Preda	Chairman of the Board of Directors
Alfredo Messina	Deputy Chairman
Edoardo Lombardi	Executive Vice President
Ennio Doris	Chief Executive Officer
Marina Elvira Berlusconi	Director
Pier Silvio Berlusconi	Director
Massimo Antonio Doris	Director
Paolo Sciumé	Director
Claudio Sposito	Director
Antonio Zunino	Director

BOARD OF STATUTORY AUDITORS

Arnaldo Mauri	Chairman of the Board of Statutory Auditors
Achille Frattini	Statutory Auditor
Francesco Antonio Giampaolo	Statutory Auditor
Ferdinando Gatti	Substitute Statutory Auditor
Francesco Vittadini	Substitute Statutory Auditor

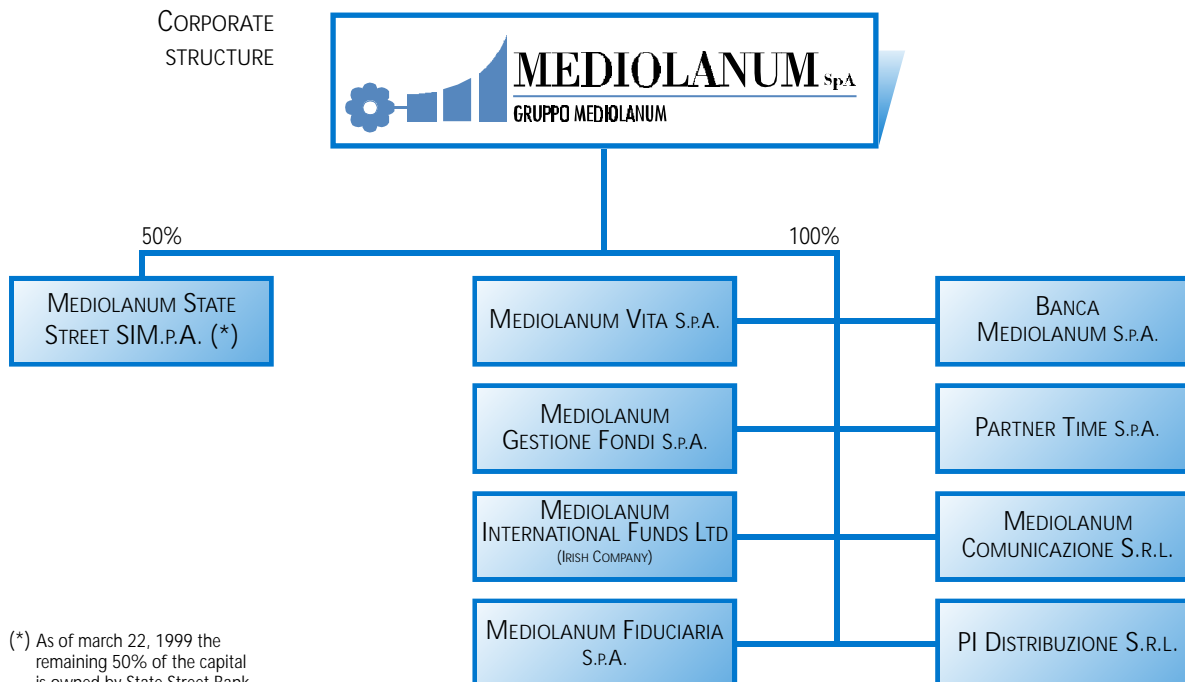
SECRETARY OF THE BOARD

Sebastiano Unali

INDEPENDENT AUDITORS

Arthur Andersen S.p.A.

CORPORATE STRUCTURE



(*) As of march 22, 1999 the remaining 50% of the capital is owned by State Street Bank Europe Ltd

Management profiles



ALFREDO MESSINA
Deputy Chairman

He was with Olivetti, as controller of the production group, and with Alitalia as Central Director responsible for administration, finance and control. As from 1989 he was with IRI as Central Director in charge of planning and control. He has been with Fininvest since 1990, first as Managing Director and, then, from February to July 1996, as Chief Executive Officer of the same holding company. He is a member of the Board of Mediaset.

ENNIO DORIS
Chief Executive Officer

He was a financial consultant with Fideuram and then with the RAS Group. Together with Silvio Berlusconi, he founded Programma Italia, the financial brokerage network, now transformed into Banca Mediolanum. He and the Fininvest Group control 50-50 Mediolanum S.p.A. which was born out of the merger of Fininvest Italia, Fintre and Programma Italia. He is Chairman and Chief Executive Officer of Banca Mediolanum and Mediolanum Gestione Fondi.

EDOARDO LOMBARDI
Executive Vice President

He was Corporate Managing Director of Procter & Gamble and Managing Director of the Sangemini Group. In 1987 he became Managing Director of Fininvest Italia, Insurance and Financial products Division, then, in 1989 he became Chief Executive Officer of Mediolanum Vita, Mediolanum Assicurazioni and Ambrosiana Vita. He is currently in charge of the co-ordination and supervision of Mediolanum and is Chief Executive Officer of Mediolanum Vita.

STEFANO PEDA
Chairman

He is Professor of Economics and Corporate Organisation at the Politecnico in Milan and carries out some professional activities in parallel with his academic commitments. He is Chairman of Borsa Italiana S.p.A., Vice Chairman of the Federation of the European stock Exchanges (FESE), and member of the Board of San Paolo IMI S.p.A.

Mediolanum: communication for value creation

It has been widely demonstrated that the most successful companies are those which fully understand the importance of developing a long-standing relationship with their clients based on mutual loyalty, even if only for the fact that these are the most lucrative clients: they buy more, cost less and whenever they feel dissatisfied, instead of just vanishing, they make themselves heard, thus leading the Company to continually improve its performance.

Mediolanum has turned this relationship into the focus of its primary marketing strategy, not only vis-à-vis clients - that is, the users of the services it provides - but also, more in general, towards “stakeholders”, that is, the whole range of subjects that enable it to thrive: clients for sure, but also employees and collaborators and, not least, investors, both directly and through financial analysts and brokers.

Communication is one of the tools extensively utilised by Mediolanum over time to implement its loyalization strategy. Mediolanum has explored all the secrets and become a master of communication, turning it into the most formidable ally in developing corporate value in the long term.

This should be no surprise: any betrayal, regardless of the context, has its roots in a failure to communicate - the only way to prevent betrayal is to restore the communication processes and keep them enduringly efficient.

We can think of the Mediolanum Group 's communication as a mechanism made up of a large cog containing another three: the movement of one triggers the movement of the others, thus setting the whole system in motion. The three

wheels - the three pivots of this basic yet sophisticated mechanism - are communication with collaborators, communication with clients, communication with investors.



At the end of the 80s, in the era of mega-investments in advertising geared to potential consumers, Mediolanum decided to implement a strategy with a wider scope. For some years, it has already been demonstrated by various studies carried out on the quality of services that the first client to be served, and whose satisfaction must be cherished, is internal - in a network company such as Mediolanum, this is even more the case.

Thus, in the wake of the experience of major U.S. companies such as Federal Express, American Express or IBM, the Group was the first to import into Europe the concept of corporate TV: this was 1989.

Corporate TV is a TV programme for updating, training and motivation, which addresses all the collaborators of the Mediolanum Group. It was produced within the Company and broadcast on an encrypt basis on a digital satellite TV channel. Collaborators, equipped with a decoder, could thus watch the programme on an exclusive basis. With the passing of time this programme has proved to be an invaluable aid to cohesion and development, particularly as far as the sales network is concerned. For the Company, the benefits of communicating through its own TV channel are enormous.

A powerful yet familiar tool. It is rare that something very powerful looks friendly. This goes for men as well as machines. Yet, television is an exception: under the harmless and familiar appearance of a household appliance it hides an extraordinary communication force, going hand in hand with a unique potential of diffusion.

The indeformable character of communication. Any communication from the Company's top management is conveyed directly to the most distant collaborator, thus avoiding the inevitable distortions typical of communication along hierarchical lines.

Simplicity. The viewer of corporate TV learns without having to study manuals, start up difficult programmes, struggle with pernicious printers or unreliable modems. All that is needed is to just repeat the same action done every evening on returning home: switch on the TV set.

Corporate identity. Hearing directly from the Company's top management the opinions on events of interest for the life of the Company means feeling the Company is at your side, as well as avoiding mistakes in interpretation. Receiving merit and acknowledgement through TV is as gratifying as receiving a material prize.

Timeliness. Being able to contact anybody in a matter of just a few hours in case of extraordinary events that may lead to upheavals in financial markets means, for our promoters, being able to provide real-time support to customers, while competitors are still wondering what has happened.

Training. Training through the television has turned out to be a very effective and pleasant method. Training can be provided progressively, instalment after instalment, with practical examples and real cases. A series of instalments may constitute a real theme course: this is the example of Inforete, a structured series of lessons, which enabled the computerisation of the whole sales network.

The introduction of new products or strategies. Whether it is the launch of a new product or the highlighting of an existing one already presented in a sales force meeting, what for other companies entails considerable costs and work, at Mediolanum is managed as a simple routine activity.

Cost. The area of TV communication, like any other sector with a high technological and creativeness content, is exposed to very high mark-ups on the marketplace. The difference between purchasing communication outside or producing it in-house can lead to substantial savings or, at the same costs, a decidedly higher number of programmes.

What used to be a weekly one-hour programme ten years ago, broadcast in almost 500 instalments, has become in 1999 a complete TV schedule, with different programmes for different goals and viewers. If we consider programmes, which are already broadcast and others currently being devised, seven corporate TV programmes will be produced by Mediolanum in 1999, from "Mediolanum Business News" – a weekly programme on corporate, commercial and legislative news - to "Leonardo", dedicated to training and further studies; from "Coach", specially intended for managers, to "Meeting", the first real experiment in virtual conferences, with the speaker in the studios being broadcast life-size onto a large screen in the rooms where the receiving system has been installed; and more "Motivation", texts, images, sounds and music to look inside yourself and find moments of emotions and motivation, up until "Life", a programme dedicated to the increasing number of new-comers who become part of the Mediolanum Group.

Since the very first instalment in the fall of '89, the corporate TV programme was produced in the style of first class television without falling into the temptation of making it into a minor product. Viewers' interest was not to be distracted by poor quality, and it had to be up to the level of full network television. Nevertheless, experience had taught us that, though with a similar format, it had to be different in rhythms and times. We soon realised that it would be too difficult to explain to those involved in "normal" TV how strategic this service was for the Company, how different it had to be compared with a programme aimed at a mass audience; this is why we decided, after a few instalments, that production had to be internal. Over the years Mediolanum has made selective investments in television and IT technologies, which finally resulted in the setting up of a TV studio in the Company's own headquarters in 1998 – an unprecedented case in Italy and probably in Europe.

Today, Mediolanum is backed by a very rich video library of thousands of tapes, two ultimate generation digital editing rooms, a computer graphics terminal, an analogue editing room, a room for the duplication and viewing of tapes. Furthermore, the studio is served by an advanced cold-light system and is equipped with rooms for sound and video direction and vision mixing.

Nevertheless, experience acquired in years of communication convinced us that a single tool – even though it may be exceptional and better than others – cannot be sufficient, and that success must be found by cleverly combining many different tools.

This is why Mediolanum, though equipped with the most advanced technologies, has never ceased to organise collaborator meetings – or, as they are called, conventions.

Relying on other tools, more suited to the purpose, Mediolanum Group's conventions must not surrender to the mania of having viewers stomach loads of figures, or of being the main information provider; instead, they become a precious opportunity for motivational meetings – something you would not miss, like an important family event. Thanks to the energy of thousands of people gathered together, to special effects and masterly set designing, Mediolanum's conventions are the most fitting context in which to tackle important and delicate subjects – from the launch of an innovative product



to a revolutionary strategy geared to challenging market changes – all this in a way that speaks directly to emotions and which, through a metaphoric and symbolic language, makes it possible to comprehend complex concepts and turn them into effective actions and behaviour.

These same concepts are then reconsidered and investigated in further depth, getting into technicalities, not only in the instalments of corporate TV programmes, but also, as we have seen, through the Intranet site of Mediolanum, dedicated to all collaborators. As a matter of fact consultants, through their lap top computers, can leisurely navigate the corporate Intranet and retrieve all the information necessary to their work, including technical details about new products. Therefore no more manuals or circular letters, but organised and all-inclusive electronic information.

For communication to be a valid loyalization tool, two approaches are nevertheless necessary: not only top down, but also bottom up.

In this perspective it is important to provide the most suitable tools enabling technical - as well as motivational - communication to climb the hierarchical ladder, with no filters or influence whatsoever.

E-mail is ideal as a tool spurring communication in all directions: “notice boards” and “symposia” specially intended for technical subjects are open to anybody, and represent an important source of stimuli and information on the quality of products and the relevant degree of knowledge by the personnel.

Nevertheless, it is unlikely that subjects of a motivational character, such as the assessment by collaborators of top management actions aimed at improving the quality of the relationship with the Company, can be dealt with in that “open” way – whereby they would lose sincerity and candour – which is typical to e-mail communication.

So, a periodical survey is made on the corporate climate in order to assess its quality and single out problematical areas, which call for specific action.

This survey, based on anonymous questionnaires, is administered every eighteen months and leads to effective monitoring of organisational health.

Also in this perspective, Mediolanum has been a pioneer in the field of financial services introducing, at the end of the 80s, the first mass advertising campaigns on TV for products intended to raise the so-called "direct response" - that is, spontaneous contact by interested viewers through a toll-free number. It should be noted that, at that time, the communication from competitors was purely informational.

Today, communication for marketing the Company continues with press and television campaigns. A very original innovation was added in 1997: the Mediolanum Tour.

The Mediolanum Tour develops over a series of entertainment nights to which clients and their friends - prospects of particular interest - are invited, offering them a free concert featuring artists of international renown. A short break for sponsoring is included, newly presenting the most interesting services and products of the Group.

A very successful project, Mediolanum Tour managed to organise up to 100 events every year, involving over 200,000 spectators.

In 1999 it even turned itself into an original musical – the first to be written and produced by a bank to the benefit of its clients.

Being able to illustrate on a live basis the latest products available, as well as the features of Banca Mediolanum, and then

let clients enjoy the quality and amusement of a high-calibre show, helped to reinforce the already solid relationship clients have with the Company, and increased their trust in us. Mediolanum Tour is not the usual impersonal gift handed out to everyone. It is, at the same time, information on personal investments, entertainment, a chance for meeting thousands of other people sharing the same liking for the Company, and a satisfaction in participating in an exclusive event denied to many others. For many people, particularly in small towns, it is also the excitement of seeing a star live for the first time, to feel the vibrations of music conjuring up past memories or laugh heartily at the jokes of a comic they have seen on TV the evening before.



It is important that clients recognise, in the readiness and care with which the show is constructed, the same readiness and care given when they receive prompt answers on dialling the toll-free number of the Call Center: ten seconds at the most to get through to a friendly operator or an automatic answering machine. With three hundred thousand calls and ten thousand operations per month, the Call Center of Banca Mediolanum is the Company's pride - the main artery, which, along with that represented by the relations consultants independently entertain with clients, ensures a crucial communication flow between clients and the Company. This is integrated by over two million reports mailed and the exhaustive information provided on the products owned by the Teletext system, accessible through one's TV set, with no need for decoders or other connecting devices.



Finally, there are other innovative communication modes aimed at strengthening loyalisation. For instance, many clients receive on a monthly basis a copy of an important newspaper bearing a page devoted to Mediolanum products, where articles and editorials, carefully laid out by the Company, illustrate with a simple, convincing language the advantages of the services provided.

For the most important clients a Club has been set up (Mediolanum Business Club), which, apart from providing a number of special services, sends out a quarterly type of Consumer Magazine.

What is also important is getting to know the actual viewpoint of customers, and the degree of satisfaction they develop vis-à-vis the Company. In order to do this in an objective way, while respecting clients' privacy, a specialised external agency is called upon to make over eight thousand telephone interviews a year on a rotating sample of 475,000 clients, so as to obtain a clear picture of customer satisfaction. The figures thus gathered are then accurately evaluated to verify the need for possible corrective actions, both regarding products and services, and with reference to the territorial sales structure.

Once again, the magic of the three-wheel mechanism has a role to play: the implementation of the IT system – made available to the network so that consultants can know in real time the data regarding their clients – results in an increasingly professional and timely service. Each financial consultant from Banca Mediolanum is equipped with a lap-top computer containing this information system. Opening it under the client's very eyes, he can retrieve, with the speed of the latest generation computers, all the information necessary to enable the client to make the most appropriate choice.

What the near future holds in store is even more exciting: we are working on an integrated system, which will enable clients to communicate with the Company not just through the phone or TV, but also through SMS messages (mobile phone messages) or the Internet. This will enable them to pick the communication channel they prefer – always or in that particular moment - thus strengthening the strategic base on which Mediolanum has constructed its success: providing the service in the place, at the time and with the mode selected by the client, constantly providing an easily accessible, prompt and fully inclusive service. Furthermore, the Banca Mediolanum financial consultant will be able to interact with the client not only face to face, but also virtually through the Internet in a very natural way, facilitating contacts and thus favouring client loyalization. Thus, it should not be surprising if, in a few years' time, all this will no longer take place via computer, but through our TV sets – a tool that already enables our clients to look through their current account by pressing the Teletext function on the television set. But since TV sets will all become digital, apart from their current account our clients will be able to interact with the bank at any time, thus adding television to the other interactive channels already available, that is, telephone and computer.

COMMUNICATION WITH INVESTORS

For Mediolanum, having loyal and reliable clients and employees is not the only important thing. Being able to bank on investors who are fully capable of understanding the underlying logic of the Company, who agree with its long-term strategy and whose investment time profile corresponds with the cycle of corporate value creation is just as crucial.

In order for them to embrace the loyalization philosophy of Mediolanum and behave as strategic partners, the trump card is, once again, communication, which must be as constant and transparent as possible.

Vis-à-vis investors and financial analysts, Mediolanum enthusiastically pursues a thorough communication programme, calling for continuous contacts supported by a section of the corporate Internet site specially dedicated to them, individual meetings and six-monthly road-shows, in which the Top Management invariably participates.

As a matter of fact, communication with investors for Mediolanum does not simply come down to conveying the necessary information, but is also a valuable opportunity for a mutual exchange of opinions and enrichment of the corporate

vision.

Similarly to communications with collaborators and clients, in the field of financial communication Mediolanum also makes use of technology – within the limits imposed by the sector: all the presentations are IT support-based, with a view to helping investors better understand its extraordinary capacity of innovating and creating value and loyalty. Thanks to these virtues, Mediolanum was awarded in 1998 the Leonardo Prize for

the Financial Communication, specially intended for companies included in the MIB 30 index of the Italian Stock Exchange: a prestigious award, even more so considering that on this occasion Mediolanum featured for the first time among the most important Italian companies listed in the Stock Exchange.



MEDIOLANUM GROUP

*CONSOLIDATED
FINANCIAL STATEMENTS
AT DECEMBER 31, 1998*



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Letter from the Chief Executive Officer

Dear Shareholders,

There is no doubt that also 1998 has been a very successful year for the Mediolanum Group, which reconfirmed its position as one of the major operators in the Italian financial market, able to obtain very good results both in terms of development and in shareholders' gains. Net profit for the period amounts to Lire 146,101 million, representing a 25.5% improvement on 1997 (Lire 116,429 millions). Revenues, in the form of insurance premiums and management commissions have grown by 20% from Lire 1,611 billion in 1997 to Lire 1,935 billion in 1998.

Total assets under administration at December 31, 1998, amounted to Lire 18,107 billion, with a 29% increase over the previous year. The average return on equity amounted to 23.1% (1997: 20.5%). Net earnings per share amounted to Lire 201.8 (1997: Lire 160.8).

The Mediolanum Group consists of a number of companies operating at various levels: insurance and banking activities, asset management and savings collection through the sales networks which, while maintaining their own legal status and independence of management, are synergistically coordinated by a single strategy which, through careful planning, gear them to the ultimate target of ensuring the best possible results and creating value for shareholders.

For this reason, though from 1998 the consolidated financial statements are being drawn up according to the accounting method for insurance companies - which excludes the consolidation on a line-by-line basis of the companies carrying out banking and asset management activities - we deemed it appropriate to provide a clear, overall profile of the Group activities, primarily with the intent of highlighting, clearly and coherently, the general financial and asset data of the Group.

Yours sincerely,

Ennio Doris

Directors' report on the consolidated financial statements at December 31, 1998

Drawn up as per
Law Decree no. 173/97

CONSOLIDATED
VALUES ACCORDING
TO THE
ACCOUNTING
METHOD FOR
INSURANCE
COMPANIES

PERFORMANCE
OF THE SECTORS IN
WHICH THE GROUP
OPERATES

MUTUAL FUNDS

The companies falling within the consolidation area are the following: Mediolanum S.p.A. and the subsidiary companies Mediolanum Vita S.p.A. and Partner Time S.p.A., consolidated on a line-by line basis. The remaining companies: Banca Mediolanum S.p.A., Mediolanum Gestione Fondi S.p.A., Mediolanum Borsa S.I.M.p.A., Mediolanum International Funds Ltd, PI Distribuzione S.r.l., Mediolanum Comunicazione S.r.l., Mediolanum Fiduciaria S.p.A. are consolidated with the equity method.

The net profit for the period amounted to Lire 146.1 billion (1997: Lire 116.4). Gross premiums amounted to Lire 1,707 billion (1997: Lire 1,475), the costs associated with annuities, claims and surrenders (net of reinsurance) amounted to Lire 630.8 billion (1997: Lire 213.4). Investment income totalled Lire 677.4 billion (1997: Lire 570.1). Operating costs amounted to Lire 144.4 billion (1997: Lire 157.1).

The Mediolanum Group is ready to face up to the difficult challenge of an open and global market where relentless and skilled competitors operate. The attainment of competitiveness is a driving force spurring the Group towards innovation, highlighting its ability to promote synergy, integrate processes, make structures flexible, introduce changes to the products, all features that have turned it for many years into a key player in the Italian market. With the development of Banca Mediolanum, the Group is now going through a gradual evolution which will lead it, in the medium term, to maximise its presence with products with a high management content, thus balancing out the financial component of the business.

In this connection, actions for the development of new products have been oriented towards broadening the product range, making it increasingly more comprehensive, innovative and competitive in terms of price.

After the success of the Defender funds distributed in Italy by Banca Mediolanum S.p.A. and managed by Mediolanum International Funds Ltd, a new product was launched during 1998: Mediolanum Longterm Funds, a multi-compartment, open-end umbrella fund (Irish fund). These funds have been specifically designed to meet the requirements of a broader European market, which the company intends to address.

The compartments planned group together three investment lines: equity, bond and monetary, giving a total of twelve different options. Safety, diversification and flexibility are the features of a product that can adjust to any incli-

nation towards risk by clients.

In the near future, the already numerous family of Irish funds will host new products: Top Managers funds, whose management shall be in the hands of the best world-wide professionals of investment management.

Results have been immediate: overall gross inflows amounted to 4,334 billion (+46.2%), whereas net inflows totalled 919 billion, compared to the previous year's negative result of 1.6 billion. The overall funds under administration as at December 31, 1998 reached 9,662 billion (+15%), of which 2,406 billion managed by Mediolanum International Funds Ltd.

Profits of companies in which investments are held operating in the management field, valued on an equity basis

Lire millions	31.12.98	31.12.97
Mediolanum Gestione Fondi S.p.A.	46,940	42,567
Mediolanum International Funds Ltd	14,179	0

Similarly to the mutual funds sector, the insurance sector has also come up with important new aspects. The launch of a new product called Oromoney – a mixed, single premium Life policy – was very warmly welcomed by clients. Yet, the real innovating potential of the Mediolanum Group in the insurance field manifested itself with the creation of the Europension product – a unit-linked Life policy, bound to the unit value of internal funds specifically set up, aimed at building capital for the purposes of a supplementary income through diversified investments on a global scale. How the investments are apportioned is chosen by clients on the basis of their inclination towards risk, and according to combinations which are in line with the time period preceding the age of retirement. This product leaves behind the notion of minimum guaranteed profitability – which has become obsolete, considering the trend of interest rates at a European level, in favour of a more appealing structure, while creating the bases for safeguarding profitability without suffering from the fleeting character of financial markets. As usual, innovation does not neglect existing clients: at the end of the year a process of transformation of the business in force was put into motion, offering to the holders of traditional policies the possibility to take up the Europension product at no additional cost, thus contributing to consolidate the positive image of a group capable of creating value for clients as well.

The total of premiums written in the period was 1,707 billion, with an increase of 16%.

THE INSURANCE SECTOR

THE BANKING SECTOR

The offer of ever more innovative products, the segmentation, the loyalisation of clients are all feasible processes, as long as they are supported by the drive of the distribution network under Banca Mediolanum. The evolution in the relationship with the client – who sees on the one hand a capillary sales network and, on the other, the active role played by the Call Center – highlights the significant interactions existing at the Group level: with a single telephone call the client can decide, be informed, interact with the whole of the Mediolanum world, in a system of global integration between products and services, be they insurance, banking or management ones.

The performance of Banca Mediolanum during the year was more than satisfactory: at December 31, 1998 there were about 110,000 current accounts, corresponding to approximately 102,000 new accounts opened during the period. Cash deposits at the same date totalled Lire 730 billion (+582 %). The equivalent value of securities in safe custody amounted to Lire 615 billion, personalised managed assets were Lire 104 billion, for a total of Lire 719 billion assets under administration, and overall assets of Lire 1,449 billion.

Profits of companies in which investments are held operating in the banking and securities sector, valued on an equity basis

Lire millions	31.12.98	31.12.97
Banca Mediolanum S.p.A.	608	8,949
Mediolanum Borsa S.I.M.p.A.	221	279

Profits of other companies valued on an equity basis

Lire millions	31.12.98	31.12.97
Mediolanum Comunicazione S.r.l.	65	286
Mediolanum Fiduciaria S.p.A.	26	27
PI Distribuzione S.r.l.	594	0

THE REFERENCE CONTEXT

Never like in 1998 has the principle of world economy globalisation become a topic for discussion and reflection for operators in financial markets. The persistence of the economic slump in the Far East, the sluggish U.S. economy, the instability of Latin America have influenced – and will influence in the future, too – the European market. In the light of these events, it seems unlikely that the push of internal demand alone will sustain growth. The decreasing inclination towards consumption of the countries suffering from recession will inevitably trigger a fall in foreign demand towards the European Union, thus

shrinking exports. The forthcoming scenario – whose first signs were already felt during 1998 – is that of a slowing down of Euro economies, deteriorated by the structural rigidity of the labour market. The efforts made by the European governments with a view to reducing public deficits have negatively influenced inclination towards consumption, and the countries who proved more virtuous thereabout were inevitably those which suffered most in term of internal demand growth.

If we examine the gross sales of Lire 630,081 billion from the mutual funds industry (+120% over 1997) and split it into the various distribution systems, we can see that the banking system accounted for 57.8% (364,634 billion), the non-banking sales networks system for 8.8% and the mixed banks plus network system for 32.4%. The banking system recorded an increase of 139.2% compared to 1997. Meanwhile, the increases recorded by the non-banking sales networks system and the mixed banks plus network system were 34.5% and 127% respectively. Out of total net inflows of Lire 312,774 billion, Lire 199,893 billion came from the banking system, Lire 103,092 billion from the mixed system and Lire 8,188 billion from the networks system. The above figures do not include direct sales, regardless of the distribution system: these amounted to Lire 6,111 billion of gross inflows and Lire 1,601 billion of net inflows.

At December 31, 1998, the total assets of Italian mutual funds amounted to Lire 720,823 billion (+96,2%).

Total premiums written by Life insurance companies in the first three-quarters of 1998 amounted to Lire 33,479 billion, representing a 49.8% increase over the same period in 1997 (when there was 44.1% increase over 1996). An analysis by distribution channel shows that the proportion of premiums taken by traditional agents has fallen to 28.1% (1997: 36.3), while bank branches have gained and account for 46.6% (1997: 33.5%). The contribution of financial consultants has fallen to 11.7% (1997: 13.1%); that from brokers and head offices is slightly down 1.4% (1997: 2.55).

Provisional figures for the same period, in respect to new business, show an increase of 116% from Lire 10,133 billion in 1996 to Lire 21,890 billion in 1998.

If we look at figures for the individual policies sector only, we can see that premiums from new business have increased by 78.5% from Lire 9,761 billion to

THE MARKETS IN WHICH THE GROUP OPERATES

THE MUTUAL FUNDS MARKET

THE LIFE INSURANCE MARKET

Lire 17,430 billion. They can be analysed as follows: annual premiums +5.2% (down from 19% to 11.2% of the total), recurring premiums -12.7% (down from 12.6% to 6.16% of the total) and single premiums +115% (up from 68.4% to 82.6% of the total).

As a result, single premiums are becoming increasingly important in terms of new business. This is partly due to the growth of policies linked to mutual funds or share indexes.

THE BANKING MARKET

Short-term lending by the banking system increased by 9.1% in 1998 (7.7% in 1997) and by 26.6% for long-term loans (18.2% in 1997). Bank deposits and savings improved, with an overall increase of 5.6% per annum, thanks to current accounts and bonds, along with a less marked fall in certificates of deposit. A significant item is the heavy drop in the securities portfolio -7.2% against -1.3% in 1997. This drop was due to government securities not being renewed, following on a lowering of the Italian government securities rates, which aligned to EU parameters. This phenomenon will tend to last, and will characterise only the Italian market. The constitution of large amounts of liquid assets is expected, which are awaiting a more profitable destination than government securities, whose profitability is now comparable to that of similar securities issued by EU governments. This is an opportunity for all financial intermediaries, which will certainly result in powerful competition, both in terms of quality of the services and products offered and price.

THE MAIN EVENTS OF 1998

The most significant events involving the Mediolanum Group in 1998 were as follows:

- The merger incorporating Aram S.p.A. and Partner Life S.p.A into Mediolanum Vita S.p.A. This operation occurred last December, as part of a rationalisation process carried out within the Group involving those companies with similar activities, which enabled the setting up of a sole reference point for insurance activities throughout Italy. Mediolanum Vita S.p.A. has now become the reference point for the networks of Banca Mediolanum S.p.A. and Partner Time S.p.A.
- During December, contributions of capital of Lire 10 billion were ascribed to Banca Mediolanum with a view to strengthening its assets during the development phase. A capital increase is awaiting authorisation.
- PI Distribuzione S.r.l. was set up as a brokerage company of holiday home real estate.

- The merger incorporating Programma Italia Distribuzione S.p.A. into Banca Mediolanum S.p.A. has been completed, according to the technical plan approved by the supervisory body.
- The joint venture with State Street Global Advisors has been completed, which entails the transfer of a 50% interest of Mediolanum Borsa S.I.M.p.A. in the first months of 1999. The company shall furthermore change its name into Mediolanum State Street S.I.M.p.A. The company shall manage Italian closed-end pension funds, as well as assets of Institutions and Foundations.
- A share scheme for the staff and collaborators of the Group was devised.

During 1998, the Mediolanum Group made investments in relation to the dimensioning of information systems both considering the advent of the Euro and the year 2000. The amount invested can be analysed as follows:

THE INVESTMENTS OF THE GROUP AND THE YEAR 2000

Lire millions	Companies consolidated on a line-by-line basis	Companies consolidated on an equity basis
Software	8,895	7,514
Computer equipment	1,253	2,530
Plant and machinery	86	406
TOTAL	10,234	10,450

Meanwhile, the costs associated with the extraordinary maintenance of information systems in relation to the advent of the Euro and the year 2000 was charged to income during the year. In some cases, the programmes were fully replaced with others compatible with the year 2000.

With regards to this, it must be pointed out that the Mediolanum Group began actions aimed at solving the “year 2000 problem” two years in advance. At the beginning of 1998, a study was carried out in order to determine the scope of the projects geared to the solution of the problems associated with the year 2000. This study demonstrated that over 80% of corporate IT applications and the full hardware equipment in place needed to be adjusted. A special team was set up specifically for the implementation of this project, including, apart from technical staff, people coming from all corporate functions. Contracts were concluded with IBM, which supplies technical consultancy, methodological support and the development resources for updating the software owned by the Mediolanum Group. The reference outsourcer for the banking area, Cedacri Ovest, guarantees the introduction of changes to its applications concerned.

So far, approximately 80% of the necessary changes have already been introduced. Since January 1, 1999, the administration software for all the compa-

nies of the Group has been replaced with a product compatible with the year 2000. The project of adjustment to the year 2000 – including the tests – is expected to be achieved by the end of August 1999. At the same time, all the Group suppliers were asked to provide the certification for their products. The overall budget of the project amounts to Lire 5 billion (VAT included), for both hardware and software, of which approximately Lire 3.5 billion were already spent during 1998 (this figure does not cover the costs for the new information systems purchased to replace systems, which could not possibly be adjusted).

HUMAN RESOURCES

During the second half-year of 1998, a new hiring plan has been achieved in order to strengthen the structure of the Call Center of Banca Mediolanum. As usual, particular emphasis was put on the training of new-comers. The dissemination of corporate culture, of a sense of belonging, innovative products and competition were the main subjects tackled during the training course. The Group is fully aware that the improvement in the quality of service provided to clients, cost reduction and overall performance are closely bound to the furtherance of the major corporate asset – that is, human resources. Nevertheless, the creation of new jobs must go hand in hand with the creation of added value; this is why the Group puts special emphasis on the development of flexible, effective and productive staff, capable of providing the driving force to be competitive and willing to reach ambitious targets for themselves and the company.

THE RESULTS COMMENTARY

The Mediolanum Group, following the enforcement of Legislative Decree no.173/97, and in particular pursuant to article 58, point 2, has the obligation of drawing up the consolidated financial statements according to the accounting method for insurance companies. Since it was not possible to consolidate the companies belonging to the Mediolanum Group on a line-by-line basis due to the presence of Banca Mediolanum and assets management companies, for the first time the consolidated financial statements contain insurance information, which calls for consolidating the above companies on an equity basis. Since we felt it was fundamental to provide the reader an overall profile of the Group, we have also provided an appendix containing a consolidation picture on a line-by-line basis: this gives a comparison of the most significant Income Statement and Balance Sheet items, reclassified using management criteria. The goal is to enable easy reading and comprehension of the interactions and synergies highlighted various times; this document is not intended to provide

information about the changes on the accounting balances between the years 1998 and 1997.

Volumes, split by main business lines, developed as follows:

The sales

Lire billions	31.12.98	31.12.97	Change
Life insurance products			
New business			
- Deferred annuities and recurring premiums	128	156	(18%)
- Single premiums and group policies	833	629	32%
TOTAL NEW BUSINESS	961	785	22%
Business in force			
- Deferred annuities	641	584	10%
- Recurring single premiums	105	105	-
TOTAL BUSINESS IN FORCE	746	689	8%
TOTAL PREMIUMS WRITTEN	1,707	1,474	16%
(less) Premiums ceded	(92)	(99)	-
TOTAL LIFE PREMIUMS	1,615	1,375	16%
Financial products			
Mutual investment funds			
- Gross consolidated inflows	4,334	2,964	46%
- Net consolidated inflows	919	(1.6)	-

Assets under administration

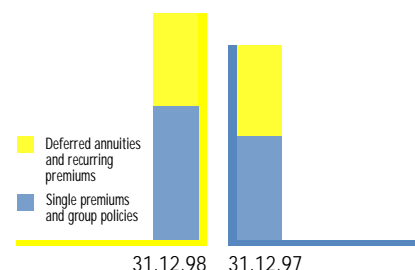
Lire billions	31.12.98	31.12.97	Change
Life reserves	6,996	5,472	22%
Mutual funds	9,662	8,395	15%
Bank assets	1,449	161	800%
CONSOLIDATED TOTAL	18,107	14,028	29%

Considering the importance which embedded value has for a better interpretation of the development of the Mediolanum Group, we provide the following information regarding embedded value, which was calculated with the assistance and advice of Tillinghast-Towers Perrin, the insurance consultancy division of Towers, Perrin, Forster & Crosby, Inc.

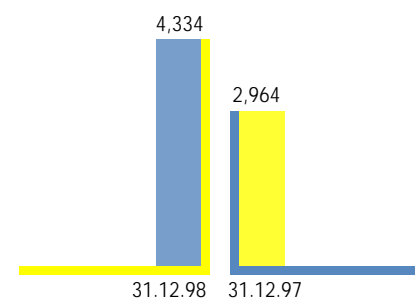
Embedded value is defined as the sum of shareholders' equity, considering the assets at market value, and the value of business in force. The value of the in-force Life business is the present value of future after-tax statutory profits that are expected to be generated from all the existing policies at the valua-

THE VOLUMES

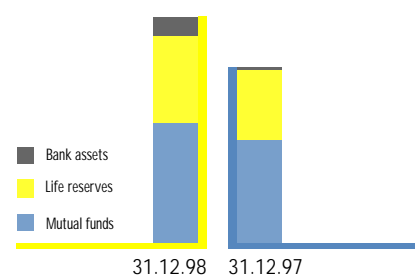
LIFE POLICIES
Total Life premiums (Lire billions)



MUTUAL FUNDS
Gross consolidated inflows (Lire billions)

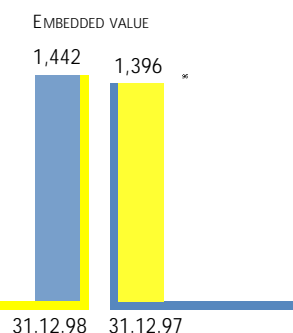


ASSETS UNDER ADMINISTRATION
(Lire billions)



THE EMBEDDED VALUE

tion date, adjusted for the cost of holding an appropriate level of solvency capital. The value of the in-force mutual fund business is calculated in a similar way to the value of in-force Life business, without the adjustment for the cost of capital because mutual funds do not require solvency margins. The results of such a valuation are shown in the following table:



Embedded value

Lire billions	31.12.98	31.12.97	Change
Embedded value	1,442	1,369	+ 5.3%

Embedded value has grown by 5.3%.

Embedded value earnings, which are defined as the change in embedded value for the year, adjusted for dividends paid or the contribution of new capital, provide a measure of performance during the 1998 year.

Embedded value earnings for the year

Lire billions	31.12.98	31.12.97
Change in embedded value in the year	73	216
Dividends paid	65	52
EMBEDDED VALUE EARNINGS FOR THE YEAR	138	268

Sales volumes and the high level of profitability of the new products led to a significant increase in embedded value earnings for the year, despite the negative effect of the lasting fall in interest rates.

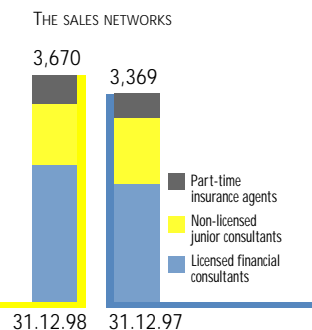
The main bases and assumptions used in calculating embedded value, with greater detail compared to the above, are included in an appendix (page 25).

THE EVOLUTION OF THE SALES FORCE AND COMPANY EMPLOYEES

The sales networks

	31.12.98	31.12.97
Licensed financial consultants (Banca Mediolanum)	2,200	1,885
Non-licensed junior consultants (Banca Mediolanum)	992	1,069
Part-time insurance agents (Partner Time)	478	415
TOTAL	3,670	3,369

The licensed financial consultants of Banca Mediolanum include from this year 149 banking consultants, who shall work in parallel with the sales network, thus bringing new energy and drawing from the experience – unprecedented in Italy – of global consultants already active in the network.



Employees

The number of employees of the Mediolanum Group has evolved as follows:

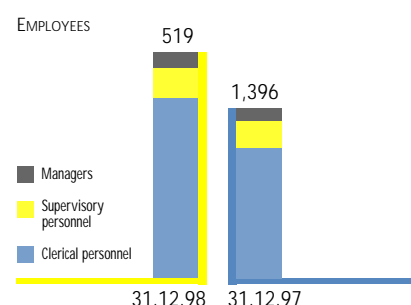
	31.12.98	31.12.97
Clerical personnel	416	298
Supervisory personnel	68	59
Managers	35	32
TOTAL	519	389

The increase in the number of employees largely concerns the hiring of young people for the Call Center of Banca Mediolanum.

Over the year, the parent company, Mediolanum S.p.A., purchased 2,639,500 own shares (at a nominal value of Lire 200), for a total price of Lire 21,425 million, following the decision by the Board. The balance at December 31, 1998 was 1,682,500 shares (at a nominal value of Lire 200, and totalling 0.23% of the capital). During the year Lire 9,537 million worth of shares were sold, with net capital gains of Lire 1,526 million.

The following significant events took place subsequent to the closure of the balance sheet:

- On February 24th it was decided to increase the Share Capital of Banca Mediolanum S.p.A. from Lire 25 billion to Lire 35 billion by means of contributions of capital for Lire 10 billion in December 1998.
- During March, a bank-assurance agreement was reached between the Group and Banca Popolare Vicentina. This agreement will result in the setting up of two companies: an insurance company devoted to Life policies and an assets management company aimed at the investment of the insurance company's assets. The overall investment will be approximately Lire 30 billion. 60% of the two companies will belong to Banca Popolare Vicentina and 40% to the Mediolanum Group, which shall play the role of a technical partner. The two companies are expected to become operational from next autumn.
- On March 22, 1998, the transfer of 50% of the company Mediolanum Borsa S.I.M.p.A was completed. The new company, equally owned by Mediolanum S.p.A. and State Street Bank Europe Ltd, has taken the name of Mediolanum State Street S.I.M.p.A.



OWN SHARES

SIGNIFICANT POST BALANCE SHEET EVENTS

- The first two months of the current year featured a definitely positive trend, in particular for Life premiums sold and the growth of the overall assets under administration.

The performance of Mediolanum Group companies in the initial months of 1999 leads us to believe that the result for the year will again be favourable.

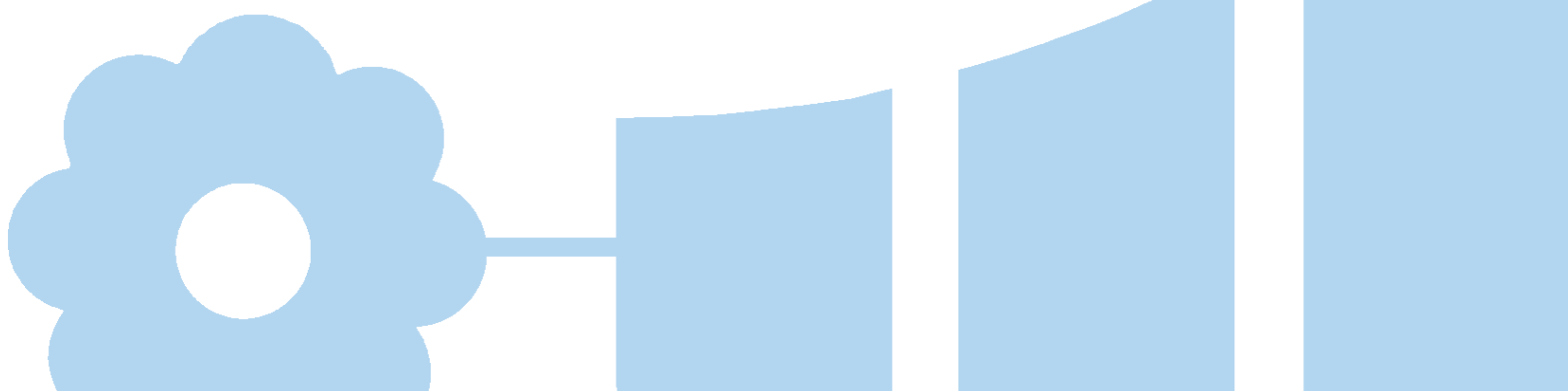
For the Board of Directors

The Chairman

Stefano Preda

MEDIOLANUM GROUP

***ATTACHMENTS
TO THE DIRECTORS'
REPORT***



ATTACHMENT 1
IN LIRE

Consolidated financial statements of the Mediolanum Group including the financial statements of the fund management companies, the bank and other companies excluded from insurance consolidation, compiled in a line-by-line basis

BALANCE SHEET

ASSETS

Lire millions	31.12.98	31.12.97
Intangible assets	328,371	327,432
Investments	2,214	7,321
Financial investments	6,288,497	4,616,240
Own shares held	13,548	132
Investments allocated to Life policyholders, who shoulder the relevant risk, and deriving from pension funds management	1,196,483	849,081
Financial receivables	95,923	652,897
Due from reinsurers current and deposit accounts	82,301	69,703
Trade accounts	20,582	27,926
Due from Fininvest Group and Doris Group companies	4,695	4,082
Due from Shareholders	-	36
Other debtors and assets	159,798	139,513
Liquid assets	1,183,828	188,441
Prepayments and accrued income	83,869	93,333
TOTAL ASSETS	9,460,109	6,976,137

Lire millions	31.12.98	31.12.97
Share capital	144,856	144,800
Other reserves	387,896	336,675
Profit for the year	146,101	116,429
Life insurance reserves net of reinsurance	5,754,773	4,452,485
Life insurance reserves, when the risk is shouldered by policyholders, and reserves resulting from pension funds management	1,196,483	849,081
Provisions for risks and charges	19,942	37,896
Employee termination indemnity	8,895	7,811
Due to reinsurers current and deposit accounts	892,521	803,159
Due to credit institutions	804,537	128,826
Trade accounts and due to Financial consultants	61,900	44,869
Due to Fininvest Group and Doris Group companies	6,853	3,381
Due to Shareholders	10	143
Due to tax authorities	19,470	38,025
Other creditors and liabilities	14,263	11,308
Accruals and deferred income	1,609	1,249
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	9,460,109	6,976,137

SHAREHOLDER'S EQUITY AND LIABILITIES

INCOME STATEMENT

Lire millions	31.12.98	31.12.97
Premiums from insurance activities:		
- Gross premiums written	1,707,202	1,474,557
- Reinsurance ceded	(92,270)	(99,385)
Commission income from financial activities and other income:		
- Underwriting commissions	118,834	63,511
- Management commissions	158,123	155,618
- Other commissions	16,829	17,119
- Banking margins	6,482	0
- Bank interests	18,569	0
- Other revenues	1,301	1,990
TOTAL REVENUES	1,935,070	1,613,410
Changes in Life insurance reserves and service to policyholders	(1,465,167)	(1,148,326)
Acquisition costs	(219,983)	(170,807)
Reinsurers commissions	14,222	14,881
Running costs	(200,493)	(153,701)
of which amortisation and depreciation:	(24,309)	(19,244)
Net investment and assets income	172,671	130,980
Adjustments to the value of financial investments	(5,215)	(16,609)
OPERATING RESULT	231,135	269,828
Non-recurring extraordinary income and charges	7,221	(19,487)
PROFIT BEFORE TAXATION	238,356	250,341
Taxation for the year	(92,255)	(133,912)
PROFIT FOR THE YEAR PERTAINING TO THE GROUP	146,101	116,429

Euro thousands	31.12.98	31.12.97
Intangible assets	169,589	169,105
Investments	1,143	3,781
Financial investments	3,247,738	2,384,089
Own shares held	6,997	68
Investments allocated to Life policyholders, who shoulder the relevant risk, and deriving from pension funds management	617,932	438,514
Financial receivables	49,540	337,193
Due from reinsurers current and deposit accounts	42,505	35,999
Trade accounts	10,630	14,423
Due from Fininvest Group and Doris Group companies	2,425	2,108
Due from Shareholders	0	19
Other debtors and assets	82,529	72,052
Liquid assets	611,396	97,322
Prepayments and accrued income	43,315	48,202
TOTAL ASSETS	4,885,739	3,602,874

ATTACHMENT 2

IN EURO

BALANCE SHEET ASSETS

SHAREHOLDER'S
EQUITY AND
LIABILITIES

Euro thousands	31.12.98	31.12.97
Share capital	74,812	74,783
Other reserves	200,332	173,878
Profit for the year	75,455	60,131
Life insurance reserves net of reinsurance	2,972,092	2,299,517
Life insurance reserves, when the risk is shouldered by policyholders, and reserves resulting from pension funds management	617,932	438,514
Provisions for risks and charges	10,299	19,572
Employee termination indemnity	4,594	4,034
Due to reinsurers current and deposit accounts	460,949	414,797
Due to credit institutions	415,509	66,533
Trade accounts and due to Financial consultants	31,969	23,173
Due to Fininvest Group and Doris Group companies	3,539	1,746
Due to Shareholders	5	74
Due to tax authorities	10,055	19,638
Other creditors and liabilities	7,366	5,840
Accruals and deferred income	831	645
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	4,885,739	3,602,874

Euro thousands	31.12.98	31.12.97
Premiums from insurance activities:		
- Gross premiums written	881,696	761,545
- Reinsurance ceded	(47,653)	(51,328)
Commission income from financial activities and other income:		
- Underwriting commissions	61,373	32,801
- Management commissions	81,664	80,370
- Other commissions	8,691	8,841
- Banking margins	3,348	0
- Bank interests	9,590	0
- Other revenues	672	1,028
TOTAL REVENUES	999,380	833,257
Changes in Life insurance reserves and service to policyholders	(756,696)	(593,061)
Acquisition costs	(113,596)	(88,214)
Reinsurers commissions	7,345	7,685
Running costs	(103,546)	(79,380)
of which amortisation and depreciation:	(12,555)	(9,939)
Net investment and assets income	89,177	67,646
Adjustments to the value of financial investments	(2,693)	(8,578)
OPERATING RESULT	119,371	139,355
Non-recurring extraordinary income and charges	3,729	(10,064)
PROFIT BEFORE TAXATION	123,101	129,290
Taxation for the year	(47,646)	(69,160)
PROFIT FOR THE YEAR PERTAINING TO THE GROUP	75,455	60,131

INCOME STATEMENT

Appendix to the Directors' report on the consolidated financial statements

EMBEDDED VALUE

Embedded value and embedded value earnings of the Life insurance and mutual fund management business of the Mediolanum Group

Embedded value is an actuarial estimate of the economic value of a Life insurance company, excluding any value attributable to future new business.

Embedded value is defined as the sum of shareholders' net assets considering the assets at market value and the value of Life and mutual fund business in force. The value of the in-force Life business is the present value of the stream of future after-tax statutory profits that are expected to be generated from all the existing policies at the valuation date, adjusted for the cost of holding an appropriate level of solvency capital. The value of the in-force mutual fund business is calculated in a similar way to the value of in-force Life business, without the adjustment for the cost of capital.

On the basis of advice from Tillinghast-Towers Perrin, the consultancy division of Towers, Perrin, Forster & Crosby Inc., the embedded value of the Group at December 31, 1997 has been calculated. The values attributable to Life insurance and mutual fund businesses are shown separately; for better information purposes comparative figures for 1996 and 1997 are also shown.

In calculating the embedded value of the Group, it is necessary to make numerous assumptions (some of which are shown below) concerning the Life business and mutual funds; with respect to industry performance, business and economic conditions and other factors, many of which are beyond the Mediolanum Group's control. Although the assumptions used represent estimates that the Mediolanum Group believes are reasonable, actual future operating conditions and actual future experience may differ from those assumed in the calculation of the embedded value. Consequently, the inclusion of the embedded value herein should not be regarded as a representation by the Mediolanum Group, or any other person, that the stream of future after-tax statutory profits used to produce the embedded value will be achieved.

The values shown in the following table were calculated using economic assumptions and discount rates which were appropriate at the respective valuation dates. All values were calculated assuming taxation at full rates of future statutory profits and, for Life insurance policy in-force, they are net of the cost of maintaining solvency capital of 100% of the EU minimum margin.

Embedded value at December 31

Lire billions	1996	1997	1998
Shareholders' net assets	564	642	736
Value of in-force Life business	449	523	427
Value of in-force mutual funds business	140	204	279
EMBEDDED VALUE	1,153	1,369	1,442

Shareholders' net assets shown above are equal to consolidated net assets of the Group adjusted to reflect market values of the underlying assets, including unamortised initial commissions, and allow for any implicit Life policyholder interest in such revaluation, net of tax.

To calculate the values shown above, projected future after-tax profits have been discounted at 9.5% for 1996 values, 8% for 1997 values, and 6.5% for 1998 values. These discount rates have changed each year, to reflect changes in the prevailing levels of interest rates. They in themselves form the basis for the assumptions used to project future investment returns on the assets backing the technical reserves of the Life business and on the investments of the various mutual funds.

The discount rate appropriate to any shareholder or investor will depend on his own requirements, tax position and perception of the risks associated in the realisation of future profits. In order that potential investors may judge the effect of using other discount rates, the embedded value for the Group as at December 31, 1998 has been calculated to be Lire 1,519 billion and Lire 1,372 billion, at discount rates of 5.5% and 7.5% respectively. All calculations were done only after allowing for the cost of solvency capital of 100% of the EU minimum required in the Life business. In calculating the values at alternative discount rates, all other assumptions, in particular the inflation rates and return on investments, were kept constant.

The embedded value earnings, which are defined as the change in embedded value for the year, adjusted for the payment of dividends and the contribution of capital, provide a gauge of performance during the year.

EMBEDDED VALUE EARNINGS FOR THE YEAR

The following table shows the embedded value earnings of the Mediolanum Group in the years 1996, 1997 and 1998.

Embedded value earnings for the year

Lire billions	1996	1997	1998
Change in embedded value for the year	118	216	73
Capital contribution	(96)	0	0
Dividends paid	36	52	65
EMBEDDED VALUE EARNINGS FOR THE YEAR	58	268	138

Embedded value earnings for the year consist of the following five components:

- The expected return on embedded value at the start of the year (“expected return”), equal to the after-tax investment return assumed at the start of the year on shareholders’ net assets less solvency capital, plus a return at the discount rate on the sum of the start of the year value of business in-force and solvency capital.
- Variances during the year (“experience variances”), caused by differences between the actual experience of the year and the assumptions used to calculate embedded value at the beginning of the year, before the impact of new sales during the year.
- Changes in assumptions regarding future experiences (“assumption changes”), used to calculate the value of in-force business at the end of the year, principally those relating to economic conditions, including the discount rate and the performance of the business.
- The change in the assumed tax charge for 1997 due to the introduction of Irap, and the change for 1998 in the assumption for the actual tax charge (“tax assumption change”).
- The value added by new sales during the year (“value added by new business”), determined initially at the point of sale, using year end assumptions. This figure is then accumulated, at the discount rate, to the end of the year while taking account of any variances between actual and assumed experience during the period.

The following table shows the components of the embedded value earnings of the Mediolanum Group for the years 1996, 1997 and 1998.

Components of embedded value earnings

Lire billions	1996	1997	1998
Expected return	109	87	90
Experience variance	(17)	(1)	163
Economic assumption changes	(86)	(75)	(265)
Tax assumption changes	0	165	11
EARNINGS ON INITIAL EMBEDDED VALUE	6	176	(1)
New Life business	47	72	69
New mutual funds business	5	20	70
VALUE ADDED BY NEW BUSINESS	52	92	139
EMBEDDED VALUE EARNINGS FOR THE YEAR	58	268	138

In 1998, the expected return was slightly higher than the previous year. This was mainly due to the fact that the embedded value at this date is higher despite the decrease in the discount rate at the start of the year. Experience variances resulted in a significant increase in the embedded value earnings for the year, mainly due to higher than assumed returns and to the increase in hidden earnings resulting from the general reduction in interest rates on bonds over the year.

On the other hand, the continuation of the downward trend regarding rates of return has resulted in further reductions in profit assumptions and in the discount rate (of 1.5%) compared to the assumptions used at the start of the year. These reductions mean that embedded value earnings for the year fall by Lire 265 billion. The negative impact on embedded value earnings is caused by the fact that as rates of return decrease, interest margins – which are normally expressed as a percentage of the rate of return – are compressed. The decrease in the discount rate only partially offsets the reduction in margins.

The embedded value earnings of new Life sales have decreased by 4% compared to 1997. This result is, once more, due to assumption changes partly counterbalanced by the increased sales value of new products distributed at the end of 1998. The embedded value earnings of new funds business are significantly greater than in 1997, mainly due to the increase in sales volumes and to an increase in share-linked products as a proportion of sales, as well as to the reduction of the future tax burden.

The principal bases and assumptions used in the embedded value calculations are set out below:

- Average gross returns for new investments in fixed rate government bonds have been assumed at 7.5% in the 1996 evaluation, at 5.75% in the 1997 eva-

ASSUMPTIONS

valuation and at 4% in the 1998 evaluation. Pre-tax investment rates for the assets backing the technical reserves have been assumed at rates consistent with the underlying levels of interest rates on government bonds, considering how the relevant asset mix is composed, with results of 7.5% per annum, 5.75% and 4.25% for each of the separate asset-management areas. Account was also taken of the effects over time of hidden capital gains in the assets currently managed. Returns on mutual funds managed have been assumed at rates consistent with the underlying levels of interest rates on government bonds, adjusted for the asset mix in each fund.

- Earnings from the portfolio in force, which are estimated to arise from Group companies subject to the Italian taxation system, have been assumed at full tax rate of 53.2% for the 1996 evaluation. Average rates of 43% and 42% have been used for 1997 and 1998, respectively. This takes the introduction of Irap in place of Ilor into account. For 1998, the actual fiscal burden on future profits estimated for the Irish company has been considered, taking account of the treatment of profits (11.85%) returning to Italy.
- Assumed future rates of mortality, lapse, and other discontinuances, including total and partial disinvestment rates for funds business, have been derived from an analysis of the Mediolanum Group's recent operating experience and where appropriate, consideration of relevant industry experience. In the Life business, in light of current knowledge, a margin for potential adverse mortality rates due to Aids has been allowed for.
- Inflation rates, used to project future increases in premiums under policies, which allow for increases in line with the consumer price index, have been assumed to be 3.5% per annum for the 1996 valuation, 2% per annum for the 1997 valuation and 1.5% per annum for the 1998 valuation.
- The general and administrative expenses of the Mediolanum Group attributable to Life and funds operations have been split by line of business and then into expenses relating to the acquisition of new businesses and to the maintenance of business in force. Policy maintenance expenses expressed as monetary amounts in Lire have been assumed to increase at rates of 4.5% per annum for the 1996 valuation, 2.5% per annum for the 1997 valuation and 2% for the 1998 valuation.
- Assumed levels of commission and override payments to agents and salesmen have been based on the Mediolanum Group's recent operating experience. The impact of amortisation on initial commissions effected by the Group has been taken into account.

- Retrocession rates and other commissions on Life policies, and management commissions on mutual funds have been assumed to continue in the future at levels pertaining at the date of each valuation.
- It has been assumed that there will be no change to the methods and bases used to calculate technical reserves and surrender values.
- Performance commission is a source of profit for the mutual funds business and, on the basis of the valuation as at December 31, 1997, an assumption regarding potential future performance commission has been introduced. The assumption changes item, in analysing the components of embedded value earnings for the year, registered an increase in embedded value earnings by Lire 17 billion in 1998, due to having gone beyond the assumption used at the beginning of the year.
- Account has been taken of reinsurance arrangements, relating to in-force Life policies, outside the Mediolanum Group; such reinsurance mainly relates to various reinsurance agreements written in the years up to 1994. No new reinsurance arrangements were effected in 1995 and reinsurance within the Group has been ignored. The effect of the compulsory legal cession, now abolished for new business but still in effect for business written up to May 20, 1993, has been allowed for based on current understandings of the likely run-off pattern of the reserves ceded.
- The cost of solvency capital has been determined on the assumption that the required level of solvency capital is 100% of the minimum EU solvency margin. The other assumption is that assets (mainly bonds) backing solvency capital earn an average pre-tax return of 7.5% per annum in the 1996 valuation, 5.75% per annum in the 1997 valuation and 4.25% per annum in the 1998 valuation. The cost of solvency capital on these assumptions, which has been deducted from the discounted value of future after-tax statutory profits to determine the value of in-force Life business shown above, was Lire 155 billion in 1996, Lire 145 billion in 1997 and Lire 150 billion in 1998.

MEDIOLANUM GROUP

***CONSOLIDATED
FINANCIAL STATEMENTS
AT DECEMBER 31, 1998***



Balance sheet

ASSETS	Lire millions	31.12.98	31.12.97
A) DUE FROM SHAREHOLDERS FOR SHARE CAPITAL			
STILL TO BE PAID IN		0	0
B) INTANGIBLE ASSETS			
1. Unamortised acquisition commissions	381	1,538	
2. Other acquisition costs	0	0	
3. Goodwill	0	0	
4. Other intangible assets	13,791	8,866	
5. Consolidation difference	0	0	
TOTAL INTANGIBLE ASSETS	14,172	10,404	
C) INVESTMENTS			
I - Land and buildings	254,525	263,218	
II - Investments in Group companies and other companies			
1. Shares and quotas in			
a) parent companies	0	0	
b) subsidiary companies	145,007	122,343	
c) affiliated companies	100	103	
d) associated companies	0	0	
e) other companies	2,002	2,002	
2. Bonds	0	0	
3. Financial loans	600	3,000	
TOTAL INVESTMENT IN GROUP COMPANIES AND OTHER COMPANIES	147,709	127,448	
III - Other financial investments			
1. Shares and quotas	1	128,570	
2. Quotas of mutual funds	822,208	879,610	
3. Bonds and other fixed income securities	4,968,078	3,455,531	
4. Financial loans	40,463	30,691	
5. Quotas of common investments	0	0	
6. Deposits with credit institutions	569,195	0	
7. Other financial investments	49,122	614,542	
TOTAL OTHER FINANCIAL INVESTMENTS	6,449,067	5,108,944	
IV - Deposits with transferring companies	1	3	
TOTAL INVESTMENTS	6,851,302	5,499,613	
D) INVESTMENTS ALLOCATED TO LIFE POLICYHOLDERS, WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	1,196,483	849,081	
D bis) REINSURERS' SHARE OF TECHNICAL RESERVES			
I - NON-LIFE			
1. Premiums reserve	0	0	
2. Claims reserve	0	0	
3. Others	0	0	
TOTAL NON-LIFE	0	0	
II - LIFE			
1. Actuarial reserves	1,106,871	1,056,789	
2. Reserves for amounts to be paid	3,783	7,849	
3. Others	0	0	
4. Technical reserves when the risk is shouldered by policyholders and reserves resulting from pension funds management	0	0	
TOTAL LIFE	1,110,654	1,064,638	
TOTAL REINSURERS' SHARE OF TECHNICAL RESERVES	1,110,654	1,064,638	
E) DEBTORS			
I - Debtors arising out of direct insurance operations	62,533	78,076	
II - Debtors arising out of reinsurance operations	82,300	69,700	
III - Other debtors	141,172	144,082	
TOTAL DEBTORS	286,005	291,858	
F) OTHER ASSETS			
I - Tangible assets	10,289	10,168	
II - Liquid assets	189,220	96,009	
III - Own shares or quotas	13,548	132	
IV - Other assets	4,365	8,607	
TOTAL OTHER ASSETS	217,422	114,916	
G) PREPAYMENTS AND ACCRUED INCOME	72,278	89,358	
TOTAL ASSETS	9,748,316	7,919,868	

Lire millions	31.12.98	31.12.97
A) CAPITAL AND RESERVES		
I - Pertaining to the Group:		
1. Subscribed capital or equivalent	144,856	144,800
2. Net equity reserves	169,480	168,309
3. Consolidation reserve	131,607	102,370
4. Reserve for difference of valuation regarding companies in which investments are held not included in the consolidation area	73,261	65,864
5. Reserve for exchange rate difference	0	0
6. Reserves for own shares and shares of the parent company	13,548	132
7. Profit (loss) for the period	146,101	116,429
TOTAL GROUP SHAREHOLDER'S EQUITY	678,853	597,904
II - Minority interests		
1. Share capital and reserves	0	0
2. Profit (loss) for the period	0	0
TOTAL MINORITY INTERESTS	0	0
TOTAL CAPITAL AND RESERVES	678,853	597,904
B) SUBORDINATED LIABILITIES		
C) TECHNICAL RESERVES		
I - NON-LIFE		
1. Premiums reserve	0	0
2. Claims reserve	0	0
3. Equalization provision	0	0
4. Others	0	0
TOTAL NON-LIFE	0	0
II - LIFE		
1. Actuarial reserve	6,698,852	5,428,972
2. Reserve for amounts to be paid	122,912	44,388
3. Others	43,663	43,763
TOTAL LIFE	6,865,427	5,517,123
TOTAL TECHNICAL RESERVES	6,865,427	5,517,123
D) TECHNICAL RESERVES WHEN THE RISK IS SHOULDERED BY POLICYHOLDERS AND RESERVES RESULTING FROM PENSION FUNDS MANAGEMENT	1,196,483	849,081
E) PROVISIONS FOR RISKS AND CHARGES		
1. Provisions for retirement pensions and similar obligations	71	62
2. Provision for taxation	61,448	83,941
3. Consolidation provision for future risks and charges	0	0
4. Other provisions	6,174	23,551
TOTAL PROVISIONS FOR RISKS AND CHARGES	67,693	107,554
F) DEPOSITS RECEIVED FROM REINSURERS	882,871	790,633
G) CREDITORS AND OTHER LIABILITIES		
I - Creditors arising out of direct insurance operations	2,286	1,414
II - Creditors arising out of reinsurance operations	9,650	12,527
III - Debenture loans	0	0
IV - Amounts owed to credit institutions	0	0
V - Secured debts	0	0
VI - Other loans and other financial debts	0	0
VII - Employee termination indemnity	5,382	4,819
VIII - Other creditors	35,418	33,003
IX - Other liabilities	2,757	3,953
TOTAL CREDITORS AND OTHER LIABILITIES	55,493	55,716
H) ACCRUALS AND DEFERRED INCOME	1,496	1,857
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	9,748,316	7,919,868
OFF-BALANCE SHEET ITEMS		
I - Guarantees given	4,924	1,426
II - Guarantees received	24,117	24,117
III - Guarantees given by third parties	0	0
IV - Obligations undertaken	160	490
V - Third party assets	1,095	1,486
VI - Pension funds assets managed on behalf of third parties	0	0
VII - Securities in the hands of third parties	6,559,803	5,393,740
VIII - Other off-balance sheet items	34,031	36,425
TOTAL OFF-BALANCE SHEET ITEMS	6,624,130	5,457,684

SHAREHOLDER'S EQUITY AND LIABILITIES

Income statement

TECHNICAL ACCOUNT OF LIFE BUSINESS

Lire millions	31.12.98	31.12.97
1. EARNED PREMIUMS, NET OF REINSURANCE		
a) Gross premiums written	1,707,223	1,474,578
b) (-) reinsurance premiums	(92,270)	(99,385)
TOTAL NET PREMIUMS	1,614,953	1,375,193
2. (+) ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	357,866	312,881
3. UNREALISED GAINS ON INVESTMENTS ALLOCATED TO LIFE POLICYHOLDERS WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	411,263	40,788
4. OTHER TECHNICAL INCOME, NET OF REINSURANCE	2,969	278
5. CLAIMS INCURRED, NET OF AMOUNTS RECOVERED AND REINSURANCE		
a) Claims paid		
aa) Gross amount	(605,934)	(291,725)
bb) (-) reinsurers' share	57,734	97,546
b) Change in amount recovered net of reinsurance		
aa) Gross amount	(78,524)	(21,316)
bb) (-) reinsurers' share	(4,066)	2,136
TOTAL NET CLAIMS INCURRED	(630,790)	(213,359)
6. CHANGE IN ACTUARIAL RESERVES AND OTHER TECHNICAL RESERVES, NET OF REINSURANCE		
a) Actuarial reserves		
aa) Gross amount	(1,269,880)	(891,088)
bb) (-) reinsurers' share	50,082	99,479
b) Others		
aa) Gross amount	100	(1,521)
bb) (-) reinsurers' share	0	0
c) Life insurance reserves when the risk is shouldered by policyholders and deriving from pension funds management		
aa) Gross amount	(347,402)	(454,061)
bb) (-) reinsurers' share	0	0
TOTAL CHANGE IN NET RESERVES	(1,567,100)	(1,247,191)
7. REFUNDS AND PROFIT SHARING, NET OF REINSURANCE	0	0
8. OPERATING EXPENSES		
a) Acquisition commissions	(122,656)	(131,817)
b) Other acquisition costs	(2,050)	(2,735)
c) Change in unamortised acquisition commissions and costs	(1,157)	(1,611)
d) Collection commissions	0	0
e) Other administrative expenses	(23,161)	(25,286)
f) (-) reinsurers' commissions and profit sharing	14,222	14,881
TOTAL OPERATING EXPENSES	(134,802)	(146,568)
9. UNREALISED LOSSES ON INVESTMENTS ALLOCATED TO POLICYHOLDERS WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	(167)	0
10. OTHER TECHNICAL CHARGES, NET OF REINSURANCE	(529)	(173)
11. TOTAL TECHNICAL ACCOUNT OF LIFE BUSINESS	53,663	121,849

Lire millions	31.12.98	31.12.97
1. TOTAL TECHNICAL ACCOUNT OF NON-LIFE BUSINESS	0	0
2. TOTAL TECHNICAL ACCOUNT OF LIFE BUSINESS	53,663	121,849
3. INVESTMENT INCOME		
a) Investment income from shares and quotas		
aa) Results for the year on investments evaluated using the equity method	62,390	54,605
bb) Others	9,021	2,985
b) Other investment income		
aa) Land and buildings	18,215	16,066
bb) Other investments	420,792	397,132
c) Adjustments to the value of financial investments	132	1,426
d) Gains on the realisation of investments	123,770	47,953
TOTAL INVESTMENT INCOME	634,320	520,167
4. FINANCIAL PAYABLES AND LOSSES ON ASSETS		
a) Investment management expenses and interest on bank loans	(76,473)	(70,479)
b) Adjustments to the value of investments	(6,057)	(17,315)
c) Losses on the realisation of investments	(96,651)	(26,677)
TOTAL FINANCIAL PAYABLES AND LOSSES ON ASSETS	(179,181)	(114,471)
5. (-) ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT OF LIFE BUSINESS	(357,866)	(312,881)
6. OTHER REVENUES	35,408	16,988
7. OTHER CHARGES		
a) Interest payable on other financial debts	(18)	(17)
b) Other costs	(59,961)	(68,163)
TOTAL OTHER CHARGES	(59,979)	(68,180)
8. TOTAL ORDINARY OPERATIONS	126,365	163,472
9. EXTRAORDINARY INCOME	74,093	24,387
10. EXTRAORDINARY CHARGES	(761)	(547)
11. TOTAL EXTRAORDINARY OPERATIONS	73,332	23,840
12. PROFIT BEFORE TAXATION	199,697	187,312
13. INCOME TAXES FOR THE YEAR	(53,596)	(70,883)
14. CONSOLIDATED RESULTS	146,101	116,429
15. PROFIT FOR THE YEAR RELATING TO MINORITY INTERESTS	0	0
16. GROUP PROFIT FOR THE YEAR	146,101	116,429

NON-TECHNICAL ACCOUNT

Notes to the consolidated financial statements at December 31, 1998

The consolidated financial statements at December 31, 1998, which consist of the Balance Sheet, the Income Statement and accompanying Notes, are presented in accordance with the requirements of Law Decree no. 173/97.

According to article 58 clause 2 of the Decree, the holding company, which was previously obliged to present the consolidated financial statements according to the requirements of Law Decree no. 127/91, is now subject to the provisions of Chapter III of Law Decree no. 173/97 starting with the consolidated financial statements at December 31, 1998.

In order to provide the opportunity to compare the 1998 consolidated financial statements, it was necessary to 'unbundle' from the consolidated financial statements for 1997 those subsidiaries of Mediolanum S.p.A., which are not engaged in the transaction of insurance or related business and to reclassify those balance items according to the new law.

In order to provide more complete information, and by exerting the faculty of acting in advance with respect to the terms included in the temporary provisions of the above mentioned decree, a consolidated Cash Flow Statement is attached to the consolidated financial statements.

All amounts are expressed in millions of Lire.

PART A GENERAL CRITERIA AND CONSOLIDATION AREA

The consolidated financial statements were prepared on the basis of the individual financial statements at December 31, 1998 of Mediolanum S.p.A. and its subsidiaries, as approved by the respective Boards of Directors.

The financial statements of Group companies, which are engaged in the transaction of insurance or related business were appropriately reclassified and rectified, in order to comply with the Group's uniformity and clarity principles.

All balance sheets, guarantees, obligations and off-balance sheet items as well as revenues and expenses of the companies included in the consolidation were included in their entirety in the preparation of the consolidated financial statements.

All receivables and payables, guarantees, obligations and other off-balance sheet items, revenues and expenses between the companies in the consolidation were excluded from the above mentioned process of aggregation, as were all inter-company gains and losses.

The book value of tangible fixed assets was then adjusted to exclude internal profits generated by the transfer of fixed assets between consolidated companies.

The carrying value of the consolidated investments was set off against the corresponding shareholders' equity, at the date on which the companies were acquired by or became subsidiaries of Mediolanum S.p.A.

Subsequent variations in the carrying value of investments and shareholders' equity in the companies included in the line-by-line consolidation were allocated to consolidation reserves.

Investments in subsidiaries, which are not engaged in the transaction of insurance, were calculated according to the equity method.

The financial statements of companies drawn up according to the equity method were appropriately rectified in order to apply uniform accounting principles within the Group.

Subsequent variations in shareholders' equity in companies evaluated through the equity method increase the carrying value of interest and are entered in the income statement under Results for the year on investments evaluated using the equity method when they relate to profits of the subsidiaries.

The consolidation area of the Mediolanum Group includes all companies that are engaged in the transaction of insurance or related business, and these are included in the list below of the companies, which are consolidated on a line-by-line basis, of which the parent company Mediolanum S.p.A. directly holds the majority of voting rights that can be used at the ordinary shareholders' meeting.

List of the companies, which are consolidated on a line-by-line basis:

Lire millions Company	% holding	Share capital	Head Office	Activity
Mediolanum Vita S.p.A.	100	170,000	Basiglio	Life insurance
Partner Time S.p.A.	100	1,000	Basiglio	Distribution of Life Ins. products

Mediolanum Vita S.p.A. has incorporated Aram S.p.A. and Partner Life S.p.A., which were included in the consolidation area of the previous year.

This merger continued the rationalization of the Group's structure, and achieved the objective of a simplified ownership, with one single parent company that directly owns all Group's companies.

PART B
VALUATION
CRITERIA

SECTION 1
VALUATION CRITERIA

The consolidated financial statements have been prepared in accordance with the Italian law relating to financial statements (Article 16 of Law Decree no. 173/97, Article 2426 of the Italian Civil Code) and with the accounting standards issued by the relevant professional bodies. They are consistent with those used in the preparation of the consolidated financial statements at December 31, 1997, here shown for comparison, except for what is indicated below for investments allocated to Life policyholders who shoulder the relevant risk, and deriving from pension funds management.

INTANGIBLE ASSETS

These are recorded – with the agreement of the statutory auditors – at purchase cost including incidental expenses and are amortised on a consistent basis over their expected useful life span (since they are considered to be used for a long time span).

Acquisition commissions on Life policies, relating to the years 1989 and 1990, are deferred within the limits of the effective premium values and amortised over 10 years. Acquisition commissions on Life policies, relating to other years, have been charged in full to the income statement in the year in which they were incurred.

Start-up and expansion costs are systematically amortised for not more than 5 years.

Improvements on leased properties are amortised over the duration period of the respective lease contracts.

INVESTMENTS AND OTHER
LONG-TERM ASSETS

These are recorded at purchase cost, including incidental expenses.

Investments in industrial real estate and other durable assets are depreciated on a straight-line basis using rates that reflects the expected residual lives of the assets.

Residential property is not depreciated, given its continued maintenance and the fact that its current market value exceeds its carrying value.

In some cases, the cost was increased following specific regulations on monetary revaluation, and revaluation gains were credited to shareholders' equity.

The cost of ordinary maintenance is charged in full to the income statement in the year in which it is incurred.

The cost of incremental maintenance work is charged to the related asset account and depreciated over the residual life of the asset concerned.

Investments in subsidiaries, which are not included in line-by-line consolidation since they are not engaged in the transaction of insurance, are valued

according to shareholders' equity.

Investments in subsidiaries and in other companies held by consolidated companies are valued at cost, which is however lower than their realisable value.

Bonds and other fixed income securities are stated at purchase cost or prior-year carrying value, as adjusted for the accrued portion of premiums or discounts to the par value, arising when the securities are subscribed or purchased. Their sale is allowed only in exceptional cases for the company's operation, following the framework decision from the Board of Directors of Mediolanum Vita S.p.A.

Bonds and other fixed income securities are recorded at the lower value of either the purchase or subscription cost, adjusted to account for the accrued portion of premiums or discounts to the par value, arising when the securities are subscribed, and their realisable value.

SHORT-TERM INVESTMENTS

Quoted shares are recorded at the lower value of the purchase or subscription cost and their realisable value.

The realisable value of bonds, fixed income securities and quoted shares is deducted from the market trend, as determined using the arithmetic average of the prices in the last month of the year.

The realisable value of bonds, fixed income securities and non-quoted shares is based on a prudent estimate, considering also negotiation prices, for investments negotiated in non-regulated markets.

The realisable value of investments in quotas of mutual funds is deducted from the published value of the quota at year-end.

Securities, which have been written down in previous periods, as a result of applying the above valuation method, but which are no longer affected by the reasons which caused them to be written down, have been restored, as appropriate, to their original cost.

Amounts paid under repurchase agreements are treated as other financial investments. Income from such transactions is spread over the term of the transaction, taking into account interest accrued on the securities and the difference between spot and forward prices.

These are recorded at their current value, which is, for investments in regulated markets, their value at the last working day in the year and, for investments in non-regulated markets, their average negotiation price at the last working day in the year. In 1997, according to the previous regulations, they were recorded

INVESTMENTS ALLOCATED TO LIFE POLICYHOLDERS WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT

at the lower value of either the purchase or subscription cost, adjusted to account for the accrued portion of premiums or discount to the par value, arising when the securities are subscribed, and their realisable value. This difference does not affect the income statement, since it is balanced in the assessment of technical reserves, when the investment risk is shouldered by policyholders, and the reserves generated by the management of pension funds.

DEBTORS AND CREDITORS	Debtors are recorded at their presumed realisable value, while creditors are recorded at their nominal value.
PREPAYMENTS AND ACCRUED INCOME	These reflect adjustments to match costs and revenues to the two or more accounting periods to which they relate.
LIFE INSURANCE RESERVES	<p>Life insurance reserves include the actuarial reserve, which is determined for each policy on the basis of the specific commitment and the actuarial assumptions underlying the premiums. The reserves reflect all revaluations under the policy terms, in addition to allocations against demographic risks, and are maintained at or above total surrender value.</p> <p>These reserves also include deferred premiums relating to the following year and cover future costs relating to the administration of policies.</p> <p>The reserves, in respect to business ceded to reinsurers, are determined on a similar basis to that used in determining the Life insurance reserves, in respect to the ceded portion.</p>
TECHNICAL RESERVES WHEN THE INVESTMENT RISK IS SHOULDERED BY POLICYHOLDERS AND RESERVES FROM PENSION FUNDS MANAGEMENT	These reserves represent as close as possible the value of quotas of investment funds or share indexes of reference and are linked in the assets held to cover these liabilities, which are recorded according to their current value.
PROVISIONS FOR RISKS AND CHARGES	These provisions cover likely losses, the timing and extent of which cannot be determined at the closing of the accounting period. Provisions reflect a realistic estimate of expected losses to the borne by the companies included in the consolidation area.
EMPLOYEE TERMINATION INDEMNITY	This provision covers employees' liabilities for termination indemnities accrued, in accordance with existing laws, national and company-specific labour contracts. This liability is subject to annual adjustment based on official indexes.

Revenues and expenses are recorded on an accrual basis.

REVENUES AND EXPENSES

Dividends and related tax credits are recorded in the accounting period in which they are received.

Current taxes are recorded on the basis of estimated taxable income calculated for each company in accordance with current tax laws, taking into account any available exemptions and tax credits.

TAXATION

When timing differences between reported results and taxable income are positive, deferred taxation has been shown, when the difference is negative, prepaid taxes have been recorded.

Deferred taxation has been accrued on profits made and not yet distributed of the foreign subsidiary Mediolanum International Funds Ltd.

Guarantees given are stated on the basis of the nominal value of the obligation undertaken.

OFF-BALANCE SHEET ITEMS

Investments in currencies belonging to the Euro have been turned into the new currency by applying relevant exchange rates and recording the registered exchange differences in full in the income statement for the year.

CRITERIA FOR RECORDING OPERATIONS AND THE HANDLING OF EXCHANGE DIFFERENCES FOLLOWING THE INTRODUCTION OF THE EURO

The overall amount of the sums in the income statement is as follows:

- gains of Lire 64 million;
- losses of Lire 1,202 million.

The foreign subsidiary Mediolanum International Funds Ltd was valued by means of the equity method, by turning their financial statements, expressed in Irish punts, into Italian lira by means of current exchange. The profit for the year was converted using the average exchange rate for the year, equal to Lire 2472.48 for 1 IR£, other shareholders' equity items were converted at historical exchange rates.

CRITERIA AND RATES APPLIED IN THE CONVERSION OF FINANCIAL STATEMENTS EXPRESSED IN CURRENCIES OTHER THAN LIRE

Not made.

SECTION 2
ADJUSTMENTS AND
PROVISIONS FOR TAXATION

VALUE ADJUSTMENTS AND
PROVISIONS EXCLUSIVELY MADE
IN ACCORDANCE TO FISCAL
LAWS

PART C
CONSOLIDATED
BALANCE SHEET
AND INCOME
STATEMENT
INFORMATION

ASSETS

SECTION 1
INTANGIBLE ASSETS
(ITEM B)

Unamortised acquisition commissions consist of the residual balance of acquisition commissions on Life policies relating to the years 1989 and 1990, capitalized by Mediolanum Vita S.p.A. (Lire 381 million).

Other intangible assets include:

Lire millions	31.12.98	31.12.97
Start-up and expansion costs	3,671	5,657
Concessions, licences, trademarks and similar rights	7,759	1,551
Improvements on leased goods	1,273	986
Intangible assets under formation and advances	1,088	672
TOTAL	13,791	8,866

“Start-up and expansion costs” mainly consist of the costs incurred for the incorporation of Mediolanum S.p.A. and the costs incurred by that company for the placing of its shares and related quotation on the Italian Stock Market.

Costs for the share capital increase of Mediolanum Vita S.p.A. are also included.

“Concessions, licences, trademarks and similar rights” mainly consist of software used under licence. The increase over the period is mainly due to software acquisition and development for the management of new insurance products.

“Intangible assets under formation and advances” totally relate to the acquisition and development of SAP R3. The accounting SAP module, already in use in early 1999, solves the problems connected to the year 2000 and makes the transition process towards the Euro easier.

Total movements on the above items are shown in detail in the attachment (Attachment 1).

SECTION 2
INVESTMENTS (ITEM C)

Item C I Land and buildings includes:

Lire millions	31.12.98	31.12.97
Company buildings	53,550	55,709
Residential buildings leased to third parties	95,462	95,124
Industrial buildings leased to third parties	105,513	112,385
TOTAL	254,525	263,218

Buildings include a building leased to the subsidiary Banca Mediolanum S.p.A. for Lire 16,020 million.

The net book value of monetary revaluations made in previous years, in accordance with Law no. 413/1991, which relates to Land and buildings, is Lire 787 million.

No differences for consolidation were recorded.

Depreciation of industrial buildings is calculated using the following fiscal depreciation rates, amounting to 3% and 6%, which are considered representative of the useful life of these assets.

Total movements in the above items are shown in detail in the attachment (Attachment 2).

Item C II Investments in Group companies and other companies consists of:

- Shares in subsidiary companies of Lire 145,007 million, referred to the Group companies, listed in the table below, which are not engaged in the transaction of insurance or related business and were therefore valued by using the equity method.

Lire millions Company	Share capital	% holding	Head office	Activity
Banca Mediolanum S.p.A.	25,000	100 %	Basiglio	Banking
Mediolanum Borsa SIM.p.A.	5,000	100 %	Basiglio	Stockbroking company
Mediolanum Comunicazione S.r.l.	1,500	100 %	Basiglio	Audio/Film/TV production
Mediolanum Fiduciaria S.p.A.	1,000	100 %	Basiglio	Trust co. without discret. power
Mediolanum Gestione Fondi S.p.A.	10,000	100 %	Basiglio	Management of mutual funds
Mediolanum International Funds Ltd	305	100 %	Dublin	Management of mutual funds
PI Distribuzione S.r.l.	1,000	100 %	Basiglio	Real estate brokers

- Fininvest Group shares and quotas of Lire 100 million, related to:

Lire millions Company	Share capital	% holding	Head office
Consorzio Aeromobili Fininvest	1,000	10%	Via Paleocapa 3 Milano

- Shares and quotas of other companies in which investments are held of Lire 2,002 million, related to:

Lire millions Company	Share capital	% holding	Head office
Cedacri Ovest S.p.A.	14,448	10%	Via Liguria 33 Castellazzo B.da (AL)
Europa Invest S.A.	125,000 Euro	14%	14 rue Aldringen Lussemburgo
Rita S.r.l.	11,000	0.239%	P.zza S. Babila 1 Milano

and consisting of:

Lire millions	31.12.98	31.12.97
Cedacri Ovest S.p.A.	1,949	1,949
Europa Invest S.A.	27	27
Rita S.r.l.	26	26
TOTAL	2,002	2,002

Financial loans include a credit line having due date on December 21, 1999, which was given at the official discount rate to PI Distribuzione S.r.l., a subsidiary valued by the equity method.

The loan of Lire 3,000 million given in 1997 to Programma Italia Distribuzione S.p.A. was repaid.

Item C III Other financial investments includes:

- Quotas of mutual funds managed by Mediolanum Gestione Fondi S.p.A. of Lire 300 million.
- Quotas of foreign mutual funds managed by Mediolanum International Funds Ltd of Lire 821,908 million.

Bond investment also include convertible bonds in foreign currency, of Lire 8,825 million.

Financial loans are:

Lire millions	31.12.98	31.12.97
Secured loans	53	137
Secured loans on Life insurance policies	38,903	29,436
Loans to consultants	1,042	840
Other loans	465	278
TOTAL	40,463	30,691

Amounts receivable as per item C III 4 Financial loans will all fall due after more than one year.

Deposits with credit institutions include Lire 50,000 million deposited at Banca Mediolanum S.p.A. and subject to time constraints greater than 15 days.

Other financial investments consist of forward transactions with repurchase agreements.

The decrease relates to changes in the cash investment strategy.

Long term financial investments, all included in bonds and other fixed income securities, amount to Lire 3,383,299 million.

Financial investments, which will not remain company's assets, amount to Lire 3,025,305 million and consist of:

Lire millions	31.12.98	31.12.97
Shares and quotas	1	128,570
Mutual funds quotas	822,208	879,610
Bonds and other fixed income securities	1,584,779	190,807
Deposits with credit institutions	569,195	0
Other financial investments	49,122	614,542
TOTAL	3,025,305	1,813,529

The evaluation of Other financial investments at current value at year-end shows a gain of Lire 307,582 million.

Reinsurers' share of technical reserves (item D bis) include actuarial reserves of Lire 239,903 million and amounts to be paid of Lire 555 million relating to obligations undertaken by Consap.

Since during the year the Ministry issued the decree concerning yearly yield rates for write-ups of balance sheet items linked to sales to Consap in the years 1994, 1995 and 1996, Mediolanum Vita S.p.A. has adjusted its provisions.

The specific provision for risks, which had been accrued, was consistently used.

Since no regulations have been issued for the years 1997 and 1998, Mediolanum S.p.A. has prudentially adopted a 5% rate for both years.

SECTION 3
OTHER ASSETS
(ITEMS D - D BIS - E -
F - G)

Item E I Debtors arising out of direct insurance operations is analysed as follows:

Lire millions	31.12.98	31.12.97
Due from policyholders in the year	11,682	23,210
Due from policyholders from previous years premiums	307	1,779
Due from intermediaries	50,153	52,703
Due from intermediaries for portfolio compensations	63	62
Other due from intermediaries	328	322
TOTAL	62,533	78,076

Item E III Other debtors is analysed as follows:

Lire millions	31.12.98	31.12.97
Due from real estate leases	1,336	2,520
Due from lease agreements	246	261
Due from Mediolanum Group companies	742	1,036
Due from Fininvest Group and Doris Group companies	887	2,099
Due from tax authorities	133,052	137,400
Due from employees	139	100
Guarantee deposits	123	127
Advances to suppliers and professionals	534	48
Other receivables	4,113	491
TOTAL	141,172	144,082

“Due from Mediolanum Group companies” consists of the recharge of costs for seconded employees of Mediolanum S.p.A. in subsidiary companies, as well as amounts concerning the funds of employees transferred from other Group companies.

“Due from Fininvest Group and Doris Group companies” consists of an amount due from Mediolanum Assicurazioni S.p.A. in relation to the recharge of costs for seconded employees and to commissions on the sale of insurance policies.

“Due from tax authorities” is analysed as follows:

Lire millions	31.12.98	31.12.97
Tax reimbursements	55,799	70,216
Advance payments and amounts brought forward	22,545	11,102
Tax withholdings	4,892	15,865
Tax credits on dividends and mutual funds	49,043	39,588
Other	773	629
TOTAL	133,052	137,400

“Other debtors” include an amount of Lire 3,145 million due from Areaconsult S.I.M.p.A. with respect to the compensation for damages determined following a civil case.

Item F I Tangible assets is analysed as follows:

Lire millions	31.12.98	31.12.97
Furniture and fittings	6,375	6,201
Systems	27	41
Equipment	503	273
Electric and electronic equipment	2,930	2,845
Other assets	454	239
Advance payments	0	569
TOTAL	10,289	10,168

Depreciation is calculated using the following fiscal depreciation rates, which are considered representative of the useful life of each asset category:

Plant and machinery	15%
Equipment	20% - 30%
Other assets	12% - 18% - 20% - 25%

Liquid assets (item F II) represent the balances in ordinary current accounts with Banca Mediolanum S.p.A. (Lire 156,341 million) and other credit institutions (for the remaining amount), which are mainly employed in hot money operations, of a duration lower than 15 days.

Item F III Own shares includes no. 1,682,500 shares, of a nominal value of Lire 336,5 million, of Mediolanum S.p.A., which the company itself acquired in order to ensure stability on the Stock Market.

Item F IV Other assets exclusively consists of assets for advance taxes due to accruals subject to taxation in the year.

Item G Prepayments and accrued income is analysed as follows:

Lire millions	31.12.98	31.12.97
Accrued interest on securities	71,975	89,019
Other accrued income	27	75
Prepayments for insurance	230	199
Prepayments for rent	3	2
Other prepayments	43	63
TOTAL	72,278	89,358

SHAREHOLDERS' EQUITY AND LIABILITIES

SECTION 4 CAPITAL AND RESERVES (ITEMS A - B)

CHANGES IN CONSOLIDATED
CAPITAL AND RESERVES IN THE
YEAR

Changes in consolidated capital and reserves are in the attachment
(Attachment 3).

RECONCILIATION BETWEEN THE
FINANCIAL STATEMENTS OF THE
PARENT COMPANY AND THE
CONSOLIDATED FINANCIAL
STATEMENTS

Lire millions	Capital and reserves	Profit for the year	Total shareholders' equity
Parent company financial statements for the year 1997	313,240	79,669	392,909
Subsequent changes in carrying value and shareholders equity of companies included in consolidation	101,443	32,761	134,204
Differences in investments valued by the equity method	18,599	54,605	73,204
Infra-group dividends	48,080	(48,080)	0
Application of Group-wide accounting policies	113	447	560
Adjustments for consolidation	0	(2,973)	(2,973)
Consolidated financial statements for the year 1997	481,475	116,429	597,904

Lire millions	Capital and reserves	Profit for the year	Total shareholders' equity
Parent company financial statements for the year 1998	327,884	91,121	419,005
Subsequent changes in carrying value and shareholders equity of companies included in consolidation	131,662	46,071	177,733
Differences in investments valued by the equity method	19,146	62,636	81,782
Infra-group dividends	53,500	(53,500)	0
Application of Group-wide accounting policies	560	(227)	333
Consolidated financial statements for the year 1998	532,752	146,101	678,853

SECTION 5 TECHNICAL RESERVES AND OTHER PROVISIONS (ITEMS C - D - E)

Item D Technical reserves when the risk is shouldered by policyholders and
reserves resulting from pension funds managementis analysed as follows:

Lire millions	31.12.98	31.12.97
Technical reserves on unit linked products	11,380	0
Technical reserves on index linked products	1,185,103	849,081
TOTAL	1,196,483	849,081

The Provision for taxation (item E 2) is analysed as follows:

Lire millions	31.12.98	31.12.97
Provision for Irpeg-Irap (corporate income tax-tax on productive activities)	59,962	81,260
Provision for deferred taxation	1,486	2,681
TOTAL	61,448	83,941

Other provisions (item E 4) is analysed as follows:

Lire millions	31.12.98	31.12.97
Provision for future risks	359	359
Provision for specific risks	4,000	20,300
Provision against illegal acts by agents	243	243
Provision against sales network departures	0	1,071
Staff loyalty provision	48	170
Employee holiday pay accrual	1,496	1,380
Sundry provisions	28	28
TOTAL	6,174	23,551

Changes in this balance during the period are as follows:

Lire millions	31.12.97	Accrued	Utilisations	31.12.98
Provision for future risks	359	0	0	359
Provision for specific risks	20,300	4,000	(20,300)	4,000
Provision against illegal acts by agents	243	0	0	243
Provision against sales network departures	1,071	0	(1,071)	0
Staff loyalty provision	170	0	(122)	48
Employee holiday pay accrual	1,380	391	(275)	1,496
Sundry provisions	28	0	0	28
TOTAL	23,551	4,391	(21,768)	6,174

The change in the “provision for specific risks” was brought about by the following: during 1998 the Ministry in charge of defining the yearly rates of return to apply for the revaluation of balance items of insurance companies liked with legal cessions to Ina Consap, issued a relevant decree. Since Mediolanum Vita S.p.A. had decided to adjust actuarial reserves, the provision of Lire 20,300 million was entirely utilised. The Lire 4,000 million balance relates to provisions for other risks linked to portfolio changes.

Changes in Employee termination indemnity(item G VII) are analysed as follows:

Lire millions	
Opening balance at 31.12.97	4,819
Provision for the period	1,121
Transfers from Mediolanum and Fininvest Group companies	320
Utilisation	(403)
Advances to employees	(343)
Transfers to Mediolanum and Fininvest Group companies	(132)
Closing balance at 31.12.98	5,382

SECTION 6
CREDITORS AND OTHER
LIABILITIES
(ITEMS F - G - H)

Other creditors (item G VIII) is analysed as follows:

Lire millions	31.12.98	31.12.97
Taxes recharged to policyholders	6,016	5,033
Taxation	3,097	4,109
Due to social security institutions	1,107	954
Trade accounts	8,759	6,914
Due to Mediolanum Group companies	11,040	12,350
Due to Fininvest Group and Doris Group companies	2,852	2,219
Other	2,547	1,424
TOTAL	35,418	33,003

“Taxation” mainly refers to tax withholdings to be paid.

“Due to social security institutions” refers to social security contributions on December wages and salaries, which were regularly paid the following January.

“Trade accounts” are analysed as follows:

Lire millions	31.12.98	31.12.97
Services received	4,863	3,535
Invoices to be received	2,464	2,060
Emoluments of Directors and Statutory Auditors	639	637
Professional services	793	682
TOTAL	8,759	6,914

“Due to Mediolanum Group companies” almost entirely refers to commissions paid by Mediolanum S.p.A. to Banca Mediolanum S.p.A. for the marketing of insurance products.

“Due to Fininvest Group and Doris Group companies” mainly consists of amounts due to Mediolanum Assicurazioni S.p.A. as recharge costs for seconded employees and amounts due to companies linked to Fininvest Group, ICT Servizi S.p.A. and Albacom S.p.A., for contractually defined provisions: automation services and telecommunications. All services are in line with the best market conditions.

Other liabilities (item G IX) relate to:

Lire millions	31.12.98	31.12.97
Commissions for unearned premiums	579	1,344
Outstanding earned premiums	1,582	2,102
Provision for 14th monthly salary and production premiums	596	507
TOTAL	2,757	3,953

Accruals and deferred income (item H) is analysed as follows:

Lire millions	31.12.98	31.12.97
Other accrued expenses	7	431
Deferred income on lease instalments	1,489	1,426
TOTAL	1,496	1,857

Guarantees given

Guarantees given include:

- Guarantees given to Fininvest Group companies refers to counterguarantees issued to Fininvest S.p.A. totalling Lire 133 million and Mondadori Leasing S.p.A. of Lire 53 million versus guarantees issued by those companies, which cover the supplies to Mediolanum S.p.A.
- Guarantees given to other companies relates mainly to guarantees of Lire 1,000 million for contracts between financial consultants and Origin Italia S.r.l. for the rental of computer equipment and the telephonic link with Banca Mediolanum. Lire 238 million was given to the Lombardy Region as a guarantee on the proper use of money paid to projects it co-funds with the European Social Fund, Lire 3,500 to Atena Servizi S.p.A. on behalf of Mediolanum Comunicazione S.r.l. as a guarantee for contractual obligations of the latter.

SECTION 7
GUARANTEES,
COMMITMENTS AND
OTHER OFF-BALANCE
SHEET ITEMS

Guarantees given by third parties

Guarantees given by third parties are policies received as guarantees of the correct fulfilment of contractual obligations, assumed by third parties, in respect to the real estate investments of Mediolanum Vita S.p.A.

Securities in the hands of third parties

Securities in the hands of third parties refer to the nominal value of other financial investments.

Other off-balance sheet items

These mainly refer to the carrying value of a building leased to Banca Mediolanum S.p.A. for Lire 16,020 million and to the Lire 18,007 million instalments of such lease, which are yet to be paid.

INCOME STATEMENT

SECTION 8 INFORMATION ON TECHNICAL ACCOUNTS

Gross premiums written (item 1 a) are analysed as follows:

Lire millions	Direct operations	Reinsurance operations	Total
I - Life insurance	1,381,529	48	1,381,577
II - Marriage and birth insurance	0	0	0
III - Unit linked insurance as per I and II	311,156	0	311,156
IV - Health insurance	0	0	0
V - Capitalisation operations	14,490	0	14,490
VI - Fund management	0	0	0
GROSS PREMIUMS	1,707,175	48	1,707,223

Premiums are entirely collected in Italy and are analysed as follows:

Lire millions	31.12.98	31.12.97
First year premiums	115,231	156,517
Subsequent year premiums	746,878	689,623
Single premiums	827,076	628,327
Indirect premiums	48	111
Unit linked premiums	17,990	0
(less) Reinsurance ceded	(92,270)	(99,385)
NET PREMIUMS	1,614,953	1,375,193

The Allocated investment return transferred from the non-technical account (item 2) equals the return on investments allocated to the Life technical account in the financial statements of Mediolanum Vita S.p.A., the only insurance company included in the consolidation, as per the Isvap Provision dated 8 March 1999 no. 1140 G.

This amount is not lower than the amount of return on investments allocated to policyholders in the year, as per agreements.

Commissions paid by Mediolanum Vita S.p.A. to Mediolanum S.p.A. and Partner Time S.p.A. for their insurance brokerage activities of Lire 77,073 million were not included in the consolidation. Such event accounts for the better result in the Life technical account of the consolidated financial statements vis-à-vis the result of Mediolanum Vita S.p.A.

Acquisition commissions that have remained after cancellations in the consolidation are commissions paid to Banca Mediolanum S.p.A. of Lire 112,813 million.

Other investment income(item 3 b) bb) is analysed as follows:

Lire millions	31.12.98	31.12.97
Quotas in mutual funds	120,165	88,349
Bonds and other fixed income securities	248,525	248,574
Financial investments	2,825	3,050
Deposits at credit institutions	17,709	10,394
Other financial investments	31,568	46,765
TOTAL	420,792	397,132

Income from “financial investments” includes interests from Mediolanum Group companies valued by the equity method of Lire 109 million.

Income from “deposits at credit institutions ” includes interest from deposits at Banca Mediolanum S.p.A. of Lire 6,605 million.

Adjustments to the value of financial investments(item 3 c) is analysed as follows:

Lire millions	31.12.98	31.12.97
Shares and quotas	0	347
Quotas in mutual funds	103	385
Bonds and other fixed income securities	29	694
TOTAL	132	1,426

Gains on the realisation of investments(item 3 d) are set out below:

Lire millions	31.12.98	31.12.97
Shares and quotas	72,495	27,755
Bonds and other fixed income securities	51,273	19,088
Other financial investments	2	1,110
TOTAL	123,770	47,953

Investment management expenses and interest on bank loans(item 4 a) are as follows:

Lire millions	31.12.98	31.12.97
Depreciation of buildings	9,492	6,280
Management expenses of real estate investments	1,723	1,202
Other investment management expenses	1,956	1,409
Interest on deposit accounts with reinsurance companies	63,302	61,588
TOTAL	76,473	70,479

Adjustments to the value of investments(item 4 b) is analysed as follows:

Lire millions	31.12.98	31.12.97
Shares and quotas	0	1,445
Mutual funds and tax credits	1,463	15,103
Bonds and other fixed income securities	4,594	767
TOTAL	6,057	17,315

Losses on the realisation of investments(item 4 c) are shown below:

Lire millions	31.12.98	31.12.97
Shares and quotas	29,784	1,640
Mutual funds	52,257	5,156
Bonds and other fixed income securities	3,315	8,139
Other financial investments	11,295	11,742
TOTAL	96,651	26,677

Other revenues(item 6) are analysed as follows:

Lire millions	31.12.98	31.12.97
Commissions income for the sale of non-Life policies	9,609	10,524
Other commissions	0	1
Recharge of cost of employees seconded to Mediolanum Group companies evaluated by the equity method	1,867	1,699
Recharge of cost of employees seconded to Fininvest Group and Doris Group companies	765	1,510
Cost recharges	196	127
Interest from the tax authorities	2,216	2,379
Utilisation of provision for specific risks	20,300	0
Other revenues	455	748
TOTAL	35,408	16,988

“Commission income for the sale of non-Life policies” relates to the sale of insurance policies by Mediolanum Assicurazioni S.p.A., which is jointly owned (50-50) by the Fininvest Group and the Doris Group.

“Recharge of cost of employees seconded to the Fininvest Group and Doris group companies” relates to Mediolanum Assicurazioni S.p.A., which is jointly owned (50-50) by the Fininvest Group and the Doris Group.

“Other revenues” include a gain of Lire 64 million in exchange rates following the introduction of the Euro.

The utilisation of the provision for specific risk was commented upon above.

Other costs(item 7 b) consist of:

Lire millions	31.12.98	31.12.97
Commission income for the sale of non-Life policies	9,609	10,524
Interest payable on other amounts payable	42	723
Cost of Mediolanum S.p.A. staff	16,506	14,044
Other administrative expenses of Mediolanum S.p.A.	16,172	17,343
Amortisation of intangible assets	4,949	2,862
Depreciation of other assets	1,022	1,147
Accruals to the provision for the write-down of debtors	6,434	1,179
Accruals for the provision for specific risks	4,000	20,300
Other costs	1,227	41
TOTAL	59,961	68,163

“Commission income for the sale of non-Life policies” relates to the sale of insurance policies by Mediolanum Assicurazioni S.p.A., which is jointly owned

(50-50) by the Fininvest Group and the Doris Group.

“Other costs” include a loss of Lire 1,202 million in exchange rates following the introduction of the Euro.

Extraordinary income (item III 9) is as follows:

Lire millions	31.12.98	31.12.97
Gains on the sale of assets	29	92
Gains on the sale of investments	0	111
Gains on the sale of bonds and other fixed income securities	64,808	23,166
Other extraordinary income	8,510	0
Out of period revenues	746	1,018
TOTAL	74,093	24,387

“Other extraordinary income” mainly consists of the reimbursement of Irpeg (corporate income tax) and Ilor (local income tax) in the year of Lire 5,243 million and the compensation for damage paid following civil case against Areaconsult S.I.M.p.A. of Lire 3,145 million.

Extraordinary charges (item III 10) are analysed as follows

Lire millions	31.12.98	31.12.97
Losses on the sale of assets	27	19
Losses on the sale of bonds and other fixed income securities	82	21
Other extraordinary charges	66	0
Out of period expenses	586	507
TOTAL	761	547

Employee information

The average number of employees of the Group during the year was as follows:

	31.12.98	31.12.97
Managers	27	26
Clerical personnel	176	184
TOTAL	203	210

Directors' and Statutory Auditors' emoluments

The emoluments paid to Directors and Statutory Auditors of Mediolanum S.p.A. to carry out their tasks also in other companies included in consolidation are as follows:

PART D
OTHER
INFORMATION

Lire millions	For service rendered to the parent company	For service rendered to other companies
Directors	998	689
Statutory Auditors	140	78
TOTAL	1,138	767

Information on the size and activity of subsidiaries

Commissions for the management of mutual funds from Mediolanum Gestioni Fondi S.p.A. and Mediolanum International Funds Ltd, companies valued by the equity method, amount to:

Lire millions	31.12.98	31.12.97
Underwriting commissions	118,834	63,511
Management commissions	158,123	155,618
TOTAL	276,957	219,129

The two companies administer property of Lire 9,662,517 including investments made by Mediolanum Vita S.p.A.

Mediolanum Borsa S.I.M.p.A., a company evaluated by the equity method, carried out stockbrokerage activities for funds managed by Mediolanum Gestione Fondi S.p.A.

Brokerage volumes totalled Lire 1,271 billion. Brokerage fees amounted to Lire 1,450 million.

Direct collection of Banca Mediolanum S.p.A., valued by the equity method, reached the level of no. 109,808 current accounts with savings for Lire 932.2 billion and generated an interest margin of Lire 18,569 million.

Securities of third parties administered at market prices amount to Lire 1,105 billion.

Brokerage margin is Lire 6,482 million.

ACCOUNTS RECEIVABLE FROM AND PAYABLE TO FININVEST GROUP AND DORIS GROUP COMPANIES

Lire millions	Fininvest Group and linked companies	Doris Group
Financial receivables	0	0
Commercial receivables	466	421
Financial payables	0	0
Commercial payables	2,561	291

“Commercial receivables” mainly refer to the recharge of personnel costs and insurance commissions to Mediolanum Assicurazioni S.p.A. of Lire 842 million.

“Commercial payables” mainly cover contractually defined provisions: computer services, telecommunications, utilities by Fininvest Group companies (R.T.I. S.p.A. of Lire 207 million) and companies connected to them (ICT Servizi S.p.A. of Lire 1,275 million, Albacom S.p.A. of Lire 405 million). Costs totalling Lire 582 million were recharged by Mediolanum Assicurazioni S.p.A., which is jointly owned (50-50) by the Fininvest Group and the Doris Group.

Lire millions	Fininvest Group and connected companies	Doris Group
Commercial revenues	15,780	5,495
Commercial expenses	5,250	75
Investment income	0	0
Investment charges	0	0
Extraordinary income	0	0
Extraordinary charges	0	0

REVENUES/COSTS WITH
FININVEST GROUP AND
DORIS GROUP COMPANIES

“Commercial revenues” mainly relate to real estate lease instalments (Lire 623 million), personnel costs recharged (Lire 749 million) and commissions on the sale of non-Life insurance policies for Mediolanum Assicurazioni S.p.A. (Lire 9,609 million), which is jointly owned (50-50) by the Fininvest Group and the Doris Group, as well as real estate lease instalments - Lire 9,108 million from Gruppo Standa and Lire 1,098 million from R.T.I. S.p.A.

“Commercial expenses ” relates to EDP services, telecommunications and utilities, and advertising provided by Fininvest Group companies (Mediaset S.p.A. of Lire 151 million) and connected to them (ICT Servizi S.p.A. of Lire 1,783 million and Albacom S.p.A. of Lire 881 million), and to an insurance policy agreed on with Mediolanum Assicurazioni S.p.A., which is jointly owned (50-50) by the Fininvest Group and the Doris Group.

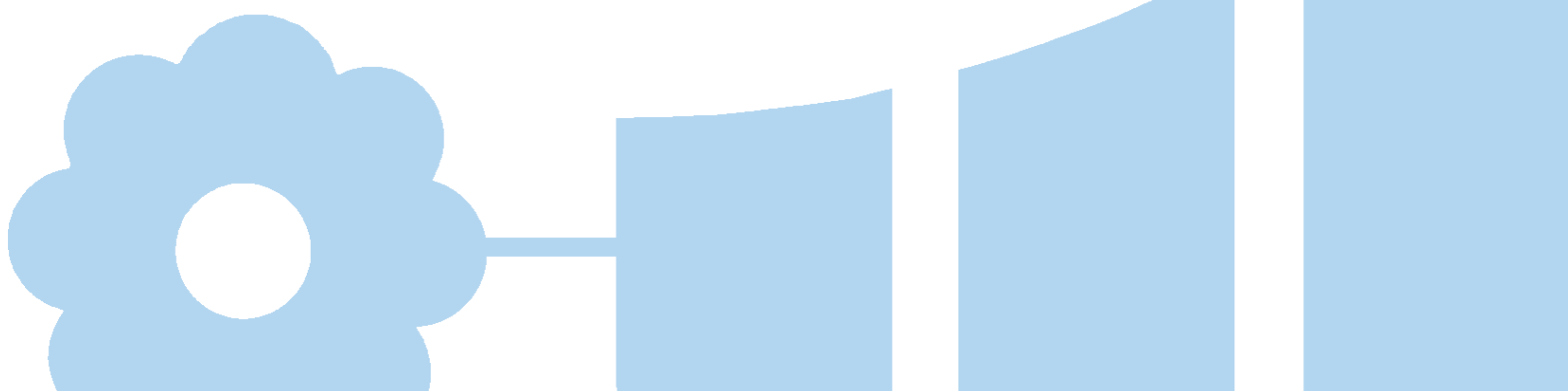
For the Board of Directors

The Chairman

Stefano Preda

MEDIOLANUM GROUP

ATTACHMENTS



ATTACHMENT 1

ANALYSIS OF CHANGES IN INTANGIBLE ASSETS AT DECEMBER 31, 1998

Lire millions	Opening situation			
	Historic cost	Accum. amortis.	Balance at 31.12.97	Additions
Intangible assets				
Set-up and start-up costs	9,953	(4,296)	5,657	0
Concessions, licences, trademarks and similar rights	2,351	(800)	1,551	8,354
Improvements on leased properties	3,681	(2,695)	986	467
Assets under formation and advances	672	0	672	1,088
TOTAL	16,657	(7,791)	8,866	9,909

ATTACHMENT 2

ANALYSIS OF CHANGES IN TANGIBLE FIXED ASSETS AT DECEMBER 31, 1998

Lire millions	Opening situation			
	Historic cost	Accum. amortis.	Balance at 31.12.97	Additions
Tangible fixed assets				
Land and buildings	286,422	(23,204)	263,218	799
Plant and machinery	212	(171)	41	1
Industrial and trade equipment	1,414	(1,141)	273	367
Other tangible fixed assets	17,951	(8,665)	9,286	2,874
Assets under construction/advances	569	0	569	0
TOTAL	306,568	(33,181)	273,387	4,041

Movements for the period			Closing situation		
Net disposals	Amortisation	Net reclassifications	Historic cost	Accum. amortis.	Balance at 31.12.98
0	(1,986)	0	9,953	(6,282)	3,671
(40)	(2,578)	472	11,137	(3,378)	7,759
0	(385)	205	4,353	(3,080)	1,273
0	0	(672)	1,088	0	1,088
(40)	(4,949)	5	26,531	(12,740)	13,791

Movements for the period			Closing situation		
Net disposals	Amortisation	Net reclassifications	Historic cost	Accum. amortis.	Balance at 31.12.98
0	(9,492)	0	287,221	(32,696)	254,525
0	(16)	0	213	(187)	26
0	(137)	0	1,781	(1,278)	503
(31)	(2,942)	564	21,250	(11,490)	9,760
0	0	(569)	0	0	0
(31)	(12,587)	(5)	310,465	(45,651)	264,814

ATTACHMENT 3

ANALYSIS OF CHANGES IN CONSOLIDATED CAPITAL AND RESERVES AT DECEMBER 31, 1998

Lire millions	Share capital	Net equity reserves	Consolidation reserve
Consolidated balance at December 31, 1997	144,800	168,309	102,370
Increase of paid-in share capital	56	77	
Allocation of profit for the period			
- payment of dividend out of profits			
- reserve		14,510	29,237
Creation of reserve for own shares		(13,416)	
Consolidation of Med, International Funds Ltd			
Profit (loss) for the period			
Consolidated balance at December 31, 1998	144,856	169,480	131,607

Reserve diff. val. companies not incl. in consol. area	Reserve for exchange rate difference	Reserve for own shares and shares of parent company	Consolidated profit at 31.12.98	Total shareholder's equity
65,864	0	132	116,429	597,904
				133
			(65,160)	(65,160)
7,522			(51,269)	0
		13,416		0
(125)				(125)
			146,101	146,101
73,261	0	13,548	146,101	678,853

ATTACHMENT 4

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 1998

Lire millions	31.12.98
OPENING LIQUID ASSETS	96,009
Group profit (loss) for the period	146,101
Net amortisation, depreciation and provisions for risks and charges	6,718
Decrease in deferred commissions on multi-year policies	1,157
Net gains on the disposal of fixed assets	(2)
Change in technical reserves net of reinsurance	1,649,690
Change in tax provision and other specific provisions	(29,995)
Net change in employee termination indemnity	(558)
Net change in payables and receivables with insurers and reinsurers	93,176
Net change in other debtors and creditors and other assets and liabilities	8,371
Net change in accruals and prepayments and deferrals	16,719
Liquid assets generated (absorbed) by operations in the period	1,891,377
Net investment in intangible assets	(9,874)
Net investment in tangible fixed assets	(1,143)
Own shares acquired	(13,416)
Net increase in financial investments	(1,708,581)
Liquid assets generated (absorbed) by investment activities	(1,733,014)
Share capital increase	133
Change in shareholders' equity - Group	(125)
Liquid assets generated (absorbed) by financing activities	8
Dividends distributed	(65,160)
CASH FLOW FOR THE PERIOD	93,211
CLOSING LIQUID ASSETS	189,220

Euro thousands	31.12.98	31.12.97
A) DUE FROM SHAREHOLDERS FOR SHARE CAPITAL STILL TO BE PAID IN	0	0
B) INTANGIBLE ASSETS		
1. Unamortised acquisition commissions	197	794
2. Other acquisition costs	0	0
3. Goodwill	0	0
4. Other intangible assets	7,122	4,579
5. Consolidation difference	0	0
TOTAL INTANGIBLE ASSETS	7,319	5,373
C) INVESTMENTS		
I - Land and buildings	131,451	135,941
II - Investment in Group companies and other companies		
1. Shares and quotas in		
a) parent companies	0	0
b) subsidiary companies	74,890	63,185
c) affiliated companies	52	53
d) associated companies	0	0
e) other companies	1,034	1,034
2. Bonds	0	0
3. Financial loans	310	1,549
TOTAL INVESTMENT IN GROUP COMPANIES AND OTHER COMPANIES	76,285	65,821
III - Other financial investments		
1. Shares and quotas	1	66,401
2. Quotas of mutual funds	424,635	454,281
3. Bonds and other fixed income securities	2,565,798	1,784,633
4. Financial loans	20,897	15,851
5. Quotas of common investments	0	0
6. Deposits with credit institutions	293,965	0
7. Other financial investments	25,369	317,384
TOTAL OTHER FINANCIAL INVESTMENTS	3,330,665	2,638,549
IV - Deposits with transferring companies	1	2
TOTAL INVESTMENTS	3,538,402	2,840,313
D) INVESTMENTS ALLOCATED TO LIFE POLICYHOLDERS, WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	617,932	438,514
D bis) REINSURERS' SHARE OF TECHNICAL RESERVES		
I - NON-LIFE		
1. Premiums reserve	0	0
2. Claims reserve	0	0
3. Others	0	0
TOTAL NON-LIFE	0	0
II - LIFE		
1. Actuarial reserves	571,651	545,786
2. Reserves for amounts to be paid	1,954	4,054
3. Others	0	0
4. Technical reserves when the risk is shouldered by policyholders and reserves resulting from pension funds management	0	0
TOTAL LIFE	573,605	549,840
TOTAL REINSURERS' SHARE OF TECHNICAL RESERVES	573,605	549,840
E) DEBTORS		
I - Debtors arising out of direct insurance operations	32,296	40,323
II - Debtors arising out of reinsurance operations	42,504	35,997
III - Other debtors	72,909	74,412
TOTAL DEBTORS	147,709	150,732
F) OTHER ASSETS		
I - Tangible assets	5,314	5,251
II - Liquid assets	97,724	49,585
III - Own shares or quotas	6,997	68
IV - Other assets	2,254	4,445
TOTALE OTHER ASSETS	112,289	59,349
G) PREPAYMENTS AND ACCRUED INCOME	37,328	46,150
TOTAL ASSETS	5,034,585	4,090,270

ATTACHMENT 5

IN EURO

BALANCE SHEET ASSETS

SHAREHOLDER'S EQUITY
AND LIABILITIES

Euro thousands	31.12.98	31.12.97
A) CAPITAL AND RESERVES		
I - Pertaining to the group:		
1. Subscribed capital or equivalent	74,812	74,783
2. Net equity reserves	87,529	86,924
3. Consolidation reserve	67,969	52,870
4. Reserve for difference of valuation regarding companies in which investments are held not included in the consolidation area	37,836	34,016
5. Reserve for exchange rate difference	0	0
6. Reserves for own shares and shares of the parent company	6,997	68
7. Profit (loss) for the period	75,455	60,131
TOTAL GROUP SHAREHOLDER'S EQUITY	350,598	308,792
II - Minority interests		
1. Share capital and reserves	0	0
2. Profit (loss) for the period	0	0
TOTAL MINORITY INTERESTS	0	0
TOTAL CAPITAL AND RESERVES	350,598	308,792
B) SUBORDINATED LIABILITIES	0	0
C) TECHNICAL RESERVES		
I - NON-LIFE		
1. Premiums reserve	0	0
2. Claims reserve	0	0
3. Equalization provision	0	0
4. Others	0	0
TOTAL NON-LIFE	0	0
II - LIFE		
1. Actuarial reserve	3,459,668	2,803,830
2. Reserve for amounts to be paid	63,479	22,924
3. Others	22,550	22,602
TOTAL LIFE	3,545,697	2,849,356
TOTAL TECHNICAL RESERVES	3,545,697	2,849,356
D) TECHNICAL RESERVES WHEN THE RISK IS SHOULDERED BY POLICYHOLDERS AND RESERVES RESULTING FROM PENSION FUNDS MANAGEMENT	617,932	438,514
E) PROVISIONS FOR RISKS AND CHARGES		
1. Provisions for retirement pensions and similar obligations	37	32
2. Provision for taxation	31,735	43,352
3. Consolidation provision for future risks and charges	0	0
4. Other provisions	3,189	12,163
TOTAL PROVISIONS FOR RISKS AND CHARGES	34,961	55,547
F) DEPOSITS RECEIVED FROM REINSURERS	455,965	408,328
G) CREDITORS AND OTHER LIABILITIES		
I - Creditors arising out of direct insurance operations	1,181	730
II - Creditors arising out of reinsurance operations	4,984	6,470
III - Debenture loans	0	0
IV - Amounts owed to credit institutions	0	0
V - Secured debts	0	0
VI - Other loans and other financial debts	0	0
VII - Employee termination indemnity	2,780	2,489
VIII - Other creditors	18,292	17,045
IX - Other liabilities	1,424	2,042
TOTAL CREDITORS AND OTHER LIABILITIES	28,660	28,775
H) ACCRUALS AND DEFERRED INCOME	773	959
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	5,034,585	4,090,270
OFF-BALANCE SHEET ITEMS		
I - Guarantees given	2,543	736
II - Guarantees received	12,455	12,455
III - Guarantees given by third parties	0	0
IV - Obligations undertaken	83	253
V - Third party assets	566	767
VI - Pension funds assets managed on behalf of third parties	0	0
VII - Securities in the hands of third parties	3,387,856	2,785,634
VIII - Other off-balance sheet items	17,576	18,812
TOTAL OFF-BALANCE SHEET ITEMS	3,421,078	2,818,659

Euro thousands	31.12.98	31.12.97
1. EARNED PREMIUMS, NET OF REINSURANCE		
a) Gross premiums written	881,707	761,556
b) (-) reinsurance premiums	(47,653)	(51,328)
TOTAL NET PREMIUMS	834,054	710,228
2. (+) ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	184,822	161,590
3. UNREALISED GAINS ON INVESTMENTS ALLOCATED TO LIFE POLICYHOLDERS WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	212,400	21,065
4. OTHER TECHNICAL INCOME, NET OF REINSURANCE	1,533	144
5. CLAIMS INCURRED, NET OF AMOUNTS RECOVERED AND REINSURANCE		
a) Claims paid		
aa) Gross amount	(312,939)	(150,663)
bb) (-) reinsurers' share	29,817	50,378
b) Change in amount recovered net of reinsurance		
aa) Gross amount	(40,554)	(11,009)
bb) (-) reinsurers' share	(2,100)	1,103
TOTAL NET CLAIMS INCURRED	(325,776)	(110,191)
6. CHANGE IN ACTUARIAL RESERVES AND OTHER TECHNICAL RESERVES, NET OF REINSURANCE		
a) Actuarial reserves		
aa) Gross amount	(655,838)	(460,209)
bb) (-) reinsurers' share	25,865	51,377
b) Others		
aa) Gross amount	52	(786)
bb) (-) reinsurers' share	0	0
c) Life insurance reserves when the risk is shouldered by policyholders and deriving from pension funds management		
aa) Gross amount	(179,418)	(234,503)
bb) (-) reinsurers' share	0	0
TOTAL CHANGE IN NET RESERVES	(809,340)	(644,120)
7. REFUNDS AND PROFIT SHARING, NET OF REINSURANCE	0	0
8. OPERATING EXPENSES		
a) Acquisition commissions	(63,347)	(68,078)
b) Other acquisition costs	(1,059)	(1,413)
c) Change in unamortised acquisition commissions and costs	(598)	(832)
d) Collection commissions	0	0
e) Other administrative expenses	(11,962)	(13,059)
f) (-) reinsurers' commissions and profit sharing	7,345	7,685
TOTAL OPERATING EXPENSES	(69,619)	(75,696)
9. UNREALISED LOSSES ON INVESTMENTS ALLOCATED TO POLICYHOLDERS WHO SHOULDER THE RELEVANT RISK AND DERIVING FROM PENSION FUNDS MANAGEMENT	(86)	0
10. OTHER TECHNICAL CHARGES, NET OF REINSURANCE	(273)	(89)
11. TOTAL TECHNICAL ACCOUNT OF LIFE BUSINESS	27,715	62,930

INCOME STATEMENT

TECHNICAL ACCOUNT
OF LIFE BUSINESS

NON-TECHNICAL ACCOUNT

	Euro thousands	31.12.98	31.12.97
1. TOTAL TECHNICAL ACCOUNT OF NON-LIFE BUSINESS		0	0
2. TOTAL TECHNICAL ACCOUNT OF LIFE BUSINESS		27,715	62,930
3. INVESTMENT INCOME			
a) Investment income from shares and quotas			
aa) Results for the year on investments evaluated using the equity method		32,222	28,201
bb) Others		4,659	1,542
b) Other investment income			
aa) Land and buildings		9,407	8,297
bb) Other investments		217,321	205,102
c) Adjustments to the value of financial investments		68	736
d) Gains on the realisation of investments		63,922	24,766
TOTAL INVESTMENT INCOME		327,599	268,644
4. FINANCIAL PAYABLES AND LOSSES ON ASSETS			
a) Investment management expenses and interest on bank loans		(39,495)	(36,399)
b) Adjustments to the value of investments		(3,128)	(8,942)
c) Losses on the realisation of investments		(49,916)	(13,778)
TOTAL FINANCIAL PAYABLES AND LOSSES ON ASSETS		(92,539)	(59,119)
5. (-) ALLOCATED INVESTMENT RETURN TRANSFERRED TO THE TECHNICAL ACCOUNT OF LIFE BUSINESS		(184,822)	(161,590)
6. OTHER REVENUES		18,287	8,774
7. OTHER CHARGES			
a) Interest payable on other financial debts		(9)	(9)
b) Other costs		(30,967)	(35,203)
Total other charges		(30,977)	(35,212)
8. TOTAL ORDINARY OPERATIONS		65,262	84,426
9. EXTRAORDINARY INCOME		38,266	12,595
10. EXTRAORDINARY CHARGES		(393)	(283)
11. TOTAL EXTRAORDINARY OPERATIONS		37,873	12,312
12. PROFIT BEFORE TAXATION		103,135	96,739
13. INCOME TAXES FOR THE YEAR		(27,680)	(36,608)
14. CONSOLIDATED RESULTS		75,455	60,131
15. PROFIT FOR THE YEAR RELATING TO MINORITY INTERESTS		0	0
16. GROUP PROFIT FOR THE YEAR		75,455	60,131

Dear Shareholders,

The consolidated financial statements of the Mediolanum Group at December 31, 1998, which have been prepared by the Board of Directors, can be summarised as follows:

I. Balance sheet

Lire millions

Assets	9,748,316
Liabilities	(9,069,463)
Capital	(144,856)
Reserves	(387,896)
Profit for the year	146,101

Off-balance sheet items totalling Lire 6,624,130 millions are also shown.

II. Income statement

Lire millions

Total technical account of Life business	53,663
Investment income	634,320
Financial payables and losses on assets	(179,181)
Allocated investment return transferred to the technical account of Life business	(357,866)
Other revenues	35,408
Other charges	(59,979)
Total ordinary operations	126,365
Total extraordinary operations	73,332
Taxation	(53,596)
Profit for the year	146,101

The Board of Directors provides information regarding the factors, which influenced operations in the Directors' report and the Notes to the consolidated financial statements and provides a commentary on the individual balances. In addition to the consolidation methods (on a "line-by-line basis" for the parent company and the subsidiary companies Mediolanum Vita S.p.A. and Partner Time S.p.A.; on an "equity basis" for the other subsidiaries) and accounting policies, it also provides information regarding the companies included in the consolidation.

The Statutory Auditors declare, in terms of their engagement and on the basis of information available to them, that:

- the consolidated financial statements have been drawn up according to the accounting method for insurance companies, in compliance with the provisions of Law Decree no. 173/97 and responding to the request expressed by Isvap, and correspond with the accounting records of the parent company as integrated with the information relating to consolidated subsidiary companies;
- the Directors' report appears to be suitable and consistent with the consolidated financial statements.

Moreover, in compliance with the recommendations from Consob, the Statutory Auditors state that:

- the information provided by the Board of Directors in its Directors' report, with specific reference to transactions with related parties, is complete. There have been no conflicts of interest, as well as no atypical or unusual operations, which might significantly affect the balance sheet, income and financial situation of the Group;
- during the year information has been exchanged with Arthur Andersen S.p.A., which has been auditing the consolidated financial statements as well as the parent company's financial statements. Although no Auditors' opinion has been issued at this date, there is reason to believe that such opinion will be unqualified by any significant matter regarding these financial statements;
- the measures taken by the Board of Directors to safeguard corporate assets in relation to the "year 2000 problem" were judged as appropriate.

Therefore, the Statutory Auditors express the opinion that the consolidated financial statements at December 31, 1998 of the Mediolanum Group correctly represent the balance sheet, income and financial position of the consolidated companies.

Lastly, we would like to point out that the Board of Directors has deemed it appropriate to provide - along with the Directors' report on the consolidated financial statements - also consolidated financial statements compiled on a line-by-line basis.

Milan, April 1, 1999

The Statutory Auditors
Arnaldo Mauri, Chairman
Achille Frattini
Francesco Antonio Giampaolo

REPORT OF THE INDEPENDENT AUDITORS ON THE
CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 1
OF PRESIDENTIAL DECREE No. 136 OF MARCH 31, 1975
(Translation from the Original issued in Italian)

To the Shareholders of
Mediolanum S.p.A.:

1. We have audited the consolidated financial statements of MEDIOLANUM S.p.A. and its subsidiaries 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 consolidated 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 year's consolidated financial statements, which are presented for comparative purposes according to paragraph 4 detailed below, reference should be made to our auditors' report dated April 3, 1998.
3. In our opinion, the consolidated 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 and its subsidiaries, in accordance with the law related to consolidated financial statements. Therefore, we certify the consolidated financial statements of Mediolanum S.p.A. and its subsidiaries as of December 31, 1998.

4. As indicated in the explanatory notes, following the implementation of the Legislative Decree no. 173/97, from 1998 the Group has adopted the consolidated financial statement format for insurance companies. In compliance with the provisions of this Decree, the area of consolidation has also been modified so that, in 1998, it only includes the parent company and those subsidiaries which carry out insurance or similar activities, whereas in the previous year it included all the subsidiaries. In order to allow the comparison of the data with those of the previous year, the consolidated financial statement items of 1997 have been presented on a consistent basis with 1998 with reference both to the format of the financial statements adopted and with the composition of the area of consolidation.

ARTHUR ANDERSEN S.p.A.



Riccardo Azzali - Partner

Milan, Italy,
April 13, 1999

MEDIOLANUM S.P.A.

*FINANCIAL STATEMENTS
AT DECEMBER 31, 1998*



Ordinary Shareholders' meeting of April 28, 1999

SUMMARY OF RESOLUTIONS AT THE MEETING

In the presence – either in person or by proxy – of no. 36 shareholders representing no. 545,911,859 shares, amounting to 75.37% of the Company's share capital, the meeting unanimously resolved to:

- approve the financial statements as at December 31, 1998, and the Board of Directors' report;
- allocate the profit for the year of Lire 91,121,120,739 as follows:
 - Lire 4,556,056,037, representing 5% of the profit for the year, to the legal reserve;
 - Lire 110 to each share with a nominal value of Lire 200, in the form of a gross dividend before the withholding tax, with the exclusion of own shares held at the night of May 21, 1999;
 - the remaining amount to the extraordinary reserve;
- pay the proposed dividend to the shareholders as of May 31, 1999, reminding that it will be subject to the allocation of a full tax credit of 58.73%;
- give the administration of the Company to a Board of Directors with 10 members;
- appoint the following people as Directors for this year and the two following years until such time as the financial statements as at December 31, 2001 are approved: Marina Berlusconi, Ennio Doris, Massimo Antonio Doris, Alessandro Grimaldi, Edoardo Lombardi, Alfredo Messina, Stefano Preda, Paolo Sciumè, Claudio Sposito, Antonio Zunino (apart from Mr Alessandro Grimaldi, this is a renewal of their appointments);
- confirm Mr Stefano Preda as Chairman of the Board;
- calculate Lire 1,600,000,000 as overall gross annual emoluments for the Board of Directors;
- appoint the Board of Statutory Auditors for the next three years, according to the procedure envisaged at Article 23 of the current articles of association (register vote), as follows:
 - Arnaldo Mauri, Chairman of the Board of Statutory Auditors;
 - Achille Frattini, Statutory Auditor;
 - Francesco Antonio Giampaolo, Statutory Auditor;
 - Francesco Vittadini, Substitute Statutory Auditor;
 - Ferdinando Gatti, Substitute Statutory Auditor;
- determine the remuneration of the Statutory Auditors as follows:
 - Lire 60,000,000 to the Chairman of the Board of Statutory Auditors;
 - Lire 40,000,000 to each Statutory Auditor;

- give, under Article 159 of Law Decree no. 58/98, the task of auditing the financial statements and the Group consolidated financial statements, for the years 1999, 2000 and 2001, to the Auditing company “Arthur Andersen S.p.A.” for an overall annual remuneration of Lire 150,000,000;
- give the task of carrying out a limited audit of the half-year report and the consolidated half-year report as of June 30, 1999, 2000 e 2001 to “Arthur Andersen S.p.A.” for an overall annual remuneration of Lire 102,000,000.

During the Board of Directors’ meeting of April 30, 1999 the following positions were confirmed:

- Mr Alfredo Messina as Deputy Chairman;
- Mr Edoardo Lombardi as Executive Vice President;
- Mr Ennio Doris as Chief Executive Officer;
- Mr Sebastiano Unali as Secretary of the Board.

Consob notice of February 20, 1997

With reference to the communication to the side, it is hereby confirmed that each member of the Board, as indicated in the Directors' report in the 1996 and 1997 Annual Reports, has been given the following delegations, hereby precisely stated:

- It is the Chairman's legal right, under the articles of association, to undertake the legal representation of the Company, with power to sign.
- It is the Deputy Chairman's legal right, under the articles of association, to undertake the legal representation of the Company, with power to sign, and to take the place of the Chairman in the event of the latter's absence or impediment. The Deputy Chairman is also conferred all ordinary administration powers, with power to sign, as well as the functional and management responsibility in the following areas: fiscal matters, corporate matters, business administration and control, finance, legal matters and internal audit.
- It is the Executive Vice President's legal right, under the articles of association, to undertake the legal representation of the Company, with power to sign, and to take the place of the Chairman in the event of his and the Deputy Chairman's absence or impediment. The actual exercise of the corporate representation powers by a Vice Chairman is evidence in itself of the Chairman's absence or impediment.
- It is the Chief Executive Officer's legal right, under the articles of association, to undertake the legal representation of the company, with power to sign. The Chief Executive Officer is also conferred all ordinary and extraordinary administration powers, within the limits stated in the Company's articles of association.

Directors' report on the financial statements at December 31, 1998

Dear Shareholders,

we present, for your examination and approval, the financial statements at December 31, 1998. They show a net profit of Lire 91,121,120,739 (1997: Lire 79,669,077,494), after taxation of Lire 25,520,401,734 (1997: Lire 36,407,248,200) and depreciation, amortisation and write-downs totalling Lire 3,584,908,072 (1997: Lire 3,560,780,716).

The consolidated financial statements, which are covered in the Directors' report on the Group, show a net profit of Lire 146.1 billion (1997: Lire 116.4 billion) and consolidated shareholders' equity at December 31, 1998 of Lire 678.8 billion (1997: Lire 597.9 billion).

Group return on equity amounts to 21.5% (1997: 19.46%).

During the year, your company and its subsidiaries have strengthened their position in the Italian financial market. The supply and distribution of insurance, financial and pension products for households was carried out in synergy by an insurance company, two mutual funds management companies (one based in Ireland) and by the bank as well as other minor companies.

The total assets administered by the Group at December 31, 1998 amounted to Lire 18,107 billion, with a 29% increase over the previous year.

In line with the Group's strategy of being constantly geared towards innovation, a new fund management structure was set up within the subsidiary Mediolanum International Funds Ltd, which distributes multi-compartment funds also in Italy through Banca Mediolanum.

Our customer loyalization project was implemented thanks to Banca Mediolanum, by means of the joint activity of the Call Center and our financial consultants network.

The Life insurance sector was made leaner by concentrating new product development, management and creation activities in one single company, Mediolanum Vita S.p.A. Such efforts have led to the creation of Europension, a unit linked product, and the launch of the campaign for the transformation of traditional policies. Our existing customers can get access to Europension without any added costs.

There was innovation in the banking sector as well. Through the Bank Call Center, our customers can talk to the Mediolanum world. Customers can make debit, investment and divestment operations on Italian products, and this opportunity will soon apply to the products distributed by Mediolanum International Funds Ltd, too. In the near future, operations through the

THE ACTIVITIES OF
THE MEDIOLANUM
GROUP

Internet will be possible, in order to meet the needs of our most sophisticated customers as well.

THE ACTIVITY AS THE GROUP'S PARENT COMPANY

During 1998, the Group's parent company carried on with co-ordinating operations as well as promoting the image of the Group.

THE OPERATING ACTIVITY

Operations as insurance agents of the subsidiary company Mediolanum Vita S.p.A. were carried out either directly or indirectly through the subsidiary companies' sales networks.

Revenues from this activity totalled Lire 199,690 million (1997: Lire 220,796 million). Lire 190,081 million of this amount was derived from business on behalf of the subsidiary company and Lire 9,609 million on behalf of Mediolanum Assicurazioni S.p.A. The latter is a company jointly owned (50-50) by the Fininvest Group and the Doris Group based on a contractually defined relationship and at market value. The decrease is linked to the change in the mix of insurance products that were sold, which is pushing single premium products in line with market demand.

The costs related to this activity consist of commissions paid to the subsidiary company Banca Mediolanum S.p.A. for a total of Lire 122,422 million (1997: Lire 133,726 million). This represents remuneration for brokerage activities performed as an insurance sub-agent and is calculated on a contractual basis. Overheads amounted to Lire 23,731 million (1997: Lire 20,270 million.).

THE MOST SIGNIFICANT EVENTS OF 1998

PI Distribuzione S.r.l. was set up on March 3, 1998, with a share capital of Lire 1 billion. This company will take the place of Programma Italia Distribuzione S.p.A. (which merged into Banca Mediolanum S.p.A.) in real estate brokerage.

A capital increase of Lire 1,400 million was underwritten and paid-up for the subsidiary Mediolanum Comunicazione S.r.l., with the objective of strengthening the company's assets by modernising its equipment.

A capital increase of Lire 1,500 million was underwritten and paid-up for the subsidiary Mediolanum Borsa S.I.M.p.A. This company has obtained all necessary authorizations, and will develop the management of contractual pension funds as well as the assets of agencies and foundations.

In December, Lire 10 billion was paid into the capital fund of the subsidiary Banca Mediolanum S.p.A.

It should be noted that, besides working as insurance brokers, contractually

defined commercial transactions at market value were maintained with the subsidiaries during the year, the main aim of such transactions being the technical and administrative co-ordination of the operations of these subsidiaries. All such transactions were entered into after having fully evaluated their advantages for both parties.

Following a specific resolution made by the Assembly, no. 2,639,500 own shares (amounting to Lire 527,900,000 at nominal value, equal to 0.36443% of share capital) were purchased at a total cost of Lire 21,425 million. A "Reserve for Company's own shares" was set up. Deducting the 982,000 shares disposed of (amounting to Lire 196,400,000 at nominal value, equal to 0.13558% of share capital), a net gain of Lire 1,526 million was obtained. At the end of the year, the no. 1,682,500 own shares held, amounting to Lire 336,500,000 at nominal value, represent 0.23230% of share capital.

Banca Mediolanum S.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 25,000,000,000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 608 million (1997: Lire 8,949 million).

Gross sales of mutual funds amounted to Lire 4,334 billion (+46% over 1997), and entry commissions amounted to Lire 111.6 billion (+97% over 1997).

Management commissions amounted to Lire 49.4 billion (-12% over 1997).

The insurance business generated commissions totalling Lire 122.4 billion (+18,4% over 1997). The amount of commissions paid to licensed financial consultants is in line with the management policies mentioned. These totalled Lire 201 billion (+48,8% over 1997).

There were no. 3,192 licensed financial consultants and producers in the sales force at December 31, 1998.

The increase in operating expenses can be linked to the expenses incurred for the launch of the bank.

Post balance sheet events make a positive future operating trend seem likely.

Mediolanum Vita S.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 170,000,000,000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of

THE PERFORMANCE
OF COMPANIES
IN WHICH
INVESTMENTS
ARE HELD

Directors, show a profit for the year of Lire 44,763 million (1997: Lire 28,682 million).

This result was achieved thanks to the good performance in terms of premiums written and the effective management of assets and finances.

Summary of balance sheet and income statement information

The main balance sheet categories can be summarized as follows:

Lire millions	31.12.98	31.12.97
Real estate investments	287,227	286,427
Security investments	6,537,937	4,434,015
Gross Life insurance reserves	6,742,515	5,407,620
Index/unit linked reserves	1,196,484	849,081
Technical reserves	6,502,613	5,073,737
Net Life insurance reserves	5,635,644	3,819,507
Shareholders' equity	401,092	302,489
Solvency margin	304,444	236,028
Assets backing technical reserves	6,502,613	5,073,737
Assets backing index-unit reserves	1,196,484	849,081

Premiums written during 1998 totalled Lire 1,615 billion (+16% over 1997).

At December 31, 1998, actuarial reserves amounted to Lire 7,938,999 million.

The solvency margin amounts to Lire 304,444 million while net assets available to cover it amount to Lire 393,602 million, around 1.3 times the solvency margin.

Based on the performance in the first few months of 1998, a positive result seems likely.

Mediolanum Gestione Fondi S.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 10,000,000,000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 46,940 million (1997: Lire 42,567 million).

The company manages open-ended mutual funds pursuant to Law no. 77 of March 23, 1983.

Gross sales of mutual funds in the year amounted to Lire 2,664 billion (-25,2% over 1997), while net sales of mutual funds were negative for Lire 1,617 billion (1997: Lire 33 billion).

The decrease in the level of net assets managed is attributable to divestments made by customers and the falling financial markets where the mutual funds have invested.

The net assets managed by the company at December 31, 1998 amounted to Lire 7,256 billion (1997: Lire 8,307 billion).

Management commission revenues amounted to Lire 135.2 billion (13.11%, 1997), other administration expenses were restricted to Lire 17.4 billion.

This year is likely to be positive, on the basis of the first few months of the year.

PI Distribuzione S.r.l. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 1,000,000,000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 593 million.

The company is involved in real estate brokerage for the tourist industry.

Commission income amounted to Lire 4,462 million, compared to commissions allocated to the sales network for Lire 2,526 million. Brokerage activities were carried out on behalf of Porto Rafael, a company indirectly controlled by the Doris Group and the Fininvest Group.

This year is likely to have a positive result.

Partner Time S.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 1.000.000.000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 1,308 million (1997: Lire 162 million).

The company distributed the insurance products of the associated company Partner Life, until the latter was merged with Mediolanum Vita S.p.A., operating in a market segment that is not covered by the main sales network of the Mediolanum Group (Banca Mediolanum S.p.A.). Sales of new premiums amounted to Lire 10.9 billion (1997: Lire 11 billion), commission revenues amounted to Lire 13,106 million (1997: Lire 8,457 million) while the cost of services received totalled Lire 9,466 million (1997: Lire 6,759 million).

This year is likely to have a positive result.

Mediolanum Borsa S.I.M.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 5,000,000,000 wholly paid-up.

The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 221 million (1997: Lire 124 million).

The company has acted as a stockbroker on behalf of funds managed by the Group companies.

Brokerage volumes amounted to Lire 1,271 billion (1997: Lire 1,934 billion). Brokerage revenues totalled Lire 1,450 million (1997: Lire 2,400 million). It is expected that this year will be influenced by the costs shouldered to promote the contractual pension fund activity. At the moment, the company has changed its name into Mediolanum State Street S.I.M.p.A., and is 50% owned.

Mediolanum Fiduciaria S.p.A. (100% owned)

Head office: Basiglio (Milan) – Share capital: Lire 1,000,000,000 wholly paid-up. The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 26 million (1997: Lire 27 million). The company is a trust company without discretionary power and it manages residual client balances that were previously converted into debenture loans and other securities issues. Such items expired in 1998, and the mandates previously received ended. The company's future activities are being evaluated.

Mediolanum Comunicazione S.r.l. (100% owned)

Head office: Basiglio (Milan) – Share capital: 1,500,000,000 wholly paid-up. The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 65 million (1997: Lire 286 million). The company operated within the Mediolanum Group with the aim of providing other Group companies with highly innovative communication support. Besides the usual audio and TV productions, the company created the Group Flexible Intelligent Network, which connects the sales force and head office by means of cellular equipment. Operating revenues totalled Lire 11,245 million (1997: Lire 7,816 million).

Mediolanum International Funds Ltd (100% owned)

Head office: Dublin (Ireland) – Share capital: 120,000 Irish punts wholly paid-up. The financial statements at December 31, 1998, approved by the Board of Directors, show a profit for the year of Lire 14,179 million. The company manages mutual funds according to Irish law. Underwriting commissions amounted to Lire 42.9 billion, management commissions totalled Lire 22.8 billion.

The following significant events have occurred since the end of the year:

- On February 24, a resolution was passed to increase the share capital of Banca Mediolanum S.p.A., from Lire 25 billion to Lire 35 billion, by using the Lire 10 billion paid into the capital account in December 1998.
- In March, a bank–assurance agreement was stipulated between the Group and Banca Popolare Vicentina. Two companies will be created by the agreement, a Life insurance company and a savings management company with the objective of investing the company assets. The overall investment will amount to around Lire 30 billion. The two companies will be 60% owned by Banca Popolare Vicentina and 40% owned by Mediolanum Group, which will act as technical partner. The two companies are expected to start business in autumn.
- On March 22, 1999 50% of Mediolanum Borsa S.I.M.p.A. was sold. The new company is jointly owned (50-50) by Mediolanum S.p.A. and State Street Bank Europe Ltd and has taken the name of Mediolanum State Street S.I.M.p.A.

The first two months of 1999 have shown an extremely positive trend, with particular reference to Life premium sales and the growth of the overall assets under administration.

On the basis of the positive results emerging from the subsidiaries' financial statements at December 31, 1998, which have been examined by the respective Boards of Directors, it is considered that 1999 is certain to have positive results. No alterations have been made to the measures adopted by the Board of Directors following the Consob notice of February 20, 1997, "Guidelines for best practice on Corporate Governance", which recommended measures were adopted during 1998. There have been no transactions with atypical or unusual parties.

Under art. 33 of the Consob resolution no. 11520 of July 1, 1998, Table 3 is attached and forms an integral part of this report. It has been drafted according to the criteria defined in the above mentioned Consob deliberation no. 11520 – showing the interests in Mediolanum S.p.A. or in its subsidiaries directly or indirectly held by directors, auditors, general managers or other subjects as per art. 33.

THE MILLENNIUM BUG

Consob, by means of a notice of October 9, 1998, prot. DAC98079574, recommended the following to all companies with shares floated in regulated markets:

- to take all necessary steps, by means of internal or external resources, in order to guarantee the absence of significant events linked to the problem above;
- to carry out an overall examination of the risks deriving from commercial or financial relationships with third parties;
- to report the results of this monitoring activity to the Statutory Auditors and the Independent Auditors, and to communicate the steps to be taken as well as their time schedule.

With regard to this, the Mediolanum Group took the first steps towards the solution of the “millennium bug” two years in advance.

A study was carried out in early 1998 to determine the extent of work to be done to solve the problems linked to the year 2000. This study showed that over 80% of corporate applications and 100% of the hardware installed required adjustments.

A team was set up to implement the project, with technical staff and representatives of all corporate functions. Agreements were signed with IBM, which provides technical consulting, methodological support and development resources to update the software of the Mediolanum Group.

Our outsourcer for the banking area, Cedacri Ovest, guarantees that the relevant changes in the applications concerned are made. So far, all corporate application software and hardware have been examined, and about 80% of necessary modifications have been made.

Administrative software is being replaced with a widely popular market product (SAP/R3), in line with the year 2000 requisite.

All necessary adjustments to the corporate software and hardware, including tests, are expected to be made by the end of August 1999.

Contingency procedures to adopt in the event of emergencies after the beginning of the new millennium will be defined by the same date.

The project's progress has been subjected to checks since January 1999 by the main software suppliers of the Mediolanum Group, by requesting product and service Certification or by means of questionnaires for the assessment of the state of the project.

The overall budget for the project amounts to Lire 5 billion (VAT included) including hardware and software, Lire 3,5 billion of which was spent during 1998.

Dear Shareholders,

We can confirm that the financial statements at December 31, 1998, here presented for your examination and approval, have been prepared in accordance with existing legal requirements. We invite you to approve the financial statements and this Directors' report and we propose to allocate the profit for the year of Lire 91,121,120,739 as follows:

- Lire 4,556,056,037, equal to 5%, to the legal reserve;
- Lire 110 as dividends to the shareholders for each share with a nominal value of Lire 200, before taxes, with the exception of own shares held at the night of May 21, 1999;
- the remaining amount to go to the extraordinary reserve.

For the Board of Directors

The Chairman

Stefano Preda

TABLE 3

SHARES HELD BY
DIRECTORS, AUDITORS
AND GENERAL MANAGERS

Name	Company	
LOMBARDI EDOARDO	MEDIOLANUM S.p.A. - Executive Vice President	(di)
DORIS ENNIO	MEDIOLANUM S.p.A. - Chief Executive Officer	(di)
		(ii)
		(u)
		(s)
DORIS MASSIMO ANTONIO	MEDIOLANUM S.p.A. - Director	(bo)
FRATTINI ACHILLE	MEDIOLANUM S.p.A. - Statutory Auditor	(s)

NOTE: (1) nominal value Lire 200
 (2) same shares mentioned in "table 2" attached to the notes to the financial statements
 (di) direct interest
 (ii) indirect interest
 (u) joint usufruct with the spouse
 (s) spouse
 (bo) bare ownership

Number of shares (1) held at the end of the previous year (31.12.97)	Number of shares (1) purchased in 1998	Number of shares (1) sold in 1998	Number of shares (1) owned at the end of the year (31.12.98)
=	120,000	=	120,000 (2)
19,720,000	19,870,070	14,475,000	25,115,070
162,800,000	93,290,125	68,783,400	187,306,725
46,260,000	28,950,000	46,260,000	28,950,000
19,720,000	19,863,205	14,475,000	25,108,205
23,130,000	14,475,000	23,130,000	14,475,000
17,500	=	17,500	=

MEDIOLANUM S.P.A.

***FINANCIAL STATEMENTS
AT DECEMBER 31, 1998***



Balance sheet

ASSETS	Lire	31.12.98	31.12.97
A) DUE FROM SHAREHOLDERS FOR SHARE CAPITAL STILL TO BE PAID IN		0	0
B) FIXED ASSETS			
I - Intangible assets:			
Start-up and expansion costs		3,202,333,910	5,038,298,511
Patents and intellectual property rights		5,532,105	173,794,510
Concessions, licences, trademarks and similar rights		421,547,048	468,151,704
Other intangible assets		1,118,063,532	951,973,141
Intangible assets under formation and advances		1,088,461,232	199,886,172
TOTAL I		5,835,937,827	6,832,104,038
II - Tangible fixed assets:			
Plant and machinery		23,950,130	37,822,190
Other assets		3,809,868,459	3,037,833,054
Assets under construction/Payments on account		0	569,090,722
TOTAL II		3,833,818,589	3,644,745,966
III - Financial assets:			
Investments in:			
subsidiary companies		279,281,551,664	215,484,102,684
other companies		2,075,428,000	2,078,428,000
paid into fund for investment		10,000,000,000	0
Amounts receivable:			
from subsidiary companies		666,180,925	3,063,162,175
of which Lire 600,000,000 due within one year			
from other companies		1,077,362,075	606,004,841
TOTAL III		293,100,522,664	221,231,697,700
TOTALFIXEDASSETS		302,770,279,080	231,708,547,704
C) CURRENT ASSETS			
I - Inventory		0	0
II - Debtors:			
Trade accounts		528,295,953	527,291,234
Due from subsidiary companies		25,864,060,847	19,354,022,002
Due from shareholders		0	0
Due from Fininvest Group and Doris Group companies		775,626,831	1,306,944,631
Due from others		60,792,645,337	70,247,509,967
TOTAL I-II		87,960,628,968	91,435,767,834
III - Current financial assets			
Other investments		1,140,000	1,140,000
Own shares held (overall nom, value Lire 336,500,000)		13,547,594,085	132,250,000
Other securities		30,794,675,488	47,745,344,750
TOTAL III		44,343,409,573	47,878,734,750
IV - Liquid assets:			
Bank and postal deposits		10,330,237,034	51,542,733,004
Cash in hand		19,448,762	15,526,338
TOTAL IV		10,349,685,796	51,558,259,342
TOTALCURRENTASSETS		142,653,724,337	190,872,761,926
D) PREPAYMENTS AND ACCRUED INCOME			
Accrued income		940,863,264	1,058,645,931
Prepayments		247,179,297	216,797,354
TOTALPREPAYMENTSANDACCRUEDINCOME		1,188,042,561	1,275,443,285
TOTAL ASSETS		446,612,045,978	423,856,752,915

Lire	31.12.98	31.12.97
A) CAPITAL AND RESERVES		
I - Share capital	144,856,000,000	144,800,000,000
II - Share premium reserve	88,077,840,000	88,000,000,000
III - Revaluation reserves	0	0
IV - Legal reserve	17,523,857,949	13,540,404,074
V - Reserve for company's own shares	13,547,594,085	132,250,000
VI - Statutory reserves	0	0
VII - Other reserves:		
extraordinary reserve	63,878,404,460	66,768,124,926
VIII - Retained earnings (losses)	0	0
IX - Profit for the year	91,121,120,739	79,669,077,494
TOTAL CAPITAL AND RESERVES	419,004,817,233	392,909,856,494
B) PROVISIONS FOR RISKS AND CHARGES		
Deferred taxation provision	705,375,000	1,398,952,500
Other	2,087,731,004	3,063,991,216
TOTAL PROVISIONS FOR RISKS AND CHARGES	2,793,106,004	4,462,943,716
C) EMPLOYEE TERMINATION INDEMNITY		
	3,421,904,062	2,870,453,642
D) CREDITORS		
Trade accounts	3,607,173,359	3,416,142,421
Due to subsidiary companies	10,860,114,050	11,944,801,326
Due to Fininvest Group and Doris Group companies	1,464,358,120	1,095,901,208
Due to shareholders	9,712,736	33,628,958
Due to tax authorities	3,683,683,695	5,670,910,902
Due to social security institutions	906,896,138	736,221,417
Other creditors	353,400,067	296,958,482
TOTAL CREDITORS	20,885,338,165	23,194,564,714
E) ACCRUALS AND DEFERRED INCOME		
Accrued expenses	506,880,514	418,934,349
TOTAL ACCRUALS AND DEFERRED INCOME	506,880,514	418,934,349

SHAREHOLDER'S EQUITY AND LIABILITIES

TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	446,612,045,978	423,856,752,915
OFF-BALANCE SHEET ITEMS	52,999,311,613	91,605,397,254

Income statement

Lire	31.12.98	31.12.97
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	199,689,679,194	220,796,006,936
sale of real estate	0	2,700,000,000
2) Changes in properties held for resale	0	(2,619,475,500)
5) Other revenues	3,996,143,946	3,835,721,661
TOTAL VALUE OF PRODUCTION	203,685,823,140	224,712,253,097
B) COST OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods	684,231,496	557,398,450
7) Services received	135,416,416,677	148,709,436,214
8) Leases and rentals	2,566,147,610	2,029,191,207
9) Personnel costs:		
wages and salaries	11,612,284,678	9,475,221,054
social security contributions	4,066,914,233	3,921,774,600
employee termination indemnity	825,524,329	647,473,263
10) Depreciation, amortisation and write-downs:		
amortisation of intangible assets	2,622,954,146	2,462,253,299
depreciation of tangible fixed assets	961,953,926	1,084,247,417
write-downs of receivables included in current assets	0	14,280,000
14) Sundry operating costs	393,272,135	92,698,186
TOTAL COST OF PRODUCTION	159,149,699,230	168,993,973,690
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	44,536,123,910	55,718,279,407
C) INVESTMENT INCOME AND CHARGES		
15) Income from investments:		
in subsidiary companies	53,500,000,000	48,080,000,000
16) Other investment income:		
from receivables from subsidiaries included		
in fixed assets	108,802,264	389,562,231
from securities included in current assets	4,444,154,266	4,524,609,889
other financial income	3,812,890,164	5,796,511,346
17) Interest and other investment charges:		
paid to banks	(277,027)	0
discounts and other investment charges	(7,125,814)	(21,430,383)
TOTAL INVESTMENT INCOME AND CHARGES	61,858,443,853	58,769,253,083
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL INVESTMENTS		
18) Write-ups:		
of investments	0	743,318,293
19) Write-downs:		
of financial assets which are not investments	(215,443,336)	0
TOTAL ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS	(215,443,336)	743,318,293
E) EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
gains on disposals	1,715,965,226	146,101,046
out of period revenues	8,738,528,876	420,536,501
other	206,652,871	428,743,479
21) Charges:		
losses on disposals	(63,379,881)	(4,228,183)
out of period expenses	(135,369,046)	(145,677,932)
TOTAL EXTRAORDINARY ITEMS	10,462,398,046	845,474,911
PROFIT BEFORE TAXATION	116,641,522,473	116,076,325,694
22) Income taxes for the year	(25,520,401,734)	(36,407,248,200)
PROFIT FOR THE YEAR	91,121,120,739	79,669,077,494

Notes to the financial statements at December 31, 1998

FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the provisions of the Italian Civil Code (C.C.). They consist of the balance sheet (prepared in the format required by Article 2424 and 2424 II of the C.C.), the income statement (prepared in the format required by Article 2425 and 2425 II of the C.C.) and these notes, which provide the information required by Article 2427 of the C.C., by other provisions of the C.C., which relate to financial reporting and by other prior legislation. In addition, such information that is considered necessary to give a true and fair representation is provided, even though it may not be required by law. Specifically, a cash flow statement and an analysis of movements in capital and reserves are provided.

The financial statements are in Lire, as required by Law Decree no. 213 of June 24, 1998. However, in order to provide clear information in line with data from the financial market, the financial statements were also converted in Euro, at the exchange rate of Lire 1,936.27 per 1 Euro (Attachment 6).

The most significant accounting policies that were adopted in the preparation of the financial statements at December 31, 1998, in accordance with Article 2426 of the Italian Civil Code, are as follows:

ACCOUNTING POLICIES

Intangible assets are recorded at cost, inclusive of incidental expenses, as adjusted by direct amortisation over a five-year period, except for trademarks, which, from the current year, are amortised over ten years, in line with tax regulations. Start-up and expansion costs were capitalised with the approval of the Statutory Auditors.

INTANGIBLE ASSETS

Tangible fixed assets are recorded at purchase cost, inclusive of incidental expenses and direct and indirect costs that are attributable to the asset in question, and net of accumulated depreciation. Tangible fixed assets are depreciated on a straight-line basis at depreciation rates that reflect the remaining useful life of the asset concerned. Tangible fixed assets purchased during the year are depreciated at 50% of ordinary rates to reflect their reduced utilisation. There have been no changes to depreciation policy.

TANGIBLE FIXED ASSETS

Investments are valued at cost, using historic exchange rates.

INVESTMENTS (INCLUDED IN FIXED ASSETS)

Debtors are included at their estimated realisable value.

DEBTORS

CURRENT INVESTMENTS AND SECURITIES	These are shown at the lower between purchase cost (calculated using the weighted average cost criterion) or value brought forward from last year and market value, which, for listed investments, is calculated on the basis of the average listed price for the month of December. Non listed investments are shown at nominal value, which will not be higher than their estimated realisable value.
ACCRUALS AND DEFERRALS	Reflect adjustments to match costs and revenues to the accounting periods to which they relate.
PROVISIONS FOR RISKS AND CHARGES	These provisions cover known or likely losses; the timing and extent of these losses cannot be determined at year-end. The provisions reflect the best estimate of the expected losses, based on the information available.
EMPLOYEE TERMINATION INDEMNITY	This provision covers the liability to all employees for termination indemnities accrued in accordance with existing laws (Article 2120 of the Italian Civil Code) and specific national or company wage-bargaining contracts. This liability is subject to annual adjustments based on official indices.
INCOME TAXES	This is provided for on the basis of estimated taxable income in accordance with current tax laws, taking into account any available exemptions and tax credits. In addition, deferred taxation is provided on timing differences between reported results and taxable income.
CREDITORS	These are stated at nominal value.
OFF-BALANCE SHEET ITEMS	Securities and other assets in the safekeeping of third parties and guarantees are stated at nominal value, while leased or hired assets are shown at contractual value.
REVENUES AND EXPENSES	Revenues and expenses are recorded on an accrual basis. Dividends are recorded in the accounting period in which they are received.
OTHER INFORMATION	In accordance with the decision by Consob (no. 11520 of July 1, 1998), Tables 1 and 2 are added to the financial statements, as integral part thereof. These are drafted following the criteria given in this resolution by Consob regarding paid fees and stock-options attributed to Directors, Auditors and general managers in 1998.

There were no exceptional circumstances, which required the company not to comply with legislation regarding financial statements (under Article 2423, clause 4 of the Italian Civil Code). Adjustments due to the introduction of the Euro have been carried out using the company's own resources.

Attachments showing historic cost, accumulated depreciation and amortisation, changes for the year and the closing balance are provided for in the three fixed asset categories (intangible assets, tangible fixed assets and financial assets).

BALANCE SHEET
INFORMATION
ASSETS

Intangible assets (Attachment 1)

FIXED ASSETS

Intangible assets include:

Start-up and expansion costs: Lire 3,202 million (1997: Lire 5,038 million)

The decrease is due to the amortisation charge for the year.

These costs are amortised over five years, since it is believed that they will continue to produce economic benefits for at least five financial periods.

Under Italian law (Article 2426 of the Civil Code), until such costs have been fully amortised, dividends can only be distributed if residual reserves cover the amount of deferred charges, which have yet to be amortised.

Intellectual property rights: Lire 6 million (1997: Lire 174 million)

Changes, which occurred, are the result of the sale of software utilisation to Fininvest S.p.A., with a gain of Lire 13 million, and the amortisation charge for the year.

Concessions, licences, trademarks and

similar rights: Lire 421 million (1997: Lire 468 million)

Most of the increase for the year relates to software purchased (Lire 251 million), while the decrease consists of the amortisation for the year. The amortisation share of the "trademarks" was adjusted to the provisions as per Article 21 clauses 6 and 7 of Act 449 of December 27, 1997 connected to the 1998 budget, which provides that this item can only be deducted by up to 1/10 of its value. The result of the adjustment amounted to Lire 1 million.

Other intangible assets: Lire 1,118 million (1997: Lire 952 million)

The increase resulted from writing off the Assets under construction/payments on account item due to the completion of improvements at the Company's new Head Office, as well as new purchases in the year for Lire 300 million.

Assets under construction/Payments

on account: Lire 1,088 million (1997: Lire 200 million)

This includes the purchase and implementation of the "SAP" accounting software, which will be used as of 1999. This software is compatible with the year 2000.

Tangible fixed assets (Attachment 2)

These can be analysed as follows:

Plant and machinery: Lire 24 million (1997: Lire 38 million)

The decrease results from the amortisation charge for the year.

Other tangible fixed assets: Lire 3,810 million (1997: Lire 3,038 million)

The additions for the year relate to:

Lire millions

Personal computers	415
Fax machines, modems, data transmission equipment and cellular phones	74
Sundry equipment	236
Office furniture	22
Fittings	83
Motor vehicles	329

The following ordinary depreciation rates were applied:

Other plant and machinery – general and specific	15%
Various equipment	15%
Personal computers, terminals and printers and office machinery	20%
Data transmission equipment and cellular phones	25%
Furniture	12%
Fittings	15%
Motor vehicles	25%

Financial assets

Investments (Attachment 3)

Subsidiary companies: Lire 279,282 million (1997: Lire 215,484 million)

Changes, which took place in 1998 can be summarized as follows:

- the Lire 1,000 million creation of PI Distribuzione S.r.l.;
- the increase in the share capital of the subsidiary companies Mediolanum Comunicazione S.r.l. and Mediolanum Borsa S.I.M.p.A., for an amount of Lire 1,400 million and Lire 1,500 million, respectively;
- the acquisition of 99% of the share capital of Aram S.p.A.;
- the sale of 25% of the share capital of Partner Life S.p.A. to Mediolanum Vita S.p.A., which already held 75%.

Both operations were aimed at the following reorganization of interests:

- on December 16, 1998, Mediolanum Vita S.p.A. merged with Aram S.p.A. and included Partner Life S.p.A. After these operations, the carrying value of Mediolanum Vita S.p.A. amounts to Lire 225,926 million.
- the merger between the subsidiary companies Banca Mediolanum S.p.A. and Programma Italia Distribuzione S.p.A., which took place on July 1, 1998, increased the interest value in Banca Mediolanum S.p.A. by Lire 3,036 million.

A table providing, for each subsidiary, the information required by Article 2427 (5) of the Italian Civil Code is attached (Attachment 4).

Other companies: Lire 2,075 million (1997: Lire 2,078 million)

The Lire 3 million decrease relates to the sale of the interest in Consorzio Vigilanza Mediaset.

Amount paid into fund for investments: Lire 10,000 million (1997: Lire 0)

This relates to the payment for Banca Mediolanum S.p.A. share capital increase, yet to be finalised.

Amounts receivable

From subsidiary companies: Lire 666 million (1997: Lire 3,063 million)

The Lire 3,000 million decrease relates to the discharge of the loan given to Programma Italia Distribuzione S.p.A.; the Lire 600 million increase relates to the credit line given to PI Distribuzione S.r.l., with due date on December 21, 1999, liable to extension, at the official discount rate.

Amounts receivable from Mediolanum Vita S.p.A. increased by Lire 3 million for the capitalisation of interest on the guarantee deposits accrued in the year.

From other companies: Lire 1,077 million (1997: Lire 606 million)

These are analysed as follows:

Lire millions	31.12.98	31.12.97
Amounts due from agents	705	350
Guarantee deposits	117	118
Tax paid in advance on employee termination indemnity	255	138

“Amounts due from agents” decreased by Lire 297 million following the payment of outstanding amounts and increased by Lire 787 million for new situations, which arose in the year due to illegal practices from the agents. The provision for amounts receivable not covered by an insurance policy, amounting to Lire 215 million, was increased. At year-end, the balance of the provision is Lire 585 million, having used Lire 82 million.

The tax paid in advance on employee termination indemnity includes a revaluation of Lire 6 million.

The above mentioned amounts are receivable after more than one year.

CURRENT ASSETS

Debtors

Debtors include:

Trade accounts: Lire 528 million (1997: Lire 527 million)

These are shown net of a provision of Lire 31 million.

Due from subsidiary companies: Lire 25,864 million (1997: Lire 19,354 million)

Analysed as follows:

Lire millions	
Mediolanum Vita S.p.A.	25,149
Partner Time S.p.A.	11
Banca Mediolanum S.p.A.	342
Mediolanum Gestione Fondi S.p.A.	318
Mediolanum Comunicazione S.r.l.	43
PI Distribuzione S.r.l.	1

Receivables from Mediolanum Vita S.p.A. relate to insurance agency activities for Lire 24,819 million; other receivables include the recharge of the cost of staff who worked on behalf of subsidiaries for Lire 927 million, the transfer of employee termination indemnity and the accrued 14th month salary and holiday pay of staff transferred to other Group companies for Lire 117 million.

Due from Fininvest Group and Doris Group

companies: Lire 776 million

(1997: Lire 1,307 million)

Analysed as follows:

Lire millions

Mediolanum Assicurazioni S.p.A.	732
Pagine Italia S.p.A.	28
Standa S.p.A.	16

These relate to a commission of Lire 576 million due from Mediolanum Assicurazioni S.p.A., personnel costs, cost recharges and transfers of provisions accrued in favour of staff transferred out.

Due from other companies: Lire 60,793 million

(1997: Lire 70,248 million)

Analysed as follows:

Lire millions	31.12.98	31.12.97
Due from tax authorities	56,979	70,032
Advances to employees	45	44
Advances to suppliers and consultants	273	11
Others	3,496	161

The amounts "due from tax authorities" mainly relate to requests for the reimbursement of Irpeg (corporate income tax) and Ilor (local income tax) totalling Lire 44,506 million, and interest totalling Lire 11,159 million, the exceeding amounts paid for Irap (regional tax on production) totalling Lire 1,015 million and pre-paid taxes for Lire 80 million. During the year, reimbursements totalling Lire 11,630 million of capital and Lire 4,707 million of interest were received.

"Others" include Lire 3,145 million relating to the compensation for damages arising from the conclusion, in December 1998, of a legal action undertaken by Programma Italia S.p.A.

None of the receivables' balances in current assets includes amounts receivable after more than one year.

Current financial assets

Other investments: Lire 1 million

(1997: Lire 1 million)

Own shares: Lire 13,548 million

(1997: Lire 132 million)

Following the shareholders' meeting resolutions of April 29, 1997 and October 13, 1998 these are held to ensure stability on the stock market.

Purchase and sale operations during the year generated a gain of Lire 1,585

million and a loss of Lire 58 million. The average share price in December was Lire 10,370.66, higher than the average carrying price.

Other securities: Lire 30,795 million (1997: Lire 47,745 million)

These include :

Lire	Carrying value	Current value
CCT 1.11.2002 ABI 36739	3,018,658,613	3,041,700,000
CCT 1.6.2002 ABI 36720	10,116,016,875	10,124,900,000
CCT 1.12.2003 ABI 36729	10,680,000,000	10,792,780,800
CCT 1.1.1999 ABI 36677	5,600,000,000	5,600,000,000
Mediocredito Lombardo Bonds	1,380,000,000	1,380,000,000

These were subject to the following financial flows during the year:

- increases were due to the reimbursement of Irpeg (corporate income tax) totalling Lire 16,280 million;
- disposals during the year amounted to Lire 33,293 million and generated a gain of Lire 108 million.

The carrying value includes the premium or discount to the par value (arising when the securities are subscribed or purchased) for the year of Lire 63 million.

The carrying value of CCT 1.1.99 corresponds to the amount received on their maturity.

Mediocredito Lombardo Bonds were encashed in February 1999 on maturing.

Liquid assets

Bank deposits: Lire 10,330 million (1997: Lire 51,543 million)

These relate to year-end bank current account balances including accrued interest. The liquid funds deposited with the subsidiary Banca Mediolanum S.p.A. amount to Lire 1,076 million.

PREPAYMENTS AND ACCRUED
INCOME

Accrued income: Lire 941 million (1997: Lire 1,059 million)

This relates to interest on securities issued by the Italian state and on bonds.

Prepayments: Lire 247 million (1997: Lire 217 million)

These mainly consist of insurance costs totalling Lire 205 million and, to a much lesser degree, hire charges and other costs relating to 1999.

The changes for the year in the balances that make up capital and reserves are shown in the attachment (Attachment 5).

SHAREHOLDERS' EQUITY
AND LIABILITIES

The following comments relate to the main balances and their respective variations.

CAPITAL AND RESERVES

Share capital

On October 13, 1998 it was decided to split the nominal value of shares from Lire 1,000 to Lire 200 as well as to create an employee savings related share option scheme, which implied, following the resolution taken by the Board of Directors on November 17, 1998, a share capital increase amounting to Lire 56 million on December 23, 1998 through the issue of 280,000 ordinary shares with a nominal value of Lire 200 each, and the exclusion of the Option right for shareholders. After this operation, the share capital is wholly paid-up and amounts to Lire 144,856 million consisting of 724,280,000 ordinary shares with a nominal value of Lire 200 each.

Share premium reserve

The increase relates to the underwriting of new shares issued for the participants in the employee savings related share option scheme.

Legal reserve

The Legal reserve increased following the allocation of 5% of 1997 profits.

Reserve for Company's own shares

This was created out of the Extraordinary reserve, pursuant to Article 2357 III of the Italian Civil Code.

Other reserves

The Extraordinary reserve increased following the allocation of 1997 profits, as per the Shareholders' meeting's resolution of April 28, 1998. The decrease was due to increasing the Reserve for Company's own shares.

The profit for 1997 was allocated as per the resolution of April 28, 1998.

Profit for the year: Lire 91,121 million

(1997: Lire 79,669 million)

This includes the current year profit.

PROVISIONS FOR RISKS AND CHARGES

The composition of and changes in these provisions are as follows:

Lire millions	31.12.97	Increases	Utilisation	31.12.98
Deferred taxation provision	1,399	0	(694)	705
Employees' holiday pay accrual	1,068	351	(249)	1,170
Staff loyalty provision	55	0	(7)	48
Provision for future risks	599	0	0	599
Provision for transactions in options	28	0	0	28
Provision against agents' illegal acts	243	0	0	243
Provision against sales network resignation	1,071	0	(1,071)	0
TOTAL	4,463	351	(2,021)	2,793

The "deferred taxation provision" has decreased in relation to the use of the part relating to this fiscal year.

The "holiday pay accrual" relates to the amount accrued by employees at December 31.

Payments to the sales network came to an end in 1998. The Lire 124 million surplus in the provision was included in the income statement.

The other provisions have decreased following events during the year.

EMPLOYEE TERMINATION INDEMNITY

Changes in Employee termination indemnity during the period were as follows:

Lire millions	Managers	Cler. personnel
Balance at 31.12.97	1,398	1,472
Transfers from other companies	176	134
Promotions to managerial level	45	(45)
Provision for the period	370	455
Transfers to other companies	(67)	(18)
Utilisation	(112)	(215)
Advances made during the year	(55)	(116)
Balance at 31.12.98	1,755	1,667

CREDITORS Trade accounts: Lire 3,607 million (1997: Lire 3,416 million)

This relates to supplies and services received (Lire 2,312 million), professional services (Lire 739 million), emoluments (Lire 424 million), and agents (Lire 132 million).

Due to subsidiary companies: Lire 10,860 million (1997: Lire 11,945 million)

Analysed as follows:

Lire millions	
Mediolanum Vita S.p.A.	87
Banca Mediolanum S.p.A.	10,698
Mediolanum Comunicazione S.r.l.	75

The amount due to Mediolanum Vita S.p.A. relates to the purchase of fixed assets and the charge of costs.

The amount due to Banca Mediolanum S.p.A. relates to commissions for the marketing of insurance products (Lire 10,448 million) and an advance made on behalf of the company (Lire 250 million).

The amount due to Mediolanum Comunicazione S.r.l. relates to services received.

Due to Fininvest Group and Doris Group

companies: Lire 1,464 million

(1997: Lire 1,096 million)

Analysed as follows:

Lire millions

Mediaset S.p.A.	33
Edilnord Gestioni S.p.A.	46
Consorzio Aeromobili	141
ICT Servizi S.r.l.	717
Mondadori Informatica S.p.A.	3
Albacom S.p.A.	337
R.T.I. S.p.A.	36
Elettronica Industriale Sicur. S.r.l.	34
Isim S.p.A.	8
Alba S.p.A.	48
Mediolanum Assicurazioni S.p.A.	42
Mondadori Pubblicità S.p.A.	18
Società Europea S.p.A.	1

These relate to services received in relation to the activities carried out by these companies. The amount due to ICT Servizi relates to the server connection for data processing and professional services.

Due to shareholders: Lire 10 million

(1997: Lire 34 million)

This amount is owed to Fininvest S.p.A. for services received.

Due to tax authorities: Lire 3,684 million

(1997: Lire 5,671 million)

This balance consists of:

- Irpeg (corporate income tax) for the period of Lire 2,566 million, which is shown net of advance payments made totalling Lire 19,750 million, tax credits on dividends of Lire 31,420 million and withholding tax of Lire 1,639 million;
- employee income taxes of Lire 632 million;
- withholding tax on commission of Lire 466 million;
- withholding tax of Lire 19 million on dividends paid in the second half of 1998;
- VAT of Lire 1 million.

Due to social security institutions: Lire 907 million (1997: Lire 736 million)

This represents the accrued amounts due to Inps, Inail, Fasi, Fpdac and Fasdac – Italian social security institutions.

Other creditors: Lire 353 million (1997: Lire 297 million)

These relate to:

amounts due to employees totalling Lire 43 million, which relate to overtime payments and expense claims for December, Lire 118 million relating to the transfer of a receivable, Lire 61 million of commissions due to Monte Titoli, Lire 73 million relating to damages payments, amounts due to the American Express Company totalling Lire 20 million, Lire 22 million due to shareholders for dividends not yet paid, and other amounts of Lire 16 million.

There are no amounts payable falling due after more than one year.

ACCRUALS AND DEFERRED
INCOME

Accrued expenses: Lire 507 million (1997: Lire 419 million)

This consists entirely of the accrual of the employees' 14th month salary.

OFF-BALANCE SHEET
ITEMS

These are made up as follows:

Guarantees given

- A guarantee of Lire 1,000 million has been given by Banca Mediolanum S.p.A. in favour of Origin Italia S.r.l. in respect to the instalment payments on the rental of hardware products and services provided to financial consultants.
- A guarantee of Lire 3,500 million has been given by Mediolanum Comunicazione S.r.l. in favour of Atena Servizi S.p.A. in respect to the fulfilment in due time of the contractual commitments it has undertaken.
- A guarantee of Lire 238 million has been given to the Lombardy Region for the proper use of funds paid to projects it co-funds with the European Social Fund as per EU regulations no. 2081/93, 2082/93 and 2084/93.
- Counterguarantees have been given to Fininvest S.p.A. (Lire 133 million) and Mondadori Leasing S.p.A. (Lire 53 million), in respect of guarantees given by those companies for supplies to the company.

Other off-balance sheet items

These relate to:

- Hired or leased third party assets of Lire 204 million; these represent the contractual value of assets purchased under lease agreements from Banca Italease S.p.A.

- Lease commitments totalling Lire 160 million; these represent the total value of lease instalments to be paid to Banca Italease S.p.A.
- Cheques to be paid to third parties totalling Lire 16,715 million; these relate to insurance premiums received in the last few days of December 1998, which were paid to the subsidiary company Mediolanum Vita S.p.A. in the first few days of 1999.
- Securities and assets in the hands of third parties totalling Lire 30,996 million; these represent the face value of shares and securities that form part of current assets.

Revenues from sales and services: Lire 199,690 million (1997: Lire 220,796 million)
 These mainly relate to commissions and rappels for the sale of insurance products, of which Lire 190,081 million was in relation to the subsidiary company Mediolanum Vita S.p.A. and Lire 9,609 million was in relation to Mediolanum Assicurazioni S.p.A.

INCOME STATEMENT
 INFORMATION
 VALUE OF PRODUCTION

Other revenues: Lire 3,996 million (1997: Lire 3,835 million)
 These mainly include the recovery of costs incurred for personnel at subsidiaries (Lire 3,204 million) and Fininvest Group and Doris Group companies (Lire 654 million).

Raw, ancillary and consumable materials
 and goods: Lire 684 million (1997: Lire 557 million)
 These relate to the purchase of various consumables, books, magazines and newspapers, stationery and printed materials.

COST OF PRODUCTION

Services received: Lire 135,416 million (1997: Lire 148,709 million)
 These include:

Lire millions

Commissions	122,422
Advertising, public relations and entertainment expenses	1,307
Consultancy and professional services	4,451
Emoluments to Directors and Statutory Auditors	1,138
Insurance costs	436
Travel and subsistence expenses	506
Other services	4,935
Other costs	221

“Commissions” are totally paid to the subsidiary company Banca Mediolanum

S.p.A. as payment for brokerage activities as agreed by contract. There has been a decrease of Lire 11,304 million over last year.

“Advertising, public relations and entertainment expenses” have decreased by Lire 1,198 million. Lire 253 million has been charged by subsidiary companies, while Fininvest Group companies have charged Lire 223 million.

“Consultancy and professional services” includes legal assistance, technical and administrative and professional services. There has been an increase of Lire 377 million over last year. The Fininvest Group provided Lire 40 million of professional services.

“Insurance costs” shows no change over last year, and relates to policies with companies owned by the Fininvest Group and the Doris Group for Lire 104 million.

“Other services” includes telephone and postal costs, EDP services, administrative services, the canteen service, staff training, security services, maintenance, printing and general services (Lire 100 million relates to subsidiary companies and Lire 1,334 million relates to Fininvest Group companies).

Leases and rentals: Lire 2,566 million (1997: Lire 2,029 million)

This balance relates to hire charges, lease instalments and rentals. Services received from subsidiary companies total Lire 361 million, while those from Fininvest Group companies total Lire 1,626 million.

Personnel costs: Lire 16,505 million (1997: Lire 14,044 million)

Significant changes in staff levels due to new personnel hired and to a better reallocation of resources within Group companies is the reason for the increase in personnel costs.

INVESTMENT INCOME
AND CHARGES

Other investment income

Income from receivables included in fixed assets

from subsidiary companies: Lire 109 million (1997: Lire 390 million)

These relate to interest for the year on the loans granted to subsidiary companies. The most significant amount relates to Programma Italia Distribuzione S.p.A., merged with Banca Mediolanum S.p.A., of Lire 93 million.

Income from securities included in current

assets: Lire 4,444 million

(1997: Lire 4,525 million)

This balance refers to interest and premiums or discounts to par value, arising when securities are subscribed or purchased, on securities issued by the Italian State.

Other financial income: Lire 3,813 million

(1997: Lire 5,797 million)

This includes:

Lire millions

Bank current account interest	1,591
Interest on amounts due from tax authorities	2,210
Other interest	9
Interest on guaranteed deposit	3

“Bank current account interest” includes Lire 340 million from the subsidiary company Banca Mediolanum S.p.A., mainly in relation to hot money transactions.

Write-downs

ADJUSTMENTS TO THE VALUE
OF FINANCIAL ASSETS

Of financial assets which are not shareholdings: Lire 215 million

(1997: Lire 0)

This relates to the provision made from receivables from agents for illegal acts, as already mentioned.

Income

EXTRAORDINARY INCOME
AND CHARGES

Gains on disposals: Lire 1,716 million

(1997: Lire 146 million)

These were generated by the sale of own shares (Lire 1,585 million), securities (Lire 108 million) and fixed assets (Lire 23 million).

Out of period revenues: Lire 8,738 million

(1997: Lire 420 million)

These were generated by the reimbursement of Irpeg (corporate income tax) and Ilor (local income tax) in the year of Lire 5,243 million, the good result of the court decision described in “other receivables” of Lire 3,145 million, the grant of Lire 268 million received from the Lombardy Region in respect to projects it co-funds with the European Social Fund as per EU regulations, and the difference between allocated and received costs (Lire 79 million).

Other: Lire 207 million (1997: Lire 429 million)

This balance mainly relates to the utilisation of the provision against sales network resignation and of the provision for write-downs of other receivables.

Income taxes: Lire 25,520 million (1997: Lire 36,407 million)

This balance consists of Lire 57,957 million of current taxation, net of tax credits on dividends of Lire 31,420 million, and utilisation of Lire 694 million of the deferred taxation provision, the utilisation of Lire 243 million of the surplus of the provision for last year's taxes and pre-paid taxes of Lire 80 million. As required by law (Article 10 of Law no. 72/83), we point out that none of the assets has been subject to any monetary or economic revaluation.

The average number of employees by category is as follows:

	1998	1997
Managers	25	23
Clerical personnel	109	92

The Board of Directors has 10 members and there are 3 Statutory Auditors. Their emoluments total Lire 1,138 million and can be analysed as follows:

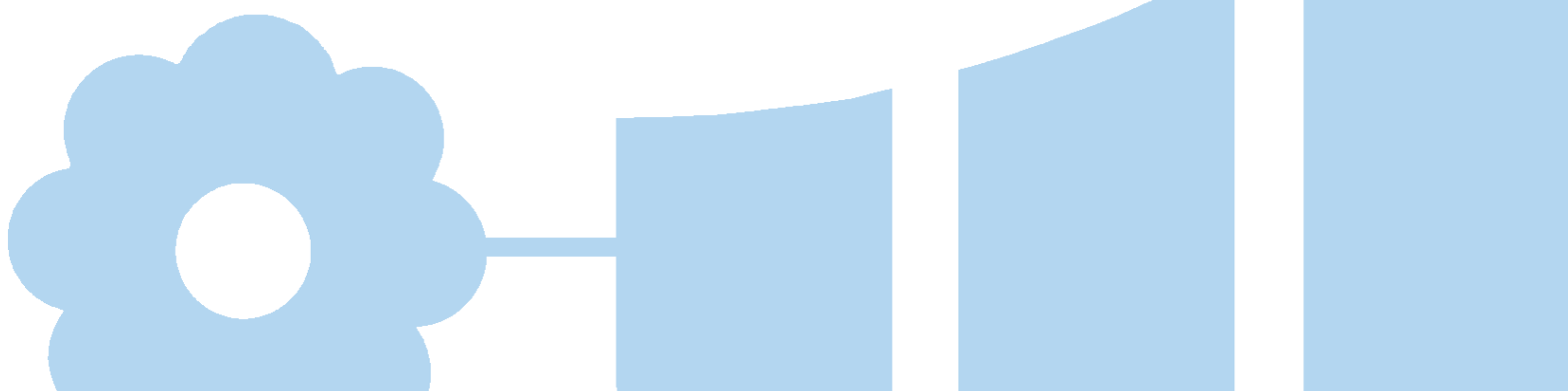
Lire millions

Directors	998
Statutory Auditors	140

For the Board of Directors
The Chairman
Stefano Preda

MEDIOLANUM S.P.A.

***ATTACHMENTS
AND TABLES***



ATTACHMENT 1

ANALYSIS OF CHANGES IN INTANGIBLE ASSETS AT DECEMBER 31, 1998

Lire	Opening situation		
	Historic cost	Accum. Amortisation	Balance at 31.12.97
Intangible assets			
Start-up and expansion costs	9,179,823,004	(4,141,524,493)	5,038,298,511
Patents and intellectual property rights	514,451,015	(340,656,505)	173,794,510
Concessions, licences, trademarks and similar rights	704,587,342	(236,435,638)	468,151,704
Other intangible assets	1,189,966,426	(237,993,285)	951,973,141
Assets under formation and advances	199,886,172	0	199,886,172
TOTAL	11,788,713,959	(4,956,609,921)	6,832,104,038

ATTACHMENT 2

ANALYSIS OF CHANGES IN TANGIBLE FIXED ASSETS AT DECEMBER 31, 1998

Lire	Opening situation		
	Historic cost	Accum. Depreciation	Balance at 31.12.97
Tangible fixed assets			
Plant and machinery, telephone equipment	39,944,000	(39,944,000)	0
Alarms and security equipment	49,319,800	(12,400,050)	36,919,750
Other specific plant and machinery	46,019,541	(45,117,101)	902,440
General plant/machinery	63,700,000	(63,700,000)	0
Telecasting equipment	4,310,000	(4,310,000)	0
TOTAL PLANT AND MACHINERY	203,293,341	(165,471,151)	37,822,190
Personal computers	1,942,032,176	(1,276,125,738)	665,906,438
Terminals and printers	47,185,634	(20,490,367)	26,695,267
Data transmission equipment and cellular phones	299,261,810	(119,293,950)	179,967,860
Various equipment	397,991,118	(148,389,154)	249,601,964
Office fittings, furniture and equipment	1,046,264,046	(496,704,880)	549,559,166
Furniture	1,240,609,189	(105,301,029)	1,135,308,160
Ordinary office machinery	1,295,160	(1,295,160)	0
Electric and electronic office machinery	19,258,865	(19,258,865)	0
Motor vehicles	421,413,810	(190,619,611)	230,794,199
TOTAL OTHER ASSETS	5,415,311,808	(2,377,478,754)	3,037,833,054
Assets under construction/Payments on account	569,090,722	0	569,090,722
TOTAL	6,187,695,871	(2,542,949,905)	3,644,745,966

Movements for the period				Closing situation		
Additions	Net disposals	Amortisation	Change +/-	Historic cost	Accum. Amortisation	Balance at 31.12.98
0	0	(1,835,964,601)	0	9,179,823,004	(5,977,489,094)	3,202,333,910
0	(39,618,670)	(128,643,735)	0	432,460,015	(426,927,910)	5,532,105
272,726,950	0	(319,331,606)	0	977,314,292	(555,767,244)	421,547,048
300,418,423	0	(339,014,204)	204,686,172	1,695,071,021	(577,007,489)	1,118,063,532
1,088,461,232	0	0	(199,886,172)	1,088,461,232	0	1,088,461,232
1,661,606,605	(39,618,670)	(2,622,954,146)	4,800,000	13,373,129,564	(7,537,191,737)	5,835,937,827

Movements for the period				Closing situation		
Additions	Net disposals	Depreciation	Change +/-	Historic cost	Accum. Depreciation	Balance at 31.12.98
0	0	0	0	39,944,000	(39,944,000)	0
0	0	(13,030,500)	0	49,319,800	(25,430,550)	23,889,250
0	0	(841,560)	0	46,019,541	(45,958,661)	60,880
0	0	0	0	63,700,000	(63,700,000)	0
0	0	0	0	4,310,000	(4,310,000)	0
0	0	(13,872,060)	0	203,293,341	(179,343,211)	23,950,130
415,035,188	0	(285,584,188)	0	2,357,067,364	(1,551,959,876)	805,107,488
0	0	(9,381,576)	0	47,185,634	(29,871,943)	17,313,691
74,229,372	(1,312,500)	(88,920,537)	0	368,926,202	(204,962,007)	163,964,195
236,333,537	0	(104,006,468)	0	634,324,655	(252,395,622)	381,929,033
21,827,220	0	(101,659,176)	0	1,068,091,266	(598,364,056)	469,727,210
83,421,403	0	(237,947,991)	564,290,722	1,888,321,314	(343,249,020)	1,545,072,294
0	0	0	0	1,295,160	(1,295,160)	0
0	0	0	0	19,258,865	(19,258,865)	0
329,956,706	(13,414,427)	(120,581,930)	0	647,306,089	(220,551,541)	426,754,548
1,160,803,426	(14,726,927)	(948,081,866)	564,290,722	7,031,776,549	(3,221,908,090)	3,809,868,459
0	0	0	(569,090,722)	0	0	0
1,160,803,426	(14,726,927)	(961,953,926)	(4,800,000)	7,235,069,890	(3,401,251,301)	3,833,818,589

ATTACHMENT 3

ANALYSIS OF CHANGES IN INVESTMENTS HELD AT DECEMBER 31, 1998

Company name	Share capital	% holding	Shares/ quotes
Subsidiary companies			
Mediolanum Fiduciaria S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	100	1,000,000
Mediolanum Gestione Fondi S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	10,000,000,000	100	1,000,000
Mediolanum International Funds Ltd Grand Canal House 1 Upper Grand Canal Street Dublin 4 Ireland	120,000 IRE	100	120,000
Mediolanum Comunicazione S.r.l. Via F. Sforza n.15 P.zzo Meucci Basiglio (MI)	1,500,000,000	100	1
Mediolanum Borsa S.I.M.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	5,000,000,000	100	5,000,000
Aram S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	10,549,350,000	100	19,700
PI Distribuzione S.r.l. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	100	1
Mediolanum Vita S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	170,000,000,000	100	17,000,000
Banca Mediolanum S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	25,000,000,000	100	25,000,000
Partner Time S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	100	1,000,000
Programma Italia Distribuzione S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	2,000,000,000	100	2,000,000
TOTAL SUBSIDIARY COMPANIES			
* Book value includes IRE 1,880,000, being additional capital injected.			
Indirectly controlled companies			
Partner Life S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	40,000,000,000	25	1,000,000
TOTAL INDIRECTLY CONTROLLED COMPANIES			
Other companies			
Consorzio Aeromobili Fininvest Via Paleocapa 3 Milano	1,000,000,000	10	10
Consorzio Vigilanza Mediaset P.zzo Canova MI2 Segrate (MI)	300,000,000	1	1
Europa Invest Luxembourg 14, Rue Aldringen	125,000 EURO	14	700
Cedacri Ovest S.p.A. Via Liguria 33 Castellazzo B.da (AL)	144,480,000,000	10	21,000
TOTAL OTHER COMPANIES			
TOTAL			

Nominal value	Book value at 31.12.97	Increase	Decrease/ write-downs	Book value at 31.12.98
1,000,000,000	1,404,968,000			1,404,968,000
10,000,000,000	9,908,000,000			9,908,000,000
120,000 IRE	5,111,804,000			5,111,804,000 *
1,500,000,000	75,441,400	1,400,000,000		1,475,441,400
5,000,000,000	4,419,456,000	1,500,000,000		5,919,456,000
10,549,350,000	725,000,000	71,775,000,000	72,500,000,000	0
1,000,000,000		1,000,000,000		1,000,000,000
170,000,000,000	153,426,000,000	72,500,000,000		225,926,000,000
25,000,000,000	25,000,000,000	3,036,000,000		28,036,000,000
1,000,000,000	499,882,264			499,882,264
2,000,000,000	3,036,000,000		3,036,000,000	0
	203,606,551,664	151,211,000,000	75,536,000,000	279,281,551,664
10,000,000,000	11,877,551,020		11,877,551,020	0
	11,877,551,020		11,877,551,020	0
100,000,000	100,000,000			100,000,000
3,000,000	3,000,000		3,000,000	0
17,500 EURO	26,796,000			26,796,000
1,444,800,000	1,948,632,000			1,948,632,000
	2,078,428,000		3,000,000	2,075,428,000
	217,562,530,684	151,211,000,000	87,416,551,020	281,356,979,664

ATTACHMENT 4

LIST OF INVESTMENTS IN SUBSIDIARY COMPANIES AT DECEMBER 31, 1998

Company name and head office	Share capital	Shareholders' equity	
		Total amount	Pro-quota amount
Subsidiary companies			
Mediolanum Fiduciaria S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	1,876,837,475	1,876,837,475
Mediolanum Gestione Fondi S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	10,000,000,000	67,780,670,964	67,780,670,964
Mediolanum International Funds Ltd Grand Canal House 1 Upper Grand Canal Street Dublin 4 Ireland	120,000 IRE	19,165,119,474	19,165,119,474
Mediolanum Comunicazione S.r.l. Via F. Sforza n.15 P.zzo Meucci Basiglio (MI)	1,500,000,000	1,819,811,428	1,819,811,428
Mediolanum Borsa S.I.M.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	5,000,000,000	6,009,137,097	6,009,137,097
PI Distribuzione S.r.l. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	1,593,874,360	1,593,874,360
Mediolanum Vita S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	170,000,000,000	401,091,892,438	401,091,892,438
Banca Mediolanum S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	25,000,000,000	46,391,187,286	46,391,187,286
Partner Time S.p.A. Via F. Sforza P.zzo Meucci Basiglio (MI)	1,000,000,000	3,067,215,797	3,067,215,797

* The shareholders' equity and profit for the year denominated in Irish punts were translated into Italian Lire using the December 31, 1998 exchange rate of IRE 1:ITL 2,458.66.

Profit (loss) for the year

Total amount	Pro-quota amount	% holding	Carrying value
26,755,228	26,755,228	100	1,404,968,000
46,940,429,043	46,940,429,043	100	9,908,000,000
14,201,259,499	14,201,259,499	100	5,111,804,000 *
65,538,915	65,538,915	100	1,475,441,400
221,394,563	221,394,563	100	5,919,456,000
593,874,360	593,874,360	100	1,000,000,000
44,763,068,716	44,763,068,716	100	225,926,000,000
608,318,445	608,318,445	100	28,036,000,000
1,308,384,601	1,308,384,601	100	499,882,264

ATTACHMENT 5

ANALYSIS OF CHANGES IN SHAREHOLDERS' EQUITY AT DECEMBER 31, 1998

Lire millions	Share capital	Legal reserve	Share premium reserve
Balance at 31.12.97	144,800	13,540	88,000
Allocation of 1997 profit and reserves as decided by the Shareholders' meeting of 28.04.98:			
- legal reserve		3,984	
- dividends paid			
- extraordinary reserve			
Rights issue	56		78
Creation of reserve for Company's own shares in terms of Art.2357 III of the Italian Civil Code			
Profit (loss) for the period			
Balance at 31.12.98	144,856	17,524	88,078

The legal reserve and the reserve for own shares are made up of profit.

The extraordinary reserve is made up of profit for 63,350 million lire and of profit under deferred taxation for 528 million lire.

Taxes under art.105 clause 1 lett.a of the Budget amount to 82,608 million lire.

Taxes under art.105 clause 1 lett.b of the Budget amount to 386 million lire.

Following the distribution of the profit for the year, receivers will be given a tax credit under art.105 clause 1 lett.a.

It is pointed out that taxes under art.105 clause 1 lett.a and lett.b, do not include the balance of taxes which will be determined when compiling the income tax return.

Extraordinary reserve	Reserve for own shares	Profit for the period	Total
66,769	132	79,669	392,910
		(3,984)	0
		(65,160)	(65,160)
10,525		(10,525)	0
			134
(13,416)	13,416		0
		91,121	91,121
63,878	13,548	91,121	419,005

ATTACHMENT 6

Lire millions

31.12.98

CASH FLOW STATEMENT AT DECEMBER 31, 1998

A) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		51,558
Share capital increase		56
Increase in share premium reserve		78
TOTAL		51,692
B) NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit (loss) for the year		91,121
Net increase in deferred taxation provision		(693)
Amortisation and depreciation		3,585
(Gains) losses on the disposal of fixed assets		(17)
Net increase in employee termination indemnity		552
Profit (loss) from ordinary activities before changes in working capital		94,548
(Increase) decrease in current receivables		3,475
(Increase) decrease in inventory		0
Increase (decrease) in trade and other payables		(3,197)
(Increase) decrease in other working capital balances		3,624
TOTAL		3,902
C) CASH FLOW FROM INVESTMENT ACTIVITIES		
Fixed asset investments		
intangible		(1,661)
tangible		(1,160)
financial		(86,746)
Amount realised from fixed asset disposals		14,935
TOTAL		(74,632)
D) CASH FLOW FROM FINANCING ACTIVITIES		
Distribution of profits		(65,160)
TOTAL		(65,160)
E) CASH FLOW FOR THE PERIOD	(B+C+D)	(41,342)
F) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	(A+E)	10,350

Euro 31.12.98 31.12.97

ATTACHMENT 7
IN EURO

A) DUE FROM SHAREHOLDERS FOR SHARE CAPITAL STILL TO BE PAID IN	0	0
B) FIXED ASSETS		
I - Intangible assets:		
Start-up and expansion costs	1,653,867.44101	2,602,064.02568
Patents and intellectual property rights	2,857.09379	89,757.37371
Concessions, licences, trademarks and similar rights	217,710.88123	241,780.17735
Other intangible assets	577,431.62472	491,653.09642
Intangible assets under formation and advances	562,143.31266	103,232.59256
TOTAL I	3,014,010.35341	3,528,487.26572
II - Tangible fixed assets:		
Plant and machinery	12,369.20987	19,533.53096
Other assets	1,967,632.85027	1,568,909.83902
Assets under construction/Payments on account	0	293,910.82958
TOTAL II	1,980,002.06015	1,882,354.19957
III - Financial assets:		
Investments in:		
subsidiary companies	144,236,884.14529	111,288,251.47526
other companies	1,071,869.10916	1,073,418.47986
paid into fund for investment	5,164,568.99089	0
Amounts receivable:		
from subsidiary companies	344,053.73476	1,581,991.23831
of which Lire 600,000,000 due within one year		
from other companies	556,411.07645	312,975.38102
TOTAL III	151,373,787.05656	114,256,636.57445
TOTALFIXEDASSETS	156,367,799.47012	119,667,478.03974
C) CURRENT ASSETS		
I - Inventory	0	0
II - Debtors:		
Trade accounts	272,842.08969	272,323.19563
Due from subsidiary companies	13,357,672.66290	9,995,518.18806
Due from Fininvest Group and Doris Group companies	400,577.82799	674,980.57141
Due from others	31,396,781.09819	36,279,811.16631
TOTAL I-II	45,427,873.67877	47,222,633.12141
III - Current financial assets		
Other investments	588.76086	588.76086
Own shares held (overall nom, value Lire 336,500,000)	6,996,748.43126	68,301.42490
Other securities	15,904,122.61100	24,658,412.69554
TOTAL III	22,901,459.80313	24,727,302.88131
IV - Liquid assets:		
Bank and postal deposits	5,335,122.18544	26,619,600.05784
Cash in hand	10,044.44731	8,018.68438
TOTAL IV	5,345,166.63275	26,627,618.74222
TOTALCURRENTASSETS	73,674,500.11465	98,577,554.74495
D) PREPAYMENTS AND ACCRUED INCOME		
Accrued income	485,915.32379	546,744.99476
Prepayments	127,657.45325	111,966.48918
TOTALPREPAYMENTSANDACCRUEDINCOME	613,572.77704	658,711.48394
TOTAL ASSETS	230,655,872.36181	218,903,744.26862

BALANCE SHEET
ASSETS

SHAREHOLDER'S EQUITY
AND LIABILITIES

Euro	31.12.98	31.12.97
A) CAPITAL AND RESERVES		
I - Share capital	74,811,880.57451	74,782,958.98816
II - Share premium reserve	45,488,408.12490	45,448,207.11987
III - Revaluation reserves	0	0
IV - Legal reserve	9,050,317.33643	6,993,035.10048
V - Reserve for company's own shares	6,996,748.43126	68,301.42490
VI - Statutory reserves	0	0
VII - Other reserves:		
merger surplus	0	0
extraordinary reserve	32,990,442.68620	34,482,858.75730
VIII - Retained earnings (losses)	0	0
IX - Profit for the year	47,060,131.45842	41,145,644.71587
TOTALCAPITALANDRESERVES	216,397,928.61171	202,921,006.10659
B) PROVISIONS FOR RISKS AND CHARGES		
Deferred taxation provision	364,295.78520	722,498.67012
Other	1,078,223.08046	1,582,419.40225
TOTALPROVISIONSFOR RISKSANDCHARGES	1,442,518.86565	2,304,918.07238
C) EMPLOYEE TERMINATION INDEMNITY	1,767,265.96084	1,482,465.58693
D) CREDITORS		
Trade accounts	1,862,949.56747	1,764,290.32160
Due to subsidiary companies	5,608,780.82602	6,168,975.05307
Due to Fininvest Group and Doris Group companies	756,277.85381	565,985.73959
Due to shareholders	5,016.20952	17,367.90737
Due to tax authorities	1,902,463.85835	2,928,781.05946
Due to social security institutions	468,372.76723	380,226.63007
Other creditors	182,515.90274	153,366.25677
TOTALCREDITORS	10,786,376.98513	11,978,992.96792
E) ACCRUALS AND DEFERRED INCOME		
Accrued expenses	261,781.93847	216,361.53481
TOTALACCRUALSANDDEFERREDINCOME	261,781.93847	216,361.53481
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	230,655,872.36181	218,903,744.26862
OFF-BALANCE SHEET ITEMS	27,371,860.12953	47,310,239.40566

Euro

31.12.98

31.12.97

INCOME STATEMENT

A) VALUE OF PRODUCTION		
1) Revenues from sales and services	103,131,112.49671	114,031,621.07351
sale of real estate	0	1,394,433.62754
2) Changes in properties held for resale	0	(1,352,846.19397)
5) Other revenues	2,063,836.11067	1,980,984.91481
TOTAL VALUE OF PRODUCTION	105,194,948.60737	116,054,193.42189
B) COST OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods	(353,376.07668)	(287,872.27504)
7) Services received	(69,936,742.64281)	(76,802,014.29243)
8) Leases and rentals	(1,325,304.63727)	(1,047,989.79843)
9) Personnel costs:		
wages and salaries	(5,997,244.53614)	(4,893,543.28374)
social security contributions	(2,100,385.91364)	(2,025,427.54884)
employee termination indemnity	(426,347.73508)	(334,392.03365)
10) Depreciation, amortisation and write-downs:		
amortisation of intangible assets	(1,354,642.76470)	(1,271,647.70357)
depreciation of tangible fixed assets	(496,807.74169)	(559,967.05883)
write-downs of receivables included in current assets	0	(7,375.00452)
14) Sundry operating costs	(203,108.10734)	(47,874.61769)
TOTAL COST OF PRODUCTION	(82,193,960.15535)	(87,278,103.61675)
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	23,000,988.45202	28,776,089.80514
C) INVESTMENT INCOME AND CHARGES		
15) Income from investments:		
in subsidiary companies	27,630,444.10129	24,831,247.70822
16) Other investment income:		
from receivables from subsidiaries included		
in fixed assets	56,191.67988	201,192.10182
from securities included in current assets	2,295,214.13129	2,336,765.99286
other financial income	1,969,193.43067	2,993,648.27529
17) Interest and other investment charges:		
paid to banks	(143.07251)	0
discounts and other investment charges	(3,680.17580)	(11,067.86915)
TOTAL INVESTMENT INCOME AND CHARGES	31,947,220.09482	30,351,786.20905
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL INVESTMENTS		
18) Write-ups:		
of investments	0	383,891.86064
19) Write-downs:		
of financial assets which are not investments	(111,267.19724)	0
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	(111,267.19724)	383,891.86064
E) EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
gains on disposals	886,222.07957	75,454.89317
out of period revenues	4,513,073.52590	217,188.97726
other	106,727.30094	221,427.52767
21) Charges:		
losses on disposals	(32,732.97681)	(2,183.67428)
out of period expenses	(69,912.27773)	(75,236.37303)
TOTAL EXTRAORDINARY ITEMS	5,403,377.65188	436,651.35079
PROFIT BEFORE TAXATION	60,240,319.00148	59,948,419.22562
22) Income taxes for the year	(13,180,187.54306)	(18,802,774.50975)
PROFIT FOR THE YEAR	47,060,131.45842	41,145,644.71587

TABLE 1
DIRECTORS', AUDITORS',
GENERAL MANAGERS' FEES
(FOR 1998)

Lire		Description of the position	
Name	Position (1)	Duration of the position	
PREDA STEFANO	Chairman of the Board of Directors Mediolanum S.p.A.	from	1.01.98 to 31.12.98
MESSINA ALFREDO	Deputy Chairman Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
BERLUSCONI MARINA ELVIRA	Director Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 24.04.98
BERLUSCONI PIER SILVIO	Director Mediolanum S.p.A.	from	1.01.98 to 31.12.98
LOMBARDI EDOARDO	Executive Vice President Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
DORIS ENNIO	Chief Executive Officer Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
DORIS MASSIMO ANTONIO	Director Mediolanum S.p.A.	from	1.01.98 to 31.12.98
LIVOLSI UBALDO	Director Mediolanum S.p.A.	from	1.01.98 to 15.10.98
SCIUME' PAOLO	Director Mediolanum S.p.A.	from	1.01.98 to 31.12.98
SPOSITO CLAUDIO	Director Mediolanum S.p.A.	dal	17.11.98 to 31.12.98
ZUNINO ANTONIO	Director Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
MAURI ARNALDO	Chairman of the Board of Statutory Auditors Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
FRATTINI ACHILLE	Statutory Auditor Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98
GIAMPAOLO FRANCESCO ANTONIO	Statutory Auditor Mediolanum S.p.A.	from	1.01.98 to 31.12.98
	Other positions held in subsidiaries	from	1.01.98 to 31.12.98

(1) Specify the position held in the executive board, if any.

(2) Estimated value.

(3) Specify the reason for the payment: (a) employee; (b) professional service provided by a subsidiary.

Fees

Position fees	Fringe benefits (2)	Bonuses and other incentives (2)	Other fees (3)
180,000,000			
100,000,000			
54,350,000			
20,000,000			
4,266,667			
20,000,000			
100,000,000			118,778,930 (a)
649,700,000			93,000,000 (b)
500,000,000			
414,600,000			
20,000,000			
16,666,667			
20,000,000			
1,666,667			
20,000,000			
470,666,667			
60,000,000			
27,000,000			
40,000,000			
57,750,000			
40,000,000			
65,733,333			

TABLE 2

STOCK-OPTIONS GIVEN TO DIRECTORS AND GENERAL MANAGERS

Person	Stock right	
	Bonus shares	
Name	Number of shares to be allotted	Allotment date
LOMBARDI EDOARDO		

(1) Shares with a nominal value of lire 200 each, purchased within the framework of the employee savings related share option scheme.

Shares or options given in the year			Allotment of shares or exercise of the options in the year		
Underwriting or call options			Bonus shares	Underwriting or call options	
Number of shares that can be purchased or underwritten	Share price when exercising the option	Exercise date	Number of allotted shares	Number of purchased or underwritten shares	Exercise price
				120,000 (1)	478

Statutory Auditors' report on the financial statements at December 31, 1998

Dear Shareholders,

the financial statements of Mediolanum S.p.A. at December 31, 1998, which have been prepared by the Board of Directors, with comparatives at December 31, 1997, show a profit for the year of Lire 91,121,120,739 and can be summarised as follows:

I. Balance sheet

Lire

Assets	446,612,045,978
Liabilities	(27,607,228,745)
Capital	(144,856,000,000)
Reserves	(183,027,696,494)
Profit for the year	91,121,120,739

Off-balance sheet items totalling Lire 52,999,311,613 are also shown.

II. Income statement

Lire

Value of production	203,685,823,140
Cost of production	(159,149,699,230)
Investment income and charges	61,858,443,853
Adjustments to the value of investments	(215,443,336)
Extraordinary income and charges	10,462,398,046
Taxation	(25,520,401,734)
Profit for the year	91,121,120,739

The Board of Directors provides information regarding the factors, which influenced operations in the Directors' report and the Notes to the financial statements and provides a commentary on the individual balances.

The Statutory Auditors declare, in terms of their engagement and on the basis of information available to them, that:

- they supervised the administration of the Company and monitored the compliance with legal requirements and the articles of incorporation; in particular, the operations of the Company were supervised through participation at meetings of the Board of Directors and by periodic checks, from which it emerged that administrative matters are reflected in an ordered and systematic manner in the accounting records;
- the financial statements correspond with the Company's accounting records, which have been maintained correctly;

- the financial statements have been prepared in accordance with legal requirements;
- the accounting policies adopted are those indicated by the Board of Directors in the Notes to the financial statements and, in particular:
 - investments included in financial fixed assets have been valued at cost;
 - investments and securities, which are not fixed assets, have been valued at the lower between cost (or the amount brought forward from the previous year) and market value;
 - accruals and deferrals have been calculated on an accrual basis;
 - the recording and amortisation of intangible assets, which have been made with our agreement, and of tangible fixed assets have been determined in relation to their estimated useful lives;
- no deviation from accounting policies as provided by Article 2423, par. 4 of the Italian Civil Code was necessary during the preparation of the financial statements.

Moreover, in compliance with the recommendations from Consob, the Statutory Auditors state that:

- the information provided by the Board of Directors, with specific reference to infra-group transactions and transactions with related parties, is complete;
- the infra-group transactions and transactions with related parties, which took place during the year, are to be considered in line with the realisation of the company aims. There have been no conflicts of interest as well as no atypical or unusual operations, which might significantly affect the income, balance sheet and financial situation of the parent company or its Group;
- during the year information has been exchanged with Arthur Andersen S.p.A., which has been auditing the financial statements as well as the consolidated financial statements. Although no Auditors' opinion has been issued at this date, there is reason to believe that such opinion will be unqualified by any significant matter regarding these financial statements;
- the proposed dividend is reasonable, also bearing in mind the level of available capital reserves;
- the company's system of internal control is to be considered satisfactory, in terms of adequacy and efficiency. This opinion is also based on the fact that there are no indications to the contrary from Arthur Andersen S.p.A.;
- during 1998 seven Board of Directors' meetings, which were also attended by the Statutory Auditors, and seven Statutory Auditors' meetings were held;

- the Statutory Auditors have not received any declaration from the shareholders in terms of Article 2408 of the Italian Civil Code;
- during 1998 the company did not appoint Arthur Andersen S.p.A. for any other professional job beyond that of auditing the financial statements and the six-monthly report;
- the measures taken by the Board of Directors to safeguard corporate assets in relation to the “year 2000 problem” were judged as appropriate.

Therefore, the Statutory Auditors approve the financial statements at December 31, 1998, which show a profit for the year of Lire 91,121,120,739 and also its proposed allocation by the Board of Directors. This is not without underlining the fact that available reserves are far greater than “start-up and expansion costs” recorded in the intangible assets for an amount of Lire 3,202,333,910, as required by Article 2426, par. 1.5 of the Italian Civil Code. Lastly, we would like to remind you that, with the meeting held for the approval of the financial statements, the term of office for the administrative and control bodies will be over. We would thus ask you to provide for the relevant appointments.

Milan, April 1, 1999

The Statutory Auditors
Arnaldo Mauri, Chairman
Achille Frattini
Francesco Antonio Giampaolo

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
Mediolanum S.p.A.:

1. We have audited the financial statements of MEDIOLANUM 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 year's financial statements, which are presented for comparative purposes as requested by the law, reference should be made to our auditors' report dated April 3, 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 financial statements. Therefore, we certify the financial statements of Mediolanum S.p.A. as of December 31, 1998.
4. The Company holds the controlling interest in several companies and has, in accordance with existing legislation, prepared consolidated financial statements of the Group. The consolidated financial statements represent an integration of the financial statements in order to provide sufficient information regarding the financial position of the Company and the Group and the results of operations and cash flows. The consolidated financial statements have been audited by us and are presented together with our opinion thereon dated April 13, 1999.

ARTHUR ANDERSEN S.p.A.



Riccardo Azzali - Partner

Milan, Italy,
April 13, 1999

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