

ARNOLDO MONDADORI EDITORE S.p.A.

Share capital €67,451,756.32

Head Offices in Milan, Italy

Administrative Offices in Segrate (MI)

Quarterly report as of 31 March 2004

Corporate Boards

Board of Directors

Chairman

Marina Berlusconi

Deputy Chairman and Chief Executive

Maurizio Costa

Directors

Francesco Barbaro (*)

Pier Silvio Berlusconi

Pasquale Cannatelli

Fedele Confalonieri

Bruno Ermolli

Martina Forneron Mondadori

Roberto Poli

Giovanni Puerari

Mario Resca

Marco Spadacini

(*) Secretary

Powers

Chairman: powers of legal representation in dealings with third parties and legal proceedings. Deputy Chairman and Chief Executive: routine powers and power of separate signature limited to actions prescribed by law.

Board of Statutory Auditors

Chairman

Achille Frattini

Acting Statutory Auditors

Antonio Aiello

Ferdinando Superti Furga

Substitute Statutory Auditors

Francesco A. Giampaolo

Francesco Vittadini

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The Mondadori Group's business activities

The first quarter of 2004

In an economic scenario that showed timid signs of recovery but which remains characterised by uncertainties related to the recovery in consumer spending and the international political situation with the enduring conflict in Iraq, the Mondadori Group recorded excellent results for the first quarter of the year in all the sectors in which it operates, with increases in revenues and an improvement in profitability.

In particular the Magazine Division benefited from the successful launches of the previous year and the excellent results deriving from add-on sales.

The performance of the Book Division was also extremely positive with its market share growing further in a market that is growing only slightly.

Consolidated revenues came to **€411.2 million**, an increase of 14.1% on the €360.5 million in the same period of the previous year. On a like-for-like basis, excluding the contribution of Piemme (acquired in October 2003) the increase was 11.7%.

Gross operating profit came to **€54.1 million**, compared with €42.9 million in Q1 2003 (an increase of 26.1%). As a proportion of revenues, a rise from 11.9% to 13.2%.

Operating profit totalled **€44.7 million**, an increase of 32.6% compared with the €33.7 million at the end of March 2003; as a proportion of revenues a rise from 9.3% to 10.9%.

There was a marked increase in **profit before taxes** from the €26.3 million of the first quarter of 2003 to **€36.4 million** this time, an increase of 38.4% and an increase in terms of the proportion of revenues from 7.3% to 8.9%.

Gross cash flow totalled **€50.9 million**, compared with the €41.1 million of the same period last year.

The following table illustrates the information referred to above.

| Consolidated reclassified income statement | €m | €m | Change |
|---|----------------------|----------------------|---------------|
| | 31 March 2004 | 31 March 2003 | % |
| Revenues | 411.2 | 360.5 | 14.1% |
| Personnel costs | 63.1 | 62.4 | 1.1% |
| Product and management costs | 294.0 | 255.2 | 15.2% |
| Gross operating profit | 54.1 | 42.9 | 26.1% |
| <i>Gross operating profit as a percentage of revenues</i> | <i>13.2%</i> | <i>11.9%</i> | |
| Depreciations of fixed assets | 9.4 | 9.2 | 2.2% |
| Operating profit | 44.7 | 33.7 | 32.6% |
| <i>Operating result as percentage of revenues</i> | <i>10.9%</i> | <i>9.3%</i> | |
| Depreciations of intangible assets | 5.1 | 5.6 | (8.9%) |
| Net financial income (charges) | (0.3) | 0 | n.a. |
| Other income (charges) net | (2.2) | (1.5) | 46.7% |
| Extraordinary income (charges) net | 0.1 | 1.0 | (90.0%) |
| Internet activities | (0.8) | (1.3) | (38.5%) |
| Profit before income taxes | 36.4 | 26.3 | 38.4% |
| <i>Net profit as a percentage of revenues</i> | <i>8.9%</i> | <i>7.3%</i> | |
| Gross cash flow | 50.9 | 41.1 | |

The Group's **financial position** at 31 March 2004 showed a surplus of €103.9 million.

Accounting principles and evaluation criteria adopted

The accounting principles and evaluation criteria adopted for drawing up the financial statements as of 31 March 2004 are the same as those adopted for the Consolidated Financial Statements at year end, with the exception that the amount of taxes due for the period has not been included, in accordance with CONSOB Regulations pertaining to Half-Yearly Reports.

Volume of business per business and geographical area

The following table gives details of sales for each business activity and geographical area.

It should be noted that some figures from the previous year have been reclassified in line with those of March 2004.

| Volume of business for each business activity | €m | | % change |
|---|---------------|---------------|--------------|
| | 31 March 2004 | 31 March 2003 | |
| Books | 87.8 | 75.6 | 16.1% |
| Magazines | 228.5 | 204.3 | 11.8% |
| Printing | 118.5 | 105.4 | 12.4% |
| Direct | 42.2 | 35.1 | 20.2% |
| Others | 3.9 | 3.5 | 11.4% |
| Total sales | 480.9 | 423.9 | 13.4% |
| Intergroup sales | (69.7) | (63.4) | 9.9% |
| Total consolidated sales | 411.2 | 360.5 | 14.1% |

| Volume of business by geographical area | €m | | % change |
|---|---------------|---------------|--------------|
| | 31 March 2004 | 31 March 2003 | |
| Italy | 387.3 | 335.2 | 15.5% |
| EU countries | 19.5 | 20.7 | (5.8%) |
| USA | 2.4 | 2.7 | (11.1%) |
| Other countries | 2.0 | 1.9 | 5.3% |
| Total consolidated revenues | 411.2 | 360.5 | 14.1% |

We will now move on to a summary of Mondadori's various business activities.

Book Division

For the first three months of 2004, Demoskopea data show a market that is growing in comparison to the same period of last year, both in terms of copies and revenues. In this context the performance of the Mondadori Group, compared with that of its competitors, appears even more positive as it was the only player to increase its market share, both in terms of copies and in terms of value.

Revenues for the period came to €87.8 million, an increase of 16.1% compared with Q1 2003

In the first quarter of 2004, **Edizioni Mondadori** books had revenues of €38.2 million, up 12% on the already excellent results of the previous year.

This excellent result is due, as well as to the anticipation of the Oscar campaign that was launched this year on 28 February, to the quality of the editorial plan in which the standout success was *Il codice da Vinci* by Dan Brown, a previously unknown author in Italy, but who, thanks to a detailed marketing and communication plan, sold more than 450,000 copies and spent many weeks in this quarter at the top of the best sellers list.

The exceptional case of *Non ti muovere* by Margaret Mazzantini should also be mentioned, which, at the end of February. Two years after it was first published, returned to the top of the Demoskopea list. Excellent sales were also made by *Calliphora* by Patricia Cornwell (190,000 copies) and *Katartico 3* by Flavio Oreglio, the third success for the comedian that again sold more than 100,000 copies. The latest book by Andrea Camilleri, *La prima indagine di Montalbano*, was published at the end of the first quarter and has already sold more than 300,000 copies.

Einaudi recorded revenues of €11.7 million (+6,5% on Q1 2003). The period was characterised by positive performance in the bookstore channel, the result of the special paperback campaign and the effective placement of a range of new titles. Installment revenues were in line with those of the previous year.

The most significant titles published in the first three months of 2004 included: *Nuovi misteri d'Italia* by Carlo Lucarelli, *Noi* by Richard Mason, *Forte movimento* by Jonathan Franzen, *Elizabeth Costello* by J. M. Coetzee, the book and videocassette combination by Max Tortora, *Animal Factory* by Edward Bunker and *Guerra agli umani* by Wu Ming.

First quarter 2004 revenues by **Mondadori Electa** were in line with those of the same period of the previous year. While book sale were extremely positive, there was a fall on the exhibition organisation side (in 2003 the *Storie da un'eruzione* was running).

Particularly positive in the publishing area was the launch of two new series: *Top Ten*, with eight tourist guidebooks dedicated to the most visited cities and *Ricette testate*, with two gastronomy manuals to which was added positive results in the supply of the various editorial lines and a reduction in returns. In the art catalogues segment, of particular relevance, and appreciation by the critics and the public, was the collection *Ukiyoe il mondo fluttuante*, on Japanese art, now on at the Palazzo Reale in Milan, as well as *Pittori della realtà*, at the Museo Civico in Cremona, *Depero*, at Palazzo Bricherasio in Turin and the *Aztechi*, at Palazzo Ruspoli in Rome.

In the licensing segment, Mondadori Electa, in association with other companies, was awarded, for the second time consecutively, the tender for services at the Musei Civici in Venice.

The net revenues of the **Sperling & Kupfer** Group for the first quarter of 2004 came to €8.3 million, a 10.7% increase on Q1 2003. The result is the fruit of a marked increase in the foreign sale of rights (double in the period), a lower level of returns compared with last year, in the face of revenues that were essentially stable in the traditional channels (bookstores and large-scale retail).

It should also be noted that the result was achieved in spite of the lack of a traditional new publication at the beginning of the year by a best-selling author such as Stephen King, in part compensated for by the new book by Giampaolo Pansa (*Bestiario d'Italia*) and by substantial re-ordering for Pansa's 2003 success (*Il sangue dei vinti*) and the re-printing of *Pamela* (by the subsidiary Frassinelli) which benefitted from the TV dramatisation *Elisa di Rivombrosa*, freely adapted from the book.

The net revenues of **Edmond Le Monnier** in the first quarter were in line with those of the same period of the previous year.

The specific nature of the school textbook market in which the company operates and the consequent seasonality means that the figures for such a short period do not give an accurate representation of the companies business.

In fact, in this period of the year the company is largely involved in the preparation of new titles for the school year that begins in September, in an effort to ensure the same qualitative-quantitative level for all schools and years.

In the first three months of 2004, **Edizioni Piemme** recorded revenues of €9.5 million. The positive trend continued during the quarter of the Fiction and Non-Fiction line that in the first months of 2004 generated important new titles such as *Bruciata Viva* by Suad, that sold 50,000 copies between the initial and subsequent print runs.

The Junior line performed well both with the *Il Battello a Vapore* series and *Geronimo Stilton*. Of particular importance was the performance of the *Nel regno della fantasia* series that in the first months of 2004 continued to re-supply 10,000 copies per month. The launch of the new author Tenebrosa Tenebrax was also very successful with the 40,000 copies of *Chi ha rapito Languorina* overtaking on the bestsellers list the already mentioned and highly successful *Geronimo Stilton*.

Distribution recorded lower revenues than in 2003 as a result of the distribution of third-party publishers.

This change is in large measure attributable to the Baldini & Castoldi publishing house, which in the previous year benefited from the huge success of *Io uccido* by Giorgio Faletti.

Magazine Division

In the first quarter of the year the Magazine Division's total revenues came to €228.5 million compared with the €204.3 of Q1 2003, an increase of 11.8%.

| Magazines | €m | | % change |
|------------------------|----------------------|----------------------|-----------------|
| | 31 March 2004 | 31 March 2003 | |
| Circulation | 159.7 | 138.2 | 15.6% |
| Advertising | 68.8 | 66.1 | 4.1% |
| Total magazines | 228.5 | 204.3 | 11.8% |

Circulation

The marked growth in circulation revenues (+15.6% to €159.7 million) was the result of an increase in the sales of existing titles, the positive contribution of recently launched titles and, above all, of the excellent performance of add-on sales.

In the first three months of the year the circulation of Mondadori titles increased by 6.5%. Also excluding the effect of the new launches of 2003 (*Flair*, *Economy*, *Flair Living*) and the 2004 launches (*Per me* and the re-styling repositioning of *VilleGiardini*), the increase in circulation was still more than 5%. All the main titles grew in the period: *TV Sorrisi e canzoni* (average circulation +1.3%), *Donna Moderna* (+7.2%), *Chi* (+9.6%), *Tu* (+3.6%), *Casaviva* (+32%) and *Sale e Pepe* (+25%).

Only *Panorama* showed a slight fall (-5.6%), even if it improved its advantage over its direct competitor.

The first three months of 2004 were also marked by a number of successful editorial initiatives:

- the launch of *Per me*, a new women's psychology monthly that met with immediate success: the first issue sold more than 300,000 copies and the second around 280,000.
- the re-launch of *VilleGiardini*, a complete re-design of the title that was undertaken in the context of a complete overhaul of a strategy to reinforce Mondadori's position in the high target segment, the first issue sold 185,000 copies.
- the launch of *Focus Junior*, published by the joint venture Gruner&Jahr/Mondadori, was an extraordinary success that widely exceeded expectations: the third issue at full-price (€2.00) sold more than 220,000 copies.

Another relevant feature of the first quarter was the continuing flow of innovative add-sales initiatives that met with great success in the market (+40% on Q1 2003). Among the most successful projects were the *Donna Moderna* recipe cards, a series of film musicals on DVD and cartoons on VHS and DVD with *TV Sorrisi e Canzoni*, the *Panorama* DVD film library and the fashion accessories of *Grazia* and *Chi*. Record sales were also achieved (more than 220,000 copies) by the *TV Sorrisi e Canzoni* Sanremo Festival compilation.

Advertising

Advertising investments in the first quarter of 2004 grew, compared with the same period of the previous year, in all media, confirming the improving trend that began in the closing months of 2003, with a stronger emphasis in TV and radio.

However, print media also saw an improvement in sales, with slightly greater gains for newspapers than for magazines

In the first quarter, Mondadori Pubblicità saw its total revenues grow by 4.1% thanks to the positive performance of the leading Mondadori titles and increased spending by advertising clients, with the exception of the fashion and cosmetics sectors, that showed a fall compared with Q1 2003.

Printing Division

In the first quarter of 2004 the situation in the sector showed a weak recovery compared with the situation that was evident at the end of 2003.

In particular, demand for the printing of books remained strong, thanks to the success of the newsstand sale of books in conjunction with newspapers. On the catalogues and magazines front, however, the effect of foreign competition continued to be felt.

The fall in the price of paper, that was seen last year, continued, favouring publishers and the big catalogue producers.

The results for the first quarter of 2004 are more than satisfactory with total sales of €118.5 million compared with €105.4 million in the same period of 2003, an increase of 12.4%.

The fall in the price of paper partly impacted overall revenues, consequently the level of business of the plants is better represented by revenues net of the cost of paper and deliveries as can be seen from the following table:

| Printing revenues net of paper and shipping costs | €m 31 March 2004 | €m 31 March 2003 | % Change |
|--|-----------------------------|-----------------------------|---------------------|
| Magazines | 29.9 | 28.4 | 5.3% |
| Books | 23.3 | 18.3 | 27.3% |
| Catalogues and promotional material | 6.3 | 6.1 | 3.3% |
| Directories | 2.0 | 2.0 | - |
| Total printing revenues | 61.5 | 54.8 | 12.2% |

The overall increase in revenues amounted to 12.2% and the performance of the different types of product were in line with the table outlined above.

Direct Division

In this area of its activities the Mondadori Group recorded a high level of growth, with revenues that grew in the period by 20.2%.

Direct Marketing

Mondolibri recorded a 3.7% increase in revenues compared with the same period of 2003, largely due to the acquisition of Piemme Direct, that took place in the second half of last year. The performance during the period of recruitment in the mailing channel was less brilliant than expected (this is also the result of new privacy legislation that makes it more difficult to gather names) but actions have already been planned aimed at increasing the collection of names through agents that will recover the shortfall.

The performance of Cemit was particularly brilliant in the first three months of the year, with an increase in sales of 44%, consolidating the trend that began in the last months of 2003, thanks to sustained demand for services from key clients.

In the meantime, the company's plans for technological development continue, with particular focus of the databases, which constitute the company's major assets.

It should also be noted that at the end of March the company received quality certification for its processes.

Retail

Compared with the first quarter of 2003, **Mondadori Franchising** recorded another significant increase in sales, thanks mostly to the new affiliations of the last twelve months, which saw the number of outlets rise from 115 to 132.

Mondadori Retail recorded a marked increase in sales (+25.4%) thanks to the performance of already consolidated outlets (+7% on the previous year), the new openings of 2003 and sales to key clients, with a moderate increase in profitability compared with the reference period.

| Direct Division | €m | €m | % |
|----------------------------------|----------------------|----------------------|---------------|
| | 31 March 2004 | 31 March 2003 | change |
| Mondolibri SpA (proportional) | 11.1 | 10.7 | 3.7% |
| Cemit Interactive Media SpA | 7.2 | 5.0 | 44.0% |
| Subtotal Direct Marketing | 18.3 | 15.7 | 16.6% |
| Mondadori Franchising SpA | 6.1 | 5.2 | 17.3% |
| Mondadori Retail Srl | 17.8 | 14.2 | 25.4% |
| Subtotal Retail | 23.9 | 19.4 | 23.2% |
| Total Direct Division | 42.2 | 35.1 | 20.2% |

Internet

The management of the sites for the magazine titles confirmed excellent results in terms of traffic with an average of almost 18 million page views, this means a more than 70% increase on 2003, also net of Volftp that was sold at the beginning of the year to Tiscali and with 1.3 million unique visitors. Two new sites have been launched: *www.per-me.it* and *www.cosmopolitan.it*. Both have already recorded excellent results in terms of traffic. InAuto, the portal dedicated to the world of cars, has been completely re-designed.

Financial situation

The Mondadori Group's financial situation as of 31 March 2004 registered a surplus of €103.9 million, representing an increase compared with 31 December 2003 as illustrated in the following table.

| Net financial position | €m | €m | €m |
|---|----------------------|-------------------------|----------------------|
| | 31 March 2004 | 31 December 2003 | 31 March 2003 |
| Short term bank deposits | 54.7 | 42.3 | 34.3 |
| Short term borrowing from banks | (11.8) | (28.4) | (37.1) |
| Financing (short and medium/long term) | (78.0) | (123.1) | (308.5) |
| | (35.1) | (109.2) | (311.3) |
| Fixed interest securities | 541.2 | 580.3 | 431.4 |
| Bonds | (296.4) | (296.4) | - |
| Convertible bonds | (109.9) | (109.9) | - |
| Debts with other financial institutions | (1.4) | (1.4) | - |
| Cash, post office accounts, net financial receivables from Group companies, third parties and accrued interest income | 5.9 | 9.9 | 0.2 |
| Net financial receivables (payables) | 104.3 | 73.3 | 120.3 |
| Leasing debts | (0.4) | (0.4) | - |
| Net financial position | 103.9 | 72.9 | 120.3 |

2004 is shaping up as a year of sustained economic growth in large areas of the world economy. The USA and China are the main protagonists of such growth while Europe is more moderate. In the first quarter world GDP grew by around 3.7%.

In the USA GDP growth was 5.0%. Macroeconomic data begin to indicate a certain continuity, with positive results deriving mainly from a recovery in consumer spending and orders and improvements in the labour market. Unemployment stands at 5.7% and inflation at 1.7%. all of which points to a recovery in consumer and business confidence.

In the Euro zone, economic growth in the first quarter was a modest 1.7%, with full-year GDP growth forecast at 1.5%. The industrial climate was somewhat hesitant from January, the result of concerns arising from the rise in the value of the euro. Unemployment remained stable at more than 8.0% and inflation was 1.7%.

Given the slow nature of the recovery, Federal Reserve maintained the Federal funds rate at 1.00%. The European Central Bank also left the minimum rate applied to the main re-financing operations in the Euro system unchanged at 2.00%.

In this macroeconomic situation, the US dollar and the British pound both strengthened. In spite of a volatile performance, the dollar gained around 3% against the euro, rising from 1.26 at the beginning of the year to 1.22 at the end of March. The British pound gained almost 6% in the first quarter (rising from 0.705 at the end of December 2003 to 0.665 at the end of March).

On the interest rates front, the Euribor 3 months (Act/360) went down from 2.124% at the end of December 2003 to 1.958% at the end of March 2004 (an average of 2.062%). In the same period, the average cost of money for the Mondadori Group was 3.36%.

The total value of credit lines available to the Group as at 31 March 2004 amounted to more than €1,150 million.

The Group's short-term loans, worth €727 million, were utilised for a total of 9.9% as at 31 March 2004, through self-liquidating credits and stand-by loans with a duration of less than 18 months less one day.

Medium-long-term credit lines with a value of €424.4 million were made up by €296.4 million from a private placement in dollars in the U.S.A., three tranches with expiry in 2013/2015/2018, and for a bonded loan of €109.9 million convertible in Mondadori ordinary shares with expiry in 2008. As at 31 March subsidised medium-long-term loans for publishers amounted to €18.1 million.

Technical investments

During the first quarter of 2004 the Group made investments in technical assets for a total of €5.3 million, including €3.8 for equipment and machinery by Mondadori Printing SpA. Not yet operational, while the other investments were mainly concerned with furniture and electronic office machines (€0.9 million).

Personnel

The personnel employed by the consolidated companies of the Group as of 31 March 2004 amounted to 4,643, while during the same period the average number of personnel employed amounted to 4,637. The following table shows the number of personnel employed by the Group during the first quarter of 2004:

| Personnel | 31 March 2004 | 31 December 2003 | Change |
|--|----------------------|-------------------------|---------------|
| Arnoldo Mondadori Editore SpA: | | | |
| - Management, journalists and office staff | 1,512 | 1,550 | (38) |
| - Manual workers | 113 | 144 | (31) |
| | 1,625 | 1,694 | (69) |
| Italian subsidiaries: | | | |
| - Management, journalists and office staff | 1,651 | 1,649 | 2 |
| - Manual workers | 1,221 | 1,253 | (32) |
| | 2,872 | 2,902 | (30) |
| Foreign subsidiaries: | | | |
| - Management, journalists and office staff | 38 | 38 | - |
| - Manual workers | 108 | 117 | (9) |
| | 146 | 155 | (9) |
| Total | 4,643 | 4,751 | (108) |

Expectations for the year

In an economic context that remains difficult, Mondadori believes that it can achieve business objectives that will further improve the positive results of 2003.

*For the Board of Directors
Chairman
Marina Berlusconi*

***Mondadori Group
Balance sheet and Income statement***

BALANCE SHEET

ASSETS

| (in thousands of euros) | QUARTER AS AT 31 MARCH 2004 | | | QUARTER AS AT | YEAR ENDED |
|--|-----------------------------|----------|-------------------------|-----------------------|----------------|
| | Subtotal | Subtotal | TOTAL | 31 MARCH 2003 | 31 DEC. 2003 |
| | 1 | 2 | 3 | | |
| A) RECEIVABLES FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL | | | | | |
| B) NON-CURRENT ASSETS | | | | | |
| I- INTANGIBLE ASSETS | | | | | |
| 1 start-up and expansion costs | | 447 | | 420 | 489 |
| 2 research, development and advertising costs | | | | | |
| 3 industrial patents and intellectual property rights | | 1,455 | | 1,236 | 1,120 |
| 4 concessions, licences and trade marks | | 131,563 | | 129,672 | 134,369 |
| 5 goodwill | | 7,472 | | 10,880 | 7,919 |
| 6 assets under construction and advances | | | | 60 | 319 |
| 7 others | | 5,501 | | 5,815 | 5,829 |
| 8 consolidation differences | | 7,667 | | 10,650 | 8,381 |
| TOTAL | | | 154,105 | 158,733 | 158,426 |
| II- FIXED ASSETS | | | | | |
| 1 land and buildings | | 81,413 | | 82,153 | 82,447 |
| 2 plant and machinery | | 86,325 | | 93,628 | 92,978 |
| 3 industrial and commercial equipment | | 2,273 | | 2,196 | 2,409 |
| 4 other assets | | 16,301 | | 18,067 | 16,659 |
| 5 assets under construction and advances | | 8,544 | | 5,133 | 5,385 |
| TOTAL | | | 194,856 | 201,177 | 199,878 |
| III- FINANCIAL ASSETS | | | | | |
| 1 investments in : | | | | | |
| a) subsidiary companies | | 182 | | 280 | 461 |
| b) associated companies | | 67,180 | | 76,857 | 69,281 |
| c) other companies | | 238 | | 851 | 238 |
| TOTAL | | 67,600 | | 77,988 | 69,980 |
| | | | <i>within 12 months</i> | <i>over 12 months</i> | |
| 2 current receivables | | | | | |
| a) from subsidiary companies | | | | | |
| b) from associated companies | | | | | |
| c) from parent companies | | | | | |
| d) from other companies | | 1,223 | 4,344 | 5,567 | 5,746 |
| TOTAL | | 1,223 | 4,344 | 5,567 | 5,746 |
| 3 other securities | | | | 7,190 | 5,746 |
| 4 treasury stock | | | 116,192 | 64,121 | 116,885 |
| TOTAL | | | 189,359 | 149,299 | 192,611 |
| TOTAL NON-CURRENT ASSETS (B) | | | 538,320 | 509,209 | 550,915 |

ASSETS

| (in thousands of euros) | QUARTER AS AT 31 MARCH 2004 | | | QUARTER AS AT | YEAR ENDED |
|--|--|----------|------------------|------------------|------------------|
| | Subtotal | Subtotal | TOTAL | 31 MARCH 2003 | 31 DEC. 2003 |
| | 1 | 2 | 3 | | |
| C) CURRENT ASSETS | | | | | |
| I- INVENTORIES | | | | | |
| 1 raw materials | | 13,497 | | 12,471 | 13,851 |
| 2 semi-finished products, work in progress | | 20,389 | | 20,416 | 34,640 |
| 3 contract work in progress | | 8,211 | | 7,918 | 9,489 |
| 4 finished products and goods | | 82,491 | | 79,788 | 75,534 |
| 5 advances | | | | | 7 |
| TOTAL | | | 124,588 | 120,593 | 133,521 |
| | <i>within 12 months over 12 months</i> | | | | |
| II- RECEIVABLES | | | | | |
| 1 trade accounts | 339,837 | 12,980 | 352,817 | 304,675 | 355,392 |
| 2 due from subsidiaries | | | | 192 | 625 |
| 3 due from associated companies | 65,599 | | 65,599 | 51,031 | 56,404 |
| 4 due from parent companies | | | | | 2 |
| 4 bis Tax credits | 19,666 | | 19,666 | 16,794 | 19,833 |
| 4 ter Advance taxes | 29,714 | | 29,714 | 46,350 | 29,714 |
| 5 due from third parties | 70,628 | 342 | 70,970 | 60,485 | 65,321 |
| TOTAL | 525,444 | 13,322 | 538,766 | 479,527 | 527,291 |
| III- FINANCIAL ASSETS (CURRENT) | | | | | |
| 1 investments in subsidiaries | | | | | |
| 2 investments in associated companies | | | | | |
| 3 other investments | | | | | |
| 4 treasury stock | | | | | |
| 5 other securities | | | 541,241 | 431,375 | 580,330 |
| TOTAL | | | 541,241 | 431,375 | 580,330 |
| IV- CASH AND EQUIVALENTS | | | | | |
| 1 cash, banks and postal accounts | | | 55,394 | 35,329 | 42,263 |
| 2 cheques | | | | 8 | 261 |
| 3 cash and commercial papers in hand | | | 165 | 131 | 161 |
| TOTAL | | | 55,559 | 35,468 | 42,685 |
| TOTAL CURRENT ASSETS (C) | | | 1,260,154 | 1,066,963 | 1,283,827 |
| D) ACCRUED INCOME AND PREPAID EXPENSES | | | | | |
| 1 accrued income | | | 585 | 432 | 565 |
| 2 prepaid expenses | | | 4,463 | 3,136 | 8,574 |
| 3 premium on loans | | | | 817 | |
| TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D) | | | 5,048 | 4,385 | 9,139 |
| TOTAL ASSETS | | | 1,803,522 | 1,580,557 | 1,843,881 |

BALANCE SHEET LIABILITIES

| (in thousands of euros) | QUARTER AS AT 31 MARCH 2004 | | | QUARTER AS AT | YEAR ENDED |
|--|-----------------------------|----------------|-------------------------|-----------------------|------------------|
| | Subtotal | Subtotal | TOTAL | 31 MARCH 2003 | 31 DEC. 2003 |
| | 1 | 2 | 3 | | |
| A) SHAREHOLDERS' EQUITY | | | | | |
| I- SHARE CAPITAL | | | 67,452 | 67,452 | 67,452 |
| II- SHARE PREMIUM RESERVE | | | 171,073 | 223,144 | 170,380 |
| III- REVALUATION RESERVE | | | 16,712 | 16,712 | 16,712 |
| IV- LEGAL RESERVE | | | 13,490 | 13,490 | 13,490 |
| V- RESERVE FOR TREASURY STOCK | | | 116,192 | 64,121 | 116,885 |
| VI- STATUTORY RESERVE | | | | | |
| VII- OTHER RESERVES | | | | | |
| 1) Extraordinary reserve | | 9,264 | | | 9,264 |
| 2) Reserve Law 675 of 12/8/1977 | | 351 | | 351 | 351 |
| 3) Conferral reserve Law 904 of 16/12/1977 | | 751 | | 751 | 751 |
| 4) Capital account contribution reserve | | 5,335 | | 5,335 | 5,335 |
| 5) Reserve Law 124/93 art. 13 | | 73 | | 53 | 73 |
| 6) Merger reserve | | 478 | | 478 | 478 |
| 7) Other reserves | | -3,297 | | -2,893 | -4,223 |
| VIII- PROFIT (LOSS) CARRIED FORWARD | | | 12,955 | 4,075 | 12,029 |
| IX- PROFIT (LOSS) FOR THE YEAR | | | 154,930 | 143,046 | 72,869 |
| 1) Gross profit for period | | | 36,407 | 26,258 | |
| 2) Profit for year | | | | | 82,101 |
| CONSOLIDATED GROUP SHAREHOLDERS' EQUITY | | | 589,211 | 558,298 | 551,918 |
| MINORITY INTEREST | | | 3,414 | 361 | 3,282 |
| TOTAL SHAREHOLDERS' EQUITY (A) | | | 592,625 | 558,659 | 555,200 |
| B) RESERVE FOR RISKS AND CHARGES | | | | | |
| 1 retirement benefits | | 928 | | 941 | 966 |
| 2 income taxes | | 14,809 | | 23,153 | 14,769 |
| 3 other | | 26,666 | | 27,952 | 26,651 |
| TOTAL RESERVE FOR RISKS AND CHARGES (B) | | | 42,403 | 52,046 | 42,386 |
| C) RESERVE FOR SEVERANCE INDEMNITIES | | | 102,109 | 103,396 | 100,722 |
| | | | <i>within 12 months</i> | <i>over 12 months</i> | |
| D) DEBTS AND OTHER PAYABLES | | | | | |
| 1 bonds | | 296,384 | 296,384 | | 296,384 |
| 2 convertible bonds | | 109,900 | 109,900 | | 109,900 |
| 3 financing debts with shareholders | | | | | |
| 4 due to banks | 75,111 | 14,719 | 89,830 | 345,592 | 151,547 |
| 5 due to third parties | | 1,360 | 1,360 | | 1,360 |
| 6 advances | 36,093 | | 36,093 | 35,917 | 35,831 |
| 7 trade accounts | 334,473 | 302 | 334,775 | 300,699 | 346,552 |
| 8 debts represented by credit instruments | | | | | |
| 9 due to subsidiaries | 255 | | 255 | 4 | 689 |
| 10 due to associated companies | 43,613 | | 43,613 | 44,215 | 43,824 |
| 11 due to parent companies | | | | | |
| 12 income taxes payable | 13,909 | | 13,909 | 12,767 | 19,537 |
| 13 due to pension funds and social security institutions | 14,929 | | 14,929 | 13,851 | 17,853 |
| 14 other liabilities | 106,781 | 2,330 | 109,111 | 98,186 | 110,336 |
| TOTAL DEBTS AND OTHER PAYABLES (D) | 625,164 | 424,995 | 1,050,159 | 851,231 | 1,133,813 |
| E) ACCRUED LIABILITIES AND DEFERRED INCOME | | | | | |
| 1 accrued liabilities | | | 10,840 | 7,517 | 5,986 |
| 2 deferred income | | | 5,386 | 7,708 | 5,774 |
| 3 discounts on loans | | | | | |
| TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME (E) | | | 16,226 | 15,225 | 11,760 |
| TOTAL LIABILITIES | | | 1,803,522 | 1,580,557 | 1,843,881 |
| MEMORANDUM ACCOUNTS | | | | | |
| 1 GUARANTEES AND SURETIES | | | | | |
| a) in favour of subsidiaries | | | | | |
| b) in favour of associated companies | | | | | |
| c) in favour of third parties | | | | | 108,459 |
| 2 COMMITMENTS | | | | | 12,448 |
| 3 RISKS | | | | | |
| 4 OTHERS | | | | | 95,785 |
| TOTAL MEMORANDUM ACCOUNTS | | | | | 216,692 |

- 1) Total of items preceded by lowercase letters and (in certain cases) by arabic numerals.
- 2) Total of items preceded by arabic numerals and (in certain cases) by lowercase letters.
- 3) Total of items preceded by romanic numerals and uppercase letters.

For the Board of Directors
Chairman
Marina Berlusconi

INCOME STATEMENT

| (in thousands of euros) | QUARTER AS AT 31 MARCH 2004 | | | QUARTER AS AT | YEAR ENDED |
|--|-----------------------------|----------|----------------|----------------|------------------|
| | Subtotal | Subtotal | TOTAL | 31 MARCH 2003 | 31 DEC. 2003 |
| | 1 | 2 | 3 | | |
| A) PRODUCTION VALUE | | | | | |
| 1 REVENUES FROM SALES OF GOODS AND SERVICES | | 411,787 | | 361,111 | 1,538,144 |
| 2 CHANGES IN INVENTORY OF SEMI-FINISHED GOODS | | -7,302 | | 416 | 6,116 |
| 3 CHANGES IN CONTRACT WORK IN PROGRESS | | -1,278 | | -762 | 809 |
| 4 INCREASE IN COMPANY-PRODUCED ADDITIONS TO FIXED ASSETS | | 23 | | 22 | 143 |
| 5 OTHER INCOME AND REVENUES | | | | | |
| a) operating grants | 540 | | | 601 | 4,736 |
| b) other income and revenues | 9,649 | | | 7,399 | 44,313 |
| | | 10,189 | | | |
| TOTAL PRODUCTION VALUE (A) | | | 413,419 | 368,787 | 1,594,261 |
| B) PRODUCTION COSTS | | | | | |
| 6 RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS | | 127,240 | | 117,057 | 486,463 |
| 7 SERVICES | | 156,666 | | 135,025 | 598,537 |
| 8 USE OF THIRD PARTY ASSETS | | 5,992 | | 6,315 | 22,927 |
| 9 PERSONNEL | | | | | |
| a) wages and salaries | 45,186 | | | 44,962 | 177,738 |
| b) social contributions | 13,928 | | | 13,823 | 55,425 |
| c) severance indemnities | 3,939 | | | 3,735 | 15,258 |
| d) retirement benefits | 5 | | | 3 | 25 |
| e) other costs | 435 | | | 332 | 4,025 |
| TOTAL | | 63,493 | | 62,855 | 252,471 |
| 10 DEPRECIATIONS, AMORTISATION AND WRITEDOWNS | | | | | |
| a) amortisation of intangible assets | 5,109 | | | 5,677 | 23,494 |
| b) depreciation of fixed assets | 9,436 | | | 9,324 | 38,813 |
| c) other writedowns of assets | | | | | |
| d) writedowns of doubtful accounts | 2,025 | | | 1,500 | 7,975 |
| TOTAL | | 16,570 | | 16,501 | 70,282 |
| 11 CHANGES IN INVENTORY OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS | | 345 | | 188 | -815 |
| 12 PROVISIONS FOR RISKS | | 214 | | 350 | 4,870 |
| 13 OTHER PROVISIONS | | 6 | | 7 | 30 |
| 14 OTHER OPERATING EXPENSES | | 3,612 | | 3,345 | 13,240 |
| TOTAL PRODUCTION COSTS (B) | | | 374,138 | 341,643 | 1,448,005 |
| DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B) | | | 39,281 | 27,144 | 146,256 |
| C) FINANCIAL INCOME AND CHARGES | | | | | |
| 15 INCOME FROM EQUITY INVESTMENTS | | | | | |
| a) Subsidiaries | | | | | |
| b) Associated companies | | | | | 201 |
| c) Other investments | | | | | |
| TOTAL | | | | | 201 |
| 16 OTHER FINANCIAL INCOME | | | | | |
| a) from long term receivables | | | | | |
| * Subsidiaries | | | | | |
| * Associated companies | | | | | |
| * Parent companies | | | | | |
| * Other companies | 20 | | | 34 | 101 |
| TOTAL | 20 | | | 34 | 101 |
| b) from long term securities | | | | | |
| c) from short term securities | 4,212 | | | 4,748 | 20,512 |
| d) Other income | | | | | |
| * Subsidiaries | 1 | | | | 5 |
| * Associated companies | 100 | | | 120 | 426 |
| * Parent companies | | | | | |
| * Other companies | 2,445 | | | 727 | 12,692 |
| TOTAL | 2,546 | | | 847 | 13,123 |
| TOTAL | | 6,778 | | 5,629 | 33,736 |
| 17 INTEREST AND FINANCIAL CHARGES | | | | | |
| a) Subsidiaries | | | | | 29 |
| b) Associated companies | 105 | | | 130 | 326 |
| c) Parent companies | | | | | |
| d) Other companies | 6,328 | | | 5,010 | 28,973 |
| TOTAL | | 6,433 | | 5,140 | 29,328 |
| 17 bis EXCHANGE RATE PROFIT (LOSS) | | | -20 | 189 | -1,725 |
| TOTAL FINANCIAL INCOME AND (CHARGES) (C) | | | 325 | 678 | 2,884 |

INCOME STATEMENT (contd)

| (in thousands of euros) | QUARTER AS AT 31 MARCH 2004 | | | QUARTER AS AT | YEAR ENDED |
|---|-----------------------------|----------|---------------|---------------|----------------|
| | Subtotal | Subtotal | TOTAL | 31 MARCH 2003 | 31 DEC. 2003 |
| | 1 | 2 | 3 | | |
| D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS | | | | | |
| 18 REVALUATIONS | | | | | |
| a) equity investments | 1,127 | | | 966 | 4,997 |
| b) other long term financial assets | | | | | |
| c) securities | | | | | |
| TOTAL | | 1,127 | | 966 | 4,997 |
| 19 WRITEDOWNS | | | | | |
| a) equity investments | 3,093 | | | 2,828 | 8,365 |
| b) other long term financial assets | | | | | |
| c) securities | 586 | | | 665 | 3,772 |
| TOTAL | | 3,679 | | 3,493 | 12,137 |
| TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (D) | | | -2,552 | -2,527 | -7,140 |
| E) EXTRAORDINARY ITEMS | | | | | |
| 20 INCOME | | | | | |
| a) Gains on disposals | | | | | 3,929 |
| b) Others | 265 | | | 1,004 | 6,587 |
| TOTAL | | 265 | | 1,004 | 10,516 |
| 21 CHARGES | | | | | |
| a) Losses on disposals | 702 | | | | 66 |
| b) Taxation relative to prior years | | | | | 436 |
| c) Others | 210 | | | 41 | 1,837 |
| TOTAL | | 912 | | 41 | 2,339 |
| TOTAL EXTRAORDINARY INCOME AND (CHARGES) (E) | | | -647 | 963 | 8,177 |
| PROFIT BEFORE TAX | | | 36,407 | 26,258 | 150,177 |
| 22 INCOME TAX FOR THE PERIOD | | | | | 67,499 |
| 23 RESULT FOR THE PERIOD | | | | | 82,678 |
| NET PROFIT (LOSS) FOR THE PERIOD PERTAINING TO MINORITY INTERESTS | | | | | 577 |
| NET PROFIT (LOSS) FOR THE PERIOD | | | | | 82,101 |

1) Total of items preceded by lowercase letters

2) Total of items preceded by arabic numerals

3) Total of items preceded by uppercase letters and (in certain cases) arabic numerals

For the Board of Directors

Chairman

Marina Berlusconi