

**ARNOLDO MONDADORI EDITORE S.p.A.**  
Share capital €67,451,756.32  
Head Offices in Milan  
Administrative Offices in Segrate (MI)

**Quarterly report as of 30 September 2004**



## ***Corporate Boards***

### ***Board of Directors***

#### **Chairman**

Marina Berlusconi

#### **Vice 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

### ***Board of Statutory Auditors***

#### **Chairman**

Achille Frattini

#### **Acting Statutory Auditors**

Antonio Aiello

Ferdinando Superti Furga

#### **Substitute Statutory Auditors**

Francesco A. Giampaolo

Francesco Vittadini



## ***Contents***

### **Report of the Board of Directors**

The Mondadori Group's business activities	<b>9</b>
• Accounting principles and evaluation criteria adopted	<b>10</b>
• Volume of business per geographical and business area	<b>10</b>
• Book division	<b>11</b>
• Magazine division	<b>14</b>
• Printing division	<b>15</b>
• Direct division	<b>16</b>
Financial situation	<b>17</b>
Personnel	<b>18</b>
Capital investments	<b>19</b>
Significant events after the end of September	<b>19</b>
Expectations for the full year	<b>20</b>
<b>Balance sheet and Income statement</b>	<b>22</b>



***Report of the Board of Directors on the results for the period***



## The Mondadori Group's business activities

The Mondadori Group once again recorded a good performance for the third quarter, confirming the positive results of the first half of the year, with an increase in revenues and a further increase in profitability.

Among the different sectors of the Group's business, particularly significant revenue gains were recorded by the book division and add-on sales linked to Group titles. However, there were still no signs of a strong recovery in advertising sales in printed media, where a modest increase was registered.

In the first nine months of 2004 **consolidated revenues** came to €1,242.8 million, an increase of 11% on the €1,119.6 million in the same period of the previous year, thanks mainly to the excellent performance of the book and the magazine divisions.

**Gross operating profit** rose to €171.4 million, compared with €151 million in the first nine months of 2003 (an increase of 13.5%). There was also a rise in gross operating profit as a proportion of revenues, from 13.5% for the first nine months of 2003 to 13.8% this time.

There was an even greater increase in **operating profit**, which came to €142.9 million, an increase of 17% compared with the €122.1 million at the end of September 2003, after spending €28.5 million in technical depreciations compared with €28.9 million in 2003. As a proportion of revenues these figures represent a rise from 10.9% in 2003 to 11.5%.

There was also a significant increase in **profit before taxes**, which totalled €123.9 million, a 22.1% increase on the €101.5 million of the same period of 2003. This result was positively affected by an improved balance in financial management and a progressive reduction in charges related to the company's internet activities.

The Group's overall **net financial position** at the end of September showed a surplus of €60.3 million compared with €25.5 million at the same stage of last year, in spite of investments of €37.8 million in share buy backs over the last twelve months.

The data referred to above is explained in more detail below.

Reclassified income statement in millions of euros	Third quarter			As of 30 September		
	2004	2003	% change	2004	2003	% change
Revenues	406.5	365.7	11.2%	1,242.8	1,119.6	11.0%
Personnel costs	57.4	56.0	2.5%	187.5	181.4	3.4%
Cost of sales and operating costs	287.8	252.4	14.0%	883.9	787.2	12.3%
<b>Gross operating profit</b>	<b>61.3</b>	<b>57.3</b>	<b>7.0%</b>	<b>171.4</b>	<b>151.0</b>	<b>13.5%</b>
<i>Gross operating profit as a % of revenues</i>	<i>15.1%</i>	<i>15.7%</i>		<i>13.8%</i>	<i>13.5%</i>	
Technical depreciations	9.6	10.4	(7.7%)	28.5	28.9	(1.4%)
<b>Operating profit</b>	<b>51.7</b>	<b>46.9</b>	<b>10.2%</b>	<b>142.9</b>	<b>122.1</b>	<b>17.0%</b>
<i>Operating profit as a % of revenues</i>	<i>12.7%</i>	<i>12.8%</i>		<i>11.5%</i>	<i>10.9%</i>	
Depreciations of intangible assets	5.2	5.8	(10.3%)	15.4	17.0	(9.4%)
Net financial income (charges)	(0.8)	(3.9)	(79.5%)	(2.0)	(3.4)	(41.2%)
Other income (charges), net	1.2	1.1	9.1%	0.3	1.9	(84.2%)
Extraordinary income (charges), net	0.5	0.1	n.a.	0.5	1.4	(64.3%)
Internet activities	(0.9)	(1.0)	(10.0%)	(2.4)	(3.5)	(31.4%)
<b>Pre-tax profit</b>	<b>46.5</b>	<b>37.4</b>	<b>24.3%</b>	<b>123.9</b>	<b>101.5</b>	<b>22.1%</b>
<i>Net profit as a % of revenues</i>	<i>11.4%</i>	<i>10.2%</i>		<i>10.0%</i>	<i>9.1%</i>	
<b>Gross cash flow</b>	<b>61.3</b>	<b>53.6</b>		<b>167.8</b>	<b>147.4</b>	

#### *Accounting principles and evaluation criteria adopted*

The accounting principles and evaluation criteria adopted for drawing up the financial statements as of 30 September 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 geographical and business area*

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

Business volume for each business activity	Millions of euros		% change
	30 September 2004	30 September 2003	
Books	307.7	258.6	19.0%
Magazines	661.4	609.6	8.5%
Printing	339.5	323.7	4.9%
Direct	124.3	111.9	11.1%
Others	13.6	10.9	24.8%
<b>Total revenues</b>	<b>1,446.5</b>	<b>1,314.7</b>	<b>10.0%</b>
Intergroup revenues	(203.7)	(195.1)	4.4%
<b>Total consolidated revenues</b>	<b>1,242.8</b>	<b>1,119.6</b>	<b>11.0%</b>

Business volumes by geographical area	Millions of euros	Millions of euros	% change
	30 September 2004	30 September 2003	
Italy	1,175.7	1,025.8	14.6%
EU countries	55.8	77.3	(27.8%)
USA	8.3	8.4	(1.2%)
Other countries	3.0	8.1	(62.9%)
<b>Total consolidated revenues</b>	<b>1,242.8</b>	<b>1,119.6</b>	<b>11.0%</b>

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

### ***Book division***

The Division performed particularly well in the first nine months of the year with net revenues totalling €307.7 million, an increase of 19%. The figure also includes revenues of €27.1 million from Piemme that were not present in 2003, given that the company was only acquired in the third quarter of last year; on a like-for-like basis, the increase would be 8.5%.

### ***Edizioni Mondadori***

In the first nine months of 2004 the **Edizioni Mondadori** registered an increase in sales of 16.5% to €8 million.

Particular mention must be made of the foreign authors sector where *The Da Vinci Code* was crowned as the biggest worldwide publishing phenomenon of the last two years and Dan Brown was confirmed as an authentic superstar on the world literature scene. Originally published in November 2003, *The Da Vinci Code* continued to register excellent sales for the first nine months of 2004 and, in particular, for the third quarter where it was top of the Demoskopea list for 12 consecutive weeks, selling more than a million copies.

But Mondadori's book production did not just centre on *The Da Vinci Code*. At the beginning of September other important titles were published, such as the latest thriller by Ken Follett, *Nel Bianco*, which sold 100,000 copies in just one month, and *I Love Shopping with My Sister*, the latest book by Sophie Kinsella. *Alzatevi, Andiamo!*, by the Pope, confirmed its position as overall best-seller in 2004 in the non-fiction sector, while *Zorro* by Margaret Mazzantini also registered an excellent performance with sales figures of 250,000 copies, and *Il Dolore Perfetto* by Ugo Riccarelli had encouraging sales after winning the prestigious "Strega" award.

### **Giulio Einaudi Editore**

In the first nine months of 2004, sales of titles from Giulio Einaudi Editore increased by 7.1%, thanks to excellent results from sales in bookshops and a decrease in add-on sales linked to newspapers.

The titles that were most successful during the first nine months of the year and made a significant contribution to the overall result were *Lo Strano Caso del Cane Ucciso a Mezzanotte* by Mark Haddon, *Io non ho Paura* by Niccolò Ammaniti, (which were first published in 2003 and 2001 respectively), *Nuovi Misteri d'Italia* by Carlo Lucarelli, *Nero l'albero dei Ricordi* by Loy, *Noi* by Mason, *Report*, published together with a Dvd, by Paolini, *Sotto la Pelle*, *Il Petalo Cremisi e il Bianco* by Michael Faber and *Storia d'Italia, Annale Fotografico* and *Arte e Storia del Medioevo III*.

### **Mondadori Electa**

Net revenues for the period January/September amounted to €25.9 million, a 4.4% increase compared with 2003.

During the third quarter Mondadori Electa was responsible for publishing the international co-edition of *Grande Atlante della Pittura*, with 7 editions in 6 different languages and a total of 80,000 copies printed.

In the add-on sales area, August saw the launch of the 20-issue “Dizionari dell’Arte” by Electa and the 10-issue “I Grandi Musei” by Mondadori, while in September “Icone” was launched, in conjunction with *Panorama*, with 16 volumes dedicated to the most important figures of the last century.

In the exhibition organisation sector, special mention should be made of “Forma. La Città Moderna e il suo Passato”, which opened in July at the Colosseum (until 9 January 2005), “Storie da un’eruzione. Pompei, Ercolano, Oplontis”, which opened at the end of July in the Scuderie of Castello di Miramare in Trieste (until 7 November 2004) and “Turner and Venice”, which opened at the beginning of September at the Museo Correr in Venice (until 23 January 2005).

### **Sperling & Kupfer Group**

Net revenues for the Sperling & Kupfer Group in the first nine months of 2004 amounted to €22.5 million, an increase of 16.6% compared with the previous year.

The increase in sales was mainly attributable to the non-fiction area with the reissue of *Sangue dei Vinti* by Giampaolo Pansa (which has sold 300,000 copies), Alberto Granado’s *Un Gitano Sedentario* (a diary of his motorbike tour with Che Guevara) and the excellent initial sales figures for Giampaolo Pansa’s autumn book, *Prigionieri del Silenzio*. In the fiction sector, Sperling registered good results with the new novel by Sveva Casati Modignani, which had sold 140,000 by September.

The subsidiary Frassinelli also returned good results, thanks to the novel by Richardson, *Pamela* (which provided the story for the television series, *Elisa*), and the new novel by Nicholas Sparks.

Special mention must also be made of the excellent results registered by the sale of rights both in Italy and abroad.

### ***Edizioni Piemme***

Net revenues for Edizioni Piemme as of 30 September 2004 amounted to €27.1 million.

This excellent result was largely due to the exponential growth of the “Geronimo Stilton” series and, to a lesser degree, to the other titles produced by the publishing house.

The Fiction and Non-fiction area registered a significant improvement partly as a result of the success of the novel *Il Codice dei Quattro*. The Pocket editions also registered good performances, benefiting from the success of “I Maestri del Thriller” series, while the “Religione” editions did not perform as expected.

In the Junior sector, the “Il Battello a Vapore” series registered an increase in revenues, but the real success story concerned the “Geronimo Stilton” series which as of September had registered an increase of more than 80% compared with the previous year. In particular, the result as of 30 September benefited from the promotional launch, in 160,000 copies, of *Il Segreto del Coraggio*, in August. The success of the book was supported by the efficient supply both of new and catalogue titles.

### ***Edumond Le Monnier***

The financial statements at 30 September 2004 closed for Edumond Le Monnier with net revenues of €72 million, an increase of 1.4% compared with the same period in 2003.

As expected, sales recovered from the sluggish figure registered for the first half of the year when they were down by 10% compared with the previous year.

In particular, the recovery was based entirely on sales of books for the first grade in secondary schools (formerly lower middle schools) and high schools, where the company registered increases compared with the previous year of 2.5% and 4.6% respectively.

Sales in the primary school sector decreased, although forecasts for the final part of the year indicate that there will be a recovery.

### ***Distribution and logistics***

The distribution sector, which includes the distribution of third-party titles, registered an improvement in sales in the third quarter compared with the results for the first half of the year, which were adversely affected by the decrease in the number of titles published by third parties. The overall decrease in turnover for the first nine months of the year amounted to 2.5%.

There was a significant increase in shipping from the figure of 98,112 in 2003 to 127,507 as of September 2004, thanks to the introduction of a second sorter.

## ***Magazine division***

In the first nine months of 2004 the Magazine division registered total revenues of €661.4 million, an increase of 8.5% compared with the €609.6 million in 2003.

<b>Magazines</b>	<b>Millions of euros</b>		<b>% change</b>
	<b>30 September 2004</b>	<b>30 September 2003</b>	
Circulation	423.3	372.2	13.7%
Advertising	238.1	237.4	0.3%
<b>Total magazines</b>	<b>661.4</b>	<b>609.6</b>	<b>8.5%</b>

### Circulation

In the first nine months of the year circulation figures registered a marked increase (+ 13.7% compared with 2003).

The increase was mainly due to an acceleration in the growth of add-on sales, which rose from +38% in the first half of the year to +44.4% in the first nine months. Overall, such revenues totalled €151 million net, thanks to an increase in the number and variety of products on offer.

In particular, revenues from the sale of DVDs more than doubled, with a total of over 190 titles on offer in the first nine months of the year.

There was also a sharp increase in the sale of publishing products (+86%) and objects (+53%) linked to magazines, particularly women's magazines.

The circulation market where Mondadori competes increased by 3% only as a result of new launches, while the figures for existing titles continued to fall. The Mondadori Group registered a 1.5% increase in circulation figures, confirming its position of market leader, with a market share of over 40%.

The third quarter once again saw new editorial initiatives by the Group: the launch of *Easy Shop* and *Italia*. *Easy Shop*, the first Italian magazine dedicated to shopping, is a magazine-shopping guide for women launched at the beginning of September with a print run of 350,000 copies and a cover price of €1.50. *Italia*, meanwhile, is a special issue of which 500,000 copies were circulated in important cities in China with the aim of meeting a growing interest in Italian style and products among the new local "upper classes".

## Advertising

The third quarter of 2004 confirmed the signals of weakness in the advertising sector, particularly in the print media area.

The trend in Mondadori's advertising sales, after ending the first half of the year with a 1.4% increase on the previous year, the result of a good first quarter and a slow-down in the second, did not change during the summer.

The cumulative figure for the first nine months show an increase of 0.3% on the corresponding period of 2003

The uncertainty in the market, combined with stagnation in consumer spending, has contributed to a slow-down in advertising investments in some sectors, for example cosmetics and, even more significantly, FMCGs.

The final three months, which will be critical for an interpretation of how the first months of 2005 will turn out, appear to confirm positively the trend of the summer, in spite of being compared with a good performance in the fourth quarter of last year.

## *Printing division*

In the first nine months of 2004 the reference market overall recorded slight growth (+4.9%), essentially confirming the outline indicated after the end of the first half of the year.

The difficulties continued for European printers, penalised by the continuing increase in the value of the Euro against the currencies of our main markets and increased competition, conditioning exports especially to the United States and Great Britain.

On the Italian market there was continued demand for hardback books sold as optional add-on products with newspapers at newsstands.

The cost of paper remained substantially unchanged, once again favouring publishers and companies involved in catalogue sales.

Sales to foreign clients amounted to €61.1 million, a decrease compared with 2003 that was in line with the division's commercial policy and the consequences of the strong euro.

The variation in the cost of paper was partly responsible for overall revenues, therefore the sales figures for the different types of printed products are shown net of the cost of paper and shipping.

<b>Printing revenues net of paper costs</b>	<b>Millions of euros</b>	<b>Millions of euros</b>	<b>% change</b>
	<b>30 September 2004</b>	<b>30 September 2003</b>	
Magazines	91.6	91.2	0.4%
Books	71.8	54.6	31.5%
Catalogues and promotional material	19.7	19.5	1.0%
Directories	3.1	3.7	(16.2%)
<b>Total printing sales</b>	<b>186.2</b>	<b>169.0</b>	<b>10.2%</b>

The increase in revenues came to 10.2 % while the performances were in line with market trends.

### *Direct division*

The Mondadori Group registered a modest rate of growth in this area and an 11.1% increase in sales.

The revenues of **Mondolibri** were essentially stable (+0.3%) compared with the same period of last year, despite market difficulties resulting from the development in recent months of new sales channels for books (newsstands).

The new regulations governing privacy that came into force (making it more difficult to collect the names of potential customers) and the consequent difficulty of recruiting new clients via mailing, contributed to the small increase in revenues.

New initiatives (Librincasa and Subitomusica.com) are currently being tested, with the intention being to increase the market share of new business segments.

In the first nine months of 2004, the positive trend that began towards the end of last year in **Cemit's** business continued (+12.6%), and was helped by the inclusion of a significant non-recurring contract in the second quarter. In the meantime, the implementation of technological development programmes continued, with particular emphasis on information systems related to the company's database assets.

Compared with the corresponding period of 2003, **Mondadori Franchising** again recorded a significant increase in revenues (+16.7%), thanks mainly to new affiliations in the last twelve months of reference which saw the number of outlets increase from 126 to 139.

The new logistics system, which is characterised by a high level of automation, will ensure that in coming months the company will improve efficiency and will be able to deal with the increased complexity deriving from the growth in the number of volumes on sale.

**Mondadori Retail** registered a large increase in revenues (+15.9%) from its existing shops (+3.7%), from the new outlets opened during 2003 and from sales to key clients. All with a marked recovery in profitability compared with the same period of 2003. In the coming months a new sales outlet will be opened in Bologna.

Direct	Millions of euros		% change
	30 September 2004	30 September 2003	
Mondolibri SpA (proportional)	31.2	31.1	0.3%
Cemit Interactive Media SpA	23.2	20.6	12.6%
<b>Total direct marketing</b>	<b>54.4</b>	<b>51.7</b>	<b>5.2%</b>
Mondadori Franchising SpA	20.3	17.4	16.7%
Mondadori Retail Srl	49.6	42.8	15.9%
<b>Total retail</b>	<b>69.9</b>	<b>60.2</b>	<b>16.1%</b>
<b>Total direct</b>	<b>124.3</b>	<b>111.9</b>	<b>11.1%</b>

### Financial situation

The Mondadori Group's financial situation as of 30 September 2004 showed a profit of €60.3 million, as illustrated in the following table:

Net financial position in millions of euros	30-09-2004	30-06-2004	31-12-2003	30-09-2003
Short term bank deposits	63.9	37.3	42.3	33.8
Short term borrowing from banks	(9.0)	(38.2)	(28.4)	(13.3)
Financing (short and medium/long term)	(116.4)	(146.4)	(123.1)	(471.5)
	<b>(61.5)</b>	<b>(147.3)</b>	<b>(109.2)</b>	<b>(451.0)</b>
Fixed interest securities	517.6	548.0	580.3	469.1
Bonds	(296.4)	(296.4)	(296.4)	-
Convertible bonds	(109.9)	(109.9)	(109.9)	-
Others	(1.4)	(1.4)	(1.4)	-
Cash, cheques, net financial receivables from Group companies/third parties and accrued interest income	12.2	14.2	9.9	7.4
<b>Net receivables (payables)</b>	<b>60.6</b>	<b>7.2</b>	<b>73.3</b>	<b>25.5</b>
Payables for leasing	(0.3)	(0.4)	(0.4)	-
<b>Net financial position</b>	<b>60.3</b>	<b>6.8</b>	<b>72.9</b>	<b>25.5</b>

In the USA the increase in GDP for the third quarter amounted to 4%, while economists forecast that growth will be slightly less than 4% for the last three months of the year. Unemployment amounted to 5.4%, which represents a slight improvement compared with the second quarter, and inflation amounted to just under 3.0%. The main share price indexes returned to the levels that were registered at the beginning of the year (the Dow Jones Industrial Average and the Standard & Poors 500 registered conflicting figures of -1% and +1% respectively since the beginning of the year).

In the Euro area growth in the third quarter amounted to 1.8%, unemployment amounted to 9% and inflation 2.3%. At the end of September the DJ Stoxx 50 index registered an increase of over 2% since the beginning of the year.

The Federal Reserve Bank decided to increase the Federal fund rate to 1.75% (in two separate operations on 10 August and 21 September), while the European Central Bank left the minimum rate applied to the main refinancing operations in the euro system untouched at 2%. The Bank of England, however, increased its rates on 5 August by 25 bps, increasing the REPO rate to 4.75%.

In this macroeconomic situation, during the third quarter the dollar fell against the euro from 1.215 to 1.241. Despite this, since the beginning of the year the dollar has increased by 1.5% from 1.259 at the beginning of January to 1.241 at the end of September. During the last quarter, sterling fell from 0.671 to 0.687, although it has increased in value by 2.6% since the beginning of the year, rising from 0.705 at the beginning of January to 0.687 at the end of September.

As far as the three-month Euribor rate is concerned (act/360), it moved from 2.12% at the end of June to 2.15% at the end of September. Since the beginning of the year the average cost of money for the Mondadori Group (including the risk cover structure for interest and exchange rates) amounted to 3.18%.

As of 30 September 2004, credit facilities available to the Group amounted to approximately €1,100 million.

As of 30 September 2004 14% of the Group's short-term credit facilities, amounting to a total of €688.7 million, were used by means of self-liquidating lines of credit (bank discount bills) and stand-by financing of less than 18 months minus a day.

The medium-long term lines of €422.5 million were made up of a private placement in dollars in the USA for €296.4 million, repayable in three instalments with payment dates in 2013/2015/2018, and €109.9 million of debenture loans convertible in ordinary Mondadori shares with an expiry date of 2008. As of 30 September, there were also medium-long term subsidised loans for publishers amounting to €16.2 million.

## **Personnel**

The following table shows changes in Group personnel over the last twelve months. The most significant changes concern the decrease in the number of manual workers, while the number of managers, journalists and office staff employed in Italian subsidiaries increased, compared with September 2003, as a result of the purchase of Piemme.

<b>Personnel</b>	<b>30-09-2004</b>	<b>30-06-2004</b>	<b>31-12-2003</b>	<b>30-09-2003</b>
Arnoldo Mondadori Editore SpA:				
- Managers, journalists and office staff	1,505	1,514	1,550	1,542
- Manual workers	109	110	144	145
	<b>1,614</b>	<b>1,624</b>	<b>1,694</b>	<b>1,687</b>
Italian subsidiaries:				
- Managers, journalists and office staff	1,653	1,643	1,649	1,582
- Manual workers	1,222	1,211	1,253	1,269
	<b>2,875</b>	<b>2,854</b>	<b>2,902</b>	<b>2,851</b>
Foreign subsidiaries:				
- Managers, journalists and office staff	38	39	38	38
- Manual workers	104	107	117	121
	<b>142</b>	<b>146</b>	<b>155</b>	<b>159</b>
<b>Total</b>	<b>4,631</b>	<b>4,624</b>	<b>4,751</b>	<b>4,697</b>

## Capital investments

As of 30 September 2004 the Group made investments in technical assets of €15.7 million, €10 million of which was for printing machinery, while the majority of disposals, which were of a relatively low amount, were also concerned with the Printing division.

## Significant events after the end of September

On 11 October an agreement was signed to buy the entire share holding of Texto SpA, which owns the trademark and business activities of Piemme Scuola, a publishing house that is particularly active in the primary school sector where it is among the market leaders in the publication of religious course books. The operation involves an investment of €1.9 million.

On 25 October an agreement was announced with the UK publishing group Emap for a licensing contract for the publication of *Grazia* in Great Britain.

Emap is one of the leading magazine publishers in Great Britain and France, with a portfolio of more than 400 editorial products. *Grazia* will be launched in the UK market in the spring of 2005.

As a result of this operation, Emap expects to see substantial innovation in the reference market, thanks to an absolutely original offer of *fashion, glamour* and *style* for British readers and advertisers.

On 29<sup>th</sup> October the company exercised an option to acquire a further 20% of the share capital of Attica Publications SA, as foreseen in the contract signed in March 2003.

As a result of this operation, that involved the investment of €23.2 million, Mondadori now has a 40% stake in the Greek group which is listed on the Athens Stock Exchange.

## **Expectations for the full year**

In the months immediately following the closing of the accounts for the first nine months there have not been any significant changes in the general economic situation. In spite of a not especially favourable context, the Group expects to achieve results for the full year that show a clear increase on those of the previous year.

For the Board of Directors

Chairman

Marina Berlusconi

*Mondadori Group*  
*Balance sheet and income statement*

## BALANCE SHEET

### ASSETS

	PERIOD AT 30 SEPTEMBER 2004			YEAR ENDED	
	Sub total 1	Sub total 2	TOTAL 3	30 SEPTEMBER 2003	31 DECEMBER 2003
A) RECEIVABLES FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL					
B) NON-CURRENT ASSETS					
I- INTANGIBLE ASSETS					
1 start up and expansion costs		380		152	489
2 research, development and advertising costs					
3 industrial patents and intellectual property rights	1,192		1,008	1,120	
4 concessions, licences and trade marks	125,939		128,644	134,369	
5 goodwill	6,158		9,226	7,919	
6 assets under construction and advances	17		5	319	
7 others	4,602		4,809	5,829	
8 consolidation differences	6,240		9,103	8,381	
<b>TOTAL</b>		144,528		152,947	158,426
II- FIXED ASSETS					
1 land and buildings	79,601		80,346	82,447	
2 plant and machinery	82,629		91,074	92,978	
3 industrial and commercial equipment	2,189		2,311	2,409	
4 other assets	14,980		16,738	16,659	
5 assets under construction and advances	6,868		6,151	5,385	
<b>TOTAL</b>		186,267		196,620	199,878
III- FINANCIAL ASSETS					
1 investments in:					
a) subsidiary companies	128		746	461	
b) associated companies	65,440		70,505	69,281	
c) parent companies					
d) other companies	223			213	238
<b>TOTAL</b>		65,791		71,464	69,980
	<i>Within 12 months</i>	<i>Over 12 months</i>			
2 current receivables:					
a) subsidiary companies					
b) associated companies					
c) parent companies					
d) other companies	1,334	3,872	5,206		
<b>TOTAL</b>	1,334	3,872	5,206	6,806	5,746
3 other securities					
4 treasury stock		136,006		98,203	116,885
<b>TOTAL</b>			207,003	176,473	192,611
<b>TOTAL NON-CURRENT ASSETS (B)</b>			<b>537,798</b>	<b>526,040</b>	<b>550,915</b>

## ASSETS

	PERIOD AT 30 SEPTEMBER 2004			PERIOD AT 30 SEPTEMBER 2003		YEAR ENDED 31 DECEMBER 2003
	Sub total 1	Sub total 2	TOTAL 3			
C) CURRENT ASSETS						
I- INVENTORIES						
1 raw materials		12,712		12,148		13,851
2 semi-finished products		22,029		22,907		34,640
3 contract work in progress		7,891		8,000		9,489
4 finished products and goods		75,573		74,010		75,534
5 advances						7
<b>TOTAL</b>			<b>118,205</b>		<b>117,065</b>	<b>133,521</b>
	<i>Within 12 months</i>	<i>Over 12 months</i>				
II- RECEIVABLES						
1 trade accounts	376,701	12,080	388,781		364,871	355,392
2 due from subsidiaries	430		430		255	625
3 due from associated companies	55,031		55,031		44,575	56,404
4 due from parent companies						2
4 bis tax credits	31,044		31,044		35,459	19,833
4 ter advance taxes	39,266		39,266		47,666	29,714
5 others	72,499	1,439	73,938		65,468	65,321
<b>TOTAL</b>	<b>574,971</b>	<b>13,519</b>	<b>588,490</b>		<b>558,294</b>	<b>527,291</b>
III- FINANCIAL ASSETS (CURRENT)						
1 investments in subsidiaries						
2 investments in associated companies						
3 investments in parent companies						
4 other investments						
5 treasury stock						
6 other securities			517,588		469,116	580,330
<b>TOTAL</b>			<b>517,588</b>		<b>469,116</b>	<b>580,330</b>
IV- CASH AND EQUIVALENTS						
1 cash, banks and postal accounts			64,936		34,581	42,263
2 cheques						261
3 cash and commercial papers in hand			230		103	161
<b>TOTAL</b>			<b>65,166</b>		<b>34,684</b>	<b>42,685</b>
<b>TOTAL CURRENT ASSETS (C)</b>			<b>1,289,449</b>		<b>1,179,159</b>	<b>1,283,827</b>
D) ACCRUED INCOME AND PREPAID EXPENSES						
1 accrued income			834		831	565
2 prepaid expenses			4,110		3,135	8,574
3 premium on loans					636	
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)</b>			<b>4,944</b>		<b>4,602</b>	<b>9,139</b>
<b>TOTAL ASSETS</b>			<b>1,832,191</b>		<b>1,709,801</b>	<b>1,843,881</b>

# BALANCE SHEET

## LIABILITIES

(in thousands of euros)

	PERIOD AT 30 SEPTEMBER 2004			YEAR ENDED		
	Sub total 1	Sub total 2	TOTAL 3	30 SEPTEMBER 2003	31 DECEMBER 2003	
A) SHAREHOLDERS' EQUITY						
I- SHARE CAPITAL			67,452	67,452	67,452	
II- SHARE PREMIUM RESERVE			151,259	189,021	170,380	
III- REVALUATION RESERVE			16,712	16,712	16,712	
IV- LEGAL RESERVE			13,490	13,490	13,490	
V- STATUTORY RESERVE						
VI- RESERVE FOR TREASURY STOCK			136,006	98,244	116,885	
VII- OTHER RESERVES						
1) Extraordinary reserve		11,166		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		99		73	73	
6) Merger reserve		478		478	478	
7) Other reserves		-3,428		-3,675	-4,223	
			14,752	12,577	12,029	
VIII- PROFIT (LOSS) CARRIED FORWARD			81,187	72,342	72,869	
IX- PROFIT (LOSS) FOR PERIOD						
1) Gross profit for period			123,921	101,522		
2) Profit for year					82,101	
CONSOLIDATED GROUP SHAREHOLDERS' EQUITY			604,779	571,360	551,918	
MINORITY INTEREST			2,859	357	3,282	
<b>TOTAL SHAREHOLDERS' EQUITY (A)</b>			<b>607,638</b>	<b>571,717</b>	<b>555,200</b>	
B) RESERVE FOR RISKS AND CHARGES						
1 retirement benefits		10,485		9,987	10,166	
2 income taxes including deferred taxes		16,177		14,919	14,769	
3 others		24,977		26,503	26,651	
<b>TOTAL RESERVE FOR RISKS AND CHARGES (B)</b>			<b>51,639</b>	<b>51,409</b>	<b>51,586</b>	
C) RESERVE FOR SEVERANCE INDEMNITIES				<b>103,383</b>	<b>103,837</b>	<b>100,722</b>
	<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 due to shareholders' for loans						
4 due to banks	112,424	12,961	125,385	484,864	151,547	
5 due to other financiers		1,360	1,360		1,360	
6 advances	32,519		32,519	30,048	35,831	
7 trade accounts	313,556	261	313,817	300,069	346,552	
8 debts represented by credit instruments						
9 due to subsidiaries	258		258	61	689	
10 due to associated companies	39,153		39,153	39,668	43,824	
11 due to parent companies						
12 income taxes payable	7,218		7,218	6,601	19,537	
13 due to pension funds and social security institutions	12,975		12,975	14,055	17,853	
14 others	111,659		111,659	97,126	101,136	
<b>TOTAL DEBTS AND OTHER PAYABLES (D)</b>	<b>629,762</b>	<b>420,866</b>	<b>1,050,628</b>	<b>972,492</b>	<b>1,124,613</b>	
E) ACCRUED LIABILITIES AND DEFERRED INCOME						
1 accrued liabilities		11,149		5,296	5,986	
2 deferred income		7,754		5,050	5,774	
3 discounts on loans						
<b>TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME (E)</b>			<b>18,903</b>	<b>10,346</b>	<b>11,760</b>	
<b>TOTAL LIABILITIES</b>			<b>1,832,191</b>	<b>1,709,801</b>	<b>1,843,881</b>	
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	
<b>TOTAL MEMORANDUM ACCOUNTS</b>					<b>216,692</b>	

- 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 Roman numerals and uppercase letters

For the Board of Directors  
Chairman  
Marina Berlusconi

## INCOME STATEMENT

(in thousands of euros)	PERIOD AT 30 SEPTEMBER 2004	PERIOD AT 30 SEPTEMBER 2003	PERIOD 1/7 – 30/9/2004	PERIOD 1/7 – 30/9/2003
<b>A) PRODUCTION VALUE</b>				
1 REVENUES FROM SALES OF GOODS AND SERVICES	1,244,254	1,121,226	406,929	366,290
2 CHANGES IN INVENTORY OF SEMI-FINISHED GOODS	-12,589	-2,937	-5,047	-2,881
3 CHANGES IN CONTRACT WORK IN PROGRESS	-1,598	-680	-474	338
4 INCREASE IN COMPANY-PRODUCED ADDITIONS TO FIXED ASSETS	119	118	23	29
5 OTHER INCOME AND REVENUES				
a) operating grants	1,648	1,341	523	119
b) other income and revenues	29,718	27,590	9,084	8,803
<b>TOTAL PRODUCTION VALUE (A)</b>	<b>1,261,552</b>	<b>1,146,658</b>	<b>411,038</b>	<b>372,698</b>
<b>B) PRODUCTION COSTS</b>				
6 RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS	369,593	346,398	121,128	109,844
7 SERVICES	493,926	434,168	157,805	137,012
8 USE OF THIRD PARTY ASSETS	17,930	16,877	6,137	5,496
9 PERSONNEL				
a) wages and salaries	133,559	128,985	40,718	39,323
b) social contributions	41,561	40,277	12,719	12,456
c) severance indemnities	11,644	11,253	3,754	3,890
d) retirement benefits	21	26	9	17
e) other costs	1,788	2,317	561	877
<b>TOTAL</b>	<b>188,573</b>	<b>182,858</b>	<b>57,761</b>	<b>56,563</b>
10 DEPRECIATIONS, AMORTISATION AND WRITEDOWNS				
a) amortisation of intangible assets	15,458	17,108	5,204	5,814
b) depreciation of fixed assets	28,693	29,276	9,692	10,550
c) other writedowns of assets				
d) writedowns of doubtful accounts	6,636	6,425	1,834	1,703
<b>TOTAL</b>	<b>50,787</b>	<b>52,809</b>	<b>16,730</b>	<b>18,067</b>
11 CHANGES IN INVENTORY OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS	1,122	412	1,086	1,530
12 PROVISIONS FOR RISKS	5,537	2,227	1,187	1,079
13 OTHER PROVISIONS	19	23	6	8
14 OTHER OPERATING EXPENSES	8,138	8,650	2,931	2,362
<b>TOTAL PRODUCTION COSTS (B)</b>	<b>1,135,625</b>	<b>1,044,422</b>	<b>364,771</b>	<b>331,961</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)</b>	<b>125,927</b>	<b>102,236</b>	<b>46,267</b>	<b>40,737</b>
<b>C) FINANCIAL INCOME AND CHARGES</b>				
15 INCOME FROM EQUITY INVESTMENTS				
a) Subsidiaries				
b) Associated companies				
c) Other companies				
<b>TOTAL</b>	<b></b>	<b></b>	<b></b>	<b></b>
16 OTHER FINANCIAL INCOME				
a) from long term receivables				
* Subsidiaries				
* Associated companies				
* Parent companies				
* Other companies				
	55	79	16	22
<b>TOTAL</b>	<b>55</b>	<b>79</b>	<b>16</b>	<b>22</b>
b) from long term securities				
c) from short term securities	12,367	11,217	4,055	1,616
d) Other income				
* Subsidiaries				-1
* Associated companies	286	323	96	109
* Parent companies				
* Other companies	6,871	8,930	2,124	1,194
	7,157	9,253	2,219	1,303
<b>TOTAL</b>	<b>19,579</b>	<b>20,549</b>	<b>6,290</b>	<b>2,941</b>
17 INTEREST AND FINANCIAL CHARGES				
a) Subsidiaries	3	26		-1
b) Associated companies	233	254	60	53
c) Parent companies				
d) Other companies	19,794	22,199	7,037	5,787
<b>TOTAL</b>	<b>20,030</b>	<b>22,479</b>	<b>7,097</b>	<b>5,839</b>
17bis PROFIT (LOSS) ON CURRENCY EXCHANGE	143	-103	44	-211
<b>TOTAL FINANCIAL INCOME AND (CHARGES) (C)</b>	<b>-308</b>	<b>-2,033</b>	<b>-763</b>	<b>-3,109</b>

## INCOME STATEMENT (continued)

(in thousands of euros)	PERIOD AT 30 SEPTEMBER 2004	PERIOD AT 30 SEPTEMBER 2003	PERIOD 1/7 – 30/9/2004	PERIOD 1/7 – 30/9/2003
<b>D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS</b>				
18 REVALUATIONS				
a) equity investments	3,310	3,766	458	1,244
b) other long term financial assets				
c) securities				
<b>TOTAL</b>	<b>3,310</b>	<b>3,766</b>	<b>458</b>	<b>1,244</b>
19 WRITEDOWNS				
a) equity investments	3,078	7,008	-178	2,110
b) other long term financial assets				
c) securities	1,557	766	26	766
<b>TOTAL</b>	<b>4,635</b>	<b>7,774</b>	<b>-152</b>	<b>2,876</b>
<b>TOTAL ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS (D)</b>	<b>-1,325</b>	<b>-4,008</b>	<b>610</b>	<b>-1,632</b>
<b>E) EXTRAORDINARY INCOME AND CHARGES</b>				
20 INCOME				
a) Gains on disposals		3,381		1,200
b) Others	1,509	2,136	876	260
<b>TOTAL</b>	<b>1,509</b>	<b>5,517</b>	<b>876</b>	<b>1,460</b>
21 CHARGES				
a) Losses on disposals	685		-87	
b) Taxation relative to prior years	45	22		
c) Others	1,152	168	520	-2
<b>TOTAL</b>	<b>1,882</b>	<b>190</b>	<b>433</b>	<b>-2</b>
<b>TOTAL EXTRAORDINARY INCOME AND (CHARGES) ( E )</b>	<b>-373</b>	<b>5,327</b>	<b>443</b>	<b>1,462</b>
<b>PROFIT BEFORE TAX</b>	<b>123,921</b>	<b>101,522</b>	<b>46,557</b>	<b>37,458</b>
22 INCOME TAX FOR PERIOD				
23 RESULT FOR PERIOD				
PROFIT (LOSS) FOR PERIOD PERTAINING TO MINORITY INTERESTS				
<b>PROFIT (LOSS) FOR PERIOD</b>				

- 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