



ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital € 67,451,756.32

Head Office in Milan, Italy

Administrative Offices in Segrate (Milan)



MONDADORI

The Shareholders are hereby invited to the Ordinary and Extraordinary Meeting to be held on 26 April 2004 at 10.30 at Via Mondadori 1, Segrate (Milan), at first calling and, if necessary, at second calling on 4 May 2004 at the same time and place, to pass resolution on the following:

Agenda

Ordinary General Meeting

1. Financial Statements as of 31 December 2003, reports of the Board of Directors and the report of the Board of Statutory Auditors, related resolutions, presentation of the Consolidated Financial Statements as of 31 December 2003 and related enclosures.
2. Authorisation to effect a buy-back and utilise Company shares, as per the combined depositions of articles 2357 and 2357 paragraph 3 of the Civil Code.
3. Appointment of Reconta Ernst & Young S.p.A. to audit the Financial Statements and the Consolidated Financial Statements for financial years 2004/2005/2006 - as per article 159 of Legislative Decree 58 of 24 February 1998 - and to carry out the other activities referred to in article 155 of Legislative Decree 58/1998; appointment of Reconta Ernst & Young S.p.A. to audit the half-yearly financial statements for the first half of financial years 2004/2005/2006. Resolution concerning the fees relative to the services referred to above.

Extraordinary part

1. Proposal to modify articles 1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18 and 19 of the Company Statutes in compliance with Legislative Decree 6/2003, as modified by Legislative Decree 37/2004. Renumbering of the articles of the Company Statutes and adoption of an entirely new text, together with consequent resolutions and mandates.

The Shareholders' Meeting may be attended by Shareholders who present the relevant certificates issued by an intermediary belonging to the Monte Titoli S.p.A. centralised management system, as per the relevant laws.

The reports of the Board of Directors on the subjects contained on the agenda will be deposited at the Company's administrative offices and at the offices of Borsa Italiana S.p.A., in accordance with Ministerial Decree no. 437 of 5 November 1998 and CONSOB ruling no. 11971/1999.

Shareholders have the right to obtain copies of these reports.

For the Board of Directors

Chairman

Marina Berlusconi

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

Board of Statutory Auditors

Chairman

Achille Frattini

Acting Statutory Auditors

Antonio Aiello

Ferdinando Superti Furga

Substitute Statutory Auditors

Francesco A. Giampaolo

Francesco Vittadini

Powers

Chairman: power of legal representation in dealing with third parties and legal proceedings.

Deputy Chairman and Chief Executive: routine powers and power of separate signature limited to actions prescribed by law.

(*) Secretary

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Report of the Board of Directors on the results of the financial year 2003

Shareholders,

during 2003, Mondadori was able to seize upon a number of signals of a stabilisation in a macro-economic situation, which, in any case, remained conditioned by a high level of uncertainty, in order to improve its results both in terms of revenues and margins.

The positive trend was characteristic of all the Group's principal business activities and each Division performed successfully in its respective markets, confirming leadership positions.

However, the economy proved even weaker than expected and consequently Mondadori concentrated its efforts on stimulating demand through innovative products and new launches. The continuing attention to cost controls also allowed the Group to maintain its level of profitability, in spite of the financial commitments necessitated by the development of new initiatives.

In 2003 the return on equity amounted to 15.2%, compared with 14.1% in 2002.

During the year the Mondadori Group reinforced its presence in the book sector with the purchase of a 70% stake in the children's book publisher Edizioni Piemme, while in the magazine sector the Group purchased a 20% stake in the Greek publisher, Attica Publications.

Consolidated revenues for 2003 amounted to €1,536.0 million, an increase of 5.3% on the €1,458.8 million of 2002. The revenues for 2003 include €28.2 million generated by the fully consolidated Edizioni Piemme.

Gross operating profit went up from €208.5 million in 2002 to €212.2 million, an increase of 1.8%. This result was achieved despite the lack, as from 1 January 2003, of the licence contract for the publication of the women's monthly *Marie Claire* and the significant costs sustained for the launch of new titles. As a proportion of revenues, gross operating profit was 13.8% (14.3% in 2002).

Operating profit rose to €173.9 million, an increase of 0.9% on the €172.4 million of the previous year. As a proportion of revenues this represents 11.3%, compared with the 11.8% in 2002.

Profit before income taxes was €150.2 million, an increase of 12.8% on the €133.2 million of 2002: this result was achieved thanks to a decidedly improved result in financial management, to the capital gains made on a number of self-offs of non-strategic assets and to the performance of associated companies.

Consolidated net profit rose to €82.1 million, an increase of 1.2% on the €81.1 million of 2002, after total amortizations for €61.6 million (€59.2 million in 2002) and reserves for taxes of €67.5 million (€52.1 million in the previous year).

The Group's **net financial position** showed a surplus of €72.9 million, after ordinary dividend payments of €62.4 million and after making acquisitions for €36.9 million and investments in share buy backs for a total of €57.4 million.

We therefore now move on to a more detailed analysis of the results obtained in the individual markets in which the Mondadori Group operates.

In 2003 the **Book Division** generated particularly brilliant results, especially with the Mondadori, Einaudi and Sperling & Kupfer imprints, that together recorded a level of growth of around 4%, consolidating an undisputed market leadership in the sector.

For the second year running, the Group's publishing businesses confirmed the validity of commercial policies, that have not been affected by the phenomenon of the add-on sales of books by national newspapers.

As already mentioned, during 2003 Mondadori strengthened its position in the children's book segment through the acquisition of Edizioni Piemme, the creators of *Geronimo Stilton*, a highly popular character. Including Piemme, in 2003 the division registered an 11.6% increase in revenues.

In the school textbooks segment, the Group managed to achieve a slight increase in revenues, in a year in which the continuing uncertainty surrounding school reforms made syllabus programming difficult.

In the Magazine Division, 2003 saw a slight recovery in the reference market. The positive performance in circulation was essentially the result of the launch of four new titles that were able to drive sales.

The Division also had particular success with add-on sales that permitted **Mondadori Magazines** to achieve a marked growth in overall revenues, equal to 7.4%. The offer of DVDs and accessories linked to women's magazines, were especially successful.

After years of decline, 2003 marked a turnaround for the Italian advertising market that ended the year with an increase of 3.3% compared with the previous year. This recovery, however, was mainly seen

in television (+4.9%) and radio (+15.9%). In print media, newspapers continued to suffer (-5.9%), while magazines recorded growth of 1%.

Mondadori Advertising, which operates in the magazine and national newspaper sectors, recorded a 3.8% decrease in revenues, although the magazine sector on its own registered an increase of 2% on a like-for-like basis, thanks to the strength of the historic titles and the success of the new launches in high-target segments.

In the print media sector, 2003 saw demand stabilise around the same levels as those registered in the previous year.

Mondadori Printing saw revenues rise by 2%, deriving benefit from a recovery in paginations in the Group's titles and the new launches made by Mondadori. Moreover, the Division was able to rapidly equip itself to exploit the enormous volumes generated in Italy by the sale of editorial products through newsstands by expanding production capacity in the monochrome books segment.

In **Direct Marketing** Mondolibri, the joint venture with the Bertelsmann Group, registered a slight increase in revenues thanks in part to the acquisition of Piemme Direct,

a company operating in the mail order sales of religious books.

In 2003 Cemit produced a very positive result that saw its volume of business increase substantially thanks to its ability to attract new customers and provide increasingly innovative solutions in its services to its traditional client base.

There was also a good deal of expansion in the **Retail** sector (+22.9%), where Mondadori operates through its own stores and a chain of franchise outlets, which in 2003 rose to 132.

In 2003 Mondadori Informatica and Mondadori.com were absorbed by the Parent Company, Arnoldo Mondadori Editore. The operation involving Mondadori.com is designed to improve resources dedicated to the Internet, based on the strategy of having sites that are closely linked to Group publications, while the Mondadori Informatica operation was carried out with the aim of simplifying the structure of the Company and rationalising the administration side.

From this introduction we now move on to commenting on the main results of the Consolidated Financial Statements for 2003.

The following is the Group's reclassified Income Statement with, as in previous years, a separate item for costs and sales relative to Internet activities.

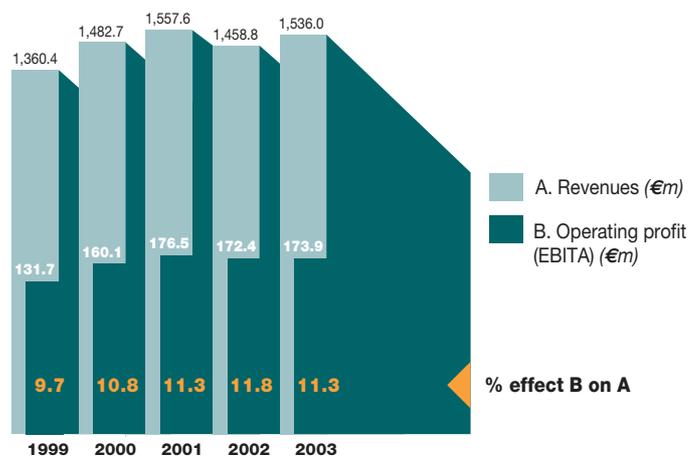
Consolidated reclassified income statement			
€ m	31/12/2003	31/12/2002	% change
Revenues	1,536.0	1,458.8	5.3%
Personnel costs	250.3	240.7	4.0%
Product and management costs	1,073.5	1,009.6	6.3%
Gross operating profit	212.2	208.5	1.8%
<i>Gross operating profit as a percentage of revenues</i>	<i>13.8%</i>	<i>14.3%</i>	
Depreciations of fixed assets	38.3	36.1	6.1%
Operating profit	173.9	172.4	0.9%
<i>Operating result as a percentage of revenues</i>	<i>11.3%</i>	<i>11.8%</i>	
Depreciations of intangible assets	23.3	23.1	0.9%
Net financial income (charges), net	(1.1)	(4.5)	n.a.
Other income (charges), net	3.2	(3.9)	n.a.
Extraordinary income (charges), net	1.8	(0.3)	n.a.
Internet activities	(4.3)	(7.4)	(41.9%)
Profit before income taxes	150.2	133.2	12.8%
Income taxes for the year	(67.5)	(52.1)	29.6%
Minority interests	0.6	0.0	n.a.
Net profit for the year	82.1	81.1	1.2%
<i>Net profit as a percentage of revenues</i>	<i>5.3%</i>	<i>5.6%</i>	

Consolidated revenues amounted to €1,536.0 million, an increase of 5.3%.
On a like-for-like basis, excluding revenues of €28.2 million from Edizioni Piemme S.p.A., the increase in revenues amounted to 3.3%.

Details of the individual business activities are given on the right:

Volume of business for each business activity

€ m	2003	2002	% change
Book Division	369.8	331.4	11.6%
Magazine Division and Advertising	802.7	782.5	2.6%
Printing Division	451.3	442.5	2.0%
Direct Division	162.6	140.7	15.6%
Others	14.8	21.7	(31.8%)
Total sales	1,801.2	1,718.8	4.8%
Intergroup sales	(265.2)	(260.0)	2.0%
Total consolidated sales	1,536.0	1,458.8	5.3%



Mondadori Group: revenues and operating profit

Consolidated revenues are broken down into the following geographical areas.

Gross operating profit registered a slight increase from €208.5 million to €212.2 million. This figure represents a percentage of sales equal to 13.8% (14.3% in 2002). Net of the contribution from Edizioni Piemme S.p.A., equal to €3.5 million, the data for 2003 is in line with the previous year in spite of the substantial costs involved in the launch of four new titles.

Personnel costs increased by 4% as a result of the change in the consolidation area (Piemme) and the retirement incentive scheme applied to some company divisions.

Production and management costs increased by 6.3% compared with 2002, mainly due to the consolidation of Edizioni Piemme S.p.A. and to the cost of the launch of the new titles already mentioned.

Operating profit, which was affected by a growth in depreciations compared with the previous year, increased by 0.9% from €172.4 million to €173.9 million. As a percentage of sales this represents a decrease from 11.8% to 11.3%.

Volume of business by geographical area

€ m	2003	2002	% change
Italy	1,401.9	1,321.2	6.1%
EU countries	107.2	108.0	(0.7%)
USA	10.4	14.1	(26.2%)
Other countries	16.5	15.5	6.4%
Total consolidated revenues	1,536.0	1,458.8	5.3%

Production and management costs

€ m	2003	2002	% change
Raw, ancillary and consumable materials and goods and stock variations	478.7	453.1	5.6%
Services and other costs	595.2	557.0	6.9%
Use of third-party assets	22.3	20.3	9.9%
Recovery of expenses from third parties and other income	(22.7)	(20.8)	9.1%
Total production and management costs	1,073.5	1,009.6	6.3%

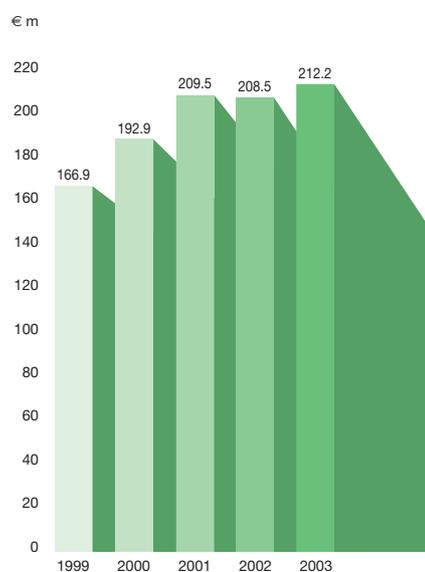
Depreciations of intangible and fixed assets registered an increase of €2.4 million, from €59.2 million to €61.6 million. The increase was mainly due to new investments in the Printing Division and to the acquisition of Edizioni Piemme S.p.A., which produced an increase both in depreciations and in the amortisation of goodwill in the consolidation of the new acquisition.

Financial income and expenses improved significantly compared with 2002 (€-1.1 million compared with €-4.5 million), following an upturn in financial markets during 2003.

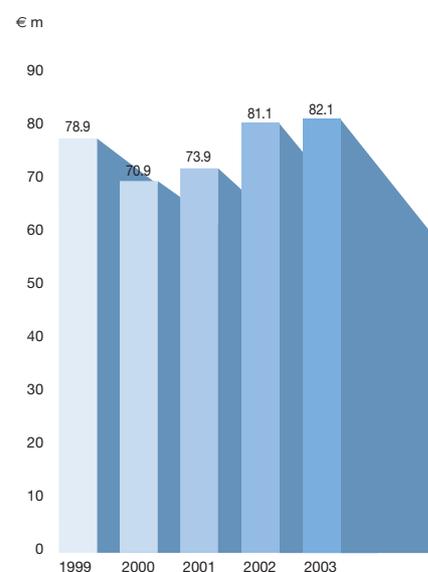
Profit before income taxes amounted to €150.2 million (€133.2 million in 2002), an increase of 12.8%. The significant growth in profits was largely due to the performance of the financial markets, the results of associated companies and to the disposal of non-strategic assets, which produced gains of €3.9 million.

Net profit amounted to €82.1 million, an increase of 1.2% compared with the figure of €81.1 million in 2002, in spite of a €15.4 million increase in taxes.

Cash flow (net profit + depreciations) amounted to €143.7 million, representing an increase of €3.4 million compared with 2002.



**Mondadori Group:
gross operating profit**



**Mondadori Group:
net profit**

The following table shows the Group's reclassified Balance Sheet over the last two years.

The **net financial position** at 31 December 2003 showed a surplus of €72.9 million (€109.3 million at 31 December 2002), after the distribution to shareholders of dividends amounting to €62.4 million, investments in a share buy-back amounting to €57.4 million and acquisitions for €36.9 million.

The Group's **capital investments** amounted to €34.9 million (€36.9 million in 2002). Further details can be found in the section Notes to the Consolidated Financial Statements.

Consolidated reclassified balance sheet

€ m	31/12/2003	31/12/2002
Intangible assets	158.4	164.2
Fixed assets	199.9	202.7
Financial assets	192.6	126.3
Inventories	133.5	121.1
Receivables and other assets	510.6	491.1
Cash and banks	648.9	516.6
Total assets	1,843.9	1,622.0
Shareholders' equity	551.9	531.9
Minority interests	3.3	0.4
Reserve for risks and charges	42.4	52.0
Reserve for severance indemnities	100.7	101.8
Other liabilities	569.6	528.6
Financial payables	576.0	407.3
Total liabilities	1,843.9	1,622.0

Arnoldo Mondadori Editore S.p.A. ended 2003 with **net profit** of €74.5 million (compared with €71.7 million in 2002). The result was obtained after making provisions for overall amortizations of €18.2 million (€17.1 million in 2002) and taxes of €54.5 million (€55.8 million in 2002). Cash flow generation totalled €92.7 million (€88.8 million in 2002).

The **profit for the year** was affected, as a result of production and management costs, by the costs sustained for the launch of new titles and by the operating losses of Mondadori.com S.p.A. and Mondadori Informatica S.p.A., which were incorporated during the year. There was a clear improvement in the management of equity investments which generated a lower level of devaluations for €50.9 million and minor dividends for €30.7 million.

Revenues of the Parent Company came to €984.7 million compared with €896.4 million in 2002, an increase of 9.8%. This performance is the result of excellent performances in the different sectors in which the Group operates. In fact, revenues from the sale of book titles and publication rights and revenues from magazines and the products sold with them increased significantly, while advertising revenues were in line with expectations.

The following comments explain the various aspects and the individual business activities of both the Group and the Parent Company, in conformity with the information criteria stipulated by article 2428 of the Civil Code, article 40 of Legislative Decree 127 of 9 April 1991 and the CONSOB Recommendation of 20 February 1997.

2003 was a positive year for the Italian book market, registering an increase in turnover in traditional channels despite the continuing success of the campaign originally introduced in 2002 involving add-on sales of books at newsstands by national newspapers. This initiative resulted in 40 million books being sold, in addition to the 30 million sold in 2002.

As for the performances of individual publishers, it should be noted that in September 2002 Demoskopoea changed the method it uses for ascertaining book sales figures in Italy by extending the sample area to sectors that were not previously included (for example, professional titles). The main consequence of this was a decrease in the share of general publishers and an increase in the share of specialist publishers. Demoskopoea also introduced a computer-based system for calculating sales figures, which meant that figures for 2002 are not directly comparable with figures for 2003.

Given this premise, the data from Demoskopoea shows that the Mondadori Group increased its market share thanks mainly to its decision to reinforce its children's book sector with the acquisition of Edizioni Piemme.

Books: market share

Publisher	Market share 2003	Market share 2002	% change
Mondadori	15.1	15.6	(0.5)
Einaudi	4.9	4.9	-
Sperling & Kupfer	2.8	2.3	0.5
Piemme	2.8	-	n.a.
Other companies of the Mondadori Group	1.3	1.2	0.1
Total for the Mondadori Group	26.9	24.0	2.9
Rizzoli Group	12.4	13.4	(1.0)
Longanesi Group	8.0	8.4	(0.4)
Feltrinelli	4.3	4.2	0.1

Source: Demoskopoea

The data relative to 2002 has been converted to the new system of calculating sales, therefore it is not the same as the figures published in the financial statements at 31 December 2002.

Total sales in the Book Division in 2003 amounted to €369.8 million compared with €331.4 million in the previous year. As can be seen from the following table, all Group publishers improved their performance with the exception of Mondadori Electa S.p.A., which felt the effects of its strategic decision not to organise book fairs and of the decrease in publishing commission sales.

Book production in the Division¹ amounted to 1,961 new titles (compared with 1,981 in 2002) and 3,801 reprints (3,579 in 2002), for a total of 40.4 million copies compared with 40.7 million copies in 2002.

Books:			
€ m	2003	2002	% change
Edizioni Mondadori	113.8	111.7	1.9%
Einaudi	44.7	42.3	5.7%
Mondadori Electa	38.0	39.8	(4.5%)
Sperling & Kupfer Group	26.8	23.9	12.1%
Edumond Le Monnier	78.2	77.1	1.4%
Edizioni Piemme	28.2	-	n.a.
Book distribution	42.2	38.0	11.1%
Total sales	371.9	332.8	11.7%
Intercompany sales	(2.1)	(1.4)	50.0%
Total consolidated sales	369.8	331.4	11.6%

¹ Including Mondadori, Sperling & Kupfer, Frassinelli, Einaudi and Electa imprints (excluding school textbooks)

Edizioni Mondadori

In 2003 Mondadori again confirmed its undisputed position of market leader, registering a 1.9% increase in turnover.

Once again humorous books were very successful, including those linked to the television programme *Zelig* (Bisio, Oreglio and Cremona) and, above all, *Tutte le barzellette su Toti* which, thanks to the successful mix of marketing and publishing, sold 800,000 copies.

The three-month Christmas period produced results beyond expectations due to the success of established writers such as John Grisham (*L'allenatore*, 135,000 copies), John Le Carrè (*Amici assoluti*, 75,000 copies), Valerio Manfredi (*Il tiranno*, 130,000 copies) and Bruno Vespa (*Il Cavaliere e il Professore*, 200,000 copies), and authors that are new to Italian readers, such as Dan Brown whose *Il Codice da Vinci* was published in November and very quickly sold over 200,000 copies.

Other pleasing surprises were presented by literary authors such as David Grossman (*Col corpo capisco*, 33,000 copies) and Jeffrey Eugenides (*Middlesex*, 40,000 copies), together with “new” authors like Mauro Corona (*Nel legno e nella pietra*, 60,000

copies and *Il volo della martora*, 115,000 copies).

The re-launch of Margaret Mazzantini's *Non ti muovere* as a Mito paperback was also highly successful, selling around 500,000 copies in 2003 and bringing the total number of copies sold to a million.

Significant results were also achieved by the new form of non-fiction championed by Michael Moore, whose *Stupid White Men* and *Ma come hai ridotto il mio Paese?* sold 80,000 and 50,000 copies respectively.

Einaudi

2003 was characterised by positive sales figures of more than €44 million, representing a 5.7% increase compared with the previous year.

The Company registered excellent bookshop sales and a notable increase in sales of publication rights to, above all, national newspapers, while instalment sales registered a slight decrease.

The most significant titles of the year included *Lo strano caso del cane ucciso a mezzanotte* by Mark Haddon, *Il petalo cremisi e il bianco* by Michel Faber, *Il lato sinistro del cuore* by Carlo Lucarelli, *L'animale morente* by Philip

Roth, *L'uomo duplicato* by José Saramago, *Voi noi* by Paolo Crepet, *Pasqua rossa* by Alberto Bevilacqua, *Vergogna* by J.M. Coetzee, *Little Boy Blue* by Eduard Bunker and *Il libro delle illusioni* by Paul Auster, while among books issued with videos two of the most successful were *Il Diario di Sabina Guzzanti* by Sabina Guzzanti and *Parole e canzoni* by Paolo Conte.

During 2003 the non-strategic Ricciardi series was disposed of.

Art books and exhibition organisation

The decrease in sales was largely due to a change of strategy in the exhibition organisation sector, where the emphasis was shifted to carrying out work for third parties, and to a drop in orders for publishing commissions and in the publication of tourist guides. The traditional publishing activities, involving the Electa, Leonardo Arte and Mondadori imprints for illustrated books, and business activities connected to franchising services and exhibition organisation registered sales in line with the previous year.

As for book production, particular mention should be made of the extraordinary success of the *Dizionari dell'arte* which in Italy sold

200,000 copies of the eight titles published in the series during 2002 and 2003 and more than 200,000 copies in various international editions.

In the second half of the year *Il Tempio Vaticano*, published in the architectural series, was also very successful, as was the art book *Viaggio d'artista nell'Italia del Settecento* by Thomas Jones, the previously unpublished poetry in *Michelangelo Poesia e Scultura* compiled by Jonathan Nelson and the first volume in the four-part *La Pittura di paesaggio in Italia - l'Ottocento*, compiled by Anna Ottani Cavina.

In the area of franchising services, the contracts for Brera and the Cenacolo were renewed for a further four years while during the first months of 2004 the Company was awarded the contract for providing services at the Civic Museums of Venice.

Sperling & Kupfer Group

In 2003 the Sperling & Kupfer Group once again registered a significant increase in revenues (+12.1%), which was largely due to the non-fiction sector where the outstanding titles were, at the end of the year, *Il Sangue dei vinti* (over 300,000 copies) by Giampaolo Pansa and, in the spring, *La mia vita, la mia storia* (35,000 copies) by Hillary Clinton.

The other publishing sectors also registered satisfactory results. Fiction was well represented by consolidated authors of the calibre of Sveva Casati Modignani, Sergio Bambaren and Stephen King, who were joined by new authors such as Alessandra Appiano, winner of the Bancarella award with *Amiche di salvataggio* (45,000 copies) and C.J. Sansom with *L'enigma del gallo nero* (27,000 copies).

In the general sector books linked to the *Zona* diet continued to be successful while the subsidiary Frassinelli, apart from well-established authors like the best-selling Nicholas Sparks whose *Quando ho aperto gli occhi* sold 145,000 copies, launched the new French author Anna Gavalda, whose *Io l'amavo* sold 20,000 copies.

Educational publishing

In an already difficult operating situation, where the continual postponement of approval for the school reform laws made production activities more difficult and created problems in planning, the Mondadori Educational Publishing sector registered sales for the year of €78.2 million, an increase of 1.4% compared with 2002.

The most successful sector was the second-grade secondary school segment, where the

company concentrated most of its investments in the production of books for the three-year Highschool and technical institute cycles.

The increase in the market share of adopted texts amounted to 0.3 points (from 13.8% in 2002 to 14.1% in 2003), which was due to the introduction of many new titles in all imprints.

In order to defend the company's market share, the catalogue was also enlarged for first-grade secondary school books where the quality of the Cavalli Sforza science course, produced in collaboration with the Einaudi Scuola imprint, stood out.

Mondadori Scuola confirmed its position as market leader for books for Italian and History, with updated editions of the popular Sensini and Calvani courses.

Le Monnier continued with the expansion programme first introduced three years ago, offering Greek, Latin and German dictionaries and increasing the number of books dealing with Italian for foreigners.

Special mention should also be made of the company's multimedia activities, which are mainly concentrated on the Internet. Apart from the continued development of the well-

established *Pianetascuola* site, 2003 also saw the launch of *il Pianettino*, a new site aimed at elementary school teachers, which attracted over 75,000 teachers (representing a third of the total number of elementary teachers).

Edizioni Piemme

Edizioni Piemme became part of the Mondadori Group, celebrating its first year with a substantial increase in sales (+4.7%) compared with 2002.

This success was achieved as a result of the books aimed at both the general market and the children's market, with the *Battello a Vapore* imprint and *Geronimo Stilton*.

Apart from confirmation of the success of thrillers by Michael Connelly and Susan O'Connell, 2003 also witnessed the establishment of the Piemme imprint in the young women's romance sector, with the success of Jennifer Weiner's *Brava a letto* and *A letto con Maggie*, in the literary fiction sector, with the outsider *Vita di Pi* by Yann Martell, and in the non-fiction and manual sector, with the *La Cucina Italiana* imprint.

The biggest increase in sales in 2003 was registered in the Children's book sector where the sales of the *Geronimo Stilton*

series grew by 64%, thanks in part to the Christmas-period success of *Nel regno della fantasia* (150,000 copies).

The *Geronimo Stilton* series was also highly successful throughout the rest of the world. As of 31 December 2003, the translation rights for the famous mouse journalist had been sold in 25 languages and in around 160 countries, including China, all of the Spanish-speaking world and the United States, where the Scholastic publishing house published 1,350,000 copies in February 2004.

Distribution

In 2003 the efficiency of the distribution system was again confirmed and consolidated, with a further increase in overall business that was reflected in an 11% increase in sales compared with 2002.

The Magazine Division registered consolidated sales of €802.7 million, an increase of 2.6% compared with 2002.

The following table gives an overall picture of the situation.

Magazine revenues:			
€ m	2003	2002	% change
Circulation	476.7	443.7	7.4%
Advertising	326.0	338.8	(3.8%)
Total revenues	802.7	782.5	2.6%

Circulation

Circulation revenues

€ m	2003	2002	% change
Mondadori titles	394.8	369.7	6.8%
Third-party	81.9	74.0	10.7%
Total circulation revenues	476.7	443.7	7.4%

After two years of falling circulation, the magazine market registered a slight increase of 0.3%.

This improvement was mainly due to new launches, with 11 new titles hitting the newsstands during 2003. From the point of view of the number of copies sold, Mondadori, which itself launched 4 new titles during the year, registered results that were in line with the market.

In this context, the excellent increase in circulation figures registered by the Mondadori Group (+7.4% compared with 2002) stands out.

This growth was mainly due to a substantial increase in revenues from optional add-on sales, which are now firmly established as an interesting area of development for the Group.

Given the growing success of this type of initiative in recent years, in 2003 Mondadori

increased the number of add-on products it offered to over 500, compared with 400 in 2002, thanks to the creative, operational and organisational co-operation of all the company divisions.

The increase concerned not only the quantity of add-on products sold but also their average price, as the result of a move towards favouring the issue of DVDs which cost more than other add-on products.

The number of DVDs sold increased from just over 400,000 in 2002 to around 3.5 million in 2003, with the sale of DVDs partly replacing the sale of videocassettes which decreased from 9 million to 6 million.

There was also a large increase in the sale of add-on objects (+90%) and printed products (such as books, guides and maps).

It should be remembered that Mondadori was the first publisher to sell this type of product

on newsstands, although the company's direct competitors very soon followed suit. Add-on products are also offered with daily newspapers, which have the added advantage of being able to offer such products for seven days a week, with the result that the number of such initiatives is continually growing.

As for printed products, Mondadori's women's magazine sector confirmed its position as absolute leader in terms of both readership and advertising.

Of particular note, in the context of a market that only increased thanks to new titles, was the excellent performance of *Cosmopolitan* (an average of 223,000 copies sold, representing a 10% increase) and *Grazia* (average of 245,000 copies, for a 2.5% increase).

Donna Moderna continued to be the biggest selling women's magazine (around 550,000 copies on average) and was the most popular with advertisers.

Cbi, which increased its advertising sales quite noticeably, registered stable circulation figures of around 520,000 on average.

Flair, the new high-target women's monthly launched by Mondadori in January 2003,

achieved its objective in terms of market positioning, registering average sales of just under 170,000 copies.

Among the other main titles, *Panorama*, despite a slight fall in circulation figures (535,000 copies compared with 555,000 in 2002), confirmed its position as market leader in the segment, selling on average 140,000 copies more than its direct competitor. During the year sales of DVDs were extraordinarily successful, with numerous titles selling more than 100,000 copies. During the last quarter of the year the *DVD di Panorama* collection of DVDs was launched, registering excellent results. This collection, which replaced the *Videoteca del Secolo* (VHS) collection, will continue throughout 2004.

Tv Sorrisi e Canzoni confirmed its position as the highest selling Italian weekly title even though total circulation figures fell slightly (selling on average approximately 1.4 million copies, a 3.3% fall compared with 2002). However, the long-established television magazine registered an increase both in advertising sales and circulation sales thanks to the numerous add-on products offered with the magazine, including the first co-production with a record company to launch an original music CD.

The CD was launched at the same time on newsstands and in record shops, and it was among the highest selling CDs in the hit parade for many weeks.

During the year, the Interior Design System was reinforced thanks to the launch of *Flair Living* and to an increase in the periodic publication of *Creare con Casaviva*, while the Cookery System, with *Cucina Moderna, Sale & Pepe, Cucina no Problem* (launched at the end of 2002) and *Grand Gourmet* (which was re-styled in 2003), registered circulation figures of 7.5 million, almost a million more compared with the previous year. This notable increase helped to further reinforce the system's leadership position in the cookery segment, registering a market share of 45.4% compared with 42% in 2002.

Economy continued to consolidate its authority both in terms of advertising and circulation, achieving and surpassing its fixed objectives. Average circulation figures for the year were approximately 92,000.

Overall, the new titles launched in 2003, *Flair, Evo, Economy* and *Flair Living*, achieved their expected results both in terms of market positioning and sales.

2004 began with a further increase in

marketing initiatives connected to Mondadori magazines. Among the most important of these during the first quarter of the year were the success of the innovative cookery cards on sale with *Donna Moderna*, the children's videocassettes linked to *TV Sorrisi e Canzoni* and the excellent sales of the *DVD di Panorama* initiative.

However, the most important news regarding the beginning of 2004 concerns the launch of *PerMe*, a highly original women's magazine dedicated to psychology, interpersonal relations and inner feelings.

Advertising

After two years of negative results, the advertising market in 2003 was characterised by two distinct periods with the first half of the year registering a further negative result and the second half of the year registering a moderately positive result.

The overall advertising market increased by 3.3% compared with 2002, as can be seen in the table.

Radio advertising registered particularly positive results (+15.9%), as did television with an increase of 4.9% compared with 2002.

The biggest difficulty was registered in the print media market, in particular in the newspaper sector and more specifically in the Italian commercial advertising segment (-5.9%).

Advertising sales in magazines, however, registered a 1.0% increase, thanks to an excellent performance in the last quarter of the year.

Among the most important segments for advertising sales special note should be made of the fashion segment where excellent results were achieved, in contrast to the

Advertising market

€ m	2003	2002	% change
Television	4,123.6	3,929.7	4.9%
Magazines	1,165.3	1,153.3	1.0%
Newspapers	1,705.7	1,728.5	(1.3%)
Radio	329.0	283.9	15.9%
Outdoor	187.2	181.4	3.2%
Cinema	82.9	72.1	14.9%
Total advertising market	7,593.7	7,348.9	3.3%

Source: Nielsen

cosmetics segment where revenues fell. Other positive results were registered in the telecommunications, finance and car/tourism segments, while the decrease that has been in evidence in recent years in the computer products segment continued.

Mondadori Pubblicità, which operates in the magazines and national newspaper sectors, registered a 3.8% decrease in revenues.

However, when the results for the two years are compared on a like-for-like basis, excluding the 2002 revenues from *Famiglia Cristiana*, since the contract for this magazine was not renewed for 2003, the final result amounts to an increase of 0.97%.

Finally, if revenues from the magazine sector are considered on their own, the results for

2003 show a 2% increase compared with the reference market.

This result was partly due to the excellent performances of the main Mondadori Group titles, such as *TV Sorrisi e Canzoni*, *Donna Moderna*, *Cbi*, *Panorama* and *Cosmopolitan*, together with the brilliant results registered by the new titles launched in 2003, *Flair*, *Flair Living*, *Evo* and *Economy*.

The newspaper sector, however, suffered from the effects of the general stagnation in national commercial advertising investments, producing a performance in line with the reference market.

The positive performance registered in the last quarter of 2003 seems to have been confirmed in the first few months of 2004, leading to optimistic forecasts for the current year.

The growth rate that characterised the European economy in 2003 was a major factor in maintaining the demand for printing products on the same level as the previous year.

In particular, the advertising market, after the steep drop in 2002, registered a slight increase although it was not sufficient for the volume of printing to attain the levels of 2001.

Demand was characterised by a reduction in paginations and smaller print-runs in all segments, including magazines, mail-order catalogues, travel brochures and promotional material.

In the third-party mail-order catalogue sector the shake-up registered in 2002 continued, and as a result of mergers/acquisitions and other forms of market concentration in Europe the number of clients and products was reduced, although print-runs and the number of pages of the main catalogues (high-season periods) were not significantly reduced.

In the illustrated book sector, the strength of the euro against the dollar and, to a lesser extent, sterling served to further increase competition, with the result that demand from America and Britain for printing services was directed to the Far East, which in turn put even more pressure on prices.

The fall in demand produced a decrease in the cost of paper, which benefited Mondadori's magazine and book sectors.

The only sector which bucked this trend was the printing of monochrome hardback books, linked to the formula of books sold as optional products with newspapers, an idea that was first introduced onto the market in 2002 and reinforced in 2003 with a significant increase in the number of products.

In 2003 the Printing Division registered a 2% increase in revenues, thanks to a notable increase in volume that compensated for the effects of exchange rates, the tension in prices and the cost of paper. This performance is even more significant if printing revenues net of the cost of paper are considered, since the total increase in this case amounted to 4.3%.

Mondadori Printing was able to increase the amount of printing orders it received in a largely stagnant market thanks to the consolidated relationship it has with the publishing companies of the Mondadori Group, which increased their demand for printing as a result of the new titles launched in 2003.

In addition, the policy continued of increasing the number of third-party clients in order to improve the client and product portfolio in 2004. In particular, the Division was able to

exploit the opportunity offered by the development of monochrome hardback books, increasing the specific production capacity and subsequently registering a significant increase in revenues from the Italian market.

The quantity of paper processed in the various factories during 2003 amounted to 330,061 tonnes compared with 304,274 in 2002, an increase of 8.6 %.

The volume of business ensured a high level of use of the Company's production plant and an increase in internal production (based on the number of pages produced) of around 5%.

Artes Graficas Toledo continued its production rationalisation programme that will be concluded in 2004 and will ensure that the Company recovers competitiveness.

Sales to Third Parties amounted to €201.9 million (€202.4 million in 2002), €108.7 million of which was accounted for by foreign sales (€118.6 million in 2002). These results were influenced by the reduction in the cost of paper and the revaluation of the euro.

A more significant summary of the business activities of the Printing Division can be seen

Printing revenues net of paper costs

€ m	2003	2002	% change
Magazines	124.8	115.4	8.1%
Books	75.5	72.7	3.8%
Catalogues and promotional material	29.8	31.8	(6.3%)
Directories	4.7	5.2	(9.6%)
Total printing revenues net of paper costs	234.8	225.1	4.3%

Printing: current machinery

	Verona	Melzo	Cles	Pomezia	Martellago	Toledo	Total
Rotogravure	7	4	-	-	-	-	11
Rotary offset	5	-	2	2	-	-	9
Flat offset	12	-	-	-	5	7	24
Cameron	-	-	3	-	-	-	3

in the table which shows printing revenues net of paper and transport costs.

The positive performances of magazines and books were due to the excellent performance of Mondadori Group magazines and to the add-on sales of products linked to national newspapers.

Directory sales, however, decreased due to the marketing strategies employed by clients.

Printing machinery in use in the Division's various printing works is shown in the table in this page.

The Mondadori Group confirmed a high growth rate in this area with a 15.6% increase in revenues since the beginning of the year and a decisive recovery in profitability compared with the previous year.

In 2003 **Mondolibri**, the undisputed market leader in Italy in the mail-order book sector, registered a 2.2% increase in sales, and while the number of subscribers was stable the number of clients who were not members of the book club increased.

The increase was partly achieved thanks to the acquisition, in July 2003, of **Piemme Direct**, which specialises mainly in the mail-order sale of religious books. Once **Piemme Direct** has been fully integrated during the current year, the Division will be able to exploit the synergies deriving from using the same internal logistics system and the same IT platform, thereby recovering efficiency in stock levels and the cost of marketing and promotions, partly as a result of an organisational structure that is considered to be excellent from the point of view of the quantity and quality of resources

During 2003 the multi-channel offer approach strategy continued with the introduction of the possibility of placing orders by sending an SMS message from a mobile phone. In the second half of the year two new shops reserved for members were opened in Parma and Pescara.

During 2003 **Cemit** developed its turnover with an increase of 15.5% and a subsequent improvement in results, confirming the market's appreciation of the quality of its services and the complete range of direct marketing services it offers.

Despite the continued stagnation of the communication market, **Cemit** was able to attract new clients and increase revenues from its already-existing clients. The company was also able to keep a tight rein on costs. **Cemit's** development programmes were updated with recent technological innovations. In this context, a project aimed at improving the capacity to process, integrate and store data was introduced.

In addition, during the year a quality certification process (which will be completed during 2004) was implemented, with the aim of offering clients the highest standards currently available on the market.

Mondadori Franchising registered a substantial increase in revenues (+36%) thanks to new affiliates that began trading during the year (sales outlets increased from 117 to 132), and to an increase in sales from existing bookshops.

During the second half of the year the company concentrated on completing the transfer to a new technological platform, which is indispensable in order to adapt its infrastructure to the growing demands of the company itself and to create the basis for new investments in the picking & packing area, which in turn is necessary in order to satisfy the increased business development of recent years.

In 2003 **Mondadori Retail** registered a significant increase in sales (+18.6%) thanks to revenues from its established shops (+6.5% compared with the previous year) and from the three new sales outlets opened during the year in Turin, Genoa and Casalecchio di Reno (Bologna) .

The following table gives a summary of the sales data for financial year 2003, compared with the previous year.

Direct Division: revenues			
€ m	2003	2002	% change
Mondolibri S.p.A. (*)	42.4	41.5	2.2%
Cemit Interactive Media S.p.A.	27.5	23.8	15.5%
Total direct marketing	69.9	65.3	7.0%
Mondadori Franchising S.p.A.	25.7	18.9	36.0%
Mondadori Retail S.r.l.	67.0	56.5	18.6%
Total retail	92.7	75.4	22.9%
Total Direct Division	162.6	140.7	15.6%

(*) Consolidated to 50% with the proportional method.

The absorption of Mondadori.com S.p.A. by Arnoldo Mondadori Editore S.p.A., which was completed on 1 August 2003, made it possible to optimise the resources dedicated to this business area by confirming the strategy adopted by Mondadori.com based on the development of sites closely linked to the most important titles in the Mondadori portfolio.

All of the network of Mondadori sites registered a high volume of traffic with an average of over 20 million page views, establishing the company among the 15 most important company groups on the Internet (according to data published by Nielsen-Netratings).

During the second half of the year the first wireless services were launched, with the Mondadori Group titles (*Cosmopolitan*, *Men's Health*, *Tu*, *TV Sorrisi e Canzoni*, *Tutto*, *Donna Moderna* and *Auto oggi*) producing excellent economic results.

This initiative offers readers the possibility to access personalised services as well as information and entertainment services directly from their mobile phones.

As for on-line book sales, once again **BOL** registered excellent results with a 61% increase in sales compared with 2002. The

company continued to expand into new product and service areas by adding English-language books to professional books and DVDs, which were originally introduced in 2002, in order to accelerate the time necessary to reach the break-even point in the income statement.

The Mondadori Group's financial situation of €72.9 million, as illustrated in the following table.

Net financial position

€ m	31/12/2003	31/12/2002
Short term bank and Post Office deposits	42.3	85.5
Short term borrowing from banks	(28.4)	(21.3)
Financing (short and medium/long term)	(123.1)	(369.5)
	(109.2)	(305.3)
Fixed interest securities, bonds and shares	580.3	407.3
Bonds	(296.4)	-
Convertible bonds	(109.9)	-
Other borrowing	(1.4)	-
Cash, cheques, net financial receivables from Group companies and third parties and accrued interest income	9.9	7.3
Net financial receivables (payables)	73.3	109.3
Leasing debts	(0.4)	-
Net financial position	72.9	109.3

Cash flow summary

€ m	31/12/2003	31/12/2002
Initial net financial position	109.3	188.5
Net result	82.1	81.1
Depreciations	62.3	60.3
Self-finance	144.4	141.4
Changes in working capital	(11.4)	(11.7)
Net investments	(64.3)	(16.6)
Severance indemnities	(1.1)	2.1
Buy-back of company shares, net of sales	(57.4)	(3.3)
Other assets/liabilities	15.5	(25.2)
Operating surplus (requirement)	25.7	86.7
Dividends	(62.4)	(155.7)
Other capital movement	0.3	(10.2)
Financial surplus (requirement)	(36.4)	(79.2)
Final net financial position	72.9	109.3

As can be seen from the first table, the net financial position changed quite considerably compared with 2002.

As previously mentioned, with regard to the financial situation, 2003 was characterised by two operations designed to optimise the financial structure of the Group from the point of view of both taxes and payment deadlines.

Convertible debenture loan

In September Mondadori Finance S.A. issued a debenture loan convertible in ordinary shares of Arnoldo Mondadori Editore, which were already issued and held by the company in the form of the company's own shares. The loan was reserved exclusively for institutional investors and resulted in the company raising €109.9 million on the market.

The debenture loan was issued at the same value with an expiry date of 2008 and at a unit conversion rate of €8.4782, giving subscribers the right to an annual coupon of 2%.

Private placement

In October, Mondadori International S.A. completed a private placement operation with American institutional investors that resulted in the company raising US \$350 million, which when converted at the Euro/Dollar exchange rate of 1.1809 corresponded to €296.4 million.

The senior unsecured notes are reimbursable

in a single payment of \$215 million on 18/12/2013, \$40 million on 18/12/2015 and \$95 million on 18/12/2018.

The interest fixed in favour of the investors is 5.42%, 5.57% and 5.82% respectively.

The two operations provided the funds to pay back €400 million of a revolving five-year loan that was due.

Cover for exchange rate and interest rate risks was provided for both operations.

With reference to the decrease in the surplus compared with the previous year, it should be noted that the financial position for 2003 was affected by a number of particularly significant acquisition operations: the acquisition of 20% of the Attica Publications Group, the Greek magazine publisher quoted on the Athens stock exchange, involved the payment of €18.2 million; the acquisition of 70% of Edizioni Piemme S.p.A. involved the payment of €14.1 million and led to a further €7.8 million being written off from the Mondadori Group's surplus in order to pay for the net debts of Piemme; the acquisition of *PC Professionale* involved the payment of € 4.6 million. In addition, €57.4 million was paid for the acquisition of company stock.

Variations in interest rates and exchange rates

In 2003 the world economy increased by 2.4%. In the industrialised countries there were some signs of a recovery and interest rates returned to the levels they were at the beginning of the year (despite the fall in June), while consumer and manufacturing confidence showed some timid signs of recovery. The world economy began to grow in the second half of the year and it appears to be continuing to do so in these first few months of 2004 (mainly thanks to the USA, Asia and China), with global GDP being forecast to increase by over 3%.

In the USA the economy increased over the year by 3.1% (4% in the last quarter as a result of an increase in exports and greater stocks), while unemployment in December amounted to 5.7%. In the last quarter of the year inflation was running at a comforting 1.9% and the economy is forecast to grow by over 4% in 2004.

The Euro Zone registered a 0.4% increase in 2003 (0.3% in the last quarter), with Italian GDP increasing by 0.3% (due to weak consumer spending and investments and significant decreases in exports). Economists predict an increase in the euro-area in 2004 of

between 1% and 2%, which means that 2004 will be a weak year of transition. Inflation levels (2% in December) continued to be in line with forecasts while unemployment was at 8.8%.

In an attempt to help the economic recovery, in 2003 the Federal Reserve Bank introduced a cut of 25 bps (25 June) and the Federal Fund rate fell to 1.00% (the lowest level since 1961). During the year the European Central Bank cut the minimum rate applied to the main refinancing operations of the Eurosystem by 75 bps to 2.00%. The Bank of England applied an expansionist monetary policy in the first half of the year before introducing a restrictive policy in the second half, raising the repo rate by 25 bps (6 November) to 3.75%. On 5 February 2004 the Bank further increased the repo rate to 4%.

In this macroeconomic context, during 2003 the dollar depreciated by 21%, falling from 1.045 at the beginning of January to 1.263 at year's end as a result of the "twin deficits" (the current account and public accounts) and the difference in interest rates between the USA and Europe (during the first months of 2004 the U.S. dollar was over 1.29 before settling down to the current figure of 1.23). Sterling depreciated by 8% against the euro during 2003, from 0.652 at the end of January to 0.705

at the end of December (during the first months of 2004 sterling gained 5.4% against the euro, arriving at 0.67). During the year measures were taken to cover the fluctuation of both currencies, in which the Mondadori Group holds an exposure of a commercial type.

The three-month Euribor rate (Act/365) was reduced from 2.901% at the beginning of January 2003 to 2.154% at the end of December 2003. During the same period the average cost of money for the Mondadori Group (including cover for interest rate risks and subsidised loans) was approximately 3.1%.

As of 31 December 2003, the Mondadori Group had unused lines of credit for a total of over €1,150 million.

As of 31 December 2003, 20% of the Group's short-term facilities, amounting to €752 million, were used by means of self-liquidating lines of credit (such as discount bills) and stand-by credits with a duration of less than eighteen months minus a day. The Group also had medium/long term subsidised loans to publishers for €18.1 million.

Mondadori International

During 2003 Mondadori International generated consolidated net profits of €9.7

million (€7.2 in 2002). The company's consolidated net financial position increased from €463.9 million at the beginning of the year to €456.8 million at the end of the year after paying €18.2 million for the acquisition of 20% of Attica Publications (a leading Greek magazine publisher). As of 31 December 2003, the company's gross financial activities amounted to €566.7 million (€463.2 million at the end of 2002).

This increase was mainly due to the issue of bonds convertible in Mondadori company shares, amounting to €109.9 million and with an expiry date of 2008, issued in October. The money from this operation was temporarily invested in monetary instruments, but it will eventually be used to develop the Mondadori Group's external lines.

Cash return during 2003 amounted to approximately 3% and at the end of the year the portfolio was made up in the following way:

- monetary products held in ABS Sicav (a Luxembourg-based open-end investment company for managing the liquidity with the bank SEB, part of the Banca Intesa Group) for €396.6 million (the main administrators are Lazard, BNP Paribas, Morgan Stanley, HSBC and IMI San Paolo);

- bank deposits and variable interest rate bonds for €87.5 million, directly administered by Mondadori International and with Banca Intesa London and Morgan Stanley London as custodians;

- hedge funds for €82.4 million (administered mainly by Morgan Stanley, GLG Partners and The Citco Group). These funds are extremely diversified in terms of administrators and strategies and they are characterised by a volatility than on average is lower than bonds.

85% of the portfolio can be liquidated with a few days notice and distributed within 15 days, while the remaining 15% requires approximately 3 months notice.

As of 31 December 2003 Group companies employed 4,751 people (4,792 at 31 December 2002), while the average number of personnel during 2003 amounted to 4,791 (4,805 in 2002).

The numbers mentioned above also include temporary staff.

The decrease in the number of personnel amounted to 41 people but on a comparable basis, without taking into account the data referring to Edizioni Piemme S.p.A., it amounted to 118 people.

The table on the right shows details of Group personnel as of 31 December 2003.

The cost of personnel amounted to €252.5 million (€242.8 million), an increase of 4%. This increase was due to Edizioni Piemme S.p.A., for €3.5 million, and to a retirement incentive scheme implemented in some company structures.

Contracts expired as of 31 December 2003:

- the conditions of the National Contract for Industrial Managers;
- the remuneration part and the conditions of the National Contract for Commercial Managers;
- the remuneration part and the conditions of the National Contract for Commercial Work.

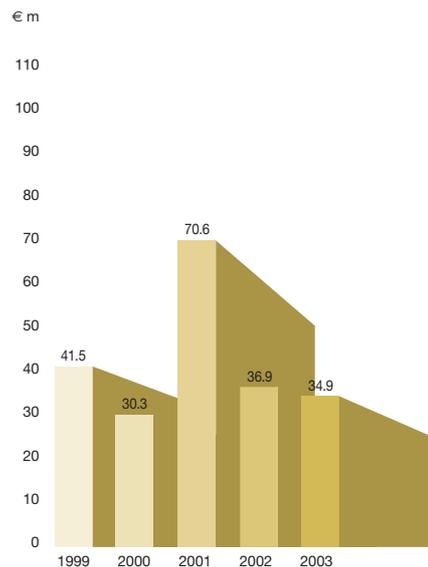
Personnel	31/12/2003	31/12/2002
Arnoldo Mondadori Editore S.p.A.:		
- Managers, journalists and office staff	1,550	1,459
- Manual workers	144	165
	1,694	1,624
Italian subsidiaries:		
- Managers, journalists and office staff	1,649	1,701
- Manual workers	1,253	1,307
	2,902	3,008
Foreign subsidiaries:		
- Managers, journalists and office staff	38	37
- Manual workers	117	123
	155	160
Total	4,751	4,792

During 2003 the Group made investments of €34.9 million in technical assets, €31.9 million of which entered into operation.

The majority of these investments concerned, as usual, the printing works of Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. with €27.9 million (€25.7 million of which entered into production) invested in plant and printing machinery and industrial buildings.

The opening of new shops accounted for investments of €1.2 million in furnishings, while the replacement of personal computers and office machines accounted for €3.1 million.

Disinvestments during 2003 amounted to €10.7 million, with €5.4 million of this total concerning the Printing Division and the residue relating to the normal turnover of other assets.



Mondadori Group: capital expenditure

The following section provides additional information about specific issues:

Relations with related parties

We would inform you that with reference to CONSOB communication 97001574 of 20 February 1997 and 98015375 of 27 February 1998, no operations of an atypical or unusual nature were carried out.

The operations carried out between related parties of the Group are based on normal market conditions: those carried out with companies of the Mondadori Group are of a commercial or financial nature, being concerned with the intergroup current account, managed by Arnoldo Mondadori Editore S.p.A., relating to the various debt and credit positions of the different subsidiary and affiliated companies. All dealings of a commercial nature with the Fininvest Group are based on normal market conditions.

For more detailed information you are referred to the Notes to the Financial Statements of Arnoldo Mondadori Editore S.p.A. and the Group's Consolidated Financial Statements.

Acquisition of 20% of Attica Publications

In March Arnoldo Mondadori Editore S.p.A. signed an agreement to invest in the share capital of Attica Publications S.A., a Greek publishing house quoted on the Athens stock exchange.

By the terms of the agreement Mondadori purchased from the company's founders (who hold 80% of the capital, with the remaining 20% on the market) an initial 20% share, for a total investment of €18.2 million.

The agreement grants Mondadori a call option on a further 20% of Attica's share capital, which must be taken up between 20 September 2004 and 19 October 2004. In this way Mondadori has the option to increase its stake to 40% of the total shares, an amount equal to the holding of the current controlling shareholder.

The Attica Group, founded in 1994 as a magazine publishing company, has been quoted on the Athens Stock Exchange since 1999. The capital deriving from the IPO was invested in the core business, with the launch of new titles and the purchase of publishing houses in the Greek market. In subsequent years the Attica Group introduced a diversification process that resulted in it developing into a multimedia operator in the media sector, with a widespread presence in numerous business activities, including the distribution of magazines, radio, film/VHS/DVD and music CDs.

The Attica Group, whose sales in 2003 amounted to approximately €77 million with an excellent level of profitability, is currently the

market leader in advertising sales and is the second most important company in terms of circulation, with a well-balanced portfolio of products in the women's, men's, television and specialist sectors that include the company's own titles and other titles published under licence from prestigious international publishers such as Hearst and the Figaro Group.

Attica also has a significant presence in East Europe (Hungary, Rumania and Bulgaria), and its expansion policy in these markets is based on the launch of titles with a strong market presence that will enable them to quickly achieve important circulation figures.

Acquisition of a stake in Edizioni Piemme S.p.A.

In October Arnoldo Mondadori Editore S.p.A. finalised the acquisition from Pietro Marietti and Elisabetta Dami, who at that time were the majority shareholders, of 70% of the share capital of Edizioni Piemme S.p.A. for €14.1 million, following the positive results of the relative due diligence.

Edizioni Piemme, which has around 70 employees and in 2003 registered sales of approximately €28 million with a profitability in line with the best operators in the sector, first began operating in the religious books sector before gradually concentrating on fiction

and non-fiction work, in particular in the area of children's books. In this sector Piemme currently occupies an important position on a national level, with a market share of around 11% in terms of sales. This result has been achieved mainly thanks to the *Il Battello a Vapore* imprint and to the *Geronimo Stilton* character, for which Piemme holds exclusive publishing rights in Italy.

The operation will permit Mondadori to significantly reinforce its presence in the children's book sector, consolidating its leadership position in the segment through a further increase in its market share, and to acquire in the general fiction sector a portfolio of authors of the calibre of Michael Connelly and Anthony De Mello.

Merger by incorporation of the subsidiary companies Mondadori.com S.p.A. and Mondadori Informatica S.p.A.

The Extraordinary Shareholders' Meeting of 28 April 2003 approved the absorption of the subsidiary companies Mondadori.com S.p.A. and Mondadori Informatica S.p.A. by Arnoldo Mondadori Editore S.p.A.

Mondadori.com is responsible for looking after the Group's internet publishing activities, which are closely linked to the main magazine titles, while Mondadori Informatica

operates in the Information Technology publishing and training sector where it produces books and specialist computer magazines such as *PC Professionale*.

The aim of the operation was to simplify company structures and rationalise management and administration in order to improve operational efficiency and subsequently contain costs, by means of the synergy deriving from the integration of the business activities of the two merged companies into the parent company.

The merger was subsequently completed by the signing of the relative contract, which came into effect on 1 August 2003, and since the merged companies were already entirely owned by the parent company the operation did not involve any equity operation.

Compulsory conversion of savings shares into ordinary shares

The Extraordinary Shareholders' Meeting of 29 July 2003 resolved on the compulsory conversion, on equal terms and without any adjustment, of the total number of 151,412 savings shares in circulation into 151,412 new issue ordinary shares (dividend payable from 1 January 2003) with the same characteristics as the ordinary shares in circulation, to attribute to the holders of savings shares in the ratio of

one new issue ordinary share for every one savings share.

The resolutions of the Extraordinary Shareholders' Meeting were approved, in accordance with article 146 of Legislative Decree 58/1998, by the special Meeting of Shareholders with savings shares that was held on 29 July 2003 and, following an agreement reached with Borsa Italiana S.p.A., came into effect on 6 August 2003.

Background to the operation

Before the operation was completed the 151,412 savings shares with a par value of €0.26 in circulation represented 0.058% of the share capital, with an equally limited market capitalisation (around €1,167,000 calculated on the basis of the latest official price).

The small quantity of savings shares in circulation, both in terms of numbers and value, has in recent months impeded the maintenance of a regular market in these shares. Transactions of savings shares led, particularly since April 2003, to anomalous conditions consisting of:

- a tendency for the theoretical price of savings shares to rise, often when there was an extremely reduced level of potential share trading;
- a marked imbalance between the quantity of

-
- purchase and sale transactions in the market;
 - a consequent anomaly between the theoretic bidding price of savings shares and both the market price of the corresponding ordinary shares and the reference price of the savings shares;
 - the frequent impossibility to conclude contracts, given the lack of suitable conditions for the validation of the bidding price.

As a result of the circumstances mentioned above, Borsa Italiana S.p.A. decided in ruling 2876 of 7 May 2003 on the immediate indefinite suspension of all transactions of Arnoldo Mondadori Editore S.p.A. savings shares, and in its letter of 14 May 2003 announced the introduction of a procedure to prohibit the transaction of such savings shares on the Stock Exchange, in accordance with provisions contained in article 2.5.1 paragraph 1 letter b) and paragraph 4 letter c) of the “Regulations of markets organised and run by Borsa Italiana S.p.A.”

Following the provisions adopted by Borsa Italiana S.p.A. the Board of Directors, in consideration of the fact that the maintenance of the category in the absence of a listing would basically mean that it would be impossible to cash-in the savings shares and acknowledging the request formulated by the Common Representative of Savings Shareholders, decided

in the interests of safeguarding the category to submit approval of compulsory conversion to a Shareholders’ Meeting.

With the approval of the operation those Shareholders who held savings shares were assigned (in the ratio of 1 new issue ordinary share, with a dividend payment of 1 January 2003, for every 1 savings share held) ordinary shares negotiable on the Stock Exchange to replace non-negotiable savings shares, thereby enabling the shareholders to hold in their portfolio quoted shares that can be traded in accordance with market regulations.

Convertible debenture loan reserved for institutional investors

On 19 September the operation reserved exclusively for institutional investors was successfully completed. The operation involved the issue of a convertible debenture loan by the Luxembourg subsidiary Mondadori Finance and guaranteed by Arnoldo Mondadori Editore S.p.A. for €109,900,000 million, with an expiry date of 2008.

The bonds are convertible in Mondadori ordinary shares, either already issued and held by the company in the form of the company’s own shares or to be bought by the company on the market in accordance with the authorisation granted by the Shareholders’ meeting of 28 April

2003, as per article 2357 of the Civil Code. The bonds were issued at the same value with an annual coupon of 2% and were offered at a conversion price of €8.4782, which represents a 26% reduction on the market price of Mondadori shares.

The issuing company has the right to reimburse the bonds at any time after the third year of their issue should the price of the shares exceed 130% of the conversion price. The shares have been listed on the Luxembourg Stock Exchange.

The operation allowed the Mondadori Group to raise finance at extremely favourable conditions without any negative effects for Shareholders. Mondadori intends to use the capital raised by the issue to further consolidate and optimise the financial structure of the Group from the point of view of both taxes and payment deadlines.

The issue also provided the Group with additional liquidity which can be used to achieve its strategic objectives.

Private placement for \$350 million on the American institutional market

In October the subsidiary company Mondadori International S.A. completed the

issue, reserved exclusively for American institutional investors, of senior unsecured notes for a value of \$350 million.

The operation was so successful that Mondadori decided to increase the value of the issue, which had initially been set at \$200 million.

The operation was divided into three tranches of \$215 million, \$40 million and \$95 million, with expiry dates of 10, 12 and 15 years and interest rates fixed at 5.42%, 5.57% and 5.82% respectively.

The capital raised from the issue will be used to finance existing debts and to optimise the Group's financial structure from the point of view of both taxes and payment deadlines.

Conversion to International Accounting Principles

With regard to the method of converting to the new international accounting standards, which must be adopted by companies quoted on the stock exchange by 2005, an operation is currently underway to analyse the accounting principles used by the various Group companies, the difference between the accounting principles identified and the IFRS and the possible economic impact on the financial statements after the adoption of the IFRS.

Privacy Policy Document

With regard to the obligations contained in the new legislation concerning privacy, Arnoldo Mondadori Editore S.p.A. has drawn up a Privacy Policy Document in accordance with the legislative provisions and will ensure that it is revised by 30 June 2004.

Share buy-back

The Ordinary Shareholders' meeting of 28 April 2003 resolved, in accordance with article 2357 of the Civil Code, to authorise the purchase - taking into account the 9,791,136 ordinary shares already held in the company's portfolio at the time of the resolution - of up to 10% of the share capital, as per article 2357 of the Civil Code.

Following the resolution and up to 31 December 2003, 7,959,727 ordinary shares with a par value of €0.26 were bought on the market for a total of €52,806,756. During the same period 6,500 of the company's own ordinary shares were sold for a total of €41,428.

As of 31 December 2003 the company owned a total of 17,744,363 of its own ordinary shares with a par value of €0.26 each (6.84% of the share capital), worth a total of €116,885,360 for an average value of €6.59 per share.

Information on Stock Option plans

The Shareholders' meeting of 28 April 2003 resolved to renew the Stock Option Plan regarding company shares for the three-year period 2003-2004-2005 following the expiry of the previous Plan for the period 2000-2001-2002.

The Plan is destined for managers of the company, its subsidiaries and the parent company whose activities have a determining impact on the attainment of the Group's strategic objectives, together with Directors of subsidiary companies.

The Shareholders' meeting entrusted the "Stock Option" Committee, nominated by the meeting itself from among non-executive Directors, with the task of managing the plan, granting the Committee all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the plan itself in all its aspects. The Meeting also entrusted the Committee with the task of defining the Regulations for implementing the Stock Option Plan.

In particular, the regulations drawn up by the Committee provide, for every year the Plan is in force, for the allocation to the participants in the Plan of rights to options, which are

personal and non-transferable, for the purchase of ordinary Arnoldo Mondadori Editore S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for Mondadori shares in the period from the date of the allocation of the options to the same day in the previous month.

The option can only be exercised, in a single action, during the period between 1 January of the third year and 31 December of the fourth year after each year of the allocation date.

The Regulations also specify that the participants in the Plan are chosen, by the Committee, from among those managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, directors employed by the company or its subsidiaries, journalists employed by the company or its subsidiaries who are editors or deputy-editors of titles and managers who work for subsidiaries as editors and whose function is in favour of the company.

The Regulations further specify that the Committee identifies the conditions for exercising the options allocated to the participants with reference to the performance parameters of an economic

and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options will be checked by the Committee, for each year in which the Plan is in force, by the end of the first half of the year after the year the options are allocated.

The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option

Plan 2003-2005 as being the ROE and the free-cash flow, since these indicators, also in the light of past experience, respond to market expectations and institutional investors who have shown their appreciation of them.

The following table illustrates the situation as of 31 December 2003 regarding the total number of options allocated, the number of beneficiaries, the price and the period.

Year of allocation	Number of options	Number of beneficiaries	Price	Period
2000	480,000	65	12.979	01/01/2003-30/06/2004
2001	734,000	73	10.67	01/01/2004-30/06/2005
	1,910,000	72	6.56	01/01/2004-30/06/2005
2002	1,620,000	72	6.85	01/01/2005-30/06/2006
2003	1,990,000	142	6.471	01/01/2006-31/12/2007

Shares held by Directors, Statutory Auditors and Chief Executive Officers

In accordance with art. 79 of CONSOB resolution 11971 of 14 May 1999, we wish to inform you of the following shares held with reference to financial year 2003 in Arnoldo Mondadori Editore S.p.A. and Subsidiary Companies by the Company's Directors and Statutory Auditors:

Name and surname	Company shares	Number of shares owned at end of previous financial year	Number of shares bought	Number of shares sold	Number of shares owned at end of the year in question
Berlusconi Marina	Arnoldo Mondadori Editore	-	-	-	-
Costa Maurizio	Arnoldo Mondadori Editore	228,700	-	-	228,700
Barbaro Francesco	Arnoldo Mondadori Editore	57,800	-	-	57,800
Berlusconi Pier Silvio	Arnoldo Mondadori Editore	172,000	-	-	172,000
Cannatelli Pasquale	Arnoldo Mondadori Editore	-	-	-	-
Confalonieri Fedele	Arnoldo Mondadori Editore	-	-	-	-
Ermolli Bruno (4)	Arnoldo Mondadori Editore	2,400	-	-	2,400
Forneron Mondadori Martina	Arnoldo Mondadori Editore	-	-	-	-
Poli Roberto	Arnoldo Mondadori Editore	-	-	-	-
Puerari Giovanni	Arnoldo Mondadori Editore	83,800	-	24,700	59,100
Sposito Claudio (1)	Arnoldo Mondadori Editore	40,500	-	-	40,500
Resca Mario	Arnoldo Mondadori Editore	-	-	-	-
Spadacini Marco	Arnoldo Mondadori Editore	-	-	-	-
Iorio Franco (2)	Arnoldo Mondadori Editore	-	-	-	-
Frattini Achille	Arnoldo Mondadori Editore	-	-	-	-
Superti Furga Ferdinando	Arnoldo Mondadori Editore	-	-	-	-
Aiello Antonio	Arnoldo Mondadori Editore	-	-	-	-
Giampaolo Francesco	Arnoldo Mondadori Editore	-	-	-	-
Polerani Gianfranco (3)	Arnoldo Mondadori Editore	-	-	-	-
Vittadini Francesco	Arnoldo Mondadori Editore	500	-	-	500

(1) ceased to be a director as of 28.04.2003

(2) ceased to be the Chairman of the Board of Statutory Auditors as of 15.05.2003

(3) ceased to be Substitute Statutory Auditor as of 28.04.2003

(4) shares held by wife

Results of the first two months of 2004

The first two months of the year produced positive results in all the sectors, particularly in revenues from add-on sales of products linked to magazines and revenues from the Book Division.

Revenues from advertising also confirmed the positive trend of the last quarter of 2003.

Also significant was the launch of *PerMe*, a new psychology monthly magazine for women, that strengthens the portfolio of titles of the Magazine Division.

Resolution proposal

The Financial Statements as of 31 December 2003 closed with a net profit for the financial year of €74,460,844.71.

We submit the following text to you for the motion:

The Ordinary General Meeting of the Shareholders of Arnoldo Mondadori Editore S.p.A., having taken note of the matters contained in the Report of the Board of Statutory Auditors and the Consolidated

Financial Statements of 31 December 2003 resolves

- 1. to approve the Report of the Board of Directors on the Company's performance and to approve the Financial Statements of 31 December 2003, together with the notes, in all their parts and findings;*
- 2. to allocate the net profit for the financial year that closed on 31 December 2003 in the following way:*

Net profit for the year	€74,460,844.71
a) to the reserve fund ex law 124/93 art. 13:	25,398.87
b) to the extraordinary reserve	1,902,489.54
c) to the Shareholders a total dividend of taking account of the 17,653,311 shares held by the company, the division is proportional as per art. 2357 ter of the Civil Code and is equivalent to a dividend, gross of taxes, of €0.30 to be allocated to each of the 241,776,521 ordinary shares in circulation.	€72,532,956.30
Total	€74,460,844.71

The dividend will be paid in accordance with the provisions of the "Regulations for markets organised and managed by Borsa Italiana S.p.A.", in the following way: detachment date 24 May 2004, for payment from 27 May 2004.

Shareholders whose financial year does not coincide with the calendar year are allocated, where applicable as stated in

Circular no. 4 of 3/2/2004 from the Tax Authorities, a full tax credit canestro A of 51.51%, as laid out in art. 105, paragraph 1, point a) of the T.U.I.R.

For the Board of Directors
Chairman
Marina Berlusconi

Appointment of Reconta Ernst & Young S.p.A. for the three-year period 2004/2005/2006 – in accordance with art. 159 of Legislative Decree no. 58 of 24 February 1998 – to audit the Financial Statements and the Consolidated Statements and to perform other activities as contained in art. 155 of the aforementioned Legislative Decree no. 58 of 1998. Appointment of the said Reconta Ernst & Young S.p.A. to carry out a limited audit of the half-year reports for the first half of the financial years in the above-mentioned three-year period. Determination of relative emoluments.

Shareholders, with the audit relative to the financial year that closed on 31 December 2003, the appointment for the audit of the Financial Statements and the Consolidated Statements conferred on Reconta Ernst & Young S.p.A. for the three-year period 2001/2002/2003 by the Shareholders' Meeting of 24 April 2001, together with the appointment to carry out a limited audit of the half-year reports as at 30 June 2001, 2002 and 2003, has expired.

In accordance with art. 159 of Legislative Decree no. 58 of 24 February 1999 it is therefore necessary to proceed to the appointment, relative to the three-year period 2004/2005/2006, for the audit of the Financial Statements and the

Consolidated Financial Statements and other activities as contained in art. 155 of the aforementioned Legislative Decree no. 58/1998 and for a verification, during the financial year, of company bookkeeping procedures and that the correct entries are made in the accounts. You are also called on to deliberate on the appointment for a limited audit of the half-year report at 30 June 2004/2005/2006.

The Board of Directors proposes to renew the conferment of the aforementioned appointment for the three-year period 2004/2005/2006 on Reconta Ernst & Young S.p.A., on the basis of the proposal made by the said firm of external auditors on 5 March 2004. The Board of Directors therefore submits for approval by the Shareholders' Meeting the renewal of the appointment of Reconta Ernst &

Young S.p.A., after a verification of the suitability of the company and of the specific professional experience of the personnel assigned to the audit, on the basis that: the conditions of the proposal are appropriate to the proposed audit and are in line with normal market conditions, after other offers presented by important audit companies have been verified; the renewal of the appointment of Reconta Ernst & Young S.p.A. satisfies the need for operational and organisational continuity, given that the company has over the previous three-year period acquired experience of the accounting and administrative procedures applied in drawing up Mondadori's financial statements and Consolidated Financial Statements.

The proposal by Reconta Ernst & Young S.p.A. concerning the audit for Arnoldo Mondadori

Audit for Arnoldo Mondadori Editore S.p.A. for each of financial years 2004, 2005 and 2006:

The number of hours and the fees refer to the audit for Arnoldo Mondadori Editore S.p.A. and an examination of the consolidation of its minor Italian subsidiaries.

Number of people	Category	Hours	Mix of hours (%)	Hourly Fee	Amount in Euros
2	Partner	160	7	390	62,400
2	Manager	410	18	275	112,750
3	Auditor	695	30	165	114,675
4	Assistant	1,030	45	85	87,550
		2,295	100		377,375
				Reduced to	229,500

Requirements as per art. 155, paragraph 1, letter a) of the T.U. for each of financial years 2004, 2005 and 2006:

Number of people	Category	Hours	Mix of hours (%)	Hourly Fee	Amount in Euros
1	Partner	40	24	390	15,600
1	Manager	40	24	275	11,000
1	Auditor	40	24	165	6,600
1	Assistant	50	28	85	4,250
		170	100		37,450
				Reduced to	17,000

Co-ordination and control of the data consolidation process and the audit of the consolidated financial statements for each of financial years 2004, 2005 and 2006:

Number of people	Category	Hours	Mix of hours (%)	Hourly Fee	Amount in Euros
1	Partner	40	15	390	15,600
1	Manager	60	22	275	16,500
1	Auditor	90	33	165	14,850
1	Assistant	80	30	85	6,800
		270	100		53,750
				Reduced to	27,000

Limited audit of half-yearly reports for each of financial years 2004, 2005 and 2006:

Number of people	Category	Hours	Mix of hours (%)	Hourly Fee	Amount in Euros
2	Partner	55	7	390	21,450
2	Manager	135	18	275	37,125
2	Auditor	220	30	165	36,300
3	Assistant	330	45	85	28,050
		740	100		122,925
				Reduced to	74,000

Editore S.p.A. can be summarised for each financial year in the period 2004/2005/2006 in the following way:

The number of hours and the fee may be subject to variations should there be special circumstances that require an increased amount of time (significant structural changes, unforeseen exceptional situations, etc.). In addition, the fee will be adjusted for each financial year, with effect from 1 July 2004 on the basis of the variation in the ISTAT relative to the cost of living compared with the previous year (base: June 2003).

Proposal for resolutions

Shareholders,
if you agree with our proposals we would invite you to pass resolution on the following:

The Ordinary Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A., having examined the report of the Board of Directors; having also taken note of the proposals made by the external auditors, and having taken note of the opinion expressed by the Board of Statutory Auditors, in accordance with article 159, paragraph 1 of Legislative Decree no. 58 of 24 February 1998

resolves

- to confer, in accordance with article 159 of Legislative Decree no. 58 of 24 February 1998, on the external auditors Reconta Ernst & Young S.p.A., relative to the three-year period 2004/2005/2006, the appointment to:

audit the Financial Statements and Consolidated Statements by means of verifying that the Financial Statements and Consolidated Statement correspond to the results of the accounts and that they conform to current regulations governing accounting principles, and by preparing a report expressing an opinion on the Financial Statements and the Consolidated Statement, in accordance with art. 156 of the said Legislative Decree 58/1998;

verify, in accordance with article 155, paragraph 1, letter a) of Legislative Decree no. 58 of 24 February 1998, company bookkeeping procedures and that the correct entries are made in the accounts;

- to fix, in accordance with art. 159, paragraph 1, of Legislative Decree no. 58/1998, the total fees to be paid to the said Reconta Ernst & Young S.p.A. for each of the financial years 2004, 2005 and 2006 as €273,500 (two-hundred and seventy-three

thousand five hundred), of which €229,500 for the audit of the Financial Statements, €27,000 for the audit of the Consolidated Financial Statements and €17,000 for verifying the company bookkeeping procedures and that the correct entries are made in the accounts in accordance with article 155, paragraph 1, letter a) of Legislative Decree no. 58 of 24 February 1998

In addition to these amounts the said auditors will also be paid expenses incurred in carrying out the work, at cost, accessory expenses relative to technology, secretarial and communication services and security costs, to be calculated in accordance with current CONSOB regulations, all costs plus VAT.

The above-mentioned fees will be adjusted every year, with effect from 1 July 2004 (base: June 2003) on the basis of the variation in the ISTAT index relative to the cost of living, and may be adjusted should any special and unforeseen circumstances arise. All this as per the relative proposal made by the external auditors, which is attached to the present minutes;

- to confer on the external auditors Reconta Ernst & Young S.p.A., relative to the said three-year period 2004/2005/2006, the appointment to carry out a limited audit

on the half-year report of each of the financial years and to produce a formal report;

- to fix the fee of €74,000 for each of the financial years 2004, 2005 and 2006 to be paid to Reconta Ernst & Young S.p.A. for a limited audit of the half year report.

In addition to these amounts the said auditors will also be paid expenses, at cost, plus VAT.

The fees for the limited audit of the half-year report, as outlined above, will be adjusted every year, with effect from 1 July 2004 (base: June 2003) on the basis of the variation in the ISTAT index relative to the cost of living, and may be adjusted should any special and unforeseen circumstances arise. All this as per the relative proposal made by the external auditors, which is attached to the present minutes.

For the Board of Directors
Chairman
Marina Berlusconi

Authorisation to buy and use company shares as per the combined dispositions of arts. 2357 and 2357 paragraph 3 of the Civil Code.

Shareholders,
the Shareholders' Meeting of 28 April 2003 authorised, up to the time of the approval of the Financial Statements at 31 December 2003, the purchase - taking into account the 9,791,136 ordinary shares already held in the company's portfolio - of up to 10% of the share capital, as per article 2357 of the Civil Code, for a unit price not less than the official stock exchange trading price on the day preceding that of purchase, reduced by 20%, and not higher than the official stock exchange trading price on the day preceding that of purchase, increased by 10%.

The Meeting of 28 April 2003 also authorised the Board of Directors to sell company shares either bought or in the portfolio to the company at a price or unit value of the shares not less than 80% of the official trading price on the day preceding each single operation. In line with the aforementioned resolution the Company purchased 8,033,502 ordinary shares on the market and sold 491,500 of its own shares, 485,000 of which in relation to the option rights contained in the Stock Option Plan for 2000/2002 (data revised at the

time of compiling the present report - 11 March 2004).

Taking account of the shares that were already in the portfolio, the Company now holds 17,333,138 of its own shares, representing 6.68% of the ordinary share capital.

Given that the authorisation approved by the Meeting of 28 April 2003 is due to expire shortly, we would suggest to renew, up to the approval of the Financial Statements as of 31 December 2004 and in any case for a maximum period of 18 months from the date of the resolution, the authorisation to the Board of Directors to buy and use Company shares as per the following:

Reasons for the authorisation to buy and use Company shares.

The reasons for the request to buy and use company shares are to enable the Board of Directors to:

contain anomalous movements resulting from market and share volatility and not attributable to real economic events, by acting to stabilise the share price;
to use the Company shares purchased or already in the portfolio as a possible exchange in the acquisition of stakes in the context of the Company's investment policy;
to use the Company shares purchased or

already in the portfolio to cover the right to purchase or convert shares that derives from financial instruments issued by the Company or by third parties;
to use Company shares to be allocated to the participants in the Stock Option Plan for 2000-2002 and in the Stock Option Plan for 2003-2005.

Information on the Stock Option Plan

The Stock Option Plan regarding Company shares, for the three-year period 2000/2001/2002, destined for managers of the company, its subsidiaries and the parent company whose activities have a determining impact on the attainment of the Group's strategic objectives, was approved by the Shareholders' Meeting of 3 May 2000. At the Shareholders' Meeting of 24 April 2001 it was decided to extend the Plan to the directors of subsidiary companies.

The Meeting entrusted the "Share Plan" Committee, nominated by the Meeting itself from among Directors not employed by the company, with the task of managing the Plan, granting the Committee all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the Plan itself in all its aspects. The Meeting also entrusted the Committee with the task of

defining the Regulations for implementing the Stock Option Plan.

In particular, the regulations drawn up by the Committee provide, for every year the Plan is in force, for the allocation to the participants in the Plan of rights to options, which are personal and not transferable, for the purchase of ordinary Mondadori S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for Mondadori shares in the period from the date of the allocation of the options to the same day in the previous solar month. The option can only be exercised, in a single action, during the period between 1 January of the third year and 30 June of the fourth year after each year of the allocation date.

The Regulations also specify that the participants in the Plan are chosen, by the Committee, from among those managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, directors employed by the Company or its subsidiaries, journalists employed by the Company or its subsidiaries who are editors or deputy-editors of titles and managers who work for subsidiaries as editors and whose function is in favour of the Company.

The Regulations further specify that the Committee identifies the conditions for exercising the options allocated to the participants with reference to the performance parameters of an economic and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options will be checked by the Committee, for each year in which the Plan is in force, by the end of the first half of the year after the year the options are allocated.

The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2000-2002 as being the ROE and the Free-cash flow, since these indicators, also in the light of past experience, respond to market expectations and institutional investors who have shown their appreciation of them.

The Shareholders' Meeting of 28 April 2003 passed resolution on a further Stock Option Plan for the three-year period 2003/2005. The Plan has the same characteristics as the Plan for 2000/2002 described above, with the exception of the maximum period which is extended to 24 months and therefore runs from the 1 January of the third year to 31 December of the fourth year after each year of the allocation date.

It should be noted that in accordance with art. 2358, paragraph 3 of the Civil Code, loans or other financial facilities cannot be granted for the purpose of buying shares.

Maximum number, type and nominal value of the shares covered by the authorisation.

The authorisation covers the purchase of a maximum number of ordinary shares with a par value of €0.26 up to a limit of 10% of the share capital, including those already in the Company's portfolio on the date of the resolution, in accordance with article 2357, paragraph 3 of the Civil Code.

In particular, given that 10% of the share capital is equal to 25,942,983 shares and that the Company already holds (at the time of writing this report) 17,333,138 of its own shares, the Company may therefore purchase a maximum of 8,609,845 shares.

The number of its own shares that the Company, in keeping with the previous authorisation of 28 April 2003, must eventually purchase between the date of the present report and the date of the relative deliberation by the Shareholders' meeting must be subtracted from the maximum number referred to above.

With the request for authorisation to purchase the Company's own shares up to a limit of

10% of the share capital, the Board of Directors also intends to give an important demonstration of its confidence in the potential of Mondadori shares.

Useful information to ensure conformity with the requirements laid down by art. 2357, paragraph 3 of the Civil Code.

The maximum number of shares, as at paragraph 2 above, to which the authorisation refers, will not exceed, in line with art. 2357, paragraph 3 of the Civil Code, a tenth of the Company's share capital, including the shares already in the Company's portfolio or, in any case, purchasable by the Company within the terms of the previous Shareholders' authorisation of 28 April 2003.

It is also noted that none of the subsidiaries of Arnoldo Mondadori Editore S.p.A. owns shares in the Parent Company, and that, in any case, the maximum number of Company shares held, at any time, must not exceed one tenth of the total share capital including shares that might be held by subsidiaries.

Duration of the authorisation.

The duration of the authorisation is requested up to the approval of the Financial Statements as of 31 December 2004 and in any case for a period not exceeding 18 months following the date of the resolution

of the Ordinary Shareholders' Meeting, while the authorisation for the use of Company shares is requested without a time limit.

The corresponding minimum and maximum.

The corresponding minimum and maximum price for the acquisition of the shares will be determined at the same conditions foreseen by the previous authorisation and therefore at a unit price not less than the official stock exchange trading price on the day preceding that of purchase, reduced by 20%, and not higher than the official stock exchange trading price on the day preceding that of purchase, increased by 10%.

Method of purchase.

The share purchases will be carried out on the market in line with the terms agreed with the Borsa Italiana S.p.A., which allows for equal treatment for Shareholders, in accordance with art. 132 of Legislative Decree no. 58 of February 24 1998.

The terms of use for Company shares bought may be enabled either by alienation or blocking of the same on the stock exchange or as a corresponding amount against the acquisition of equity stakes that fall within the Company's investment policy, on condition that the price or attributed unit value is not

less than 80% of the reference price of the shares on the trading day prior to each single operation.

Authority is also requested to possess a sufficient quantity of the Company's own shares for allocation to cover the right to purchase or convert shares that derives from financial instruments issued by the Company or by third parties at a price corresponding to the relative price of the purchase or conversion.

The method of disposing of Company shares from the Stock Option Plan is outlined in point 1.

Resolution proposals

Shareholders,

If you agree with our proposals we would invite you to pass the following resolutions:

The Ordinary Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A., having seen and approved the report of the Board of Directors,

resolves

- to authorise, as per article 2357 of the Civil Code, the purchase in one or more occasions, at a corresponding unit price of not more than 20% below and not more than 10%

above the official trading price on the day preceding that of purchase, a maximum number of ordinary shares with a par value of €0.26 that will not exceed - taking into consideration the Company's own shares held in the portfolio and any Company shares that may eventually be held by subsidiary companies - a tenth of the Company's share capital in accordance with article 2357, paragraph 3 of the Civil Code. The present authorisation is valid up to the approval of the Financial Statements as of 31 December 2004 or up to a period not exceeding 18 months from the date of the present resolution;

- to mandate the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to proceed with the acquisition of Company shares at the aforementioned conditions, in the time frame considered to be in the best interests of the Company, in the manner laid out by current regulations and in this way on the market as agreed with Borsa Italiana S.p.A., which allows for equal treatment for Shareholders, in accordance with Legislative Decree no. 58 of February 24 1998;

- to establish a "closed reserve of Company shares", in accordance with art. 2357,

paragraph 3, final clause, of the Civil Code, equal to the number of Company shares listed as assets on the balance sheet, withdrawing the relative sum, in connection with the purchases effected, from the "overpricing reserve" and within the limits of the same;

- to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, in accordance with art. 2357, paragraph 3, of the Civil code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, have Company shares acquired on the basis of this authorisation or those already in the Company's portfolio, both through alienation or blocking of the same on the stock exchange, or shares corresponding to the acquisition of equity stakes that are part of the Company's investment policy, or shares to allocate to cover the right to purchase or convert shares deriving from financial instruments issued by the Company or by third parties giving to the administrators the option to establish, each time, within the terms and regulations, method and conditions, considered to be in the best interests of the Company. The price or unit value attributed to the shares must not be less than 80% of the reference price on the

trading day prior to each single operation, or, in the case of financial instruments issued by the Company or by third parties, they must correspond to the relative price of the purchase or conversion. This authorisation has been agreed without a time limit;

- to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, in accordance with art. 2357, paragraph 3, of the Civil code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, have Company shares acquired on the basis of this authorisation or those already in the Company's portfolio, in order to allocate options for the acquisition of the shares by participants in the Stock Option Plan for 2000 and subsequent years, in accordance with the resolution of the Shareholders' Meeting of 3 May 2000 and with the Stock Option Plan for 2003-2005 submitted for approval to the Shareholders' Meeting of 28 April 2003 in accordance with the relative regulations. This authorisation has been agreed without a time limit.

For the Board of Directors
Chairman
Marina Berlusconi

Consolidated Financial Statements
of the Mondadori Group
as of 31 December 2003

Balance Sheet
and Consolidated Income Statement
as of 31 December 2003

Balance sheet

Assets

(in thousands of euros)	Year ended 31 December 2003			Year ended 31 December 2002
	Sub Total 1	Sub Total 2	Total 3	
A) Receivables from Shareholders for unpaid share capital				
B) Non-current assets				
I- Intangible assets				
1 start up and expansion costs		489		781
2 research, development and advertising costs				
3 industrial patents and intellectual property rights		1,120		1,294
4 concessions, licences and trade marks		134,369		132,272
5 goodwill		7,919		10,827
6 assets under construction and advances		319		1,428
7 others		5,829		6,131
8 consolidation differences		8,381		11,423
Total			158,426	164,156
II- Fixed assets				
1 land and buildings		82,447		83,142
2 plant and machinery		92,978		96,298
3 industrial and commercial equipment		2,409		2,071
4 other assets		16,659		18,200
5 assets under construction and advances		5,385		2,946
Total			199,878	202,657
III- Financial assets				
1 investments in:				
a) subsidiary companies		461		186
b) associated companies		69,281		58,432
c) other companies		238		851
Total		69,980		59,469
	<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	1,172	4,574	5,746	7,395
Total	1,172	4,574	5,746	7,395
3 other securities				3
4 treasury stock			116,885	59,472
Total			192,611	126,339
Total non-current assets (B)			550,915	493,152

	Year ended 31 December 2003		Total 3	Year ended 31 December 2002
	Sub Total 1	Sub Total 2		
C) Current assets				
I- Inventories				
1 raw materials		13,851		12,681
2 semi-finished products, work in progress		34,640		29,230
3 contract work in progress		9,489		8,680
4 finished products and goods		75,534		70,535
5 advances		7		9
Total			133,521	121,135
	<i>within 12 months</i>	<i>over 12 months</i>		
II- Receivables				
1 trade accounts	336,066	14,160	350,226	336,965
2 due from subsidiaries	625		625	36
3 due from associated companies	56,404		56,404	46,948
4 due from parent companies	2		2	
4a due from affiliated companies	5,166		5,166	2,330
5 due from third parties	112,957	1,911	114,868	117,993
Total	511,220	16,071	527,291	504,272
III- Financial assets (current)				
1 investments in subsidiaries				
2 investments in associated companies				
3 other investments				
4 treasury stock				
5 other securities			580,330	407,296
Total			580,330	407,296
IV- Cash and equivalents				
1 cash, banks and postal accounts			42,263	85,547
2 cheques			261	53
3 cash and commercial papers in hand			161	136
Total			42,685	85,736
Total current assets (C)			1,283,827	1,118,439
D) Accrued income and prepayments				
1 accrued income		565		336
2 prepaid expenses		8,574		9,205
3 premium on loans				908
Total accrued income and prepaid expenses (D)			9,139	10,449
Total assets			1,843,881	1,622,040

Balance sheet

Liabilities

(in thousands of euros)	Year ended 31 December 2003			Year ended 31 December 2002
	Sub Total 1	Sub Total 2	Total 3	
A) Shareholders' equity				
I- Share capital			67,452	67,452
II- Share premium reserve			170,380	227,793
III- Revaluation reserve			16,712	16,712
IV- Legal reserve			13,490	13,490
V- Reserve for treasury stock			116,885	59,472
VI- Statutory reserve				
VII- Other reserves				
1) Extraordinary reserve		9,264		
2) Reserve law 675 of 12/8/1977		351		351
3) Conferral reserve law 904 of 16/12/1977		751		751
4) Capital account contribution reserve		5,335		5,335
5) Reserve law 124/93 art. 13		73		53
6) Merger reserve		478		478
7) Other reserves		-4,223		-3,047
			12,029	3,921
VIII- Profit (loss) carried forward			72,869	62,017
IX- Profit (loss) for the year				
1) profit for year			82,101	81,074
Consolidated Group Shareholders' equity			551,918	531,931
Minority interest			3,282	357
Total Shareholders' equity (A)			555,200	532,288
B) Reserve for risks and charges				
1 retirement benefits		966		938
2 income taxes		14,769		23,100
3 other		26,651		27,924
Total reserve for risks and charges (B)			42,386	51,962
C) Reserve for severance indemnities			100,722	101,789
D) Debts and other payables				
	<i>within 12 months</i>	<i>over 12 months</i>		
1 bonds		296,384	296,384	
2 convertible bonds		109,900	109,900	
3 due to banks	136,828	14,719	151,547	390,795
4 due to third parties		1,360	1,360	
5 advances	35,831		35,831	35,247
6 trade accounts	336,635	322	336,957	314,461
7 debts represented by credit instruments				
8 due to subsidiaries	689		689	195
9 due to associated companies	43,824		43,824	48,162
10 due to parent companies				9
10a due to affiliated companies	9,595		9,595	5,184
11 income taxes payable	19,537		19,537	17,263
12 due to pension funds and social security institutions	17,853		17,853	16,619
13 other liabilities	106,268	4,068	110,336	95,411
Total debts and other payables (D)	707,060	426,753	1,133,813	923,346

	Year ended 31 December 2003			Year ended
	Sub Total 1	Sub Total 2	Total 3	31 December 2002
E) Accrued liabilities and deferred income				
1 accrued liabilities		5,986		6,746
2 deferred income		5,774		5,909
3 discounts on loans				
Total accrued liabilities and deferred income (E)			11,760	12,655
Total liabilities			1,843,881	1,622,040
Memorandum accounts				
1 Guarantees and sureties				
a) in favour of subsidiaries				
b) in favour of associated companies				1,374
c) in favour of third parties			108,459	33,641
2 Commitments			12,448	29,610
3 Risks				
4 Others			95,785	87,375
Total memorandum accounts			216,692	152,000

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

For the Board of Directors
Chairman
Marina Berlusconi

Income statement

(in thousands of euros)	Financial year 2003		Total 3	Financial year 2002
	Sub Total 1	Sub Total 2		
A) Production value				
1 Revenues from sales of goods and services		1,538,144		1,461,065
2 Changes in inventory of semi-finished goods		6,116		795
3 Changes in contract work in progress		809		-396
4 Increase in company-produced additions to fixed assets		143		158
5 Other income and revenues				
a) operating grants	4,736			3,785
b) other income and revenues	44,313			43,161
		49,049		
Total production value (A)			1,594,261	1,508,568
b) Production costs				
6 Raw, ancillary and consumable materials and goods		486,463		455,339
7 Services		598,537		562,037
8 Use of third party assets		22,927		21,298
9 Personnel				
a) wages and salaries	177,738			171,582
b) social contributions	55,425			52,951
c) severance indemnities	15,258			15,072
d) retirement benefits	25			46
e) other costs	4,025			3,157
Total		252,471		242,808
10 Depreciations, amortisation and writedowns				
a) amortisation of intangible assets	23,494			23,750
b) depreciation of fixed assets	38,813			36,523
c) other writedowns of assets				2,748
d) writedowns of doubtful accounts	7,975			9,696
Total		70,282		72,717
11 Changes in inventory of raw, ancillary and consumable materials and goods		-815		-1,795
12 Provisions for risks		4,870		5,726
13 Other provisions		30		48
14 Other operating expenses		13,240		10,530
Total production costs (B)			1,448,005	1,368,708
Difference between production value and production costs (A-B)			146,256	139,860

	Sub Total 1	Financial year 2003 Sub Total 2	Total 3	Financial year 2002
C) Financial income and charges				
15 Income from equity investments				
a) Subsidiaries				
b) Associated companies	201			57
c) Other investments				
Total		201		57
16 Other financial income				
a) from long term receivables				
• Subsidiaries				
• Associated companies				
• Parent companies				
• Other companies	101			128
Total	101			128
b) from long term securities				60
c) from short term securities	20,512			21,402
d) other income				
• Subsidiaries	5			
• Associated companies	426			525
• Parent companies				
• Other companies	13,225			8,901
	13,656			9,426
Total		34,269		31,016
17 Interest and financial charges				
a) Subsidiaries	29			
b) Associated companies	326			330
c) Parent companies				
d) Other companies	31,231			34,010
Total		31,586		34,340
Total financial income and (charges) (C)			2,884	-3,267
D) Adjustments to the value of financial assets				
18 Revaluations				
a) Equity investments	4,997			5,140
b) Other long term financial assets				
c) Securities				
Total		4,997		5,140
19 Writedowns				
a) Equity investments	8,365			7,882
b) Other long term financial assets				
c) Securities	3,772			1,266
Total		12,137		9,148
Total adjustments to the value of financial assets (D)			-7,140	-4,008

(follows)

Income statement

(follow)

(in thousands of euros)	Financial year 2003		Total 3	Financial year 2002
	Sub Total 1	Sub Total 2		
E) Extraordinary items				
20 Income				
a) gains on disposals	3,929			1,652
b) others	6,587			1,998
Total		10,516		3,650
21 Charges				
a) losses on disposals	66			10
b) taxation relative to prior years	436			1,737
c) others	1,837			1,342
Total		2,339		3,089
Total extraordinary income and (charges) (E)			8,177	561
Profit before tax			150,177	133,146
22 Income tax for the period			67,499	52,068
23 Result for the period			82,678	81,078
Net profit (loss) for the period pertaining to minority interests			577	4
Net profit (loss) for the period			82,101	81,074

- 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

Notes to the Consolidated Financial Statements

Form and contents of the Consolidated Financial Statements

General policies

In preparing the Consolidated Financial Statements, the Group has complied with the accounting principles and format for Balance Sheets and Income Statements called for by Legislative Decree no. 127 of 9/4/1991, integrated with and based on the Accounting Principles drawn up by the Italian Accounting Profession.

The structure and contents of the Balance Sheet and the Income Statement conform to the regulations concerning the drawing up of Financial Statements as contained in art. 2.424 and 2.425 of the Civil Code.

A “Reconciliation between the Holding Company’s Accounts and the Consolidated Financial Statements” has also been provided.

Consolidation area

The Consolidated Financial Statements for the Mondadori Group include:

- the accounts of the Holding Company and those of the Italian and foreign companies in which Arnoldo Mondadori Editore S.p.A. holds, directly or indirectly, the majority of the share capital: these investments have been consolidated on a line-by-line basis, in accordance with Law Decree no. 127 of 9 April 1991 and Document no. 17 of the Accounting Principles Commission set up by the Italian Accounting Profession;
- the financial statements of those Italian and foreign companies in which Arnoldo Mondadori Editore S.p.A. holds, directly or indirectly, 50% of the share capital and controls the management: these investments have been consolidated by the proportional method;
- the financial statements of those Italian and foreign companies in which Arnoldo Mondadori Editore S.p.A. holds, directly or indirectly, either 50 % of the share capital but does not control the management, or a minority interest: these investments have been consolidated by the net equity method.

The consolidation does not include those companies whose inclusion would be immaterial in representing the true, correct financial situation and results of the financial year. These companies have been valued at cost.

The companies belonging to the consolidation area of the Mondadori Group are as follows:

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/03	% held as of 31/12/02
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Companies consolidated using the line-by-line method:

Parent Company

Arnoldo Mondadori Editore S.p.A.	Milan	Publishing	Euro	67,451,756.32		
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Italian subsidiaries

Athena Finanziaria S.r.l.	Florence				(*)	100.00
Cemit Interactive Media S.p.A.	San Mauro Torinese	Trade	Euro	3,835,000.00	100.00	100.00
Edizioni Frassinelli S.r.l.	Milan	Publishing	Euro	10,400.00	100.00	100.00
Edizioni Piemme S.p.A.	Milan	Publishing	Euro	566,661.00	70.00	-
Edumond Le Monnier S.p.A.	Milan	Publishing	Euro	10,608,000.00	100.00	100.00
Mondadori Electa S.p.A.	Milan	Publishing	Euro	1,593,735.00	100.00	100.00
Electa Napoli S.r.l.	Naples	Publishing	Euro	155,000.00	60.00	60.00
Mondadori Retail S.r.l.	Milan	Trade	Euro	1,600,000.00	100.00	100.00
Fied S.p.A.	Milan	Financial publishing	Euro	416,000.00	100.00	100.00
Giulio Einaudi Editore S.p.A.	Turin	Publishing	Euro	23,920,000.00	100.00	100.00
Mondadori.com S.p.A.	Milan				(**)	100.00
Mondadori Informatica S.p.A.	Milan				(**)	100.00
Mondadori Printing S.p.A.	Milan	Printing	Euro	45,396,000.00	100.00	100.00
Mondadori Pubblicità S.p.A.	Milan	Advertising agent	Euro	3,120,000.00	100.00	100.00
Mondadori Franchising S.p.A.	Rimini	Trade	Euro	1,954,000.00	100.00	100.00
Promopi Libri S.r.l.	Milan	Trade	Euro	46,800.00	70.00	-
Sperling & Kupfer Editori S.p.A.	Milan	Publishing	Euro	388,800.00	100.00	100.00

Foreign subsidiaries

ABS Finance Advisory Company	Luxembourg	Financial	Euro	125,000.00	99.19	99.19
Arnoweb S.A.	Luxembourg	Financial	Euro	36,256,900.00	99.99	99.99
Artes Graficas Toledo S.A.	Toledo	Printing	Euro	5,409,000.00	100.00	100.00
Atimod Publishing Investments S.A.	Luxembourg	Financial	Euro	10,373,800.00	99.99	
Mondadori Finance S.A.	Luxembourg	Financial	Euro	3,031,000.00	99.96	96.76
Mondadori International S.A.	Luxembourg	Financial	Euro	393,625,900.00	99.99	99.99

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/03	% held as of 31/12/02
Companies valued using the proportional method						
Mondolibri S.p.A.	Milan	Trade and publishing	Euro	1,040,000.00	50.00	50.00
Companies valued using the net equity method						
ACI Mondadori S.r.l.	Milan	Publishing	Euro	1,080,000.00	50.00	50.00
Ag. Lombarda Distrib. Giornali e Riviste S.r.l.	Milan	Trade	Euro	400,000.00	50.00	50.00
Alpha Records S.A.	Athens	Music.	Euro	390,000.00	10.00	-
Attica Media Bulgaria Ltd	Sofia	Publishing	Lev	155,000.00	10.20	-
Attica Publishing Investments S.A.	Athens	Publishing	Euro	4,590,000.00	20.00	-
Balcan Publications Ltd	Cyprus	Financial	Cyprus pounds	1,000	10.00	-
BOL Books On Line Italia S.p.A.	Milan	Trade	Euro	457,928.00	50.00	50.00
City Servers S.A.	Athens	Printing	Euro	4,337,500.00	4.50	-
Digrisa S.A. de C.V.	Mexico				(\$)	49.90
Random House Mondadori S.A.	Bogotá	Trade	Pesos	2,960,900	50.00	49.99
E-One S.A.	Athens	Internet	Euro	2,054,292.01	5.00	-
Editorial Grijalbo S.A.	Santiago				(\$\$)	50.00
Editorial Random House Mondadori Ltda	Bogotá	Publishing	Pesos	779,596,000	50.00	49.49
Editorial Lumen S.A.	Barcelona	Publishing	Euro	65,999.96	50.00	50.00
Editorial Sudamericana S.A.	B.Aires	Publishing	Pesos	1,000,000	50.00	49.38
Random House Mondadori S.A.	Santiago	Publishing	Pesos	3,652,935,967	50.00	50.00
Editorial Sudamericana Uruguay S.A.	Montevideo	Publishing	Pesos	3,483,900	49.88	49.38
Edizioni Electa Bruno Mondadori S.r.l.	Milan	Publishing	Euro	10,400.00	50.00	50.00
Edizioni EL S.r.l.	Trieste	Publishing	Euro	620,000.00	50.00	50.00
Emfasis S.A.	Athens	Publishing	Euro	798,239.18	16.40	-
Enallaktikes S.A.	Athens	Publishing	Euro	410,858.40	9.80	-
G. Dragounis S.A.	Athens	Publishing	Euro	311,346.00	10.00	-
Grijalbo Editor S.A.	Montevideo	Publishing	N. Pesos	500,000	50.00	50.00
Random House Mondadori S.A.	Caracas	Publishing	Bolivares	670,536,000	50.00	50.00
Grijalbo S.A.	B.Aires				(\$\$\$)	50.00
Grupo Editorial Random House Mondadori S.L.	Barcelona	Publishing	Euro	10,002,000.00	50.00	50.00
Grüner und Jahr / Mondadori S.p.A.	Milan	Publishing	Euro	2,600,000.00	50.00	50.00
Harlequin Mondadori S.p.A.	Milan	Publishing	Euro	258,250.00	50.00	50.00
Hearst Mondadori Editoriale S.r.l.	Milan	Publishing	Euro	99,600.00	50.00	50.00
International Radio Networks Holding S.A.	Luxembourg	Financial	Euro	750,000.00	20.00	-
International Radio Networks S.A.	Athens	Publishing	Euro	380,000.00	19.94	-
Ionikes Publishing S.A.	Athens	Publishing	Euro	780,000.00	13.30	-
Mach 2 Libri S.p.A.	Milan	Trade	Euro	646,250.00	24.00	24.00
Map Media S.A.	Budapest	Publishing	Huf	60,000,000	10.00	-
Market Self S.A.	B.Aires	Publishing	Ars	30,200	24.78	24.78
Mondadori Informatica e.BisMedia S.r.l.	Milan	Services	Euro	920,920.00	100.00	50.00
Mondadori Rodale S.r.l.	Milan	Publishing	Euro	90,000.00	50.00	50.00
Nueva Galaxia Gutenberg S.L.	Barcelona	Publishing	Euro	60,200.14	50.00	45.00
PBR Publication S.r.l.	Bucharest	Publishing	Rol	2,000,000	10.00	-

(follows)

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/03	% held as of 31/12/02
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Companies valued using the net equity method

Press TV S.p.A.	Milan	Publishing	Euro	1,500,000.00	50.00	50.00
Prooptiki S.A.	Athens	Trade	Euro	1,760,821.72	10.00	-
Random House Mondadori S.A.	Barcelona	Publishing	Euro	6,824,606.24	50.00	50.00
Plaza y Janes Mexico S.A. de C.V.	Mexico				(\$)	50.00
Random House Mondadori S.A. de C.V.	Mexico	Publishing	Pesos	122,846,651	50.00	50.00
Prisco Spain S.A.	Barcelona	Financial	Euro	60,101.30	100.00	100.00
Società Europea di Edizioni S.p.A.	Milan	Publishing	Euro	2,775,601.92	39.27	41.67
Tilerama S.A.	Athens	Publishing	Euro	1,467,351.43	10.00	-
Tiletheatis S.A.	Athens	Publishing	Euro	2,641,500.00	14.34	-

Companies valued at cost

AME Publishing Ltd	New York	Services	US \$	50,000	99.99	99.99
Arnoldo Mondadori Deutschland GmbH	Munich	Service	Euro	25,564.50	99.99	99.99
Casa Editrice e di Distribuzione Bences	Pannonhalma	Trade	Ft	11,250	15.40	-
Consuledit S.r.l.	Milan	Services	Euro	20,000.00	9.54	9.54
Consorzio Aeromobili Fininvest	Milan	Services	Euro	520,000.00	3.00	3.00
Cons. Sistemi Informativi Editoriali Distributivi	Milan	Services	Euro	103,291.38	10.00	10.00
Editrice Portoria S.p.A.	Milan	Publishing	Euro	364,000.00	16.78	16.78
Editrice Storia Illustrata S.r.l. (in liq.)	Milan	Publishing	Lire	20,000,000	8.39	8.39
Euromedia Luxembourg Two S.A.	Luxembourg	Financial	US \$	42,500,000	11.76	11.76
Europrint S.r.l.	Milan				(€)	28.23
Giulio Einaudi Editore S.p.A. (under extraordinary management)		Turin	Lire	3,000,000,000	7.35	7.35
Immobiliare Editori Giornali S.r.l.	Rome	Real estate	Euro	830,462.00	7.88	7.88
Istud - Istituto Studi Direzionali S.p.A.	Milan	Services	Euro	1,136,212.00	0.59	0.59
Marchgrange Ltd	Dublin	Financial	& irl.	12	99.99	99.99
Mondadori Belgium S.A.	Brussels	Financial	Euro	62,000.00	99.98	99.98
Mondadori.com. USA Inc	Delaware	Services	US \$	1,000	99.99	99.99
News Alert Investors Inc	New York	Services	US \$	20,528,461	11.21	11.21
Nuovamusa Gelmar Biblioteca Nazionale S.c.a.r.l.	Rome	Services	Euro	10,200.00	12.00	-
Nuovamusa Val di Noto S.c.a.r.l.	Messina	Services	Euro	90,000.00	12.00	-
Nuovamusa Valdemone S.c.a.r.l.	Messina	Services	Euro	90,000.00	12.00	-
Selcon S.r.l.	Milan	Services	Euro	20,800.00	17.60	17.60
Società Editrice Il Mulino S.p.A.	Bologna	Publishing	Euro	1,175,000.00	7.05	7.05
Veleno S.p.A.	Milan	Trade	Euro	5,000,000.00	24.00	24.00
Venezia Accademia S.c.a.r.l.	Venice	Services	Euro	15,000.00	26.00	26.00
Venezia Musei S.c.a.r.l.	Venice	Services	Euro	10,000.00	34.00	34.00

The most significant changes in the consolidation area in 2003 were as follows:

- (*) liquidated in 2003;
- (**) merged into Arnoldo Mondadori Editore S.p.A.;
- (§) merged into Editorial Grijalbo S.A. de C.V. Mexico, now Random House Mondadori S.A. de C.V.;
- (§§) merged into Editorial Sudamericana Chilena S.A.;
- (§§§) merged into Editorial Sudamericana S.A. (Argentina);
- (©) merged into Società Europea di Edizioni S.p.A.

The companies that entered the consolidation area during 2003 almost all belonged to the Piemme Group and the Attica Publications Group, for which Mondadori acquired 70% and 20%, respectively.

Financial Statements used

The Financial Statements used in the consolidation are those drawn up by the individual companies in the Group as of 31 December 2003, in accordance with Group accounting principles.

Consolidation policies

In drawing up the Consolidated Financial Statements, assets and liabilities in the Balance Sheet, as well as profits and losses of companies included in the consolidation using the line-by-line method, have been fully assimilated.

Investments in associated companies have been consolidated on either a proportional or net equity basis.

The application of the above mentioned consolidation techniques involves the following adjustments:

- the net book value of investments in companies included in the consolidated are is eliminated against the related net equity;
- the positive difference between the purchase cost of investments and their net equity at the date of acquisition is booked to adjustments in the specific item on the basis of the value of the title or series. Any eventual residue is booked to intangible assets under "Consolidation differences".

Negative differences are booked to net equity under the title "Consolidation reserve";

- the amount of capital and reserves of companies consolidated on a line-by-line basis, corresponding to minority interests, is booked to net equity under "Minority interest capital and reserves". The share of the consolidated financial result for the year, corresponding to third party investments, is booked under "Net profit (loss) for the year pertaining to minority interest";
- receivables and payables, together with charges and income resulting from transactions between companies included in the consolidation area are cancelled. Profits and losses resulting from transactions between these companies and included in their equity are eliminated;
- value adjustments and provisions made exclusively in application of tax regulations are eliminated.

Accounting principles and valuation methods

The accounting principles and valuation methods adopted in preparing the Consolidated Financial Statements as of 31 December 2003 are in accordance with current regulations and are based on those issued by the Italian Accounting Profession.

Historical cost has been adopted as a basic principle in most cases, except for the revaluation of fixed assets as referred to in specific legal regulations. Arnoldo Mondadori Editore S.p.A., now amalgamated, also re-valued certain of its fixed assets on the basis of a sworn expert appraisal in its 1984 financial statements.

The more significant accounting principles have been applied on a consistent basis over time and are explained below:

a) Intangible assets

Intangible assets are booked at acquisition or internal production cost, including accessory charges.

Goodwill is booked under assets if it has been bought, at a value up to the cost incurred.

The value attributed to titles and series includes part of the difference between the purchase cost of certain investments and their book net equity, and the cost incurred for buying or creating new titles and series.

The value of titles is constantly reviewed in the light of economic prospects.

Consolidation differences emerge when the Consolidated Financial Statements are drawn up and the value of investments is eliminated, the first time, with the corresponding portion of the shareholders' equity of the investment.

Research, development and advertising costs are charged to the Income Statement in the year they are incurred, with the exception of the cost of "launch campaigns" for new products and new company activities, since their utility and capacity to generate a corresponding influx of income will be felt in future years.

Intangible assets are systematically amortised at a constant rate, for the period of their foreseeable future utility.

The period of depreciations is shown in comparison with the reference period in the following table:

Fiscal category	Depreciation period
Start up and expansion costs	5 years
Industrial patents and intellectual property rights	3 - 5 years
Concessions, licences, trade marks and similar	5 - 20 years
Goodwill	10 years
Others	3 - 5 years
Consolidation differences	10 years

Assets whose value at the end of the financial year are notably inferior to the depreciation cost based on the methods outlined above, are written down to their residual value. If in subsequent periods the forecasts on which the writedowns were based prove to be unfounded, the original cost is restored.

b) Fixed assets

Fixed assets are valued at purchase or production cost, with the exception of some assets that have been re-valued in previous years in accordance with relevant Laws.

The balances from these revaluations are booked under net equity and are called "Revaluation reserves".

Maintenance costs which increase the value and useful life of the assets are charged to the asset concerned, while ordinary maintenance costs are booked to the Income statement during the year in which they are incurred.

Financial leasing contracts for capital goods have been accounted for under fixed assets, according to the relevant category, at the market value of the assets in accordance with I.A.S. international accounting principle no. 17.

Fixed assets are systematically amortised every year at a constant rate, on the basis of an economic-technical rate that depends on the residual useful life of the assets, which is periodically checked in order to take into account the technical-economic condition of the assets themselves.

The annual depreciation rate is compared with the reference period in the following way:

Fiscal category	% rate
Land and buildings	3.00
Plant and machinery	10.00 - 25.00
Industrial and commercial equipment	25.00
Other assets:	
- works of art	-
- electronic office equipment	20.00
- furniture and fixtures	12.00
- various small equipment	25.00
- motor vehicles	20.00 - 25.00

The above rates are reduced by 50% for all assets that enter into service for the first time during the financial year.

Assets whose value at the end of the financial year are notably inferior to the depreciation cost based on the methods outlined above, are written down to their residual value.

c) Financial assets

Consistent assets in investments in associated companies are valued by the net equity method, for an amount equal to the corresponding part of the net equity according to the last economic-equity report approved by the companies in question, after making the adjustments required by the accounting principle adopted in preparing the Consolidated Financial Statements.

The book value also contains the higher cost paid, attributable to goodwill. Profits and losses deriving from the application of the net equity method are booked to the Income Statement, under "Revaluation of investments" and "Investment writedowns".

Other investments are valued at cost.

The company's own shares bought in accordance with art. 2357 of the Civil Code and in accordance with the deliberations of the Shareholders' Meetings of 16 March 1998, 29 April 1999, 3 May 2000, 24 April 2001, 22 April 2002 and 28 April 2003, are valued at purchase price, while those that come from the former shareholders of AMEF who exercised their right to sell their shares following the change of corporate purpose as a result of its merger with the former Arnoldo Mondadori Editore S.p.A., are valued at the price fixed by the Shareholders' Meeting of 30 July 1991. L.I.F.O. valorization criteria is applied. The cost is reduced if the value suffers long-term losses.

d) Inventory

Inventory is valued at the lower of purchase cost, including overheads, or production cost and the market value, net of any writedowns and obsolescence risk reserves.

The cost is established:

- for raw and consumable materials, based on the L.I.F.O. method;
- for work in progress and semi-finished editions, based on the average industrial cost, taking into account the progress of the work;
- for finished products purchased for sale, based on average costs;
- for finished products, based on the F.I.F.O. method, with the average production cost for the year progressively reduced in order to take into account obsolescence.

The following percentages are shown in comparison to the reference period:

Year of publication	School editions	Scientific editions	Various editions
First	-	-	-
Second	50%	-	33%
Third	75%	25%	67%
Fourth	94%	50%	90%
Fifth	100%	75%	90%
Sixth and successive	100%	90%	90%

e) Receivables and payables

Receivables are booked at face value, according to their estimated realizable value and net of a reserve for doubtful accounts in order to take into account their collectability. Payables are booked at their face value.

f) Financial activities that do not constitute assets

Financial activities that do not constitute assets, represented by other investments and fixed-income shares, are booked at the lower of purchase cost and the market value.

g) Accruals and prepaid expenses

Accruals only refer to costs and income that are common to two or more periods. Accruals and prepayments are calculated on an accrual basis.

h) Reserves for risks and charges

The provisions for risks and charges are to cover notable losses or liabilities that certainly or probably exist, but whose amount or date of occurrence was impossible to establish at the end of the year.

The risks for which a contingent liability is only possible are disclosed in the "Notes to the Consolidated Financial Statements", without setting up a "Reserve for risks and charges" for them.

i) Reserve for severance indemnities

The reserve for severance indemnities reflects the full amount due to employees up to the end of the year on the basis of current laws, labour contracts and any eventual company agreements in force in the individual countries where the consolidated companies operate.

l) Revenues, costs, income and charges

Revenues are recognised when ownership is transferred, which normally means at the time of delivery or shipping (for magazines delivery or shipping corresponds to the date or period indicated on the cover), and at the time services are rendered or completed.

Revenues, costs, income and charges are booked in the financial statement net of returns, discounts and allowances.

m) Commitments and guarantees

Commitments and guarantees are booked to the suspense account at their contractual value.

n) Income taxes

Income taxes for the year referable to the companies included in the consolidation are provided on the basis of the laws in force in each country where the individual companies are resident.

Deferred tax is calculated by the companies included in the consolidation based on the temporary differences between the tangible net worth booked to the financial statement and the corresponding value recognised for fiscal purposes, applying the tax rate in force at the time the differences are identified.

Deferred and advance taxes relative to the consolidation are also itemised.

Deferred tax assets are itemised on the basis of prudence and only if there is the reasonable certainty that, in the years in which the deductible temporary differences that resulted in the advance taxes being booked are itemised, there exists taxable income not less than the differences that are to be written off.

Liabilities for deferred taxes are entered under B2, "Reserve for risks and charges - tax reserves", while deferred tax assets are entered under C5, "Receivables from others". The offset between deferred taxes and advance taxes is applied by the individual companies in the consolidation only if there is a legal right to a balance offset. In the Consolidated Financial Statements the balances relative to the individual companies included in the consolidation are not offset if there is no legal right to this.

The charges/income that refer to the taxable/deductible differences from prior financial years are booked to extraordinary charges/income, while the part relative to the year under review is booked under E 22, "Income Taxes".

o) Covering operations

Financial instruments used for covering operations - from the risk of exchange losses in foreign currency, commodity risks and the risk of fluctuations in interest rates - are itemised by booking the relevant income or charges following accrual basis accounting.

Other information

With reference to the assessment notice received on 11 April 1995, with which the local direct tax office maintained, with reference to 1991, that the merger deficit in relation to the merger of AMEF (Arnoldo Mondadori Editore S.p.A.) was subject to taxation, it should be noted that the Milan Regional Tax Commission rejected the appeal by the Tax Office. The case is currently being examined by the Court of Cassation following an appeal lodged by the Tax Authorities.

As for the Court of Milan's investigation of the Fiscal Police, as mentioned in the Financial statements of the last few years (alleged non-payment of withholding tax), no other news was heard about the matter during the year.

We therefore confirm that the 2003 financial statements are correct in terms of form and substance and that the Consolidated Financial Statements provide a fair representation of the Group's economic and financial position.

Details in items in the Consolidated Financial Statements

In the following sections the amounts, which are expressed in thousands of euros, refer to the Consolidated Financial Statement as of 31 December 2002.

The items referring to the previous year have been reclassified in order to make them comparable with the data as of 31 December 2003.

Assets

B) Non-current assets

B.I. Intangible assets

Amounted to €158,426 thousand euros (€164,156 thousand euros). Movements of intangible assets and amortisation are as follows:

Intangible assets	Gross value	Amortisation funds	Net book Value
Balance at 31/12/2002	324,913	(160,757)	164,156
Additions during the period	17,634		17,634
Amortisation		(23,494)	(23,494)
Reclassifications and reversals	(1,008)	1,008	-
Disposals and other movements	(349)	479	130
Total intangible assets	341,190	(182,764)	158,426

The capitalised costs of €17,634 thousand euros for the year mainly concern goodwill relating to the purchase of 70% of Edizioni Piemme S.p.A. for €8,177 thousand euros and the purchase of the *PC Professionale* imprint for €4,569 thousand euros.

Other investments concern the purchase of software (€341 thousand euros), the renovation of buildings and offices (€742 thousand euros), licences for the use of software (€688 thousand euros) and €1,324 thousand euros for accessory charges relating to the Private Placement operation.

The item "Reclassifications and reversals" mainly concerns intangible asset reversals depreciated as of 31 December 2003.

The item "Disposals and other movements" refers to the variation in the consolidation area as a result of Edizioni Piemme S.p.A. becoming part of the Group, for €199 thousand euros.

The balance as of 31 December 2003 was made up as follows:

Intangible assets	Start up and expansion costs	Industrial patents and intellectual property rights	Concessions, licences, trademarks	Goodwill	Assets under construction	Others	Consolidation differences	Total
Start-up costs/changes in statutes	1							1
Capital increase/reconstruction	50							50
Set-up costs	438							438
Patents/rights		313						313
Software		807						807
Titles and publishing brands			103,148					103,148
Series			31,129					31,129
Licences			92					92
Goodwill				7,919				7,919
Assets under construction and advances					319			319
Cost of software purchase						1,607		1,607
Building, office and other renovation						2,107		2,107
Leasehold acquisition								
Costs						75		75
Others						2,040		2,040
Consolidation differences							8,381	8,381
Total intangible costs	489	1,120	134,369	7,919	319	5,829	8,381	158,426

The titles acquired in 1994 from Silvio Berlusconi Editore are amortised over a period of 20 years in accordance with the recommendations expressed by the National Board of Accountants. This value is periodically reviewed in the light of economic prospects.

Residual goodwill is mainly due to the purchase of "Mursia Scuola" for €3,615 thousand euros, the purchase of the company division responsible for the shops owned by Mondadori Retail S.r.l. for €3,386 thousand euros and the purchase of the former Silvio Berlusconi Editore for €731 thousand euros.

Consolidation differences concern the purchase of the Elemond Group for €1,251 thousand euros, the Sperling & Kupfer Group for €731 thousand euros, the Le Monnier Group for €6,348 thousand euros and Edizioni Piemme S.p.A. for €51 thousand euros.

B.II. Fixed assets

Amounted to €199,878 thousand euros (€202,657 thousand euros) and are made up as follows:

Fixed assets	Opening balance	Additions	Disposals	Changes in work in progress	Changes in consolidation area	Other changes	Closing balance	Amm. reserve	Net closing balance
	(=)	(+)	(-)	(+0-)		(+0-)	(=)	(-)	(=)
Land and buildings	142,320	1,973	(336)		1,771	781	146,509	(64,062)	82,447
Plant and machinery	353,143	24,255	(5,348)			26	372,076	(279,098)	92,978
Equipment	8,226	1,024	(132)		184	2	9,304	(6,895)	2,409
Furniture and office machines	58,272	3,326	(3,914)		936	285	58,905	(44,730)	14,175
Motor vehicles	6,847	1,368	(949)		188	1	7,455	(4,971)	2,484
Assets under construction	2,946			2,935		(496)	5,385		5,385
Total fixed assets	571,754	31,946	(10,679)	2,935	3,079	599	599,634	(399,756)	199,878

Investments made during the year, amounting to €34,881 thousand euros, of which €31,946 thousand euros entered production, were concerned with Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. (€27,927 thousand euros, of which €25,692 thousand euros entered production), Arnoldo Mondadori Editore S.p.A. (€3,401 thousand euros, of which €2,768 thousand euros entered production), Mondadori Retail S.r.l. (€1,223 thousand euros) and other companies in the Group.

It should be noted that a part of the goodwill allocated following the purchase of 70% of the share capital of Edizioni Piemme S.p.A. for €684 thousand euros, based on the technical assessment of third parties, was attributable to property held by Piemme.

Investments made during the period by Mondadori Printing S.p.A. and by Artes Graficas Toledo S.A. were mainly for the purchase of new printing and rotary equipment to replace obsolete machinery, while other Group companies invested mainly in office automation (personal computers and local networks) as a result of the normal turnover of these assets and in order to equip new sales outlets.

Disposals during the year concerned Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. (€5,412 thousand euros), Arnoldo Mondadori Editore S.p.A. (€3,291 thousand euros) for the replacement of office equipment, Mondadori Electa S.p.A. (€594 thousand euros), which disposed of a non-strategic industrial unit, and other companies in the Group.

The gross value of the fixed assets shown in the Consolidated Financial Statements includes the following amounts relating to revaluations carried out in accordance with current laws:

Revaluations	Law No. 576/1975	Law No. 72/1983	Voluntary revaluation in 1984	Law No. 408/1990	Law No. 413/1991
Land and buildings	68	3,615	39,780	163	7,957
Plant and machinery	1,217	2,931	4,895	-	-
Furniture and office machines	-	8	41	-	-
Other assets	-	6	-	-	-
Total revaluations	1,285	6,560	44,716	163	7,957

Movements of accumulated depreciations were as follows:

Accumulated depreciations	Balances at 31/12/2002 (=)	Depreciation for year (+)	Disposals (-)	Variations in consolidation area (+o-)	Other changes (+o-)	Balances at al 31/12/2003 (=)
Land and buildings	59,178	4,360	(100)	544	80	64,062
Plant and machinery	256,845	27,069	(4,812)		(4)	279,098
Equipment	6,155	799	(130)	121	(50)	6,895
Furniture and office machines	42,308	5,611	(3,801)	594	18	44,730
Motor vehicles	4,611	974	(724)	147	(37)	4,971
Total	369,097	38,813	(9,567)	1,406	7	399,756

B.III. Non-current assets

B.III.1) Investments amounted to €69,980 thousand euros (€59,469 thousand euros) and are made up as follows:

	€ ,000 31/12/2003	€ ,000 31/12/2002
Investments valued at net equity	63,920	52,390
Investments valued at cost	6,060	7,079
Total investments	69,980	59,469

Movements during the year were as follows:

	Valued at net equity	Valued at cost	Total
Balance at 31 December 2002	52,390	7,079	59,469
Movements during the year:			
- result of equity investments	(1,001)		(1,001)
- acquisitions, start-ups and increases in capital	20,406	144	20,550
- dividends	(5,970)		(5,970)
- change from net equity to cost	649	(649)	-
- changes to investments in working capital	-	-	-
- writedowns, disposals and other adjustments	(2,554)	(514)	(3,068)
Total investments	63,920	6,060	69,980

The main operations that affected the value of investments concerned the purchase of 20% of the Attica Publications Group, the Greek publishers quoted on the Athens Stock Exchange, and the balance of the Editorial Random House Mondadori S.L. Group which this year registered a decrease of €6,049 thousand euros, of which €5,353 thousand euros affected the results for the year.

The following table shows details of the balance at 31 December 2003:

	€ ,000	€ ,000
	31/12/2003	31/12/2002
Investments in subsidiary companies:		
- AME Publishing Ltd	33	33
- Mondadori Sistemi di Comunicazione S.r.l.	95	-
- A. M. Deutschland GmbH	20	20
- Marchgrange Ltd	-	15
- Prisco Spain S.A.	53	56
- Mondadori Informatica e.Bismedia S.r.l.	255	-
- Mondadori Belgium S.A.	5	62
Total investments in subsidiary companies	461	186
Investments in associated companies:		
- Grüner und Jahr/Mondadori S.p.A.	5,420	5,493
- Mach 2 Libri S.p.A.	2,210	1,628
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	316	304
- Harlequin Mondadori S.p.A.	509	658
- Hearst Mondadori Editoriale S.r.l.	338	143
- Mondadori Rodale S.r.l.	885	870
- Edizioni Electa Bruno Mondadori S.r.l.	141	191
- Edizioni EL S.r.l.	1,669	1,711
- Editrice Portoria S.p.A.	0	0
- Grupo Editorial Random House Mondadori S.L.	25,259	31,308
- Società Europea di Edizioni S.p.A.	8,437	8,738
- Mondadori Informatica e.Bismedia S.r.l.	-	460
- Books On Line Italia S.r.l.	110	830
- ACI Mondadori S.r.l.	253	0
- Veleno S.p.A.	934	1,022
- Press TV S.p.A.	56	0
- Euromedia Luxembourg Two S.A.	4,713	5,071
- Venezia Musei S.c.a.r.l.	3	3
- Venezia Accademia S.c.a.r.l.	4	0
- Consorzio Forma	1	1
- Consorzio Covar	1	1
- Casa Editrice e di Distribuzione Bences	13	-
- Attica Publications S.A.	18,009	-
Total investments in associated companies	69,281	58,432
Investments in other companies:		
- Società Editrice Il Mulino S.p.A.	113	113
- Consuledit S.r.l.	1	1
- Consorzio Aeromobili Fininvest	15	15
- Cons. Sistemi Informativi Editoriali Distributivi	10	10
- Immobiliare Editori Giornali S.r.l.	52	52
- Istud - Istituto Studi Direzionali S.p.A.	7	7
- Europrint S.r.l.	-	649
- Nuovamusa Gelmar S.c.a.r.l.	2	2
- Nuovamusa Val di Noto S.c.a.r.l.	18	-
- Nuovamusa Valdemone S.c.a.r.l.	18	-
- Consorzio Fridriciano	2	2
Total investments in other companies	238	851
Total investments	69,980	59,469

B.III.2.d) Other receivables amounted to €5,746 thousand euros (€7,395 thousand euros), representing a decrease compared with 31 December 2002 as a result of the use of tax credits for severance indemnities for the advanced payment of tax on severance pay.

	€ ,000		€ ,000	
	31 December 2003		31 December 2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Guarantee deposits	378	385	66	854
Earnest money	206	207	206	207
Tax credits for severance indemnity	579	3,905	561	5,443
Loans	9	-	35	-
Others	-	77	-	23
Total other receivables	1,172	4,574	868	6,527

B.III.4) Treasury stock amounted to €116,885 thousand euros (€59,472 thousand euros) and is represented by shares in Arnoldo Mondadori Editore S.p.A.

Movements of treasury stock concern purchases totalling €57,454 thousand euros and disposals of €41 thousand euros. At 31 December the portfolio of treasury stock amounted to 6.84% of the share capital with an average value of €6.59 for each share, which is lower than the current price on the stock exchange.

The share acquisitions were carried out on the market in accordance with the authorisation received from the Shareholders' Meetings of 22 April 2002 and 28 April 2003, as per article 2357 of the Civil Code.

In particular, the Shareholders' Meeting of 28 April 2003 granted authorisation for the purchase of shares up to the maximum limit allowed by law (10% of the share capital), for the purposes of the Stock Option Plan and also in order to give an important demonstration of its confidence in the potential of Mondadori shares.

C) Working capital

C.I. Inventory

“Inventory” amounted to €133,521 thousand euros (€121,135 thousand euros) net of writedowns for €10,514 thousand euros (€11,711 thousand euros).

	€ ,000 31/12/2003	€ ,000 31/12/2002
Raw, ancillary and consumable materials	14,281	13,109
Writedowns of raw, ancillary and consumable materials	(430)	(428)
Total raw, ancillary and consumable materials	13,851	12,681
Work in progress and semi-finished goods	35,888	30,531
Writedowns of work in progress and semi-finished goods	(1,248)	(1,301)
Total work in progress and semi-finished goods	34,640	29,230
Contract work in progress	9,489	8,680
Writedowns of contract work in progress	-	-
Total contract work in progress	9,489	8,680
Finished products and goods	84,370	80,517
Writedowns of finished products and goods	(8,836)	(9,982)
Total finished products and goods	75,534	70,535
Advances	7	9
Total inventory	133,521	121,135

All the individual items in Inventory registered increases compared with 2002. With the exception of “Work in progress and semi-finished goods” which increased as a result of important operations attributable to Arnoldo Mondadori Editore S.p.A., increases in the other items were mainly due to Edizioni Piemme S.p.A.

During the year all the companies in the Group constantly monitored supplies and print runs and carried out a detailed analysis of the saleability of finished products, the use of raw materials and the feasibility of completing the work in progress.

As a consequence of this, various pulping and sell-off operations were carried out and when the financial statements were drawn up a writedown reserve was created, which for “Finished products and goods” included the direct writedown allowed by fiscal regulations, in order to rectify the “Inventory” value.

Movements in inventory writedowns	€ ,000				
	31/12/2002	Changes in consolidation area/ others	Provisions	Utilisations	31/12/2003
Writedowns of raw materials	428	-	20	(18)	430
Writedowns of work in progress and semi-finished products	1,301	-	-	(53)	1,248
Writedowns of contract work in progress	-	-	-	-	-
Writedowns of finished products and goods	9,982	65	745	(1,956)	8,836
Total	11,711	65	765	(2,027)	10,514

Movements of "Finished products and goods" in the writedown reserve concern various companies in the Mondadori Group, although none of these amounts were particularly significant.

C.II. Receivables

Trade and other receivables amounted to €527,291 thousand euros (€504,272 thousand euros) and included the following:

C.II.1) Trade receivables amounted to €350,226 thousand euros (€336,965 thousand euros). The increase compared with 2002 was due to changes in the consolidation area, and net of the balance relating to Edizioni Piemme S.p.A. trade receivables registered a 1.2% decrease.

This result reflects the excellent performance achieved in managing credit, which made it possible to register very positive results in terms of average exposure.

The most significant changes in comparison with 31 December 2002 concerned "Magazine clients" and "Returned goods client account". Since these two items increased as a direct result of magazine revenues, the data should be considered jointly and in this way the results for the two years are substantially in line.

The other item which registered an increase was "Book clients", as a result of the changes in the consolidation area already mentioned.

It should be noted that Mondadori Pubblicità concluded pro soluto factorising of receivables for €12,696 thousand euros, a figure in line with similar operations carried out at 31 December 2002.

Receivables due over 12 months (but within 5 years) mainly refer to receivables due to Giulio Einaudi Editore S.p.A. from instalment clients.

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Book clients	115,952	789	102,349	106
Magazine clients	61,792	-	50,217	-
School clients	11,514	-	13,260	-
Instalment clients	10,233	13,052	10,572	13,110
Advertising clients	137,920	-	140,168	-
Printing work clients	56,658	-	53,983	-
Subscription clients and various	22,081	-	24,854	-
Direct marketing services clients	18,862	-	17,312	-
Invoices to be issued	11,900	-	6,456	-
Credit notes to be issued	(4,838)	-	(4,666)	-
Returned goods client account	(81,181)	-	(65,298)	-
Financial receivables from clients	797	319	800	364
Fiscal bad debt reserve	(4,984)	-	(4,980)	-
Taxed bad debt reserve	(20,176)	-	(21,131)	-
Interest in arrears risk reserve	(464)	-	(511)	-
Total trade receivables	336,066	14,160	323,385	13,580

The receivable bad debt reserve at year's end was determined by each of the companies in the Group analysing the position of receivables, and it represents the risk of being unable to collect the receivable booked to the financial statements.

The reserve was utilised when there were losses on receivables booked to the Income Statement of the individual Group companies.

Movements in bad debt reserve	€ ,000				
	31/12/2002	Changes in consolid. area/others	Provisions	Utilisations	31/12/2003
Fiscal bad debt reserve	4,980	(135)	3,057	(2,918)	4,984
Taxed bad debt reserve	21,131	631	4,965	(6,551)	20,176
Total	26,111	496	8,022	(9,469)	25,160

C.II.2) Receivables from subsidiary companies amounted to €625 thousand euros (€36 thousand euros), as illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Mondadori Sistemi di Comunicazione S.r.l.	148	-	-	-
- AME Publishing Ltd	-	-	11	-
- Mondadori.com USA	-	-	11	-
Financial receivables:				
- Mondadori Sistemi di Comunicazione S.r.l.	299	-	-	-
- Mondadori Informatica e.Bismedia S.r.l.	178	-	-	-
- Marchgrange Limited	-	-	14	-
Total receivables from subsidiary companies	625	0	36	0

Commercial transactions with subsidiary companies are carried out according to market conditions. Financial receivables are represented by intergroup current accounts and are regulated at interest rates in line with market values.

C.II.3) Receivables from associated companies amounted to €56,404 thousand euros (€46,948 thousand euros).

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Editrice Portoria S.p.A.	68	-	68	-
- Grüner und Jahr/Mondadori S.p.A.	1,753	-	1,613	-
- Mach 2 Libri S.p.A.	13,496	-	10,722	-
- Ag. Lombarda Distribuzione Giornali e Riviste S.r.l.	362	-	235	-
- Harlequin Mondadori S.p.A.	1,085	-	952	-
- Hearst Mondadori Editoriale S.r.l.	1,483	-	1,278	-
- Mondadori Rodale S.r.l.	3,995	-	3,580	-
- Venezia Accademia S.c.a.r.l.	17	-	-	-
- Edizioni Electa Bruno Mondadori S.r.l.	293	-	315	-
- Edizioni EL S.r.l.	607	-	560	-
- Grupo Editorial Random House Mondadori S.L.	566	-	603	-
- Società Europea di Edizioni S.p.A.	10,133	-	3,174	-
- Mondadori Informatica e.Bismedia S.r.l.	-	-	71	-
- Press TV S.p.A.	1,689	-	2,348	-
- Books On Line Italia S.r.l.	537	-	784	-
- ACI Mondadori S.r.l.	2,619	-	2,548	-
- Mondolibri S.p.A.	3,957	-	3,671	-
- Venezia Musei S.c.a.r.l.	143	-	312	-
Financial receivables:				
- Editrice Portoria S.p.A.	131	-	131	-
- Venezia Accademia S.c.a.r.l.	24	-	21	-
- Mach 2 Libri S.p.A.	145	-	-	-
- Hearst Mondadori Editoriale S.r.l.	-	-	291	-
- Press TV S.p.A.	1,138	-	-	-
- ACI Mondadori S.r.l.	380	-	2,012	-
- Grupo Editorial Random House Mondadori S.L.	10,961	-	10,979	-
- Edizioni Electa Bruno Mondadori S.r.l.	822	-	680	-
Total receivables from associated companies	56,404	0	46,948	0

The increase in receivables from associated companies was mainly due to an increase in commercial receivables concerning Edizioni Piemme S.p.A. from Mach 2 Libri S.p.A. that supplies Large-scale Retail Outlets and for receivables concerning Mondadori Printing S.p.A. from Società Europea di Edizioni S.p.A. for the printing of publishing products.

Commercial transactions with associated companies are carried out according to market conditions. Financial receivables are represented by intergroup current accounts and are regulated at interest rates in line with market values.

C.II.4) Receivables from parent companies amounted to €2 thousand euros (zero at 31 December 2002).

C.II.4 bis) Receivables from affiliated companies amounted to €5,166 thousand euros (€2,330 thousand euros), as illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Pagine Italia S.p.A.	4,615	-	1,018	-
- RTI S.p.A.	67	-	970	-
- Publitalia '80 S.p.A.	186	-	133	-
- Medusa Video S.r.l.	60	-	17	-
- Promoservice Italia S.r.l.	78	-	145	-
- Mediaset S.p.A.	-	-	24	-
- Ground Immobiliare	-	-	5	-
- Il Teatro Manzoni S.p.A.	1	-	1	-
- Mediolanum S.p.A.	60	-	-	-
- Mediolanum Gestione Fondi S.p.A.	11	-	11	-
- Mediatrade S.p.A.	-	-	2	-
- Banca Mediolanum S.p.A.	71	-	3	-
- Medusa Film S.p.A.	15	-	1	-
- Videotime S.p.A.	2	-	-	-
Total receivables from affiliated companies	5,166	0	2,330	0

C.II.5) Other receivables amounted to €114,868 thousand euros (€117,993 thousand euros). The most significant change was the decrease in receivables from advanced taxes due mainly to writedowns of investments in previous years where the fiscal effect was seen in 2003.

In contrast to the decrease in advanced taxes, there were increases in both receivables from tax authorities for various forms of taxes (VAT, IRPEG, IRAP, etc.) and advances to authors and collaborators, which were mainly the result of Edizioni Piemme S.p.A. becoming part of the Mondadori Group.

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Receivables from tax authorities for VAT to be recovered	9,036	-	10,588	-
Receivables from tax authorities for IRPEG/ILOR reimbursements	296	-	234	-
Receivables from tax authorities for IRPEG/IRAP	177	-	90	-
Receivables from tax authorities for IRPEG advances	28,867	-	7,882	-
Receivables from tax authorities for withholding tax	16,780	-	1,382	-
Payables from tax authorities for IRPEG for year	(36,932)	-	(6,762)	-
Receivables from tax authorities for IRAP advances	9,982	-	4,028	-
Payables from tax authorities for IRAP for year	(10,294)	-	(3,901)	-
Other receivables from tax authorities	1,921	-	157	-
Receivables from tax authorities for deferred tax assets	29,714	-	46,350	-
Advances to agents	1,510	-	1,526	-
Advances to authors and collaborators	40,795	-	38,810	-
Advances to suppliers	2,449	-	1,976	-
Advances to personnel	680	339	738	359
Receivables from social security institutions	81	5	117	-
Receivables for deposits	326	-	329	-
Financial receivables	8,659	1,565	7,977	-
Others	8,910	2	6,113	-
Total other receivables	112,957	1,911	117,634	359

There are no receivables due in more than five years.

C.III. Financial activities that do not constitute assets

These amounted to €580,330 thousand euros (€407,296 thousand euros) and are represented by **other shares** entered in the Balance Sheet of Mondadori International S.A., Mondadori Finance S.A. and Arnoldo Mondadori Editore S.p.A.

The amount includes:

- investments in SICAV Luxembourg ABS Finance Fund for €396,632 thousand euros. 65.9% of SICAV is held by the Mondadori Group, with the remaining part owned by Mediaset Investment S.A. and Trefinance S.A. (Fininvest Group).

The SICAV investments are made up mainly of variable-rate bonds.

- investments in variable-rate bonds for €72,293 thousand euros;
- investments in hedge funds for €82,412 thousand euros;
- investments in the ABIS Cash fund for €28,993 thousand euros.

C.IV. Cash and banks

The total of liquid assets amounted to €42,685 thousand euros (€85,736 thousand euros).

These are represented by:

- deposits in bank accounts held by Group companies with banks for €40,621 thousand euros and in post office accounts for €1,642 thousand euros;
- cheques and cash for €422 thousand euros, for small day-to-day payments.

D) Accrued income and prepaid expenses

Amounted to €9,139 thousand euros (€10,449 thousand euros), in line with the amount for the previous year:

	€ ,000	€ ,000
	31/12/2003	31/12/2002
Interest earned	402	317
Others	163	19
Total accrued income	565	336
Interest paid	-	-
Lease payments and rents	579	540
Insurance	601	533
Third party publications for sale	6,183	6,955
Commission, rights	22	12
Others	1,189	1,165
Total prepaid expenses	8,574	9,205
Premium on loans	-	908
Total prepaid expenses and accrued income	9,139	10,449

“Accrued income and prepaid expenses” mainly refer to the distribution activities of the Parent Company on behalf of joint ventures and third-party publishers.

“Accrued income and prepaid expenses” include amounts due after 12 months but within 5 years.

The decrease in "Premium on loans" is due to the settlement of the Comit, BZW and Barclays Bank pool loan that was liquidated on 15 December 2003.

Notes on the items in the Consolidated Balance Sheet

Liabilities

A) Shareholders' equity

Amounted to €551,918 thousand euros (€531,931 thousand euros).

The share capital, fully subscribed and paid up, as of 31 December 2003 is represented by 259,429,832 ordinary shares with a par value of €0.26 each.

A more detailed explanation of the composition and movements of the items in the Shareholders' Equity can be found in the section entitled "Changes in Shareholders' Equity".

B) Reserve for risks and charges

Amounted to €42,386 thousand euros (€51,962 thousand euros) and is made up as follows:

	€ ,000 31 /12/2003	€ ,000 31/12/2002
Retirement reserve and similar obligations	966	938
Tax reserve	14,769	23,100
Others:		
- legal risks	8,267	9,301
- equity investment reserve	973	1,936
- commitments to advertising agency	6,514	6,600
- risks for contractual disputes	5,322	1,660
- other risks	5,575	8,427
Total reserve for risks and other charges	42,386	51,962

The item "Retirement reserve and similar obligations" includes indemnities for freelance journalists and the relative contributions. During the year provisions for €28 thousand euros.

The "Tax reserve" item represents deferred tax liabilities, calculated on the capital gains of each company in the Group, the payment of which may be postponed in accordance with current fiscal law, and provisions recovered from the consolidation entries.

The "Legal risks reserve" is calculated on the basis of an analysis of potential liabilities arising from lawsuits involving former employees, collaborators or third parties in general taken out against companies belonging to the Group, and is considered to be adequate to meet any such eventualities. During the year there were provisions for €151 thousand euros, utilisations for €1,660 thousand euros and other movements including the effect of changes in the consolidation area for €475 thousand euros.

The “Equity investment reserve” represents an additional reserve that is necessary to cover writing off investments as a result of negative shareholders’ equity. This reserve specifically refers to Editrice Portoria S.p.A.

The “Commitments to advertising agency reserve” is made up of provisions made by Group companies to cover any eventual losses on advertising receivables sustained by Mondadori Pubblicità S.p.A. During the year this item increased by €1,683 thousand euros of provisions and decreased by €1,769 thousand euros for utilisations.

C) Severance indemnities

Amounted to €100,722 thousand euros (€101,789 thousand euros) and the changes during the year were as follows:

	€ ,000 31/12/2003	€ ,000 31/12/2002
Total severance indemnities at beginning of year	101,789	99,643
Movements during the year:		
- provisions	15,258	15,072
- payments	(12,716)	(9,203)
- contribution to pension fund as per Law 297/82	(909)	(1,031)
- transfers to/from other companies	147	347
- utilisation for pension funds	(1,190)	(652)
- utilisation for advances	(1,850)	(1,719)
- variations in consolidation area	193	(668)
Total severance indemnities at end of year	100,722	101,789

D) Payables

Trade and other payables amounted to €1,133,813 thousand euros (€923,346 thousand euros). These are made up as follows.

D.1) Amounts due for bonds amounted to €296,384 thousand euros and represented debts deriving from the Private Placement operation with American institutional investors.

The amount raised on the market, equal to \$350 million, is repayable in three tranches that expire in 2013, 2015 and 2018 for, respectively, \$215 million, \$40 million and \$95 million.

Investors are guaranteed a six-monthly coupon, according to the expiry date, equal to 5.42%, 5.57% and 5.82%.

Cover for exchange rate and interest rate risks was provided for the operation.

D.2) Amounts due for convertible bonds amounted to €109,900 thousand euros and concerned a bond convertible in ordinary Mondadori shares for a unit price of €8.4782.

The right to convert the bonds must be exercised before the expiry date (2008), and the bond gives the holder the right to subscribe to a fixed coupon of 2% per year.

D.3) Amounts due to banks amounted to €151,547 thousand euros (€390,795 thousand euros) and concerned current account overdrafts for €28,430 thousand euros and loans for €123,117 thousand euros.

The reduction in this item was due to a €400 million refund for the expiry of a five-year revolving loan.

	€ ,000			€ ,000		
	31/12/2003		31/12/2002			
	Interest rate	within 12 months	over 12 months	within 12 months	over 12 months	
Secured loans:						
- IMI	2.95% - 3.95%	2,688	4,004	2,594	6,693	
- Mediocredito	-	-	-	39	-	
- Mediocredito Lombardo	2.90%	85	611	82	696	
- Mediocredito Trentino	3.62%	345	2,669	167	3,014	
Unsecured loans:						
- Pool Comit/Eurorev	-	-	-	270,000	-	
- Credito Bergamasco	2.30%	30,000	-	30,000	-	
- San Paolo IMI	3.69%	58	122	-	-	
- Credito Emiliano	2.25%	50,000	-	52,000	-	
- Banco Bilbao Vizcaya	2.35%	25,000	-	-	-	
- Ministero Ind. Comm. e Artigianato	3.63%-2.178%-3.54%	-	6,094	-	2,528	
- Mediocredito Lombardo	3.15%	222	1,219	215	1,441	
Total payable for loans		108,398	14,719	355,097	14,372	

Accrued payments due for a period longer than 5 years amounted to €6,215 thousand euros.

As of 31 December 2003, mortgages on property owned by the Group for a total of €10,402 thousand euros was granted as guarantees for loans.

D.5) Advances amounted to €35,831 thousand euros (€35,247 thousand euros) and include advances from customers for magazine subscriptions for €23,894 thousand euros, shipping expenses advanced by foreign subscribers for €104 thousand euros and various advances from suppliers for €11,833 thousand euros.

D.6) Trade payables amounted to €336,957 thousand euros (€314,461 thousand euros), of which €322 thousand euros is due after 12 months and within 5 years.

The significant increase compared with 2002 is mainly due to the different consolidation parameters used. The amount also includes a financial loan of €422 thousand euros relative to a leasing contract taken out by Edizioni Piemme S.p.A. for the purchase of an industrial building.

D.8) Amounts due to subsidiary companies amounted to €689 thousand euros (€195 thousand euros) and are illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercials payable:				
- Mondadori Sistemi di Comunicazione S.r.l.	26	-	-	-
- Mondadori Informatica e.Bismedia S.r.l.	2	-	-	-
- AME Publishing Ltd	661	-	195	-
Total amounts due to subsidiary companies	689	0	195	0

Commercial transactions with subsidiary companies are carried out according to market conditions. Financial payables are represented by intergroup current accounts and are regulated at interest rates in line with market values.

D.9) Amounts due to associated companies amounted to €43,824 thousand euros (€48,162 thousand euros) and are illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial payables:				
- Editrice Portoria S.p.A.	120	-	120	-
- Grüner und Jahr/Mondadori S.p.A.	13,725	-	11,979	-
- Mach 2 Libri S.p.A.	504	-	361	-
- Ag. Lombarda Distribuzione Giornali e Riviste S.r.l.	145	-	126	-
- Venezia Accademia S.c.a.r.l.	283	-	73	-
- Venezia Musei S.c.a.r.l.	152	-	208	-
- Hearst Mondadori Editoriale S.r.l.	2,517	-	2,579	-
- Mondadori Rodale S.r.l.	6,225	-	7,460	-
- Books On Line Italia S.r.l.	21	-	-	-
- Edizioni Electa Bruno Mondadori S.r.l.	-	-	2	-
- Edizioni EL S.r.l.	2,742	-	2,712	-
- Grupo Editorial Random House Mondadori S.L.	6	-	14	-
- Società Europea di Edizioni S.p.A.	3,606	-	4,703	-
- Mondadori Informatica e.Bismedia S.r.l.	-	-	63	-
- ACI Mondadori S.r.l.	4,079	-	3,283	-
- Press TV S.p.A.	557	-	749	-
- Mondolibri S.p.A.	261	-	287	-
Financial payables:				
- Hearst Mondadori Editoriale S.r.l.	631	-	-	-
- Mondadori Rodale S.r.l.	1,561	-	282	-
- Grüner und Jahr/Mondadori S.p.A.	928	-	6,837	-
- Euromedia Luxembourg Two S.A.	2,026	-	2,384	-
- Harlequin Mondadori S.p.A.	3,735	-	3,940	-
Total amounts due to associated companies	43,824	0	48,162	0

Commercial payables are mainly due to the distribution activities of Arnoldo Mondadori Editore S.p.A. and the advertising sales activities of Mondadori Pubblicità S.p.A.

The changes compared with 31 December 2002 concern the decrease in Group payables due to the associated company Grüner und Jahr/Mondadori S.p.A.

Commercial transactions with associated companies are carried out according to market conditions. Financial payables are represented by intergroup current accounts and are regulated at interest rates in line with market values.

D.10) Payables due to parent companies amounted to zero (€9 thousand euros at 31 December 2002).

D.10 bis) Payables due to affiliated companies amounted to €9,595 thousand euros (€5,184 thousand euros) and are illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial payables:				
- Pagine Italia S.p.A.	980	-	63	-
- RTI S.p.A.	167	-	394	-
- Publitalia '80 S.p.A.	6,035	-	3,496	-
- Medusa Video S.r.l.	1,461	-	465	-
- Promoservice Italia S.r.l.	125	-	24	-
- EIS S.r.l.	16	-	58	-
- EIS Roma S.r.l.	4	-	4	-
- Il Teatro Manzoni S.p.A.	16	-	-	-
- Elettronica Industriale S.p.A.	-	-	8	-
- Albacom S.p.A.	-	-	3	-
- Mediatrade S.p.A.	-	-	103	-
- Consorzio Aeromobili Fininvest	70	-	17	-
- Medusa Film S.p.A.	639	-	396	-
- Isim S.p.A.	13	-	13	-
- Radio e Reti S.r.l.	69	-	140	-
Total receivables to affiliated companies	9,595	0	5,184	0

Receivables due to Publitalia '80 S.p.A., the most important item, refers to television advertising on Mediaset channels.

Commercial transactions with affiliated companies are carried out according to market conditions. Financial payables are represented by intergroup current accounts and are regulated at interest rates in line with market values.

D.11) Income tax payables amounted to €19,537 thousand euros (€17,263 thousand euros).

In comparison with the previous year there was a decrease in Substitutive tax following the payment of the 2003 instalment and an increase in income tax for the year following the entry of Edizioni Piemme S.p.A. into the consolidation area and as a result of an improvement in the results of some of the Group companies.

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
IRPEG on income for the year	6,967	-	4,314	-
IRAP for the year	865	-	1,041	-
Withholding taxes on wages and salaries	9,747	-	9,382	-
Substitutive tax	626	-	1,807	-
Other taxes withheld	1,332	-	719	-
Total income taxes payable	19,537	0	17,263	0

D.12) Amounts due to pension funds and social security institutions amounted to €17,853 thousand euros (€16,619 thousand euros) and include:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
INPS contributions	9,154	-	8,239	-
INAIL contributions	85	-	58	-
PREVINDAI contributions	276	-	211	-
ENASARCO contributions	372	-	401	-
Contributions on holidays due but not taken	4,097	-	3,864	-
Others	3,869	-	3,846	-
Total amounts due to pension funds and social security institutions	17,853	0	16,619	0

D.13) Other liabilities amounted to €110,336 thousand euros (€95,411 thousand euros) and include:

	€ ,000		€ ,000	
	31/12/2003		31/12/2002	
	within 12 months	over 12 months	within 12 months	over 12 months
Payroll and other amounts due to personnel	29,172	-	25,462	-
Authors and collaborators	39,417	-	33,856	-
Agents	17,994	4,001	16,512	3,646
Subscriber and instalment customers	11,784	-	10,272	-
Loans payable	4,786	67	503	50
Dividends for shareholders	150	-	8	-
Others	2,965	-	5,102	-
Total other liabilities	106,268	4,068	91,715	3,696

The most significant change refers to “Loans payable”, represented by intergroup current accounts held with publishing companies whose distribution is handled by the Parent Company.

“Payables to subscriber and instalment customers” relate to the Group’s commitment for subscriptions taken out but not yet collected at the date of the financial statements and for instalment works that have been ordered. Subscriptions that have been taken out and paid for are shown under “Advances”.

“Others” refer to payables to directors and auditors for €538 thousand euros.

There are no payables due for longer than 5 years.

E) Accrued liabilities and deferred income

Amounted to €11,760 thousand euros (€12,655 thousand euros) and are made up as follows:

	€ ,000 31/12/2003	€ ,000 31/12/2002
Interest payable	1,586	1,412
Deferred payroll expenses	2,414	2,364
Others	1,986	2,970
Total accrued liabilities	5,986	6,746
Interest receivable	1,066	1,159
Rent payable	1,173	1,340
Others	3,535	3,410
Total deferred income	5,774	5,909
Premium on loans	-	-
Total accrued liabilities and deferred income	11,760	12,655

“Interest payable” refers to interest on loans, the Private Placement coupon and the convertible bonds.

“Interest receivable” refers to amounts calculated by Giulio Einaudi Editore S.p.A. for instalment sales.

Memorandum accounts

Guarantees, sureties and endorsements

Amounted to €108,459 thousand euros (€35,015 thousand euros).

They include sureties issued mainly in favour of the Tax Authorities and the Ministry of Production for prize-giving operations and competitions for €8,774 thousand euros and by banks to the VAT offices for €79,151 thousand euros, and other guarantees for €20,534 thousand euros.

Commitments

Amounted to €12,448 thousand euros (€29,610 thousand euros).

These refer to fixed term contracts for sales of foreign currency for €12,439 thousand euros and fixed term contracts for the purchase of foreign currency for €9 thousand euros.

Others

Amounted to €95,785 thousand euros (€87,375 thousand euros) and refer to third-party goods on deposit for distribution and sale for €92,018 thousand euros, with the remaining amount referring to third-party paper for processing and deposits.

Commitments and risks

For a correct valuation of the Group’s balance sheet and financial position we would inform you that at 31/12/2003 there existed:

- an interest rate swap operation (from fixed to variable) on the debt deriving from the issue of bonds convertible in ordinary shares of the Company (€109.9 million), with a duration of 5 years (October 2003 - October 2008);
- cross currency swap operation (from fixed to variable and from dollars to euros) on the debt deriving from the private placement in US dollars in three tranches with expiry dates in 2013, 2015 and 2018 for amounts of \$215 million, \$40 million and \$95 million respectively.

The operations have the same durations as the debts and are co-ordinated by, respectively, Banca Caboto (Banca Intesa group) and JPMorgan Chase Bank.

It should also be noted that as a result of the 1,990,000 purchase options for Company shares allocated to employees during 2003 at a unit price of €6.471 (for the period 1\1\2006-31\12\2007), options for Mondadori shares have been purchased and sold with an expiry date of January 2006.

These operations were implemented by the Company in order to neutralise the risk of price fluctuations of the Mondadori shares that must be purchased for the stock option plan.

Notes on the items in the Consolidated Income Statement

In the following sections the amounts in brackets refer to the Consolidated Statements as of 31 December 2002.

Some items in the Financial Statements of the previous year have been reclassified in order to make them compatible with the data as at 31 December 2003.

A) Production value

A.1) Sales of goods and services

Amounted to €1,538,144 thousand euros (€1,461,065 thousand euros) an increase of 5.3% compared with 31 December 2002. On a comparable basis, ignoring revenues for 2003 relating to Edizioni Piemme S.p.A. (the controlling interest in which was purchased during 2003), the increase amounted to 3.3%.

Sales of "Books", "Magazines" and "Direct marketing" are shown net of VAT borne by the publisher for €7,020 thousand euros, €14,715 thousand euros and €393 thousand euros respectively.

Details of income and sales by geographical area are given in the Report of the Board of Directors on the Results of the financial year.

The Mondadori Group billed the Fininvest Group for €10,864 thousand euros, including €9,436 thousand euros to Pagine Italia S.p.A. and €718 thousand euros to RTI S.p.A. mainly for printing operations, €186 thousand euros to Publitalia 80 S.p.A., €186 thousand euros to Banca Mediolanum S.p.A. and €160 thousand euros to Promoservice Italia S.r.l. for advertising.

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

Amounted to €6,116 thousand euros (€795 thousand euros). Details of the changes are given in the Balance Sheet under "Inventory".

A.3) Changes in contract work in progress

Amounted to €809 thousand euros (€ -396 thousand euros). Details of the changes are given in the Balance Sheet under "Inventory".

A.4) Increase in company produced additions to fixed assets

During financial year 2003, labour costs of €143 thousand euros (€158 thousand euros) were booked under fixed assets.

A.5) Other income and revenues

Amounted to €49,049 thousand euros (€46,946 thousand euros) and included the recovery of development and distribution costs for magazines (€5,264 thousand euros), transportation costs (€841 thousand euros), personnel costs (€547 thousand euros) and income from the sale of paper and production rejects (€5,744 thousand euros), all of which are booked under "Others".

	€ ,000 2003	€ ,000 2002
Expenses recovered from third parties	24,667	25,819
Capital gains on disposals of assets	683	545
Supplier bonuses and other third party contributions	4,960	3,667
Rents	802	776
Instalments	948	996
Contingent assets	2,147	1,953
Contributions for operating expenses	4,736	3,785
Others	10,106	9,405
Total other income and revenues	49,049	46,946

The Mondadori Group billed the Fininvest Group for €296 thousand euros, including €56 thousand euros to RTI S.p.A., €60 thousand euros to Logilab S.p.A. and €100 thousand euros to Pagine Italia S.p.A., mainly for the recovery of costs.

B) Production costs

B.6) Raw, ancillary and consumable materials and goods

Amounted to €486,463 thousand euros (€455,339 thousand euros) and are made up as follows:

	€ ,000 2003	€ ,000 2002
Paper	207,738	204,071
Electricity, water, gas, fuel	14,328	13,945
Other production materials	38,718	36,033
Total purchase of raw and ancillary materials	260,784	254,049
Goods for sale	191,110	160,283
Consumption and maintenance materials	3,767	4,185
Others	30,802	36,822
Total purchase of consumable materials and goods	225,679	201,290
Total cost of raw, ancillary and consumable materials and goods	486,463	455,339

The increase in costs compared with 2002 is due to the changes in the consolidation area as a result of the addition in 2003 of Edizioni Piemme S.p.A., the increase in sales and the significant increase in costs for the purchase of "Goods for sale".

The increase in sales and cost of goods for sale was due to the success of add-on sales and the increase in the number of Mondadori Retail S.r.l. shops.

The Mondadori Group purchased goods from the Fininvest Group for a total of €1,023 thousand euros, including €609 thousand euros to RTI S.p.A. for the distribution of the magazine *La Macchina del Tempo*, €178 thousand euros to Medusa Video S.r.l. and €236 thousand euros to Medusa Film S.p.A.

B.7) Services

Amounted to €598,537 thousand euros (€562,037 thousand euros), a significant increase due to: the inclusion of Edizioni Piemme S.p.A. in the Mondadori Group during 2003, which resulted in costs of €15,498 thousand euros; the launch during the year of a number of new titles that required the investment of significant amounts of capital linked to start-up costs, as can be seen under the item "Advertising"; the improved performance in terms of sales led to a general increase in costs for services in the various divisions.

"Directors' and statutory auditors' fees" are made up of fees paid to Directors and Statutory Auditors for €2,852 thousand euros and €358 thousand euros respectively. It should also be remembered that fees paid by the Holding Company to some statutory auditors also include work carried out for other companies controlled by the Group, for a total of €66 thousand euros.

The Mondadori Group purchased services from the Fininvest Group for a total of €25,634 thousand euros, including €21,285 thousand euros to Publitalia 80 S.p.A. for advertising space, €317 thousand euros to RTI S.p.A. for advertising space in the magazine *La Macchina del Tempo*, €1,287 thousand euros to Medusa Film S.p.A. and €1,318 thousand euros to Medusa Video S.p.A. for the purchase of rights, €1,133 thousand euros to Pagine Italia S.p.A. and €170 thousand euros to Radio e Reti S.r.l. for advertising space and €124 thousand euros to other companies.

	€ ,000 2003	€ ,000 2002
Commissions	51,264	52,112
Rights and royalties	115,452	107,219
Third-party consultancy and collaboration	51,748	46,157
	218,464	205,488
Third-party processing	119,209	105,647
Purchase of advertising space	60,533	64,762
Transport and shipping	56,386	52,736
Advertising services	53,435	44,864
Other services	33,656	35,241
Post office and telephone	12,438	11,649
Travel and other expense reimbursements	10,043	10,044
Job order services	8,666	7,964
Maintenance	7,922	7,713
Canteen and cleaning services	5,696	5,688
Insurance	3,709	3,083
Market research	5,170	4,248
Directors' and statutory auditors' fees	3,210	2,910
Total cost for services	598,537	562,037

B.8) Use of third-party assets

Compared with 2002 there were no significant changes. The total amounted to €22,927 thousand euros (€21,298 thousand euros) and included:

	€ ,000 2003	€ ,000 2002
Rent	16,769	15,241
Lease and rental payments	6,109	5,937
Others	49	120
Total cost of use of third-party assets	22,927	21,298

The Mondadori Group had costs for the use of third-party assets referring to the Fininvest Group for a total of €15 thousand euros, including €10 thousand euros to Elettronica Industriale S.p.A. and €5 thousand euros to RTI S.p.A. for leasing.

B.9) Personnel costs

Personnel costs amounted to €252,471 thousand euros (€242,808 thousand euros), an increase of 4% due to Edizioni Piemme S.p.A. for €3,445 thousand euros and the redundancy incentive scheme applied to some Group divisions.

Average number of employees	31/12/2003	31/12/2002
Managers	168	168
Journalists	456	449
Office workers	2,617	2,571
Manual workers	1,550	1,617
Total	4,791	4,805

B.10) Depreciations and writedowns

Amounted to €70,282 thousand euros (€72,717 thousand euros). Details are given in the Balance Sheet under "Intangible assets" and "Fixed assets" for depreciations and under "Trade payables" for writedowns.

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

Amounted to € -815 thousand euros (€ -1,795 thousand euros). A comment on "Inventory" can be found in the relative item in the Balance Sheet.

B.12) Provisions for risks

Amounted to €4,870 thousand euros (€5,726 thousand euros) and include provisions booked to the liability risk reserve. Details can be found in the Balance Sheet under "Reserve for risks and charges".

B.13) Other provisions

Amounted to €30 thousand euros (€48 thousand euros) and are represented by depreciations on capital goods on rental.

B.14) Other operating costs

Amounted to €13,240 thousand euros (€10,530 thousand euros). The details for the different items included here have not changed in any significant way in comparison with the previous year.

The most significant are:

- the cost of "Settlements and reimbursements" attributable mainly to the Parent Company (€2,330 thousand euros) for the legal expenses, and to Mondadori Printing S.p.A. (€2,296 thousand euros) for delays or production problems;

- “Bad debts” are booked to the Income Statement for all the main Group companies: Arnoldo Mondadori Editore S.p.A. for €2,661 thousand euros, Mondolibri S.p.A. for €2,951 thousand euros, Mondadori Pubblicità S.p.A. for €2,645 thousand euros, Mondadori Printing S.p.A. for €317 thousand euros, Giulio Einaudi Editore S.p.A. for €719 thousand euros and Edumond Le Monnier S.p.A. for €574 thousand euros.

	€ ,000 2003	€ ,000 2002
Settlements and reimbursements	5,106	5,350
Bad debts	11,170	9,473
Contributions and grants	2,502	2,041
Capital losses	353	367
Contingent liabilities	732	1,071
Information material, entertainment expenses and others	4,486	5,098
Utilisation of risk reserve	(13,359)	(14,734)
Sub total	10,990	8,666
Taxes and dues	2,250	1,864
Total cost of other operating costs	13,240	10,530

C) Financial income and charges

C.15) Income from equity investments

Amounted to €201 thousand euros (€57 thousand euros) and refer to income from the associated company Venezia Musei S.c.a.r.l., which is not consolidated as it is not relevant, and from Attica Publications.

C.16) Other financial income

The overall financial management generated a result that was a notable improvement on the previous year, thanks mainly to the positive performance of financial markets.

Compared with 2002 there were significant changes in “Others” for both income and charges, which mainly referred to income and charges relative to cover for interest rate changes.

“Interest from banks” also registered a significant change due to the different investments of the liquidity from Mondadori International, with investments in bank deposits being reduced in favour of investments in monetary funds.

Financial income amounted to €34,269 thousand euros (€31,016 thousand euros) and is made up as follows:

	€ ,000 2003	€ ,000 2002
Financial income from long-term receivables	101	128
Financial income from capital gains	-	60
Financial income from current assets	20,512	21,402
Interest from banks	1,152	5,169
Interest from subsidiary companies	5	-
Interest from associated companies	426	525
Interest from customers	120	487
Exchange gains	533	1,492
Others	11,420	1,753
Total other financial income	34,269	31,016

C.17) Interest and other financial charges

Amounted to €31,586 thousand euros (€34,340 thousand euros).

	€ ,000 2003	€ ,000 2002
Interest to banks	14,914	15,073
Interest to subsidiary companies	29	-
Interest to associated companies	326	330
Interest payable on leasing and others	33	1,430
Losses on share disposals	11,518	10,290
Utilisation of share writedown reserve	(7,735)	(1,422)
Exchange losses	2,340	7,628
Others	10,161	1,011
Total interest and other financial charges	31,586	34,340

D) Adjustments to the value of financial assets

D.18) Revaluations

As a result of the application of the net equity consolidation method, the associated companies were re-valued at €4,997 thousand euros (€5,140 thousand euros), as illustrated in the table below:

	€ ,000 2003	€ ,000 2002
- Harlequin Mondadori S.p.A.	351	450
- Mondadori Rodale S.r.l.	552	548
- Mach 2 Libri S.p.A.	227	119
- Grüner und Jahr/Mondadori S.p.A.	3,250	3,368
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	71	62
- Hearst Mondadori Editoriale S.r.l.	195	44
- Edizioni Electa Bruno Mondadori S.r.l.	84	134
- Edizioni EL S.r.l.	267	415
Total revaluations	4,997	5,140

D.19) Writedowns

Amounted to €12,137 thousand euros (€9,148 thousand euros) and are made up as follows:

	€ ,000 2003	€ ,000 2002
Associated companies		
- Società Europea di Edizioni S.p.A.	384	158
- Mondadori Informatica e.Bismedia S.r.l.	666	670
- Books On Line Italia SpA	701	1,040
- Grupo Editorial Random House Mondadori S.L.	5,353	2,499
- Prisco Spain S.A.	3	3
- Attica Publications	148	-
- ACI Mondadori Srl	192	501
- Press TV S.p.A.	744	750
	<hr/> 8,191	<hr/> 5,621
Companies valued at cost:		
- Veleno S.p.A.	88	178
- Europrint S.r.l.	-	53
- Marchgrange Ltd	15	-
- Mondadori Belgium S.A.	57	-
- Mondadori.com Inc	-	2,025
- Nuovamusa S.c.a.r.l.	-	1
- Venezia Accademia S.c.a.r.l.	14	4
	<hr/> 174	<hr/> 2,261
- Stocks	3,772	1,266
Total writedowns	<hr/> 12,137	<hr/> 9,148

Stock writedowns made it possible to adjust the value of stocks and shares booked under assets.

E) Extraordinary income and charges

E.20) Income

Amounted to €10,516 thousand euros (€3,650 thousand euros) and is made up as follows:

	€ ,000 2003	€ ,000 2002
Gains on disposals	3,929	1,652
Others	6,587	1,998
Total extraordinary income	<hr/> 10,516	<hr/> 3,650

“Gains on disposals” were due to the disposal of group companies no longer considered strategic, including Ricciardi Editore and the periodic computer publications for €3,826 thousand euros, shares for €98 thousand euros and non-current assets for €5 thousand euros.

“Others” include contingent assets of an extraordinary nature, adjustments of the results registered at 31 December 2002 of companies valued by the net equity method and deferred taxes for previous years. The difference in the figures for the two years was due mainly to the utilisation, by Cemit Interactive Media S.p.A., for €2,000 thousand euros of a risk reserve that was exuberant and income from Edizioni Piemme S.p.A.

E.21) Charges

Amounted to €2,339 thousand euros (€3,089 thousand euros) and are made up as follows:

	€ ,000 2003	€ ,000 2002
Losses on disposals	66	10
Tax for previous year	436	1,737
Others	1,837	1,342
Total extraordinary charges	2,339	3,089

“Tax for previous years” for 2003 mainly referred to differences between provisions made in the financial statements at 31 December 2002 and the income declared by some Group companies.

“Others” mainly include extraordinary windfall losses and adjustments of the results at 31 December 2002 of companies valued using the net equity method.

22) Income taxes

Amounted to €67,499 thousand euros (€52,068 thousand euros) and are shown in the following table:

	€ ,000 2003	€ ,000 2002
Current taxes	50,427	65,533
Deferred/advance taxes	17,072	(13,465)
Total income tax for the year	67,499	52,068

The increase in taxes was due partly to changes in the consolidation area and partly to the Company's improved results.

The changes in amounts in the table were due to the company re-organisation operations implemented by the Mondadori Group during 2002 which produced deferred fiscal effects.

For the Board of Directors
Chairman
Marina Berlusconi

Reconciliation between the shareholders' equity
and net profit of the Holding Company
and the consolidated shareholders' equity
and net profit

Reconciliation between the shareholders' equity and net profit of the Holding Company and the consolidated shareholders' equity and net profit

The reconciliation of the shareholders' equity and net profit shown in the Financial Statements of Arnoldo Mondadori Editore S.p.A. at 31 December 2003 and those shown in the Group's Consolidated Financial Statements is as follows.

	Shareholders' equity	Net profit for the year
	€ ,000	€ ,000
Balances as per Parent Company's Financial Statements	555,446	74,461
Different accounting principles between Financial Statements and Consolidated Financial Statements		
- Advanced depreciations	16,519	620
- Leasing	7,881	(1,279)
- Valuations using net equity method of non-consolidated companies	(2,784)	(6,534)
- Dividends received by consolidated companies	0	(24,401)
- Writedowns of consolidated companies	5,595	1,518
- Elimination of intergroup profits	(2,198)	168
- Elimination of intergroup operations	(101,124)	14,486
- Equity and income contribution, net of amounts expressed in items above, from consolidated companies	72,583	23,062
Balances as per Consolidated Financial Statements	551,918	82,101

Consolidated statement of changes in financial position

Consolidated statement of changes in financial position as at 31 December 2003

	€ ,000 2003	€ ,000 2002
Sources of funds:		
Profit (loss) for the year	82,101	81,074
Profit (loss) minority interests	577	4
<i>Adjustments that do not cause changes in working capital:</i>		
Amortisation of fixed and intangible assets	62,307	60,273
Provisions for severance indemnities	15,258	15,072
Valuation of associated companies	1,001	(912)
Net working capital generated by sales and other operations	161,244	155,511
Net value of intangible assets sold	81	14
Net value of fixed assets sold	1,112	1,044
Net value of financial assets disposed of, written down	9,041	17,513
Other variations in financial assets	-	1,595
Other variations in intangible assets	-	1,769
Increase in m/l term loans	347	-
Increase in m/l term loans	408,163	-
Decrease in non-current payables	1,649	1,121
Other variations in shareholders' equity	1,472	51
Increase in third party shareholders' equity	2,348	-
Total funds	585,457	178,618
Application of funds:		
Purchase of intangible assets	17,634	3,882
Other variations in intangible assets	211	-
Purchase of fixed assets	34,881	36,864
Changes in fixed assets in progress	-	(5,735)
Other variations in fixed assets	2,265	-
Purchase of financial assets	20,550	2,622
Changes in investments from line-by-line to net equity	-	-
Net changes in treasury stock in portfolio	57,413	3,322
Dividend payment	62,410	155,672
Impact on reserves of foreign exchange differences	1,176	10,314
Decrease in minority interests in net equity	-	176
Advance payment of staff severance indemnities	14,566	10,922
Other changes in severance indemnities	1,759	2,004
Decrease in m/l term loans	-	1,297
Total charges	212,865	221,340
Increase (decrease) in net working capital	372,592	(42,722)
<i>Due to:</i>		
Increase (decrease) in current assets:		
Inventories	12,386	2,701
Receivables	23,019	15,378
Fixed interest securities	173,034	42,818
Banks	(43,051)	(99,360)
Accrued income and prepayments	(1,310)	(66)
Total current assets	164,078	(38,529)
(Increase) decrease in current liabilities:		
Reserve for risks and charges	9,576	5,308
Current portion of m/l term loans	246,699	(77,293)
Banks	(7,104)	58,973
Other payables	(41,552)	10,042
Accrued liabilities and deferred income	895	(1,223)
Total current liabilities	208,514	(4,193)
Increase (decrease) in net working capital	372,592	(42,722)

Changes in shareholders' equity

Consolidated statement of changes in shareholders' equity as at 31 december

Thousands of euros	Share Capital					
		Share premium	Law no. 72	Law no. 413/91	Legal reserve	Treasury stock
Balances at 1\1\2002	67,452	231,116	12,023	4,689	13,398	56,150
Movements:						
- Profit destination	-	-	-	-	92	-
- Payment of dividends	-	-	-	-	-	-
- Reclassifications	-	(3,322)	-	-	-	3,322
- Currency translation increases (decreases)	-	-	-	-	-	-
- Other movements	-	(1)	-	-	-	-
- Net profit for the year	-	-	-	-	-	-
Balances at 31\12\2002	67,452	227,793	12,023	4,689	13,490	59,472

Consolidated statement of changes in shareholders' equity as at 31 december

Thousands of euros	Share Capital					
		Share premium	Law no. 72	Law no. 413/91	Legal reserve	Treasury stock
Balances at 1\1\2003	67,452	227,793	12,023	4,689	13,490	59,472
Movements:						
- Profit destination	-	-	-	-	-	-
- Payment of dividends	-	-	-	-	-	-
- Reclassifications	-	(57,413)	-	-	-	57,413
- Currency translation increases (decreases)	-	-	-	-	-	-
- Other movements	-	-	-	-	-	-
- Net profit for the year	-	-	-	-	-	-
Balances at 31\12\2003	67,452	170,380	12,023	4,689	13,490	116,885

er 2002

Reserves							Profit	Net profit	Total
Extra. reserve	Law no. 675	Law no. 124/93	Law no. 904	Govt. grants	Merger reserve	Other reserve	(loss) carried forward	(loss) for the year	shareholders' equity
42,311	351	38	751	5,052	0	7,267	102,312	73,882	616,792
27,693	-	15	-	-	-	-	(9,157)	(18,643)	-
(69,721)	-	-	-	-	-	-	(30,712)	(55,239)	(155,672)
(283)	-	-	-	283	-	-	-	-	-
-	-	-	-	-	-	(10,314)	-	-	(10,314)
-	-	-	-	-	478	-	(426)	-	51
-	-	-	-	-	-	-	-	81,074	81,074
-	351	53	751	5,335	478	(3,047)	62,017	81,074	531,931

er 2003

Reserves							Profit	Net profit	Total
Extra. reserve	Law no. 675	Law no. 124/93	Law no. 904	Govt. grants	Merger reserve	Other reserve	(loss) carried forward	(loss) for the year	shareholders' equity
-	351	53	751	5,335	478	(3,047)	62,017	81,074	531,931
9,264	-	20	-	-	-	-	9,380	(18,664)	-
-	-	-	-	-	-	-	-	(62,410)	(62,410)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(1,176)	-	-	(1,176)
-	-	-	-	-	-	-	1,472	-	1,472
-	-	-	-	-	-	-	-	82,101	82,101
9,264	351	73	751	5,335	478	(4,223)	72,869	82,101	551,918

Reclassified consolidated balance sheet

Reclassified consolidated balance sheet and income statement

Reclassified consolidated balance sheet

	€ millions 31/12/2003	€ millions 31/12/2002
Intangible assets	158.4	164.2
Fixed assets	199.9	202.7
Financial assets	192.6	126.3
Inventories	133.5	121.1
Receivables and other assets	510.6	491.1
Cash and banks	648.9	516.6
Total assets	1,843.9	1,622.0
Shareholders' equity	551.9	531.9
Minority interests	3.3	0.4
Reserves for risks and charges	42.4	52.0
Reserve for severance indemnities	100.7	101.8
Other payables and liabilities	569.6	528.6
Financial payables	576.0	407.3
Total liabilities	1,843.9	1,622.0

Reclassified consolidated income statement

	€ millions 31/12/2003	€ millions 31/12/2002	% change
Revenues from sales	1,536.0	1,458.8	5.3%
Personnel costs	250.3	240.7	4.0%
Product and operating costs	1,073.5	1,009.6	6.3%
Gross operating profit	212.2	208.5	1.8%
<i>Gross operating profit as a % of revenues</i>	<i>13.8%</i>	<i>14.3%</i>	
Depreciation of fixed assets	38.3	36.1	6.1%
Operating profit	173.9	172.4	0.9%
<i>Operating profit as a % of revenues</i>	<i>11.3%</i>	<i>11.8%</i>	
Depreciation of intangible assets	23.3	23.1	0.9%
Net financial income (charges)	(1.1)	(4.5)	n.a.
Other income (charges), net	3.2	(3.9)	n.a.
Extraordinary income (charges), net	1.8	(0.3)	n.a.
Internet	(4.3)	(7.4)	(41.9%)
Profit before taxation	150.2	133.2	12.8%
Income taxes for year	(67.5)	(52.1)	29.6%
Minority interests	0.6	0.0	n.a.
Net profit for the year	82.1	81.1	1.2%
<i>Net profit for the year as a % of revenues</i>	<i>5.3%</i>	<i>5.6%</i>	

Relations with related parties

€ ,000	Item A1	Item A5	Item B6
Parent companies:			
- Fininvest S.p.A.	9	-	-
Subsidiary companies:			
- Ame Publishing Ltd	-	-	70
- Mondadori Sistemi di Comunicazione S.r.l.	173	190	-
- A. M. Deutschland GmbH	-	-	-
- Marchgrange Ltd	-	-	-
- Mondadori Informatica e.Bimedia S.r.l.	33	-	-
- Mondadori.com Inc.	-	-	-
Associated companies:			
- Grüner und Jahr/Mondadori S.p.A.	3,075	1,983	32,790
- Mach 2 Libri S.p.A.	26,900	9	-
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	16,785	2	-
- Venezia Accademia S.c.a.r.l.	17	-	75
- Venezia Musei S.c.a.r.l.	357	16	28
- Hearst Mondadori Editoriale S.r.l.	3,952	936	3,500
- Harlequin Mondadori S.r.l.	361	439	12,556
- Mondadori Rodale S.r.l.	9,761	3,179	12,479
- Books On Line Italia S.r.l.	1,706	92	29
- Edizioni Electa Bruno Mondadori S.r.l.	854	13	-
- Edizioni EL S.r.l.	431	354	4,178
- Grupo Editorial Random House Mondadori S.L.	744	25	-
- Società Europea di Edizioni S.p.A.	12,516	214	947
- ACI Mondadori S.r.l.	8,220	1,979	5,414
- Press TV S.p.A.	6,251	682	3,652
- Mondolibri S.p.A.	7,546	860	136
Affiliated companies:			
- Pagine Italia S.p.A.	9,436	100	-
- RTI S.p.A.	718	56	609
- Publitalia '80 S.p.A.	186	-	-
- Medusa Video S.r.l.	50	17	178
- Promoservice Italia S.r.l.	65	-	-
- Mediaset S.p.A.	29	-	-
- Ground Immobiliare	2	-	-
- Il Teatro Manzoni S.p.A.	1	-	-
- Mediolanum S.p.A.	160	30	-
- Mediatrade S.p.A.	-	-	-
- Banca Mediolanum S.p.A.	186	1	-
- Medusa Film S.p.A.	15	-	236
- Videotime S.p.A.	5	2	-
- Finedim Italia S.p.A.	2	-	-
- Radio e Reti S.r.l.	-	29	-
- Logilab S.p.A.	-	60	-
- Alba Servizi Aerotrasporti S.p.A.	-	1	-
- E.I.S. S.r.l.	-	-	-
- Elettronica Industriale S.p.A.	-	-	-
- Servizi Milan S.r.l.	-	-	-
- Euridea S.p.A.	-	-	-
Other companies:			
- Istud - Istituto Studi Direzionali S.p.A.	-	-	-

Item B7	Item B8	Item B14	Item C15	Item C16	Item C17
-	-	-	-	-	-
2,589	506	38	-	-	-
122	-	-	-	3	-
5	-	-	-	-	-
-	-	-	-	-	14
121	4	-	-	2	-
-	-	-	-	-	15
16,313	-	-	-	-	191
1,666	-	-	-	-	-
1,263	-	15	-	-	-
315	-	-	-	-	-
400	-	-	18	-	-
4,949	-	-	-	4	10
-	-	-	-	-	67
10,581	-	-	-	4	42
-	-	2	-	-	-
-	-	-	-	30	-
45	-	-	-	-	-
-	-	-	-	335	-
17,637	-	5	-	-	-
5,598	-	-	-	29	13
2,477	-	-	-	24	3
924	56	27	-	-	-
1,133	-	-	-	-	-
317	5	-	-	-	-
21,285	-	-	-	-	-
1,318	-	-	-	-	-
87	-	-	-	-	-
10	-	-	-	-	-
-	-	-	-	-	-
26	-	-	-	-	-
-	-	-	-	-	-
(12)	-	-	-	-	-
-	-	-	-	-	-
1,287	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
170	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13	10	-	-	-	-
-	-	-	-	-	-
-	-	7	-	-	-
-	-	5	-	-	-
30	-	-	-	-	-

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the annual General Meeting of the Shareholders called to approve the Financial Statements for the year ended 31 December 2003 (art. 153, D.Lgs. n. 58/98)

To the Shareholders,

during the year we have conducted the checks foreseen by the law and following the recommendations laid out by the National Association of Public Accountants.

In particular, we have:

- taken part in all meetings of the Board of Directors, obtaining from Directors information concerning current activities and significant operations affecting the Company's financial position, ensuring that resolutions made are in line with current legislation and the Company's business mission and that there are no conflicts of interest or discrepancies with Shareholder resolutions;
- ascertained, within the limits of our responsibilities, that the Company structures and accounting procedures are adequate by direct observation, the examination of material supplied by the Company and by meetings with the External Auditors Reconta Ernst & Young S.p.A., for the exchange of relevant information and figures;
- examined and checked the internal mechanisms for internal control of accounting and the reliability of such mechanisms in producing accurate information on the management of the Company's activities by means of collecting information, examining Company documents and checking the work carried out by the External Auditors. We have also had regular meetings with the Controller with whom we have verified checks made also for the Subsidiary companies and we have taken part in meetings of the internal Control Committee;
- checked that the Annual Report, the Financial Statements and the Consolidated Financial Statements for the year ended 31 December 2003 have been presented according to current legislation through direct checks and discussions with the External Auditors;
- evaluated and verified the reporting mechanisms applied to Subsidiary companies which allow such Subsidiaries to provide prompt information to the Parent Company that is consequently able to respect communication obligations foreseen by current legislation.

The activities outlined above presented no significant anomalies or irregularities that would require either their reporting to the competent external vigilance authorities or special mention being made of them in this report.

We would point out that during 2003 the Company adopted the organisational, administrative and control model referred to in Legislative Decree no. 231/2001 and nominated the body entrusted with checking the efficiency, observation and up-dating of the model in question. Furthermore, in line with recommendations of CONSOB, the Board of Statutory Auditors would underline that:

- we did not find any atypical and/or unusual operations, including inter-group operations or operations with third parties;
- information provided by the Board of Directors, also information concerning inter-group operations and operations with third parties, is to be considered complete. In particular, inter-group operations were relevant to the Company's business mission and the characteristics and economic effects of these ordinary operations are reported in the notes to the Financial Statements and are to be considered suitable and in line with the Company's business interests.

In this context, we did not find any conflict of interest or any operations able to have any negative impact on the Company's economic or financial position;

• during the year:

- regular meetings were held to exchange information with representatives of Reconta Ernst & Young S.p.A. and, while not yet having seen the External Auditor's Report, we have reason to believe that it does not contain any judgements worthy of concern;
- endorsement was granted for the fees allocated to the Board of Directors, the Chairman and the Deputy Chairman and Chief Executive, in accordance with article 2389, paragraph 2, Civil Code, while no declarations were made as per articles 158 and 159 of Legislative Decree no. 58/98;
- in 2003 there were 7 meetings of the Board of Directors and 13 meetings of the Board of Statutory Auditors;
- during the year, in addition to the auditing of the annual and interim reports and consolidated reports, the company engaged Reconta Ernst & Young S.p.A. to:
 - certify, in 2004, circulation data (ADS) on 19 of the Group's magazine titles at a cost of €35,300.00
 - carry out a preliminary diagnosis and plan the organisational operations relating to the introduction of international accountancy principles (IAS/IFRS) for the Consolidated Financial Statements, at a cost of €70,000.00, €62,500.00 of which is booked to 2003;
- the Company commissioned Ernst & Young Business Advisors S.p.A., which has ongoing connections with Reconta Ernst & Young S.p.A., for organisational administrative assistance, at a cost of €49,231.13;
- the Company has substantially adapted its self-disciplinary code to that recommended by the Corporate Governance Committee for companies listed by Borsa Italiana S.p.A., as outlined in the annual report of the Board of Directors;
- we agree with the dividend proposal made by the Board of Directors, also taking into account the available reserves.

In conclusion, given that no claims as per article 2408 of the Civil Code have been received, we endorse the approval of the Financial Statements as at 31 December 2003, with profit for the year of €74,460,845.

Milan, April 2, 2004

The Board of Statutory Auditors

Achille Frattini, Chairman

Antonio Aiello

Ferdinando Superti Furga

Auditors' Report pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58

(Translation from the original Italian text)



To the Shareholders
of Arnoldo Mondadori Editore S.p.A.

1. We have audited the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Arnoldo Mondadori Editore S.p.A.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (**the Italian Stock Exchange Regulatory Agency**) (1). In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

The audit of the financial statements of certain subsidiaries and associated companies, which respectively represent approximately 2,8% of consolidated total assets and approximately 2,7% of consolidated net sales, is the responsibility of other auditors.

For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated April 7, 2003.

3. In our opinion, the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. comply with the **Italian** (1) regulations governing consolidated financial statements; accordingly, they clearly present and give a true and fair view of the consolidated financial position of Arnoldo Mondadori Editore S.p.A. as of December 31, 2003, and the consolidated results of its operations for the year then ended.

Milan, April 5, 2004

Reconta Ernst & Young S.p.A.
signed by: Maurizio Serafini
(Partner)

(1) Words added in translation from original Italian text

