

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 Meeting to be held on 20 April 2005 at 10.30 at Via Mondadori 1, Segrate (Milan), at first calling and, if necessary, at second calling on 27 April 2005 at the same time and place, to pass resolution on the following:

Agenda

- 1) Financial Statements as of 31 December 2004, 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 2004 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.

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 Vice Chairman
and Chief Executive**

Maurizio Costa

Directors

Francesco Barbaro (*)

Pier Silvio Berlusconi

Pasquale Cannatelli

Fedele Confalonieri

Bruno Ermolli

Martina Forneron Mondadori

Roberto Poli

Giovanni Puerari

Mario Resca

Marco Spadacini

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 financial year 2004

Shareholders,

during 2004, the Italian economic scenario showed no marked signs of recovery, with consumer spending essentially flat, while the markets in which Mondadori operates showed alternating and conflicting trends with the recovery in the advertising market having only a slight effect on the magazine sector.

In spite of this, the Group was able to successfully seize a number of development opportunities and recorded revenue increases in all sectors of its activities and significantly improved both operating margins and net profit.

In 2004, **consolidated revenues** came to €1,650.2 million, an increase of 7.4% on the €1,536.0 million of 2003. This increase was largely due to organic growth in the areas in which the Group operates, given that during the year there were no significant changes in the area of consolidation.

Consolidated gross operating profit rose to €235.5 million from the €212.2 million of 2003, an increase of 11%. This result was due to improvements in profitability in the individual businesses, and also benefited from the government contribution of €5 million for paper costs, as established by Law n° 350 of 24 December 2003; this

figure corresponds to only 40% of the amount requested.

As a proportion of revenues, the figure is an increase from the 13.8% of last year to 14.3% this time.

Consolidated operating profit totalled €201.1 million, an increase of 15.6% compared with the figure of €173.9 million in 2003, partly due to a decrease in capital investments. As a proportion of revenues, an increase to 12.2% from the 11.3% of 2003.

Consolidated profit before taxes for the year came to €169.5 million, and increase of 12.8% on the €150.2 million of 2003.

Consolidated net profit reached €104.1 million, an increase of 26.8% compared with the €82.1 million of 2003.

The overall increase in profitability is also reflected in the **return on equity**, which rose to 18.3% from the 15.2% of the previous year.

The Group's net **financial position** showed a surplus of €96.7 million, an increase on the €72.9 million of 2003.

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 2004 the **Book Division** recorded excellent results with an overall increase of 10.1%. The real publishing phenomenon of the year was *Il Codice da Vinci* by Dan Brown which, although first published at the end of 2003, in the following twelve months sold more than a million copies. Other editorial successes, including the book by Pope John Paul II, led to the Mondadori imprint ending the year with an excellent 21.2% increase in revenues.

As regards the other publishing houses in the Group, Piemme (acquired in 2003) performed particularly brilliantly with revenue growth for the year of 19.5%, thanks largely to the success of books based on the character Geronimo Stilton. The results for Einaudi were in line with the previous year while there was a slight increase for Sperling & Kupfer.

The positive results of the Division also included those of the art books and exhibition organisation, which registered an increase of 10.3%, and educational publishing, which registered a 4.6% increase even though it had to face the introduction of educational reforms.

The **Magazine Division** in 2004 recorded an increase of 11.9% in revenues, mainly as a result of increased add-on sales. Also in 2004, the total circulation market registered a slight increase that was almost exclusively due to new products. Mondadori launched three new titles – *Focus Junior*, *Per me* and *Easy Shop* – all of which were successfully received by readers. The Division's growth was also sustained by add-on sales, with the quality and consistency of such products ensuring Mondadori's success in this area.

2004 saw the advertising market stage a recovery which was, however, concentrated mainly on the television and radio markets, while advertising in print media only registered a slight recovery. **Mondadori Pubblicità** achieved better results compared with the reference market (0.3%), registering a 1% increase largely thanks to the positive trends in the fashion, business, car and leisure sectors, which compensated for the shortfall in cosmetics and consumer goods.

2004 was a positive year for **Mondadori Printing**, which registered an increase in overall revenues of 1.1% to €456.2 million. This figure also includes the cost of paper which, in 2004, fell by around 4-5%. What was more significant, therefore, was the trend

in print revenues which over the same period grew by 5.6%.

Particularly positive was the trend in monochrome books, where revenues grew by almost 20%, net of paper, thanks to the good performance of Mondadori books and the continuing demand for print for products sold through newsstands in conjunction with leading newspapers. Revenues from the printing of magazines and catalogues were stable for the year, while revenues from directories fell, as expected.

In the **Direct Marketing** area, where Mondadori operates both in the mail order book sales sector with Mondolibri and in the direct marketing sector with Cemit, the Group once again registered an increase in revenues. More specifically, Mondolibri, the joint venture with the Bertelsmann Group which operates in a now mature market, managed to hold its position (+0.9%), while Cemit saw an increase in revenues of 9.5%.

In the **Retail** area, where Mondadori is present with its own shops and franchising outlets, Mondadori Retail registered an increase of 15.1%, boosted also by an effective Christmas sales campaign; Mondadori Franchising, meanwhile, which saw the number of affiliated outlets grow

from 132 to 149, saw a 20.6% increase in revenues.

From this introduction we now move on to Comment on the main results of the Consolidated Financial Statements for 2004.

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.

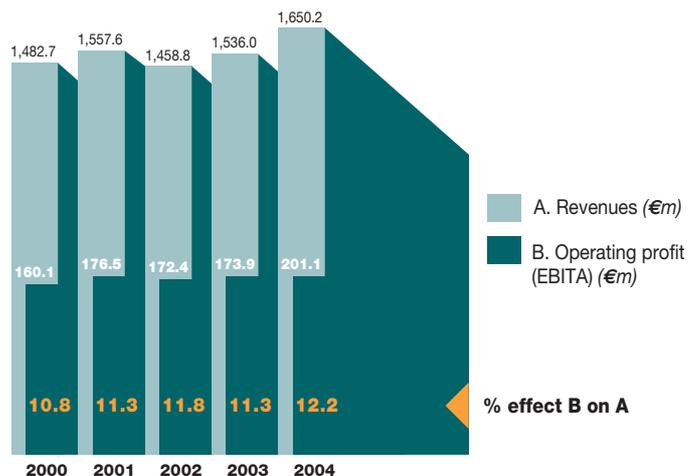
Consolidated reclassified income statement			
€ m	31/12/2004	31/12/2003	% change
Revenues	1,650.2	1,536.0	7.4%
Personnel costs	257.8	250.3	3.0%
Product and management costs	1,156.9	1,073.5	7.8%
Gross operating profit	235.5	212.2	11.0%
<i>Gross operating profit as a percentage of revenues</i>	<i>14.3%</i>	<i>13.8%</i>	
Depreciations of fixed assets	34.4	38.3	(10.2%)
Operating profit	201.1	173.9	15.6%
<i>Operating profit as a percentage of revenues</i>	<i>12.2%</i>	<i>11.3%</i>	
Depreciations of intangible assets	28.2	23.3	21.0%
Net financial income (charges), net	(8.5)	(1.1)	n.a.
Other income (charges), net	2.3	3.2	(28.1%)
Extraordinary income (charges), net	5.2	1.8	n.a.
Internet activities	(2.4)	(4.3)	(44.2%)
Profit before income taxes	169.5	150.2	12.8%
Income taxes for the year	(64.9)	(67.5)	(3.9%)
Minority interests	0.5	0.6	(16.7%)
Net profit for the year	104.1	82.1	26.8%
<i>Net profit as a percentage of revenues</i>	<i>6.3%</i>	<i>5.3%</i>	

Consolidated revenues amounted to €1,650.2 million, an increase of 7.4%, and were the result of excellent performances in all the sectors where the Group operates.

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

Volume of business for each business activity

€ m	2004	2003	% change
Book Division	407.1	369.8	10.1%
Magazine Division and Advertising	862.6	802.7	7.5%
Printing Division	456.2	451.3	1.1%
Direct Division	181.0	162.6	11.3%
Others	17.8	14.8	20.3%
Total sales	1,924.7	1,801.2	6.9%
Intergroup sales	(274.5)	(265.2)	(3.5%)
Total consolidated sales	1,650.2	1,536.0	7.4%



Mondadori Group: revenues and operating profit

Consolidated revenues are broken down into the following geographical areas:

Gross operating profit registered an increase of 11.0%, rising from €212.2 million to €235.5 million. As a proportion of revenues, the figure is equal to 14.3% (13.8% in 2003). As mentioned earlier, this result benefited from the government contribution to paper costs, but since the exact amount of the contribution was not known when the financial statements were drawn up, a conservative estimate of approximately 40% of the amount requested has been booked.

Personnel costs increased by 3%, substantially in line with inflation and partly due to the voluntary redundancy incentive scheme.

Production and management costs increased by 7.8% compared with 2003. This item also benefited from the previously mentioned government contribution to the cost of paper, and is characterised by an increase in costs linked to production and distribution, and to increased rights for products issued as add-on sales with magazines.

Consolidated **operating profit**, which was affected by a decrease in depreciations

Volume of business by geographical area

€ m	2004	2003	% change
Italy	1,545.5	1,401.9	10.2%
EU countries	86.1	107.2	(19.7%)
USA	10.9	10.4	4.8%
Other countries	7.7	16.5	(53.3%)
Total consolidated revenues	1,650.2	1,536.0	7.4%

Production and management costs

€ m	2004	2003	% change
Raw, ancillary and consumable materials and goods and stock variations	511.5	478.7	6.9%
Services and other costs	647.7	595.2	8.8%
Use of third-party assets	23.0	22.3	3.1%
Recovery of expenses from third parties and other income	(25.3)	(22.7)	11.5%
Total production and management costs	1,156.9	1,073.5	7.8%

compared with the previous year as a result of a decrease in investments and of the change in the depreciation rate, increased by 15.6% from €173.9 million to €201.1 million.

As a percentage of sales this represents an increase from 11.3% to 12.2%.

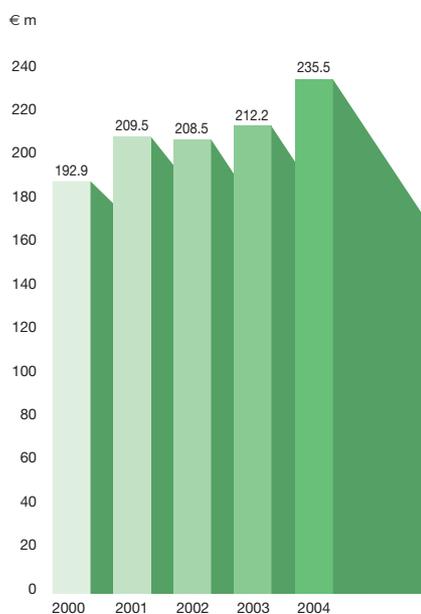
The variation in depreciation rates is a result of the process introduced to review the useful life of certain tangible assets, which in 2004 resulted in a decrease in depreciations of €4 million, before taxation.

As previously mentioned, **depreciations of fixed assets** registered a 10.2% decrease, while **depreciations of intangible assets** increased since they include writedowns of some titles for €7.2 million.

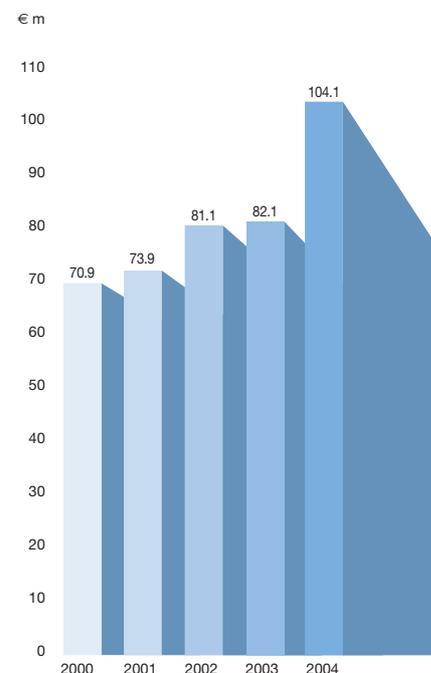
The increase in the deficit of **financial income and expenses** was mainly due to operations carried out during the year linked to risks for covering changes in interest rates of the debt structure.

Profit before taxes amounted to €169.5 million (€150.2 million in 2003), an increase of 12.8%. This marked improvement is essentially the result of the management of ordinary business.

Consolidated **net profit** amounted to €104.1 million, an increase of 26.8% compared with the €82.1 million of 2003. This figure also benefited from the



**Mondadori Group:
gross operating profit**



**Mondadori Group:
net profit**

contribution of factors unrelated to the management of ordinary business, such as a lower tax rate, thanks to the use of previous fiscal losses, the government contribution to paper costs and the positive attribution of deferred taxes for around €8,2 million as a result of a revision of the future profitability of some Group companies.

The **cash flow** (net profit + depreciations) amounted to €166.7 million, an increase of 16% compared with 2003.

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

The **net financial position** as at 31 December 2004 showed a surplus of €96.7 million (€72.9 million at 31 December 2003), after the distribution to shareholders of dividends amounting to €72.5 million, investments in a share buy-back amounting to €13.3 million and acquisitions for €25 million.

The Group's **capital investments** amounted to €21.7 million (€34.9 million in 2003). Further details can be found in the section "Notes to the Consolidated Financial Statements"

Consolidated reclassified balance sheet

€ m	31/12/2004	31/12/2003
Intangible assets	133.9	158.4
Fixed assets	184.5	199.9
Financial assets	227.7	192.6
Inventories	129.5	133.5
Receivables and other assets	531.3	510.6
Cash and banks	647.4	648.9
Total assets	1,854.3	1,843.9
Shareholders' equity	584.5	551.9
Minority interests	3.3	3.3
Reserve for risks and charges	49.6	42.4
Reserve for severance indemnities	102.7	100.7
Other liabilities	563.5	569.6
Financial payables	550.7	576.0
Total liabilities	1,854.3	1,843.9

Arnoldo Mondadori Editore S.p.A. ended 2004 with **net profits** of €92.9 million (compared with €74.5 million in 2003).

The result was obtained after making provisions for overall amortizations of €18.2 million (€18.2 million in 2003) and taxes for €42.5 million (€39.3 million in 2003). The gross cash flow amounted to €111.1 million (€92.7 million in 2003).

The excellent **results for the year** are attributable to the very good performance of all the business sectors in which the Group operates, both book publishing and add-on sales with magazines recorded marked increases, leading to revenues that broke the billion euro barrier, with a growth rate, compared with 2003, of 8.7%. The result also benefited from the government contribution to paper costs, which amounted to €5 million.

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.

2004 was a positive year for the book market, which registered an increase particularly in the traditional channels. Sales of books at newsstands were also very positive, although the trend shifted to an increase in sales of books with a specific theme (history, encyclopaedias and thrillers) and a decrease in general literature.

According to Demoskopea surveys, which reveal the figures for bookshop sales, in 2004 the market increased in terms of value (+5.5%) much more than it did in terms of copies (+2.0%). The data used for calculating the increases is comparable with the data used in the previous year, when it was also collected using the new electronic panel.

In this context, the Mondadori Group registered a significant performance, particularly when compared with the performances of the other important Italian publishers. According to Demoskopea, compared with 2003 the Mondadori Group's Book Division increased by 11.3% in terms of value and 4.3% in terms of copies, outperforming the market average.

This result is reflected in the Group's market share, which is shown in the table on the right.

Books: market share

Publisher	2004	2003	change
Mondadori	16.4	15.1	1.3
Einaudi	4.7	4.9	(0.2)
Sperling & Kupfer	2.6	2.8	(0.2)
Piemme	3.4	2.8	0.6
Other companies of the Mondadori Group	1.2	1.3	(0.1)
Total for the Mondadori Group	28.3	26.9	1.4
Rizzoli Group	12.4	12.5	(0.1)
Longanesi Group	7.3	7.7	(0.4)
Feltrinelli	4.0	4.3	(0.3)

Source: Demoskopea (in terms of value).

Mondadori increased its market share by 1.3% while Einaudi had a slight decrease and Sperling & Kupfer had a more marked fall, although these results were offset by the 0.6% increase registered by Piemme. Therefore as a whole the Mondadori Group has a 28.3% market share, which represents a 1.4 increase compared with 2003.

The RCS Group and the Longanesi Group suffered a 0.1 and a 0.4 decrease respectively, while Feltrinelli' market share fell by 0.3%. Of the main imprints, only Baldini Castoldi Dalai maintained its market share, increasing by 0.1%, mainly thanks to the Christmas publication of the new thriller by Giorgio Faletti.

Total sales in the Book Division in 2004 amounted to €407.1 million compared with €369.8 million in the previous year, and they were made up as follows.

Book production in the division¹ amounted to 2,022 new titles (compared with 1,961 in 2003) and 3,992 reprints (3,801 in 2003).

Books:

€ m	2004	2003	% change
Edizioni Mondadori	137.9	113.8	21.2%
Einaudi	44.1	44.7	(1.3%)
Mondadori Electa	41.9	38.0	10.3%
Sperling & Kupfer Group	27.9	26.8	4.1%
Edumond Le Monnier	81.8	78.2	4.6%
Edizioni Piemme	33.7	28.2	19.5%
Book distribution	41.8	42.2	(0.9%)
Total sales	409.1	371.9	10.0%
Intercompany sales	(2.0)	(2.1)	(4.8%)
Total consolidated sales	407.1	369.8	10.1%

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

Edizioni Mondadori

2004 was an excellent year for Mondadori books, which registered a 21.2% increase in revenues. Thanks to this performance, in 2004 Edizioni Mondadori was once again able to confirm its undisputed position of market leader, with the biggest share in all sectors and a net advantage over its competitors. On its own, Edizioni Mondadori currently represents 16.4% of the market.

2004 was undoubtedly the year of Dan Brown whose *Il codice da Vinci*, which was published in time for Christmas 2003, continuing to record excellent sales throughout the year and shooting to the top of the best sellers list where it stayed until the end of 2004. The original hardback version of the book, which sold an exceptional 1,300,000 copies, was joined by a special illustrated edition, while in November *Angeli e Demoni*, the author's previous book, was published.

In total, the "Dan Brown phenomenon" sold around two million copies of the hardback and illustrated editions during 2004.

Apart from the incredible exploits of Dan Brown, fiction by foreign authors was generally very successful with titles such as

L'ombra del Vento by Carlos Ruiz Zafon, *Nel bianco* by Ken Follett (280,000 copies) and the disturbing *Calliphora* by Patricia Cornwell (200,000 copies).

As for Italian fiction, apart from the confirmation of Margaret Mazzantini with *Zorro* (250,000 copies) and Andrea Camilleri with *La Prima Indagine di Montalbano* (300,000 copies), there was also the victory at the Premio Strega of *Il Dolore Perfetto* by Ugo Riccarelli (120,000 copies) and the great return of Alberto Bevilacqua with *Tu Che Mi Ascolti* (120,000 copies).

In 2004 the "Varia" area once again registered good results with "light" books, such as the collection of jokes about the footballer Francesco Totti (300,000 copies), and the new books by Luciana Littizzetto (*Col Cavolo*, 300,000 copies) and Flavio Oreglio (*Katartico 3*, 150,000 copies), while the Christmas success was *Oggi Cucini Tu*, a spin off from the successful television programme introduced by Antonella Clerici, which sold 180,000 copies.

The other significant event in 2004 for Mondadori was the publication of *Alzatevi, Andiamo!*, the new book by Pope John Paul II. Mondadori is responsible for the worldwide sales rights of this book, which sold 400,000

copies in Italy.

At Christmas non-fiction registered an excellent performance with the latest work by Bruno Vespa, *Storia d'Italia da Mussolini a Berlusconi*, which sold more than 300,000 copies.

Giulio Einaudi Editore

2004 closed with sales of over €44 million, a 1.3% decrease compared with the previous year that was due to two opposing factors represented by a 2.7% increase in net revenues from ordinary activities and a reduction of around €1.4 million in revenues from publishing rights for books issued as add-on sales with newspapers.

The most significant titles of the year included *Io non ho Paura* by Niccolò Ammaniti, *Lo Strano Caso del Cane Ucciso a Mezzanotte* by Mark Haddon (which were originally published in 2001 and 2003 but both of which sold more than 100,000 copies in 2004), *Nuovi Misteri d'Italia* by Carlo Lucarelli (70,000 copies), *Nero l'albero dei Ricordi*, *Azzurra l'aria* by Rosetta Loy (50,000 copies), *Il Responsabile delle Risorse Umane* by Abraham Yehoshua (50,000 copies) and *Sotto la Pelle* by Michel Faber (50,000 copies), while among books issued with either

videos or DVDs, two of the most successful were *La Mattanza* + DVD by Carlo Lucarelli (60,000 copies) and *Report* + DVD by Marco Paolini (30,000 copies).

Edizioni Piemme

In 2004 Edizioni Piemme, which became part of the Mondadori Group in October 2003, registered an excellent 19.5% increase in revenues compared with the previous year, thanks to the strong performance of titles aimed at both the general market and the children's market, where the Geronimo Stilton series of books was once again very successful.

In the Fiction - Non-fiction sector, the 2004 phenomenon was the excellent performance of a group of unknown authors who were very popular with readers. The excellent success registered by Suad, whose *Bruciata Viva* was published in the first half of the year and sold 50,000 copies, was mirrored, in the second half of the year, by the performance of the thriller *Il Codice dei Quattro*, the most successful follower of *Il codice da Vinci*, which sold 95,000 copies.

Special mention should also be made of the results obtained by the historical novels set in the Rome of the Cesars created by a group of writers discovered by Piemme that

heralded the beginning of a rich vein of titles. This success was accompanied by the expected triumph of *Lame di Luce* by Michael Connelly and *Il Diavolo Veste Prada* by Lauren Weisberger.

The Pocket series registered a notable increase compared with 2003, thanks to the inauguration of the new "I Maestri del Thriller" series, published in a pocket hardcover format.

The Junior imprint, "Il Battello a Vapore", registered an increase in sales thanks to the success of a number of new hardback titles, the "Scooby Doo" series and, above all, to the launch of the first adventure of Ulysses Moore, *La Porta del Tempo*, an original creation from "Il Battello a Vapore" that is part of an international publishing project already operating in 10 countries.

2004 also confirmed the great success of the books based on the character of Geronimo Stilton, with the series registering a 66% increase in sales compared with the previous year. This excellent result involved all the titles in the series, including the basic catalogue titles, on sale at €7.5, the one-shot titles (*Viaggio nel Tempo* and *Nel Regno della Fantasia*) and the titles based on the new characters of Tenebrosa Tenebrax and Jena, while special mention should be made of the results obtained by *Il Segreto*

del Coraggio, which was published in September 2004. In November and December of 2004 the character of Geronimo Stilton was a guest on two television programmes, *Zecchino d'Oro* and *Domenica In*, as part of television campaign designed to increase the character's popularity.

Sperling & Kupfer Group

In 2004 the Group registered a 4.1% increase in sales, mainly in the first half of the year. The increase was evenly distributed between revenues from bookshop sales and revenues from the sale of publishing rights to other publishers, while there was a decrease in the revenues from large scale retail outlets.

The most significant results were registered by the reprint of the best seller by Giampaolo Pansa, *Il Sangue dei Vinti*, in the first few months of the year, the new work by the Group's most important Italian author, Sveva Casati Modignani with *Qualcosa di Buono* (160,000 copies), the publication of the latest book by Stephen King that brings to a close the "Torre Nera" cycle (100,000 copies) and the success of *I Segreti del Codice* by D. Burstein (85,000 copies), which cashed in on the publishing success story of the year, *Il Codice da Vinci* by Dan Brown. Special mention should also be made

of the good performance achieved by *Un Gitano Sedentario* by Alberto Granado (30,000 copies), which inspired the book *In Viaggio con Che Guevara* and the film *I Diari della Motocicletta*.

Education publishing

In 2004 Edmond Le Monnier registered a 4.6% increase in sales compared with 2003. This satisfactory result was obtained in a year that was made more difficult than usual as a result of the introduction of the educational reforms in all primary schools and in the first year of secondary schools.

During the year Edmond Le Monnier also increased its market share of adopted texts, which amounted to 14.5%, and established itself as the overall market leader thanks in part to the acquisition of *Texto S.p.A.*, which owns the *Piemme Scuola* publishing imprint.

The good performance was equally distributed throughout all the areas and school levels where the company operates. More specifically, textbooks for upper-middle schools, which represent over 50% of the overall revenues of Edmond Le Monnier, were particularly successful with a 4.2% increase compared with the previous year. Another significant result (+3.2%)

was obtained in the first grade secondary school sector, where the reforms in the first year cycle didn't effect revenues.

The 3.1% decrease in sales of textbooks in the nursery and primary school sectors was, however, mainly linked to the introduction of the reforms, which resulted in certain titles being withdrawn from the list of adopted texts.

Art books and exhibition organisation

In 2004 Mondadori Electa registered an excellent increase in sales of 10.3%. This increase, which confirmed the positive trend already expressed in recent years, was the result of the reorganisation project which saw the company become an operational holding of the Mondadori Group for activities related to the publishing of art and illustrated books and for handling additional services provided in Italian museums that are licensed to private companies and organisers of exhibitions and cultural shows.

In the Book sector, where the company has the *Electa* (figurative art, architecture texts, art catalogues and company monographs) and *Mondadori Illustrati* (various illustrated books and tourist guides) imprints, 290 new titles (247 in 2003) and 305 reprints (318

in 2003) were published in either Italian or other languages.

The medium-to-low-priced books produced by the *Electa* imprint registered extraordinary success with "Dizionari dell'Arte" and the new "Secoli dell'Arte" series (720,000 copies sold in three years between the Italian editions and international co-editions), while the imprint's medium-high-priced range included titles of the quality of *Filippino Lippi* by Patrizia Zambrano and Jonathan Nelson, *Arredi e Ornamenti alla Corte di Roma* by Gonzàles-Palacios and *La Villa Imperiale, Percorso Attraverso il Complesso degli Sboin e le Case da Tè della Residenza Imperiale a Kioto* by Katsura. The *Mondadori Illustrati* imprint also registered successful results for the sales of "Oggi Cucino Io" (70,000 copies of the two titles in the series) and the tourist guides in the "Top Ten series" (11 titles published).

In the add-on sales area, the company launched various initiatives with some of the other important Italian publishing groups designed to exploit the existing catalogue and create new works.

Electa also registered important results in the exhibition organisation sector where it was awarded the contract for the *Musei Civici*

of Venice and saw significant increases in the number of visitors to some of the monuments it is responsible for, including the Colosseum (+14%), Brera (+18%), Palazzo Ducale (+6%) and the Accademia in Venice (+1%), confirming the success of the development projects it has launched in conjunction with the various museum authorities.

The company was also responsible for organising, in collaboration with various public institutions, a number of successful exhibitions, including those at Palazzo Reale in Milan, *Ukiyoe. Il Mondo Fluttuante, Miti Greci* and *La Scala e l'Oriente*, the Scuderie del Quirinale, *Metafisica* and *Da Giotto a Malevich. La Reciproca Meraviglia*, the Colosseum, *Forma. La Città e il Suo Passato*, the Terme di Diocleziano, *Giorgio Armani: Retrospettiva*, the Scuderie di Miramare, *Storie da un'eruzione* (subsequently transferred to the Mannheim) and Palazzo Correr in Venice, *Turner and Venice*.

Distribution and Logistics

In 2004 the Distribution and Logistics sector, which carries out work for the Group's publishing house and for third-party publishers, registered sales that were in line with the previous year (-0.9%).

The last quarter of the year saw a significant increase in the movement of titles and shipping, with a 7.7% increase in the former and a 25% increase in the latter compared with 2003. Costs in this sector were substantially stable, registering a 1.5% increase compared with the previous year.

Special mention should also be made of the introduction of a new sorter that enabled the Group to increase the average number of orders shipped per day from 540 in 2003 to 760 in 2004, thereby improving service levels in terms of time and delivery.

The Magazine Division registered consolidated sales of €862.6 million, a 7.5% increase compared with 2003.

The following table gives an overall picture of the situation.

Magazine revenues:			
€ m	2004	2003	% change
Circulation	533.3	476.7	11.9%
Advertising	329.3	326.0	1.0%
Total revenues	862.6	802.7	7.5%

Circulation

Circulation revenues

€ m	2004	2003	% change
Mondadori titles	443.7	394.8	12.4%
Third-party	89.6	81.9	9.4%
Total circulation revenues	533.3	476.7	11.9%

Circulation revenues increased by 11.9%, which represented an even higher rate of increase than the excellent results obtained in 2003 (+7.4%). The increase was mainly due to revenues from add-on sales, which amounted to €184.9 million and involved 770 different products, 250 more than the previous year.

The circulation market where Mondadori competes increased once again in 2004 (+2.7% in terms of copies sold) only as a result of new products while the figures for existing titles continued to fall. 2004 saw the launch on newsstands of six new titles, including some low-cost and high circulation products, which contributed to the expansion of the market.

The Mondadori Group also launched new initiatives on the market. After the numerous initiatives launched in 2002-2003 (*Flair*, *Economy*, *Cucina no problem*, *Controcampo*, *Evo* and *Living*), all of which were consolidated during 2004, the Group successfully introduced:

- *Focus Junior*: a monthly title for children launched at the beginning of the year by Gruner&Jahr / Mondadori, which registered average circulation figures of over 270,000.
- *Per me*: the first women's psychological magazine which, following its launch in February created a new niche in the market which it currently dominates with average circulation figures of 226,000.
- *VilleGiardini*: completely restyled as part of Mondadori's strategy of reinforcing its up-market products, the title proved to be very popular with readers.
- *Easy shop*: launched in the autumn, this was the first Italian title dedicated to shopping and the two issues published in 2004 had average circulation of 206,000.

The following is an analysis of the performances of the Group's main titles and their market segments:

In a sector that registered a 1.2% decrease, *TV Sorrisi e Canzoni* was able to buck the negative trend that has affected

all television magazines in recent years with a slight increase in average circulation figures (1,382,000 copies, +0.3%). This brilliant performance was the result of editorial interventions carried out on the product and of the excellent results of the marketing activities implemented in perfect harmony with the title's family target.

Panorama, which registered a slight decrease (514,000 average copies, -2.2%), maintained the distance of around 130,000 copies that separates it from its main competitor. The newsmagazine also maintained its position of undisputed leader in terms of add-on sales. *Panorama Economy* achieved average sales of 81,000 copies, registering the same level of sales as the traditional market leader in the sector just one year after its launch.

In the women's weekly magazine sector, where the only increases were registered by new titles, Mondadori titles performed better than their rivals and maintained their leadership in the sector with a market share of around 54%.

Donna Moderna, even with a 7% decrease in circulation, maintained its position of overall leader in the sector with average circulation figures of 502,000. *Grazia* registered the best performance in this sector, where it had average circulation figures

of 238,000.

Special mention should also be made of the positive performance of *Cbi*, which registered average sales of 524,000 copies, representing a 1.6% increase compared with 2003.

In the women's monthly magazine sector, the circulation figures of *Cosmopolitan* continued to increase (225,500 on average, +1.4%), while *Flair* was well received by readers after its February 2003 launch (162,000 average copies) and *Top Girl* jumped 16% thanks to its new format and a new pricing policy.

The performance of *Casaviva* was particularly brilliant (+1%) in the context of a sector that decreased by 4%. The launch of the new edition of *VilleGiardini* resulted in average sales of 64,000 copies, an extraordinary result for the upmarket sector.

The strong competition among cookery magazines saw Mondadori titles maintain their overall leadership of the sector with almost 7 million copies sold. *Cucina no problem*, which was launched at the end of 2002, consolidated its circulation at around 128,000 compared with a figure of 91,000 copies for its main competitor, while *Cucina Moderna* also maintained its leadership in the sector and increased the distance between itself and its competitors

with average sales of 284,000.

Focus, which is still the highest-selling magazine in Italy (748,000 copies, -2.4%), produced another good performance despite the arrival of new competitors in the sector, while *Jack*, another title from Gruner & Jahr / Mondadori, increased its average circulation to 152,500 (+25%).

Mondadori also confirmed its position as undisputed leader of optional product sales in increasing its market share compared with 2003, registering sales figures of 52% of products linked to magazines in terms of number of units.

Excellent results were also registered for, in particular, the sale of DVDs (+150% in the number of units), where special mention should be made of the DVDteca initiative linked to *Panorama*, which comprises a series of 45 DVDs (at €12.90 each) of the most successful international films and the series of DVDs of the most successful television drama programmes (for example, *Elisa di Rivombrosa*). Editorial products were also extremely successful (+50%), with particular mention of the cookery cards linked to *Donna Moderna* and *Tu*, the series of books by comedians linked to *TV Sorrisi e Canzoni* and the maps linked to *Panorama*.

In conclusion, the children's video cassettes issued with *TV Sorrisi e Canzoni* were also very well received by readers, despite the fact that the overall video cassette add-on sales market decreased.

Mondadori began 2005 in a very aggressive manner. Following the announcement on television of a number of launches, two new magazines produced by the Mondadori Group (the fortnightly *2TV* and the weekly *Star+TV*) hit the newsstands while the editorial content of *TV Sorrisi e Canzoni* was reinforced.

In the area of add-on sales, apart from the usual products the year also saw the launch of the "Garzantine" encyclopaedias, with the first four paid volumes selling over 1,800,000 copies.

In confirmation of the strategic objective of foreign development, after the consolidation of the Group's investment in the Greek publishing house Attica Publications, 40% of which is controlled by Mondadori, a thirty-year licence agreement was signed with the UK publisher Emap for the publication of the English-language version of the weekly *Grazia*. The launch of *Grazia UK*, which took place in February, was very successful and represents a first for the UK magazine market where previously there were no high-target women's weeklies.

Advertising

The advertising market closed 2004 with positive results (+7.3% overall), although there was a wide range of difference between the individual areas.

The positive performance in the first part of the year up to the summer was, however, offset by the general decrease in the market towards the end of the year that involved all the various media including the traditionally strong sectors of FNCG, cosmetics and telecommunications.

This trend also applied to the magazine sector which, after registering a slight increase in the first part of the year, saw revenues fall in September, October and November and then pick up again in December.

We now move on to a more detailed analysis of the various sectors of the market, as illustrated in the table on the right which is based on data provided by Nielsen. The double-digit increase in radio (almost 22%) and television advertising (+10.4%), was counterbalanced by a more modest increase in advertising in print media (+1.6%) which, more specifically, saw a positive trend for investments in Newspapers (+2.4%), while revenues from Magazines remained

Advertising market

€ m	2004	2003	% change
Television	4,551.2	4,123.6	10.4%
Magazines	1,168.9	1,165.3	0.3%
Newspapers	1,719.3	1,678.6	2.4%
Radio	400.2	329.0	21.7%
Outdoor	192.1	187.2	2.7%
Cinema	90.5	82.9	9.3%
Total advertising market	8,122.2	7,566.6	7.3%

Source: Nielsen

substantially stable (+0.3%).

In the twelve-month period Mondadori Pubblicità achieved better results than the reference market with an increase in advertising revenues of 1.0% compared with the same period the previous year, despite the arrival on the market of two important competing titles, *DiPiù* and *Vanity Fair*.

The positive results returned by Mondadori Pubblicità, in contrast to its major competitors, were helped by the new launches (*Per Me* and *Easy Shop*) and by the positive performances of long established Mondadori titles (*Chi*, *Grazia*, *Casaviva* and *TV Sorrisi e Canzoni*) and *joint venture* titles (particularly *Cosmopolitan*).

As for the different sectors, the most positive performances came from the fashion, business, car and leisure sectors, which

counterbalanced the negative performances registered in the cosmetics and FNCG sectors.

In the first months of 2005 the general situation continues to be uncertain, with just a hint of a recovery.

The current year will be characterised, also for Mondadori Pubblicità, by the new publishing initiatives already launched by Mondadori in the first weeks of January in the television sector and, above all, by the Group's debut on the Radio market with the acquisition of *Radio 101 One-O-One*, the advertising sales for which will be handled by the Mondadori Group's advertising Company through a specific network.

2004 represented a positive year for the Printing Division both in terms of gross sales, which increased by 1.1%, and results. The market confirmed the slight increase in performances that began in 2003, although there were significant differences among the different sectors where the Division operates.

The magazine market registered substantial stability both in terms of print runs and in the number of pages.

In Europe the catalogue market continued to be concentrated on a number of important printing companies which consolidated their positions, although this did not lead to any significant reductions in the volume of printing. In this context, **Mondadori Printing** reinforced its presence in the German and British markets while in the French market it re-launched its commercial presence through AME France, with the objective of increasing its market share.

The monochrome hardback and paperback books market maintained the excellent levels of recent years, partly due to the impetus from the initiatives developed by magazine and newspaper publishers connected to newsstand add-on sales. In the Cles printing plants, which celebrated thirty years of production, a second Timsons rotary press came into production.

The illustrated books sector confirmed the stability in the number of volumes for a product that is now mature. This balance was due to three main factors: the static level of sales which are now well established at the levels of the second half of 2001, the strength of the euro against the dollar and sterling and competition from printers in the Far East.

The directory printing sector registered a reduction in volume compared with 2003, in line with the agreement fixed with the client.

Revenues from third-party clients amounted to €205.5 million (€208.0 in 2003), €89.4 million (€108.7 in 2003) of which was from foreign sales. This decrease was due to the strengthening of the euro against the dollar and sterling and to the decision to abandon some products/clients with modest profit margins.

Overall, therefore, print revenues (net of paper and transport costs) increased by 5.6 % compared with 2003 while the use of the division's production plant was higher than the previous year. The various printing establishments improved their levels of production, increasing the number of pages produced by 5% compared with 2003. The quantity of paper processed in the various factories during 2004 amounted

to 334,795 tons compared with 330,061 tons in 2003, representing an increase of 1.42%. The cost of paper fell once again (4-5%), benefiting the Group's book and magazine divisions.

The initiatives first introduced in 2003 to improve the efficiency of the support structure continued throughout 2004, making it possible to maintain fixed costs at a stable level while increasing the level of business.

Investments to be carried out in 2005, aimed at improving the competitiveness of production costs and the quality and service offered to clients, were defined and approved.

As for the subsidiary **Artes Graficas Toledo**, 2004 saw the completion of the restructuring programme first begun in 2003 and designed to allow the company to compete in the market with competitive costs.

Significant capital gains were made from the sale of land bordering the printing complex and not used for production purposes.

Printing revenues net of paper costs

€ m	2004	2003	% change
Magazines	123.5	124.8	(1.0%)
Books	90.3	75.5	19.6%
Catalogues and promotional material	30.1	29.8	1.0%
Directories	4.0	4.7	(14.9%)
Total printing revenues net of paper costs	247.9	234.8	5.6%

In 2004 the Mondadori Group registered an important increase of revenues in this area (+11.3% compared with 2003), with an excellent performance particularly in December, which commercially was the most important of the year.

It should also be noted that the internet activities carried out in the various divisions and companies of the Direct Division (Mondolibri, Abbonamenti and BOL), continued to increase, confirming the fact that this area is still developing strongly.

Mondolibri

While operating in the mature mail-order book market, the company was able to maintain a level of profitability from revenues that were substantially stable (+0.9%).

Inside the areas where the company operates, the increase in certain sectors (internet and retail) compensated for decreases in other sectors, such as mail order shipping, which also registered a decrease in profitability (particularly as a result of the new privacy laws).

During 2004 two new shops were opened, in Varese and Naples.

Direct Division: revenues

€ m	2004	2003	% change
Mondolibri S.p.A. (*)	42.8	42.4	0.9%
Cemit Interactive Media S.p.A.	30.1	27.5	9.5%
Total direct marketing	72.9	69.9	4.3%
Mondadori Franchising S.p.A.	31.0	25.7	20.6%
Mondadori Retail S.r.l.	77.1	67.0	15.1%
Total retail	108.1	92.7	16.6%
Total Direct Division	181.0	162.6	11.3%

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

Cemit

2004 saw a healthy increase in turnover (+9.5%), part of which was due to a large order for a one-off commission, while revenues from traditional clients were relatively stable despite the stagnant nature of the communications market.

Mondadori Franchising

Mondadori Franchising registered a good increase in revenues, profitability and the number of outlets, which grew from 132 to 149.

Revenues increased notably compared with 2003 (+20.6%) thanks to new affiliates in the year in question and to an increase in sales in existing bookshops.

In December the first outlet in the new chain "Edicolè", which adopts the franchising formula for newsstands for the first time

in Italy. This move into magazine and newspaper retailing is characterised by an innovative formula that foresees a high level of integration with books and an ambitious development programme.

The automation of the logistics system and the new information system were both completed during 2004.

Mondadori Retail

The programme to develop the sales network continued with the opening during the year of 2 new shops (in Varese and Bologna), while the year closed with a notable increase in revenues (+15.1%), 7.5% of which came from sales to large-scale clients.

The table above gives a summary of the sales data for financial year 2004, compared with the previous year.

The Mondadori Group's financial situation as of 31 December 2004 showed a surplus

of €96.7 million, as illustrated in the following table:

Net financial position

€ m	31/12/2004	31/12/2003
Short term bank and Post Office deposits	78.3	42.3
Short term borrowing from banks	(2.4)	(28.4)
Financing (short and medium/long term)	(115.4)	(123.1)
	(39.5)	(109.2)
Fixed interest securities, bonds and shares	553.5	580.3
Bonds	(296.4)	(296.4)
Convertible bonds	(109.9)	(109.9)
Other borrowing	-	(1.4)
Cash, cheques, net financial receivables from Group companies and third parties and accrued interest income	(10.7)	9.9
Net financial receivables (payables)	97.0	73.3
Leasing debts	(0.3)	(0.4)
Net financial position	96.7	72.9

Cash flow summary

€ m	31/12/2004	31/12/2003
Initial net financial position	72.9	109.3
Net result	104.1	82.1
Depreciations	55.8	62.3
Self-financing	159.9	144.4
Changes in working capital	(8.9)	(11.4)
Net investments	(37.5)	(64.3)
Severance indemnities	2.0	(1.1)
Buy-back of company shares, net of sales	(13.3)	(57.4)
Other assets/liabilities	(6.9)	15.5
Operating surplus (requirement)	95.3	25.7
Dividends	(72.5)	(62.4)
Other capital movement	1.0	0.3
Financial surplus (requirement)	23.8	(36.4)
Final net financial position	96.7	72.9

Variations in interest rates and exchange rates

2004 was characterised by a notable recovery in the international economic situation, led by the United States and the emerging Asian countries, above all China. The world economy increased by 3.8%, while the euro zone was the only large economic area to register a reduced growth rate (1.8% for the year).

In this macroeconomic context, since the beginning of the year the dollar fell by 8% from 1.255 at the beginning of January to 1.355 at the end of the year. (During the first months of 2005 the American currency recovered to around 1.28 before falling to its current value of 1.32.) Sterling returned to the value it held at the beginning of the year (from 0.704 at the beginning of January to 0.706 at the end of December), even though during the second quarter of the year it fell to 0.66. (During the first months of 2005 sterling made a slight recovery against the euro, climbing to 0.69.) 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) increased from 2.149% at the beginning of January 2004 to 2.185% at the end

of December 2004. During the same period the average cost of money for the Mondadori Group was approximately 3.27%.

As of 31 December 2004, the Mondadori Group had unused lines of credit for a total of over €1,060 million.

As of 31 December 2004, 6.6% of the Group's short-term facilities, amounting to €646 million, were used by means of self-liquidating lines of credit (discount bills) and stand-by credits with a duration of less than 18 months minus a day.

The medium-long term lines of credit, amounting to €421.6 million, were made up of €296.4 million from a private placement in dollars in the USA, divided into three tranches of, respectively, 215 million with repayment in 2013, 40 million with repayment in 2015 and 95 million with repayment in 2018, and €109.9 million from debenture loans convertible into ordinary Mondadori shares with repayment in 2008. An operation to cover any risks arising from changes in interest rates or exchange rates related to the private placement was implemented with JP Morgan Chase Bank. As of 31 December the Group also had medium/long term subsidised loans to publishers for €15.3 million.

Mondadori International

During 2004 Mondadori International,

the holding company that handles the Group's financial activities, generated consolidated net profits of €11.7 million (€9.7 million in 2003). The company's consolidated net financial position decreased from €456.8 million at the beginning of the year to €410.3 million at year's end, after exercising an acquisition option and paying €24.7 million for the acquisition of a further 20% of Attica Publications (the main magazine publishers in Greece for which the company already holds 20% of the shares). As of 31 December 2004 the company's gross financial activities amounted to €514 million (€566.7 million at the end of 2003).

Cash return during 2004 amounted to approximately 2.8% and at the end of the year the portfolio was made up in the following way:

- money products held in ABS Sicav (a Luxembourg-based company for managing the liquidity with the bank SEB, a part of the Banca Intesa Group) for approximately €350 million (the main administrators are Lazard, BNP Paribas, Morgan Stanley, HSBC and West AM);
- bank deposits and variable interest rate bonds for approximately €78 million, directly administered by Mondadori International and with Banca Intesa London and Morgan Stanley London as custodians;
- hedge funds for approximately €78 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 that 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 2004 Group companies employed 4,625 people (4,751 at 31 December 2003), while the average number of personnel during 2004 amounted to 4,630 (4,791 in the same period in 2003).

The numbers referred to above also include temporary staff.

The decrease in the number of personnel amounted to 126 people, which mainly concerns manual workers, was most often linked to voluntary redundancy schemes.

The cost of personnel increased by 2.6% from €252.5 million to €259.1 million (including internet activities).

The following table shows details of Group personnel as of 31 December 2004.

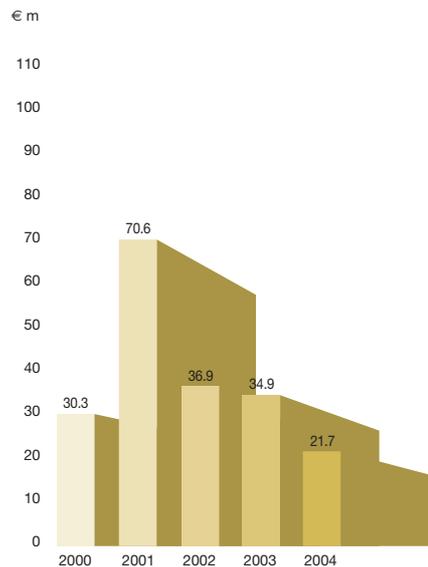
Personnel	31/12/2004	31/12/2003
Arnoldo Mondadori Editore S.p.A.:		
Managers, journalists and office staff	1,491	1,550
Manual workers	109	144
	1,600	1,694
Italian subsidiaries:		
Managers, journalists and office staff	1,676	1,649
Manual workers	1,203	1,253
	2,879	2,902
Foreign subsidiaries:		
Managers, journalists and office staff	42	38
Manual workers	104	117
	146	155
Total	4,625	4,751

During 2004 the Group made investments of €21.7 million in technical assets, €21.4 million of which entered into operation during the year.

The majority of these investments in terms of value concerned, as usual, the printing works of Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. with €18.3 million invested in plant and printing machinery and industrial buildings.

The opening of new shops accounted for investments of €1 million for furnishings, while the replacement of personal computers and obsolete office machines accounted for €2.4 million.

Disinvestments during 2004 amounted to €1.2 million net and were carried out in the same categories where new investments were made.



Mondadori Group: capital expenditure

Probable developments of business activities

Relevant events after the end of the period

Probable developments of business activities

The performance of the various business activities in the first part of 2005 has been in line with forecasts and indicates that the results for the full year will confirm the excellent performance achieved in 2004.

Relevant events after the end of the period

Acquisition of the radio station 101 One-O-One

In January 2005 the acquisition was finalised, through the subsidiary Monradio S.r.l., of:

- the radio activities of the broadcaster Radio 101 One-O-One resulting from the broadcast licence for national commercial radio broadcasting;
- and for the radio activities connected to the repetition of a foreign signal.

This operation, which is part of the previously announced strategic policy of entering a sector that the Company considers consistent with its diversification and development objectives, was defined on the basis of the binding offer agreed with the counterpart on 30 July 2004.

The final cost of the operation - established

on the basis of the positive results of technical, legal, administrative-accounting and fiscal due diligence carried out prior to the acquisition - amounted to €39.6 million.

Mondadori also acquired 10% of Rock FM S.r.l., the holder of two broadcasting licences for local commercial radio broadcasting (Rock FM and Radio Milano International), on the basis of a valuation of €2.7 million for 100% of the company. 90% of Rock FM S.r.l. is owned by the Greek company Attica Publications S.A. (40% of which is owned by Mondadori), which already operates in the radio sector through Athens Radio Dee Jay.

The acquisition is subject to the authorisation of the Competition Authority and other competent Authorities.

Launch of *STAR+TV* and *2TV*

In January 2005 the company launched on the television magazine market two new titles, the fortnightly *2TV* (on sale from 10 January) and the weekly *STAR+TV* (on sale from 17 January).

With the two new titles Mondadori intends to satisfy two different demands from different readerships: information about programmes based on maximum utility, ease of use and essential details at a low price with the

fortnightly *2TV*; the continuously increasing desire to know everything about television personalities, linked to the high level of curiosity they excite with the weekly *STAR+TV*.

The following section deals with information about the specific subjects:

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.

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.

Fiscal consolidation

With regard to the new regulations concerning fiscal consolidation, as referred to in art 117 of DPR 917/1986, Arnoldo Mondadori S.p.A. has exercised its option to adhere to the fiscal consolidation

in consideration of it being a subject consolidated jointly with Fininvest S.p.A.

The adhesion of the Mondadori Group to the "Fininvest fiscal consolidation" is subordinate to the introduction, in the consolidation agreement, of a protection clause stating that the Mondadori Group will not be required to make income tax payments for a sum greater than the sum the Group would have been obliged to pay if Mondadori S.p.A. had carried out its own fiscal consolidated. The contract also provides for the recognition in favour of Arnoldo Mondadori Editore S.p.A., taking into account the taxable income transferred from all the companies in the Fininvest Group involved in the fiscal consolidation, of a part of the eventual fiscal advantage for Fininvest S.p.A. as a result of the adhesion of the Mondadori Group to the consolidation.

Any receivables and payables deriving from the adhesion to the aforementioned agreement are booked to receivables and payables from parent companies.

Fiscal transparency

With regard to the introduction of art. 115 of DPR 917/1986, the "fiscal transparency" option between Arnoldo Mondadori Editore S.p.A. and the following companies was exercised:

Gruner & Jahr Mondadori S.p.A.
Harlequin Mondadori S.p.A.
BOL-Books on Line Italia S.p.A.
PressTv S.p.A.

As a consequence of this option being exercised, the taxable income and fiscal losses of the aforementioned companies contribute pro-quota to the taxable income of Arnoldo Mondadori Editore S.p.A.

Management and coordinating activities (art. 2497 of Civil Code)

During the year the Board of Directors has verified, with reference to legal requirements and taking into consideration the fact that the Board of Directors of Arnoldo Mondadori Editore S.p.A. establishes, in general, the strategic and organisational policies relative to subsidiary companies, the management and coordinating activities referred to in articles 2497 and subsequent modifications of the Civil Code relating to the following subsidiary companies in accordance with art. 2359 of the Civil Code: Cemit Interactive Media S.p.A.
Edizioni Frassinelli S.r.l.
Edizioni Piemme S.p.A.
Edmond Le Monnier S.p.A.
Fied S.p.A.
Giulio Einaudi Editore S.p.A.
Mondadori Electa S.p.A.

Mondadori Franchising S.p.A.
Mondadori Printing S.p.A.
Mondadori Pubblicità S.p.A.
Mondadori Retail S.p.A.
Mondadori Sistemi di Comunicazione S.r.l.
Sperling & Kupfer Editori S.p.A.

The aforementioned companies have consequently carried out the relative information obligations as contained in art. 2497 bis of the Civil Code.

Intergroup debenture loan

On 16 June the Board of Directors of Arnoldo Mondadori Editore S.p.A. resolved, in accordance with art. 2410 of the Civil Code, to issue a non-convertible debenture bond for a nominal value of US \$350 million, reserved entirely and exclusively for subscription by the subsidiary company Mondadori International S.A. - Luxemburg.

The operation is linked to the issue, on the part of Mondadori International S.A. between October and December 2003 and communicated to the market at the time, of a *private placement* operation for US \$350 million that was reserved exclusively for American institutional investors.

It should be noted that the *private placement* operation is divided into three tranches

of US \$215 million, US \$40 million and US \$95 million, with expiry of 10, 12 and 15 years and six-monthly fixed coupons equal to 5.42%, 5.57% and 5.82%, corresponding to an average Euribor rate plus approximately 60 base points.

Mondadori International channelled the financial resources generated by the private placement to the holding company, Arnoldo Mondadori Editore S.p.A., by means of an intergroup loan which has the same characteristics as the private placement as far as amount, expiry dates and interest rates are concerned, and the funds will be used to refinance existing bank loans and prolong their expiry dates.

The private placement that the Board of Directors decided to set up for Mondadori International is exclusively intended to replace intergroup loans, since it has the same characteristics as those referred to above, and therefore will not have any impact whatsoever on either the financial structure of the two companies involved or on the consolidated financial structure.

Characteristics of the debenture loan

The characteristics of the debenture loan, which are the same in relation to what is written above as those of the private placement, are as follows:

- **issue price:** the debentures are issued on a par basis at an overall price of US \$ 350 million made up in the following way:
I tranche of US \$ 215 million starting from the issue date of the loan and expiring on 18 December 2013;
II tranche of US\$ 40 million starting from the issue date of the loan and expiring on 18 December 2015;
III tranche of US\$ 95 million starting from the issue date of the loan and expiring on 18 December 2018.

- **interest:** fixed rates of 5.42%, 5.57% and 5.82% for, respectively, the I, II and III tranches, payable at six-monthly intervals on 18 June and 18 December of every year and corresponding to the market rates applied to private placement operations.

Exercising call option on Attica Publications S.A.

In October the decision was taken, in confirmation of the Group's strategic objective of pursuing international development in the magazine sector, to exercise the option for the acquisition of a further 20% stake in the share capital of Attica Publications S.A., the Greek publishing group quoted on the Athens Stock Exchange and market leader in the Greek magazine sector with a significant presence in East European markets.

The Mondadori Group consequently now holds a 40% stake in Attica, the same share as that held by the founding partners. The increase in this investment gives the Mondadori Group a greater say in the management of the company.

The acquisition option was included in the contract signed in March 2003 with which Mondadori agreed to acquire the first 30% stake in the company. The cost of exercising the option, which was calculated on the basis of criteria already established in the aforementioned contract, amounted to €23.2 million, which corresponds to approximately 10 times the EBITDA forecast for 2004.

Mondadori decided to exercise the option in view of the excellent economic performances attained by Attica between 2001 and 2004, which registered significant and constant improvements in terms of net revenues and profitability, and in view of the Greek company's development plans which promise to be an excellent platform for launching Mondadori titles abroad.

The Attica Group, with revenues in 2004 of over €86 million, has successfully continued to grow in all activities and particularly in the magazine sector where it is

now the market leader after increasing its portfolio of titles. In the East European market (Bulgaria, Hungary and Rumania), the Greek Group's expansion policy has already resulted in the launch of new titles, and these will soon be followed by further publishing initiatives in other central European countries.

Licence agreement with the EMAP Group for the publication of *Grazia* in the UK

In October Arnoldo Mondadori Editore S.p.A. signed a licence contract with Emap, one of the most prestigious publishing companies in Europe, for the publication of *Grazia* in the UK.

The licence contract, which is for thirty years and will be automatically renewed on expiry, allows Emap to launch the first weekly glossy women's magazine in the UK market, exploiting the publishing know-how and creativity of the title.

Emap has planned a budget of £16 million for the February 2005 launch of *Grazia*.

This operation represents a further step in the Mondadori Group's strategic policy of pursuing the international development of the magazine sectors which, apart from including making direct investments in the share capital of publishers with a high growth potential (as in the case of Attica in Greece

and other central European countries), is now also concerned with offering licence agreements for Mondadori titles to leading foreign publishers

Emap is one of the most important publishers in the UK and France with a portfolio of over 400 titles including *FHM*, *Kiss*, *Heat*, *Nursing Times*, *Health Service Journal*, *Spring Fair*, *MaxPower*, *Kerrang!*, *Smash Hits!*, *Télé Star*, *Auto Plus* and *Pleine Vie*.

When Emap, which is quoted on the London Stock Exchange, closed its financial year on 31 March 2004, it registered revenues of £1,050 million and operating profits of £196 million.

Conversion to International Accounting Principles

During 2004 a qualitative analysis and a study into the impact on the Mondadori Group of the introduction of international accounting principles (IFRS) was carried out.

In relation to this, apart from the impact deriving from the different methods of dealing with specific items in the balance sheet, such as booking treasury stock held in the portfolio or eliminating some long-term charges that cannot be capitalised with the new principles, the following were defined: Group guidelines in relation to the representation of the Business Units where it operates;

the approach to the First Time Application of optional and obligatory exemptions; the impairment test process for non-defined life intangible assets (titles and series); the quantification and itemising of the value of warehoused goods for assets valued with the Lifo method (raw materials).

During the first few months of 2005, the re-opening data as of 1 January 2004 will be audited and the process of readjusting the Group's information systems to take account of the new principles will be completed.

Privacy policy document

In relation to the obligations contained in Legislative Decree 196/2003, Arnoldo Mondadori Editore S.p.A., declares and guarantees to have arranged for the drawing up of the Privacy Policy Document outlined in regulation 19 of the technical regulations concerned with minimum privacy measures (attachment B, Legislative Decree 196/2003), within the time limits indicated and in accordance with the method established by the regulations.

Share buy-back

The ordinary Shareholders' Meeting of 26 April 2004 resolved, in accordance with art. 2357 of the Civil Code, to authorise the purchase –

taking account of the 17,653,311 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 2004, 313,809 ordinary shares with a par value of €0.26 were bought on the market. During the same period 1,560,000 of the company's own ordinary shares were sold, 1,235,000 of which as part of the Stock Option Plan.

As of 31 December 2004 the company owned a total of 16,407,120 of its own ordinary shares with a par value of €0.26 each (6.32% of the share capital), worth a total of €108,171,751 for an average value of €6.59 per share.

During the year a further 2,899,419 ordinary Mondadori shares, equal to 1.12% of the share capital, were bought on the market by the subsidiary Mondadori International S.A.

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 in consequence of 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 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 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 solar 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 2004 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	71	6.471	01/01/2006 - 31/12/2007
2004	2,170,000	73	7.749	01/01/2007 - 31/12/2008

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 2004 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	110,000 ¹	110,000 ¹	228,700
Barbaro Francesco	Arnoldo Mondadori Editore	57,800	70,000 ¹	70,000 ¹	57,800
Berlusconi Pier Silvio	Arnoldo Mondadori Editore	172,000	-	-	172,000
Cannatelli Pasquale	Arnoldo Mondadori Editore	-	-	-	-
Confalonieri Fedele	Arnoldo Mondadori Editore	-	-	-	-
Ermolli Bruno ²	Arnoldo Mondadori Editore	2,400	-	-	2,400
Forneron Mondadori Martina	Arnoldo Mondadori Editore	214,499 ³	-	47,372	167,127
Poli Roberto	Arnoldo Mondadori Editore	-	-	-	-
Puerari Giovanni	Arnoldo Mondadori Editore	59,100	50,000 ¹	50,000 ¹	59,100
Resca Mario	Arnoldo Mondadori Editore	-	-	-	-
Spadacini Marco ²	Arnoldo Mondadori Editore	-	4,000	-	4,000
Frattoni Achille	Arnoldo Mondadori Editore	-	-	-	-
Superti Furga Ferdinando	Arnoldo Mondadori Editore	-	-	-	-
Aiello Antonio	Arnoldo Mondadori Editore	-	-	-	-
Giampaolo Francesco	Arnoldo Mondadori Editore	-	-	-	-
Vittadini Francesco	Arnoldo Mondadori Editore	500	-	500	-

(1) shares from exercising stock-option acquired and sold on the same date

(2) shares held by wife

(3) inherited shares

Resolution proposal

The Financial Statements as of 31 December 2004 closed with a net profit for the financial year of €92,862,696.57. We submit the following text to you for the motion:

“The ordinary Shareholders’ General Meeting 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 2004

resolves

- 1. to approve the Report of the Board of Directors on the Company’s performance and the Financial Statements of 31 December 2004, 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 2004 in the following way:*

Net profit for the year	€92,862,696.57
a) to the reserve fund ex law 124/93 art. 13:	27,330.57
b) to the reserve for purposes of profits from exchanges (art. 2426 no. 8 bis Civil Code)	52,936.70
c) to the Shareholders a total dividend of €0.35 per each ordinary share, gross of taxes net of treasury stock)	
d) the residual profit to the extraordinary reserve.	

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 23 May 2005, for payment from 26 May 2005.

For the Board of Directors
Chairman
Marina Berlusconi

Financial Statements
of Arnoldo Mondadori Editore S.p.A.
as of 31 December 2004

Balance sheet
and Income statement
of Arnoldo Mondadori Editore S.p.A.
as of 31 December 2004

Balance sheet

Assets

(in euros)	Year ended 31 December 2004			Year ended 31 December 2003
	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				
2 research, development and advertising costs				
3 industrial patents and intellectual property rights		949,179		784,862
4 concessions, licences and trade marks		85,496,172		100,565,784
5 goodwill				731,647
6 assets under construction and advances		18,300		319,657
7 others		1,346,959		2,655,400
Total			87,810,610	105,057,350
II- Fixed assets				
1 land and buildings		23,647,494		23,659,941
2 plant and machinery		5,563,562		2,816,207
3 industrial and commercial equipment		503,021		149,987
4 other assets		5,243,313		3,625,709
5 assets under construction and advances		288,438		633,335
Total			35,245,828	30,885,179
III- Financial assets				
1 investments in:				
a) subsidiary companies		722,338,055		720,340,465
b) associated companies		28,267,511		27,344,490
c) parent companies				
d) other companies		171,359		186,936
Total		750,776,925		747,871,891
		<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	1,671,213	2,070,046	3,741,259	2,874,583
Total	1,671,213	2,070,046	3,741,259	2,874,583
3 other securities				
4 treasury stock		108,171,751		116,885,360
Total			862,689,935	867,631,834
Total non-current assets (B)			985,746,373	1,003,574,363

(in euros)	Year ended 31 December 2004			Year ended 31 December 2003
	Sub Total 1	Sub Total 2	Total 3	
C) Current assets				
I- Inventories				
1 raw materials		116,273		117,506
2 semi-finished products, work in progress		21,282,005		24,594,461
3 contract work in progress				
4 finished products and goods		14,674,111		15,500,034
5 advances				
Total			36,072,389	40,212,001
	<i>within 12 months</i>	<i>over 12 months</i>		
II- Receivables				
1 trade accounts	90,552,011	923,688	91,475,699	80,022,481
2 due from subsidiaries	150,374,515		150,374,515	162,733,221
3 due from associated companies	24,946,559		24,946,559	21,742,303
4 due from parent companies	2,708		2,708	1,985
4a tax receivables	3,454,241		3,454,241	9,541,304
4b advance taxes	19,425,398		19,425,398	15,523,335
5 due from third parties	33,897,501	243,425	34,140,926	31,888,301
Total	322,652,933	1,167,113	323,820,046	321,452,930
III- Financial assets (current)				
1 investments in subsidiaries				
2 investments in associated companies				
3 investments in parent companies				
4 other investments				
5 treasury stock				
6 other securities			49,999,000	28,992,997
Total			49,999,000	28,992,997
IV- Cash and equivalents				
1 cash, banks and postal accounts			46,424,790	15,829,399
2 cheques				
3 cash and commercial papers in hand			14,762	19,037
Total			46,439,552	15,848,436
Total current assets (C)			456,330,987	406,506,364
D) Accrued income and prepaid expenses				
1 accrued income			128,470	99,746
2 prepaid expenses			9,743,361	6,503,051
3 premium on loans				
Total accrued income and prepaid expenses (D)			9,871,831	6,602,797
Total assets			1,451,949,191	1,416,683,524

Balance sheet

Liabilities

(in euros)	Year ended 31 December 2004			Year ended 31 December 2003
	Sub Total 1	Sub Total 2	Total 3	
A) Shareholders' equity				
I- Share capital			67,451,756	67,451,756
II- Share premium reserve			175,575,112	170,380,192
III- Revaluation reserve			16,711,412	16,711,412
IV- Legal reserve			13,490,351	13,490,351
V- Reserve for treasury stock				
VI- Statutory reserve			108,171,751	116,885,360
VII- Other reserves				
1) Extraordinary reserve		94,498,474		89,077,295
2) Reserve law 675 of 12/8/1977		351,349		351,349
3) Conferral reserve law 904 of 16/12/1977		750,739		750,739
4) Capital account contribution reserve		5,334,814		5,334,814
5) Reserve law 124/93 art. 13		98,524		73,125
6) Merger reserve		478,222		478,223
			101,512,122	96,065,545
VIII- Profit (loss) carried forward				
IX- Profit (loss) for the year			92,862,697	74,460,845
Total Shareholders' equity (A)			575,775,201	555,445,461
B) Reserve for risks and charges				
1 retirement benefits		2,704,200		2,703,718
2 income taxes, also deferred		5,049,999		3,150,359
3 other		18,546,739		20,286,285
Total reserve for risks and charges (B)			26,300,938	26,140,362
C) Reserve for severance indemnities			45,053,340	44,334,682
D) Debts and other payables				
	<i>within 12 months</i>	<i>over 12 months</i>		
1 bonds		296,384,114	296,384,114	
2 convertible bonds				
3 due to shareholders for finance				
4 due to banks	100,611,898		100,611,898	123,202,705
5 due to third parties				
6 advances	26,533,003		26,533,003	24,965,661
7 trade accounts	110,614,727		110,614,727	109,436,103
8 debts represented by credit instruments				
9 due to subsidiaries	146,242,192		146,242,192	434,740,110
10 due to associated companies	25,953,330		25,953,330	20,240,738
11 due to parent companies	13,834,025		13,834,025	
12 income taxes payable	6,714,523		6,714,523	13,106,911
13 due to pension funds and social security institutions	9,678,399		9,678,399	9,084,600
14 other liabilities	57,073,177		57,073,177	49,540,171
Total debts and other payables (D)	497,255,274	296,384,114	793,639,388	784,316,999

(in euros)	Year ended 31 December 2004			Year ended 31 December 2003
	Sub Total 1	Sub Total 2	Total 3	
E) Accrued liabilities and deferred income				
1 accrued liabilities		7,798,413		2,422,181
2 deferred income		3,381,911		4,023,839
3 discounts on loans				
Total accrued liabilities and deferred income (E)			11,180,324	6,446,020
Total liabilities			1,451,949,191	1,416,683,524
Memorandum accounts				
1 Guarantees and sureties				
a) in favour of subsidiaries			72,843,220	68,879,043
b) in favour of associated companies			2,579,710	2,770,393
c) in favour of parent companies				
d) in favour of third parties			10,768,830	10,844,620
2 Commitments			9,459,986	24,895,335
3 Risks				
4 Others			259,211,040	268,269,336
Total memorandum accounts			354,862,786	375,658,727

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

For the Board of Directors
Chairman
Marina Berlusconi

Income statement

(in euros)	Financial year 2004		Total 3	Financial year 2003
	Sub Total 1	Sub Total 2		
A) Production value				
1		1,030,852,216		948,697,344
2		-4,138,379		2,382,279
3				
4				
5				
a)				
b)				
	41,117,716	41,117,716		33,620,125
Total production value (A)			1,067,831,553	984,699,748
B) Production costs				
6		236,510,145		222,069,589
7		534,361,181		494,126,644
8		12,614,064		12,723,591
9				
a)	88,728,926			84,793,458
b)	25,753,784			24,579,796
c)	7,182,248			7,215,966
d)	28,539			25,189
e)	2,179,639			3,142,578
Total			123,873,136	119,756,987
10				
a)	11,790,945			12,680,769
b)	6,441,049			5,484,537
c)	7,226,000			
d)	4,944,500			1,691,336
Total			30,402,494	19,856,642
11		1,233		11,764
12		3,443,000		3,477,965
13				
14		7,487,834		7,637,468
Total production costs (B)			948,693,087	879,660,650
Difference between production value and production costs (A-B)			119,138,466	105,039,098

(in euros)	Financial year 2004		Total 3	Financial year 2003
	Sub Total 1	Sub Total 2		
C) Financial income and charges				
15 Income from equity investments				
a) Subsidiaries	32,813,444			20,650,436
b) Associated companies	5,543,723			6,368,000
c) Other investments				15,168,587
Total		38,357,167		42,187,023
16 Other financial income				
a) from long term receivables				
• Subsidiaries				
• Associated companies				
• Parent companies				
• Other companies	58,484			92,270
Total	58,484			92,270
b) from long term securities				
c) from short term securities				
d) other income				
• Subsidiaries	2,437,667			2,947,481
• Associated companies	38,991			61,185
• Parent companies				
• Other companies	7,387,701			10,583,771
	<u>9,864,359</u>			<u>13,592,437</u>
Total		9,922,843		13,684,707
17 Interest and financial charges				
a) Subsidiaries	16,870,786			1,133,971
b) Associated companies	317,614			326,258
c) Parent companies				
d) Other companies	12,280,475			23,986,659
Total		29,468,875		25,446,888
17a Profits (losses) on exchange rates		26,527		41,567
Total financial income and (charges) (C)			18,837,662	30,466,409
D) Adjustments to the value of financial assets				
18 Revaluations				
a) Equity investments				
b) Other long term financial assets				
c) Securities				
Total		0		0
19 Writedowns				
a) Equity investments	5,961,683			6,841,064
b) Other long term financial assets				
c) Securities				1,007,003
Total		5,961,683		7,848,067
Total adjustments to the value of financial assets (D)			-5,961,683	-7,848,067

(follows)

Income statement

(follow)

(in euros)	Financial year 2004		Total 3	Financial year 2003
	Sub Total 1	Sub Total 2		
E) Extraordinary items				
20 Income				
a) Gains on disposals				1,200,000
b) Others	6,512,388			202,206
Total		6,512,388		1,402,206
21 Charges				
a) Losses on disposals	685,214			1,080
b) Taxation relative to prior years	2,391,013			
c) Others	560			88,327
Total		3,076,787		89,407
Total extraordinary income and (charges) (E)			3,435,601	1,312,799
Profit before tax			135,450,046	128,970,239
22 Income tax for the period				
a) Current taxes		46,993,341		42,406,152
b) Deferred/advance taxes		-4,405,992		12,103,242
Total			42,587,349	54,509,394
Net profit (loss) for the period			92,862,697	74,460,845

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

For the Board of Directors

Chairman

Marina Berlusconi

Notes to the Financial Statements

Form and content

The financial statements closed at 31 December 2004, including the present notes that form an integral part of them, correspond to the results of the book entries regularly made and compiled in accordance with the evaluation methods and accounting principles contained in the Civil Code.

The structure of the Balance Sheet and Income Statement conforms to the regulations contained in Legislative Decree 127 of 9/4/91 and subsequent modifications and integrations, as well as to the new legislative regulations concerning financial statements of 1 January 2004 that were introduced as part of the reform of company law contained in Legislative Decree no. 6 of 17 January 2003.

The principles applied when drawing up the financial statements for the current year are, in general, the same as those used at 31 December 2003;

- there were no exceptional cases that made it necessary to depart in any way from the principles of evaluation and accounting;
- the variations present between assets and liabilities are highlighted in the items of the financial statements. For reserves, in particular, the provisions and utilisations are highlighted;
- risks and losses pertaining to the period were taken into consideration even when they came to light after the financial year closed.

The performance of the sectors where the Group operates and the important operations that took place during 2004 are referred to in the report of the Board of Directors.

Valuation methods

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 and for the revaluations made of certain fixed assets on the basis of a sworn expert appraisal in the 1984 financial statements.

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

Intangible assets. Intangible assets and costs with long-term utilisation are booked to the assets in the financial statements.

Goodwill acquired for a money consideration is booked to the cost incurred and is amortised during the period of its economic utilisation, as explained in the details referring to fixed assets.

Imprints and titles are booked to the cost of their purchase or creation, since they are intangible goods and juridically independent.

Imprints are generally amortised over a period of five years.

The depreciation period for *titles* calculated on the basis of their useful life represented by their

future capacity to produce profits and to maintain a satisfactory position in the market, as explained in greater detail in the details referring to intangible assets. The economic integrity of the titles is periodically re-examined in the light of economic performances.

Other long-term charges (cost of maintaining rented buildings and offices, cost of software, etc.) are booked at cost and are amortised at a constant rate, which in the majority of cases is spread over a period of not more than five years while in other cases (cost of purchasing rented property) is spread over the duration of the respective contracts.

Development and advertising costs are not normally booked under intangible assets but are entirely charged to the Income Statement in the year they are incurred. However, the cost of “launch campaigns” for new products and new company activities are booked under intangible assets when their development and advertising costs will mean that their utility and capacity to generate a corresponding flux of income will be felt in future years.

Fixed assets and depreciations. *Fixed assets* are booked at purchase or production cost, with the exception of some assets that have been re-valued in accordance with laws 576 of 2/12/1975, 72 of 19/3/1983 and 413 of 30/12/1991 and of certain fixed assets from the merged company AME that were re-valued on the basis of a sworn expert appraisal and booked to the 1984 financial statements. Cost refers to accessory costs and, for internal constructions, a share of indirect industrial costs. Maintenance and repair costs are booked to the Income Statement during the year in which they were incurred, with the exception of those that increase the productivity, safety or useful life of the assets, which are charged to the asset concerned and amortised in relation to the residual useful life of the asset.

Depreciations of fixed assets are calculated at a constant rate based on the estimated residual useful life of the assets, with reference to their cost, which is eventually re-valued, and on the year they enter service. This rate, which corresponds to that fiscally allowed, is shown in the following table:

Printing/publishing assets	
Industrial property	3.0%
Light construction	10.0%
Non-automatic machinery and general equipment	10.0%
Automatic machinery and specific equipment	15.5%
Tools type, lead and various, small tools	25.0%
Office furniture and machines	12.0%
Electric machines (including computers and electronic telephone systems) (a)	30.0%
Vehicles (heavy vehicles, lift trucks, internal transport vehicles, etc.)	20.0%
Vehicles, motor bikes and similar (b)	30.0%
Electronic photocopying and photocomposition systems and similar	25.0%
Air-conditioning equipment	20.0%
(a) 20% until 31/12/2003	
(b) 25% until 31/12/2003	

The economic impact of the change in the depreciation rate is explained in the corresponding part of these notes.

Advanced depreciations, which up until 31/12/2003 were calculated when the financial statements were drawn up in order to benefit from tax concessions that would otherwise not be available (art. 67 DPR 917/1986), are with effect from financial year 2004 no longer booked to the income statement since, for tax deductible reasons, they are booked to the appropriate

statement that is attached to the income tax return. The financial statements contain the corresponding deferred taxes that will be used to pay the taxes due on ordinary non-deductible depreciations, which are booked to the Income statement when the assets are completely depreciated for fiscal reasons.

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 value.

Investments. Investments are valued at cost on the basis of their purchase or underwriting cost. Their cost is reduced if the net equity is permanently reduced to a figure below the corresponding value of the investment.

Treasury stock. Shares that come from 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 AME, are valued at the price fixed by the Shareholders' meeting of 30/7/1991. Those shares purchased in accordance with article 2357 of the Civil Code and in accordance with the deliberations of the Ordinary Shareholders' Meetings of 16/3/1998, 29/4/1999, 3/5/2000, 24/4/2001, 22/4/2002, 28/4/2003 and 26/4/2004 are valued at purchase price in accordance with the LIFO method. The cost is reduced if the value suffers long-term losses.

Inventory. Inventory is valued at the lower of purchase cost, including overheads, or production cost and their market value (cost of replacing raw and consumable materials, net production value for work in progress and finished products).

The cost is established:

- for raw and consumable materials, based on the LIFO method
- for work in progress, based on the average industrial cost
- for finished products, based on the LIFO method, with the average production cost for the year progressively reduced in order to take into account obsolescence based on the following percentages:

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

Receivables. Receivables are booked at their estimated realisable value.

Financial activities that do not constitute assets. Financial assets that do not constitute assets are booked at the lower of purchase cost and market value.

Accruals and prepaid expenses. Accruals and prepayments are calculated on an accrual basis.

Reserve for risks and charges. The *reserve for retirement benefits* includes payments due to journalists when they retire.

Other reserves for risks and charges include amounts to cover losses or debts, in accordance with the law, that certainly or probably exist but whose amounts or date of occurrence was impossible to establish at the end of the year. The amounts represent the best possible estimate based on the information available.

The risks for which a contingent liability is only possible are disclosed either in the notes to the financial statements or in the report on the year, without setting up a reserve for risks and charges for them.

Reserve for severance indemnities. Corresponds to the full amount due to employees up to the end of the year on the basis of current laws.

Income taxes. Income taxes for the year are provided on the basis of current laws. Deferred tax is calculated on the basis of the temporary difference between the value attributed to an asset or liability according to statutory criteria and the value attributed to the same asset or liability for fiscal purposes, applying the tax rate in force at the time the temporary differences are identified and making adequate adjustments if the tax rate differs from the previous year on condition that the law relating to the new tax rate has already been passed when the financial statements are drawn up.

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 also for deferred taxes*, while deferred tax assets are entered under *C.II.4 ter - Advance taxes*.

Deferred and advance taxes are booked to the Income statement as a separate item under *22-Taxes for the year*.

Payables. Operational debts and loans are booked to their nominal value.

Revenues. 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),
- at the time services are rendered or completed. .

Amounts expressed in foreign currencies. Revenues and costs and income and charges relative to foreign currency operations are booked at the value on the date the operations were carried out. The gains and liabilities in foreign currency that do not constitute assets are booked at the exchange rate in force at the end of the financial year and the relative profits and losses from foreign currency operations are booked to the Income Statement. Any eventual net profits are allocated to the appropriate non-distributable reserve until their realization. Non-monetary assets in foreign currency are booked at either the exchange rate in force when they were bought or, in the case of permanent losses deriving from unfavourable exchange rate fluctuations, at the rate in force at the end of the financial year.

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

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

Adjustment of items in the financial statements of the previous year. The items in the financial statements of the previous year, when necessary, have been adjusted and reclassified in order to make them comparable with the current financial statements which, as a result of the clarifications introduced, have been modified.

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.

We therefore confirm that the 2004 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 about the items in the financial statements

In the part of the notes that follows, the majority of the amounts are expressed in thousands of euros while the remaining amounts are expressed in millions of euros. The amounts in brackets refer to the corresponding values for financial year 2003.

Balance sheet

Assets

Non-current assets

Intangible assets: €87,811 (€105,057).

Movements of intangible assets and amortisation are as follows:

Intangible assets	Gross value	Writedowns	Amortisation funds	Net book value
Balance at 31/12/2003	198,134		-93,077	105,057
Company operations	75		30	105
Additions during the period	1,666		-	1,666
Reclassifications and reversals	-2,771	-7,226	2,771	-7,226
Amortisation	-		-11,791	-11,791
Balance at 31/12/2004	197,104	-7,226	-102,067	87,811

The capitalised costs of €1,666 for the year, €18 thousand of which are not yet current, are made up of €920 thousand for the purchase of title imprints, €553 thousand for the purchase of software and commercial use rights and €193 thousand for the registering "Mondadori" imprints.

Reclassifications and reversals concern intangible asset reversals completely depreciated as of 31/12/2003 and writedowns of certain titles as outlined below.

The remaining amount as of 31 December 2004 of €87,811 thousand concerns:

Cost of intangible assets	Patents and right	Concessions, licences and trademarks	Others	In course	Total
Commercialisation rights	949	-	-	-	949
"SBE" titles	-	77,859	-	-	77,859
Publishing brands	-	7,637	-	-	7,637
Cost of software purchases	-	-	419	18	437
Renovation of offices, buildings and others	-	-	929	-	929
Total	949	85,496	1,348	18	87,811

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. In 2004, following a re-examination of the book of "SBE" titles on the basis of their ability to contribute to the production of future economic results, it was decided to adjust the book values of *Telepiù*, *Tutto Musica* and *Ciak Si Gira*. The operation involved writedowns for a total of €7,226 thousand with an effect on the income statement of €4,534 thousand after taking into account advance taxes of €2,692 thousand.

Fixed assets: €35,246 thousand (€30,885 thousand)

Movements in fixed assets are made up as follows:

Fixed assets	Opening balance	Additions	Disposals	Company operations	Closing balance	Amm. reserve	Net closing balance
	(=)	(+)	(-)	(+/-)	(=)	(-)	(=)
Land and buildings	36,794	139	-	-	36,933	13,286	23,647
Plant and machinery	15,127	2,562	1,104	-121	16,464	10,900	5,564
Equipment	2,923	376	19	-22	3,258	2,755	503
Furniture and office machines	31,625	1,948	174	-398	33,001	28,364	4,637
Motor vehicles	2,344	218	266	-	2,296	1,690	606
Total fixed assets	88,813	5,243	1,563	- 541	91,952	56,995	34,957
Assets under construction :							
• beginning of year	633	-	-	-	633	-	633
• investments	-	289	-	-	289	-	289
• transfer to assets	-	-633	-	-	-633	-	-633
Total 2004	89,446	4,899	1,563	-541	92,241	56,995	35,246
Total 2003	84,227	3,373	2,687	4,533	89,446	58,561	30,885

The company's non-current assets as of 31/12/2004 include the following amounts relating to revaluations carried out in previous years, in accordance with current revaluation laws and on the basis of sworn expert appraisal:

Fixed assets	Revaluations on the basis of law			Revaluation of year ended
	n. 72/1983	n. 408/1990	n. 413/1991	1984
Land and buildings	194	163	1,097	4,655
Plant and machinery	52	-	-	153
Total (gross of depreciation funds)	246	163	1,097	4,808

Investments during the year concerned:

- the technological updating of book and magazine editing;
- the updating of data processing equipment (personal computers and local networks) and the purchase of motor vehicles.

The investments pertaining to the year amounted to €5,243 thousand (€633 thousand of which referred to assets already in existence as of 31/12/2003) and concerned:

- the Verona plant:
(Warehouse Publishing/Shipping Magazines and buildings) €2,168 thousand
- Milan offices:
(automation of editing and offices, furniture/
furnishings and motor vehicles) €3,075 thousand

Disposals amounted to €1,563 thousand and were mainly concerned with the replacement of office equipment (furniture, furnishing, electronic machines) and the disposal of motor vehicles.

Mortgages on property (buildings and plant at Verona) were granted to the Company as guarantees for loans, made to Mondadori Printing S.p.A. on 1 August 1999, for a total of €4.0 million as of 31/12/2004.

Movements of *depreciation reserves* were as follows:

Ordinary reserves	Initial balance	Disposals of reversals and adjustments	Reclassifi- cations	Depreciations during the year	Final balance
	(=)	(-)	(+/-)	(+)	(=)
Fixed assets:					
Land and buildings	12,125	-	52	1,109	13,286
Plant and machinery	9,673	885	1,012	1,100	10,900
Equipment	2,281	40	325	189	2,755
Furniture and office machines	17,971	357	7,165	3,585	28,364
Motor vehicles	1,264	250	274	402	1,690
Total as of 31/12/2004	43,314	1,532	8,828	6,385	56,995

Advance reserves	Initial balance	Disposals of reversals and adjustments	Reclassifi- cations	Housekeeping operations	Final balance
	(=)	(-)	(+/-)	(+)	(=)
Fixed assets:					
Land and buildings	1,009	-	-52	-957	-
Plant and machinery	2,638	-	-1,012	-1,626	-
Equipment	492	-	-325	-167	-
Furniture and office machines	10,486	-	-7,165	-3,321	-
Motor vehicles	622	-	-274	-348	-
Total as of 31/12/2004	15,247	-	-8,828	-6,419	-

The ratio of depreciation reserves to fixed assets is 61.98 %.

During 2004 the Company eliminated from the financial statements the effects of the fiscal interference constituted by the residual value of the advance depreciations booked to the Income statement up to 31/12/2003, in accordance with the regulations in force up until that date, in order to exploit fiscal benefits that would otherwise not have been available. The operations designed to clean the financial statements of the effects of the fiscal items involved transferring to Ordinary Reserves of a total of €8,828 thousand from that part of advance depreciations equivalent to ordinary depreciations that would otherwise have been matured and the booking, among the extraordinary items of the Income statement, of windfall profits of €6,419 thousand (item *E.20/b*) and deferred taxes amounting to €2,391 thousand (item *E.21/c*). The effect of this, at 31 December 2004, was an increase in the value of fixed assets (item *B.II*) of €6,419 thousand, increased profits for the year and a subsequent increase in shareholders' equity of €4,028 thousand. In order to compare the results with the previous year it should be noted that if the Company had not carried out the advance depreciations, taking into account the ordinary depreciations that would therefore have matured and the relative fiscal effects, profits for the year would have increased by €206 thousand.

During 2004 the depreciation rates for the following assets were changed:

- computers from 20% to 30%,
- motor vehicles from 20% to 30%,
- assets with a value of less than €516 from 100% to the various rates depending on the category of the individual assets.

In 2004 the depreciation of assets purchased during the year was calculated on the basis of the reference rate applicable in the month the assets came on line. Up to 2003 the depreciation rate reduced by 50% was applied in such cases.

These changes, introduced in order to take into account the evolution of the lifecycle of assets, involved €944 thousand more depreciations being booked to the Income statement. The result of this, taking into account the relative fiscal effects, was a reduction of €593 thousand in shareholders' equity and profits for the year.

Non-current assets: €862,690 thousand (€867,632 thousand).

Investments: €750,777 thousand (€747,872 thousand).

Total investments, net of the investment loss/writedown reserve of €6,498 thousand, is made up of *shares* and *stocks in limited companies* for a total €669,572 thousand and *payments to the capital* account of €81,205 thousand.

Details of the information required by article 2427 no. 5 of the Civil Code about all controlled and subsidiary companies are contained in appendix "A".

Jointly-owned stocks and shares: €669,572 thousand (€668,304 thousand).

The most important operations that took place during the year are summarised as follows:

Value as of 31/12/2003		668,304
Increased operations:		
• Purchases, set-up costs and increases in capital		4,113
• Payments to cover losses		3,158
Decreased operations:		
• Writedowns		4,441
• Cover for losses		3,158
Value of jointly-owned stocks and shares		667,976
Reserves for losses/writedowns:		
• Provisions	-2,678	
• Utilisations	4,274	
		1,596
Net value of jointly-owned stocks and shares as of 31/12/2004		669,572

The most important *increased* operations concerned:

(Purchases, set-up costs and increases in capital)

- the underwriting and payment of capital of €500 thousand to set up Monradio S.r.l.;
- the reconstitution of the capital following the reduction and/or write off to cover the losses of Mondadori Retail S.r.l. for €2,419 thousand, Press TV S.p.A. for €694 thousand and BOL Books on Line Italia S.p.A. for €500 thousand.

The most important *decreased* operations concerned:

(Writedowns)

- writedowns following reductions in capital and reserves for covering losses for the year for Mondadori Retail S.r.l. for €1.319 thousand, BOL Books on Line Italia S.p.A. for €229 thousand and Press TV S.p.A. for €694 thousand;
- reversals, following the closure of liquidation procedures, of the book values of the following:
 - Mondadori Belgium S.A., €62 thousand
 - Mondadori e.Bismedia S.r.l., €921 thousand (€67 thousand of which for distribution of the liquidation assets)
 - Veleno S.p.A., €1,200 thousand (€934 thousand for distribution of the liquidation assets)
 - Consorzio Aeromobili Fininvest, €16 thousand (€12 thousand for distribution of the liquidation assets).

Payments to cover losses concerned Mondadori Retail S.p.A. for €2,642 thousand, Press TV S.p.A. for €471 thousand, BOL Books on Line Italia S.p.A. for €25 thousand and Mondadori Belgium S.A. for €20 thousand.

During the year the *reserve for losses/writedowns* of €6,498 thousand (€8,094 thousand), established in order to take account of losses over and above the cover already existent or exceeding the net equity of some companies, decreased by €1,596 thousands (the difference between provisions of €2,678 thousands, utilisations of €3,302 thousand and reclassifications of €972 thousand).

The following investments in subsidiary and associated companies are booked in the financial statements at a higher value than the value attributable to the share of net equity of subsidiary and associated companies as outlined in appendices "A" and "B".

(in thousands of euros)	Percentage held %	Book value	Corresponding share of net equity	Corresponding evaluation of net equity
Arnoweb S.A.	99.99	32,811 a)	32,794	19,127
Cemit Interactive Media S.p.A.	100	15,291	11,175	11,175
Edumond Le Monnier S.p.A.	100	55,988	41,891	45,460
Edizioni Piemme S.p.A.	70	14,107	6,370	11,671
Fied S.p.A.	100	4,447	949	3,293
Mondadori Printing S.p.A.	57.04	68,932	65,190	62,466
Prisco Spain S.A.	100	7,856	60	4,912
Sperling & Kupfer Editori S.p.A.	100	9,035	2,993	5,974
Grupo Editorial Random House Mondadori S.L.	6.01	13,842	816	2,926
Società Europea di Edizioni S.p.A.	31.28	8,020	2,587	7,789

a) *Net of writedowns*

The higher book values of the investments in Cemit Interactive Media S.p.A., Edumond Le Monnier S.p.A., Mondadori Printing S.p.A. and Sperling & Kupfer Editori S.p.A., in comparison to the corresponding valuation of net equity are the expression of the value of the respective production and commercial potential.

For Fied S.p.A. the book value of €4,447 thousand has been maintained, confirming the higher value of the investment in the capital of Società Europea di Edizioni S.p.A., publisher of the *Il Giornale* newspaper. When evaluating the net equity, the higher value attributed to the title is taken into consideration.

As for Grupo Editorial Random House Mondadori S.L., the higher book value compared with the corresponding share of net equity is attributable to the publishing and profit potential of the "Grupo Random House Mondadori" in the Spanish-language book market.

For Arnoweb S.A. and Prisco Spain S.A., the higher book value compared with the evaluation of net equity is due to the value of the investment in Grupo Editorial Random House Mondadori S.L.

For Edizioni Piemme, purchased in 2003, the higher book value of the investment is due to the higher value of property established by expert appraisal and to recognition of the capacity of the publishing activities to produce profits.

- *Deposits of share capital*: €81,205 thousand (€79,568 thousand)

The amount as of 31 December refers to Mondadori International S.A. for €77,468 thousand, Mondadori Retail S.p.A. for €1,358 thousand, Mondadori Franchising S.p.A. for €2,001 thousand, Hearst Mondadori Editoriale S.r.l. for €49 thousand and Press TV S.p.A. for €329 thousand.

Other receivables: €3,741 thousand (€2,875 thousand).

Include:

- Caution money to third parties for €1,595 thousand (€134 thousand), €1,460 thousand of which as a guarantee for the correct fulfilment of the agreement for the purchase of radio businesses run by the subsidiary Monradio S.r.l. (the amount will be recovered from the fee for the purchase of a stake in Monradio S.r.l. by Radio Milano International S.p.A.);
- earnest money for €413 thousand (€413 thousand), which should be returned within a maximum of 8 years from 1 January 1997;
- advance payment of tax on severance pay (law 140 of 28/5/1997) for €1,728 thousand (€2,319 thousand), including the revaluation, utilisable on payment of the taxes due for severance pay;
- other receivables for €5 thousand (€9 thousand) due within the end of 2005.

Treasury stock: €108,172 thousand (€116,885 thousand)

The portfolio of treasury stock amounted to 6.32 % of the share capital and is made up as follows:

- 1,957,332 ordinary shares (1,221,726 of which came from the conversion of savings shares carried out following resolution by the Extraordinary Shareholders' Meeting of 29 April 1999) with a par value of €0.26 each for a total of €3,519 thousand, deriving from 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 AME;
- 14,449,788 ordinary shares with a par value of €0.26 each purchased for a total of €104,653 thousand following deliberations by various Shareholders' Meetings, the last of which was held on 26/04/2004. During the year 737,757 ordinary shares were purchased and 2,075,000 were sold as part of the stock-option plan.

A special Net Equity reserve of the same value has been created for these shares.

The average book value is equal to €6.62 for each share compared with the current stock market price (23/3/2005) of €8.374 per share.

Working capital

Inventory: €36,072 thousand (€40,212 thousand).

This is made up as follows:

Products, goods and raw materials	31/12/2004	31/12/2003	Changes
Finished publishing products	18,342	20,168	-1,826
Publishing products in progress	21,799	25,111	-3,312
Photosensitive, stationery and printed materials	116	118	-2
Total inventories	40,257	45,397	-5,140
Writedowns for slow-moving products	-4,185	-5,185	1,000
Total	36,072	40,212	-4,140

The decrease of €4,140 thousand was mainly due to *publishing products in progress*.

Third party publishing products amounted to €6.3 million.

Receivables: €323,820 thousand (€321,451 thousand).

Trade receivables and others increased by €2,369 thousand, the reasons for which are given after the comment.

Non-current receivables amounted to €1,167 thousand (€354 thousand) and are due within 5 years.

The situation is broken down into geographical areas in the appendix “*supplementary table*”.

Trade receivables amounted to €91,476 thousand (€80,022 thousand).

These increased by €11,454 thousand and are made up as follows:

	31/12/2004	31/12/2003
Bookshop and wholesale clients	94,696	86,484
Magazine clients	91,393	60,712
Subscription and various clients	20,164	20,385
	206,253	167,581 (*)
Less:		
Clients for future returns	103,458	77,519
Bad debt reserve	11,319	9,626
Interest on arrears risk reserve	-	414
Total	91,476	80,022
(*) of which:		
- Bank receipts and effects in portfolio	46,826	31,921
- Bank receipts and effects on discount bills and receipts	12,649	19,483

Subscription and various clients include €88 thousand of receivables from instalment clients, for which a bad debt reserve equal to the same amount has been created.

Receivables due after 1 year amounted to €924 thousand (€18 thousand) and refer to bookshop clients due in 2006.

Receivables from companies in the Fininvest Group amounted to €962 thousand (€259 thousand) and essentially refer to Publitalia 80 S.p.A. for €159 thousand (€186 thousand), RTI S.p.A. for €738 thousand (€10 thousand), Medusa Video S.r.l. for €58 thousand (€58 thousand) and other companies for a total of €7 thousand. All dealings of a commercial nature with the Fininvest Group are based on normal market conditions.

The bad debt reserve of €11,319 thousand (€9,626 thousand) registered the following movements: movements:

Bad debt reserve	
Balance at 31/12/2003	9,626
Utilisations	-3,251
Provisions	4,944
Balance at 31/12/2004	11,319

The reserve, which is for dealing with the possible risk of insolvency, was determined after a systematic analysis of contentious receivables and, for other receivables, of the possibility of the impossibility of recovering the debts.

The *interest on arrears risk reserve* of €414 thousand as of 31/12/2003, calculated in accordance with the law introduced by Legislative Decree 231 of 9/10/2002, was completely used up during the year.

Receivables from subsidiary companies of €150,375 thousand (€162,733 thousand) and **receivables from associated companies** of €24,947 thousand (€21,742 thousand) are made up as follows:

	31/12/2004	31/12/2003
Subsidiary companies:		
Financial receivables	32,198	47,436
Commercial receivables	118,177	115,297
Total	150,375	162,733
Associated companies:		
Financial receivables	1,053	1,793
Commercial receivables	23,894	19,949
Total	24,947	21,742

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

The details concerning each company and the variations compared with the situation in 2003 are outlined in appendix "C1".

Tax receivables of €3,454 thousand (€9,541 thousand) include:

Receivables from tax authorities for VAT to be recovered cover €2,090 thousand (including relative interest) for VAT credits requested to be cashed for previous years and €1,187 thousand (€750 thousand at 31/12/2003) for VAT credits for 2004 brought forward. During the year €105 thousand was refunded for capital and interest credits relating to 1988. The Regional Tax Commission is currently dealing with a case of unlawful VAT deductions relating to 1985.

Receivables from tax authorities for direct tax to be recovered of €177 thousand (€6,597 thousand) includes the following:

	31/12/2004	31/12/2003
Request of payment of IRPEG for previous years (including relative interest)	168	280
Withholding tax on dividends	9	9
Tax for the year:		
- IRPEG/IRAP provisions	-	-42,178
- IRPEG/IRAP advances paid	-	33,108
- Tax credits on dividends	-	15,169
- Withholding tax and other credits	-	209
		6,308
Total	177	6,597

As of 31/12/2004 the Company owed a total of €15,216 thousand for income tax for the year, as booked to appropriate item under liabilities in the Balance sheet.

Advance taxes of €19,425 thousand (€15,523 thousand) were itemised, and have been since 1999, following the introduction by the National Board of Accountants of accounting principle 25 concerning income taxes and are calculated on the basis of the temporary difference between the tangible net worth entered in the financial statements and the corresponding values recognised for fiscal purposes, as illustrated below:

	31/12/2004		31/12/2003	
	IRES	IRAP	Total	Total
Assets from advanced taxes on:				
- provisions and risk reserves	12,449	638	13,087	14,480
- costs deductible in future years	3,569	71	3,640	1,034
- depreciations over fiscal maximum	2,391	307	2,698	9
Total	18,409	1,016	19,425	15,523

The amount as of 31/12/2003 was adjusted from €14,200 thousand to €15,523 thousand as a result of the reclassification of deferred taxes in the corresponding items booked under liabilities in the Balance Sheet.

Advance taxes are calculated on the basis of the tax rates expected to be applied at the time the differences are revealed (currently for IRES 33% and 4.25% for IRAP).

The difference compared with the previous year is due to provisions for €8,717 thousand, the recovery of advance taxes relating to differences taxed in previous years for €4,802 thousand and adjustments to the previous year for €13 thousand.

Other receivables amounted to €34,141 thousand (€31,888 thousand) and are made up as follows:

	31/12/2004	31/12/2003
Advances to authors	27,746	25,944
Financial receivables	419	976
Advances and loans to personnel	712	836
Instalment advances to agents	227	317
Advances to suppliers	2,446	1,315
Others	2,591	2,500
Total	34,141	31,888

At 31/12/2003 this item amounted to €55,629 thousand. Following the new legislative regulations covering financial statements introduced as part of the reform of company law, €9,541 thousand has been reclassified under item *4 bis tax receivables* and €15,523 thousand under item *4 ter advance taxes* in the assets side of the balance sheet, while €1,323 thousand have been transferred to the liabilities side of the balance sheet under item *B/2 Tax reserves, including advance taxes*.

Other receivables due after one year amounted to €243 thousand (€335 thousand at 31/12/2003) and are mainly concerned with loans granted to personnel.

Financial activities (that do not constitute assets): €49,999 thousand (€28,993 thousand).

These include a temporary investment of cash from a “single premium capitalisation insurance policy based on recalculated performance”, issued and guaranteed by Deutsche Bank. The liquidity of the investment is daily and the return will be equal to the Deutsche Bank “Future System” for 2004. The characteristics of this type of investment ensure a minimum return of 2.50%.

The total at 31/12/2003 concerned shares in Fondo ABIS Cash underwritten on 29/1/2004.

Cash and banks: €46,440 thousand (€15,848 thousand).

This item includes deposits in post office accounts for €1,309 thousand and bank deposits for €45,116 thousand, invested at the best market conditions, together with over €15 thousand of cheques and cash.

Accrued income and prepaid expenses: €9,872 thousand (€6,603 thousand).

These are made up as follows:

	31/12/2004	31/12/2003
Accrued income:		
• Financial income	128	100
• Others	-	-
Total accrued income	128	100
Third party publications for sale in 2005	9,496	6,183
Rental leases	22	146
Other prepaid expenses (rental fees, subscriptions)	226	174
Total prepaid expenses	9,744	6,503
Total accrued income and prepaid expenses	9,872	6,603

Liabilities

Shareholders' equity: €575,775 thousand (€555,445 thousand).

The *Share capital* of €67,452 thousand, fully subscribed and paid up, is represented by 259,429,832 ordinary shares with a par value of €0.26 each.

The changes in the various items in Shareholders' Equity are outlined in the table below:

	Share capital	Legal reserve	Treasury stock reserve	Other reserves	Profit for the year	Total
Balance at 31/12/2003	67,452	13,490	116,885	283,157	74,461	555,445
Destination of 2003 profits:						
• dividend	-	-	-	-	-72,533	-72,533
• extraordinary and other reserves	-	-	-	1,928	-1,928	-
Reclassifications	-	-	-8,713	8,713	-	-
Profit for year	-	-	-	-	92,863	92,863
Balance at 31/12/2004	67,452	13,490	108,172	293,798	92,863	575,775

The following table contains an analysis of the individual items that make up Shareholders' Equity, with reference to their origins, availability and distribution.

Nature/description	Amount	Possibility of utilisation	Share available	Summary of utilisations carried out in past years	
				For distribution of dividends	For other reasons
Share capital	67,452	-			
Capital reserve:					
-for treasury stock	108,172	-			
-from share premium	148,597	A,B,C	148,597		
-from conversion of savings shares	26,978	A,B,C	26,978		
-from contribution to capital account	5,335	B			
Profit reserve:					
-revaluation reserve					
• law 72 of 19/3/1983	12,022	A,B			
• law 413 of 30/12/1991	4,689	A,B			
-legal reserve	13,490	B			
-extraordinary reserve	94,498	A,B,C	94,498	149,336	784
-legal reserve no. 675 of 12/8/1977	351	A,B			
-legal reserve no. 904 of 16/12/1977	751	A,B			3,329
-legal reserve 124/93 art.13	99	-			
-merger reserve	478	A,B,C	478		
-legal reserve no. 576 of 2/12/1975	-	-			3,128
Total	482,912		270,551	149,336	7,241
Non-distributable share (1)			3,975		
Residue of distributable share			266,576		

A. for increases in capital

B. for covering losses

C. for distribution to shareholders

(1) Represents the non-distributable share not sufficient to cover the economic components, not consistent with civil regulations, deducted at time of tax return net of related fiscal effect.

The reserves contained in the financial statements, for fiscal purposes, are classified as follows:

	a	b	c	Total
Share premium reserve	-	-	148,597	148,597
- Conversion of savings shares	-	-	26,978	26,978
				<u>175,575</u>
Legal reserve no. 72 of 19/03/1983	-	12,022	-	12,022
Legal reserve 413 of 30/12/1991	-	4,689	-	4,689
				<u>16,711</u>
Legal reserve	13,490	-	-	13,490
Treasury stock reserve	-	-	108,172	108,172
Extraordinary reserve	94,498	-	-	94,498
Legal reserve 675 of 12/08/1977	-	351	-	351
Legal reserve 904 of 16/12/1977	-	751	-	751
Contribution to share capital reserve	-	5,335	-	5,335
Legal reserve 124/93 art.13	99	-	-	99
Merger reserve	478	-	-	478
				<u>101,512</u>
Total reserves	108,565	23,148	283,747	415,460
Total increase in capital from utilisation of reserves	784	6,457	-	7,241

a. Reserve that, when distributed, does not contribute to making up the Shareholders' taxable income for 95% of its total

(art.89 D.P.R. 917/86 as modified by Legislative Decree 344/2003 of IRES - Company income taxes).

b. Reserve that, if distributed, contributes to making up the Company's taxable income.

c. Reserve that, if distributed, does not contribute to making up the Shareholders' taxable income.

No tax allocations were made for reserves referred to in group "b" since there were no operations carried out that would require them to be taxed.

Details of the reserves utilised to increase the capital without cost in previous years are as follows:

Reserve utilised	Date of Shareholders' Meeting resolution	Amount transferred to share capital
Legal reserve 576 of 2/12/1975	30/4/1980	1,292,433
" " "	25/5/1981	1,291,142
" " "	30/4/1982	543,943
Legal reserve 904 of 16/2/1977	30/4/1982	3,329,483
		<u>6,457,001</u>
Shareholders' plan reserve	25/9/1998	66,365
" " "	7/7/1999	105,873
" " "	12/5/2000	152,045
Extraordinary reserve (transferring share capital into euros)	24/4/2001	459,593
		<u>783,876</u>

Variations in equity account contains details of the movements of the individual items that make up the net equity and in particular:

- **The share premium reserve** of €175,575 thousand (€170,380 thousand), increased by €5,195 thousand (equal to the amount entered in the assets of the treasury stock purchased during 2003 in accordance with the deliberation of various Shareholders' Meetings, the last of which on 26/4/2004) reclassified in the treasury stock reserve in accordance with article 2357 of the Civil Code, includes:

- €15,289 thousand, €13,278 thousand of which derives from the conversion of AMEF 6.5% 1987/1991 debenture loans into shares and €2,011 thousand from the merger of the former AME on 29/11/1991.
- €130,431 thousand (net after the reclassification to the reserve of company shares for a total of €108,172 thousand) deriving from the €17,043 thousand increase in capital that was carried out on 27/6/1994 in accordance with the resolution of the Extraordinary Shareholders' Meeting of 30/5/1994 that called for the issue of 33,000,000 ordinary shares with a par value of €0.52 (1,000 lire) at a price of €7.75 (15,000 lire) for each share, €7.23 (14,000 lire) of which as a share premium.
- €384 thousand deriving from the increase in capital carried out on 23 November 1998.
- €692 thousand deriving from the increase in capital carried out on 17 September 1999.
- €1,801 thousand deriving from the increase in capital carried out on 18 July 2000.
- €26,978 thousand generated from the conversion into ordinary shares of 13,929,942 savings shares in accordance with the deliberation of the Shareholders' Meeting of 30/5/1994 that granted shareholders with savings shares the right to convert them between the period 16 June - 31 July 1994 into ordinary shares at the ratio of one-to-one with a par value of €0.52 (1,000 lire) upon payment of €1.94 (3,750 lire) for every share converted.

- **The contribution to the share capital reserve** of €5,335 thousand (€5,335 thousand) consists of €1,148 thousand for the provision of grants from the Agency for the Promotion of Development in the South (Ministerial Decree 28/6/1979 and 3/5/1989) for industrial investments made at the Pomezia (RM) plant and, for a total of €4,187 thousand (including €283 thousand from Mondadori Electa S.p.A. following the disposal of the "magazine" division), the provision of grants given in previous years from the Government within the context of Publishing law 416 of 5/8/1981. The itemising of the latter of these grants was adopted on the basis of ministerial provisions that recognised that such provisions could be classified as contributions to the capital account. This recognition established that the grants were to be permanently free from tax as long as they were not used for any other reason than for covering losses.

Reserve for risks and charges: €26,301 thousand (€26,140 thousand).

There were no significant variations during the year.

Reserve for indemnities and similar of €2,704 thousand (€2,704 thousand), comprising indemnities for publicists and agents, changed as follow:

Reserve	Initial balance (=)	Severance payments and adjustments for year (-)	Matured in year (+)	Final balance (=)
Indemnities for agents	1,738	45	190	1,883
Indemnities for freelance journalists	764	141	29	652
Social security payments	202	45	12	169
Total at 31/12/2004	2,704	231	231	2,704

The amount at 31/12/2003 was adjusted from €966 thousand to €2,704 thousand following the reclassification of indemnities for agents from the item *D.14 Payables to others* under liabilities in the Balance sheet.

The **tax reserve, including deferred tax** of €5,050 thousand (€3,150 thousand), includes provisions of €1,827 thousand for any eventual fiscal charges arising from legal actions currently underway with tax authorities and deferred tax for €3,223 thousand calculated on the temporary difference between accounting and fiscal values attributable to some corporate assets and liabilities, as shown below:

	31/12/2004		31/12/2003	
	IRES	IRAP	Total	Total
Liabilities for deferred taxes on:				
- Instalment capital gains	1	-	1	40
- Advance depreciations	1,719	220	1,939	-
- Extraordinary capital gains	-	1,283	1,283	1,283
Total	1,720	1,503	3,223	1,323

The **reserve for other risks and charges** of €18,547 thousand (€20,286 thousand) is designed to cover any possible liabilities deriving from legal actions, unrecoverable monies and contractual clauses and obligations.

During the year the reserve changed in the following ways:

	Balance at 31/12/2003 (=)	Provisions (+)	Utilisations (-)	Reclassifi- cations (+/-)	Balance at 31/12/2004 (=)
Legal risks	7,358	520	1,729		6,149
Contractual charges from advertising agents	6,514	2,203	3,702		5,015
Various unrecoverable monies	4,084	720	723	972	5,053
Contentious INPGI contributions	2,253	-	-		2,253
Exchange differences	77	-	-		77
Returns and other risks total	20,286	3,443	6,154	972	18,547

Severance indemnities: €45,053 thousand (€44,335 thousand).

This item refers entirely to severance indemnities due to personnel as of 31/12/2004.

The changes during the year were as follows:

Balance at 31/12/2003	44,335
Allocation for period	7,182
Purchase of funds for personnel transferred from associated/third party companies	99
Payment of indemnities	-5,069
Reversal of funds referring to personnel transferred to associated/third party companies	-32
Contribution of 0.5% to Pension Funds, Law 297/1982	-428
Utilisation for pension funds, Law 124/93	-911
Substitutive tax on revaluations and other changes	-123
Balance at 31/12/2004	45,053

Payables: €793,639 thousand (€784,317 thousand).

The total net increase of €9,322 thousand was due to:

- increases to suppliers/authors/freelancers for €8,082 thousand, associated companies for €5,712 thousand, parent companies for a total of €13,834 thousand, social security institutions and other creditors for €1,224 thousand, advances for €1,567 thousand and underwriting debenture loans for €296,384 thousand.
- decreases in amounts due to banks for €22,591 thousand, subsidiaries for €288,498 thousand and tax authorities for €6,392 thousand.

The situation is broken down into geographical areas in the appendix "*supplementary tables*".

The **bonds** of €296,384 thousand refer to a non-convertible debenture loan for a total of US\$ 350 million resolved on 16/6/2004 and issued on 23 June 2004. The debenture loan has the following characteristics:

- it is offered to and reserved for the subsidiary Mondadori International S.A.;
- total amount of 3,500 bonds with a par value of US\$ 100,000 each;
- reimbursement at an equal value on consignment of bonds on the following expiry dates :
 - “tranche A”, US\$ 215 million on 18/12/2013
 - “tranche B”, US\$ 40 million on 18/12/2015
 - “tranche C”, US\$ 95 million on 18/12/2018
- annual fixed gross interest, calculated on the par value of the bonds, payable on the 18 June and 18 December of every year of the loan:
 - 5.42 % per year up to expiry of “tranche A”
 - 5.57 % per year up to expiry of “tranche B”
 - 5.82% per year up to expiry of “tranche C”

With effect from the issue date of 23 June 2004, the advance reimbursement took place of the loan of US\$ 350 million underwritten on 18 December 2003 (the reimbursement of the loan on the part of Mondadori and the underwriting of the debenture loan by Mondadori International S.A. took place in order to repay the respective debts in accordance with contractual obligations).

Amounts due to banks of €100,612 thousand (€123,203 thousand) include short-term loans to cover current account overdrafts for €612 thousand (€18,203 thousand) and loans for €100,000 thousand (€105,000 thousand). During the year the Company paid average interest rates for the various forms of loans that were in line with the best available rates on the market.

The amount due to banks of €100,000 thousand was divided in the following way:

	Interest rate at 31/12/2004	31/12/2004	31/12/2003
• 18-month stand-by loans:			
- Banco Bilbao Vizcaya	2.35 %	25,000	25,000
- Credito Bergamasco	2.33 %	25,000	30,000
- Credito Emiliano	2.31 %	50,000	50,000
Total		100,000	105,000

The Company's overall *financial situation* at 31/12/2004, as outlined in the table below, shows net payables of €341,205 thousand (€379,346 thousand), a decrease during the year of €38,141 thousand.

	31/12/2004	31/12/2003
Short-term bank receivables	+ 45,116	+ 14,973
Short-term bank loans	100,612	123,203
Bank loans	55,496	108,230
Investment funds	+ 49,999	+ 28,993
Cash and post office accounts	+ 1,324	+ 875
Credit (+)/Debts with third parties	+ 190	1,322
Debenture loan	296,384	
Net credit (+)/debts with Group companies	35,358	299,443
Interest rates	5,480	219
Deficit	341,205	379,346

Advances amounted to €26,533 thousand (€24,966 thousand) and include advances from customers for magazine subscriptions for €24,929 thousand (€23,895 thousand), shipping expenses advanced by foreign subscribers for €103 thousand (€105 thousand) and various advances from suppliers for €1,501 thousand (€966 thousand).

Trade payables amounted to €110,615 thousand (€109,436 thousand) and include amounts for the purchase of assets for €2,388 thousand (€2,602 thousand).

This item includes:

- *trade payables due to various affiliated companies* for €448 thousand (€194 thousand) concerning Consuledit S.r.l. for €253 thousand (€62 thousand), Editrice Portoria S.p.A. for €120 thousand, Istud S.p.A. for €74 thousand (€124 thousand) and Selcon S.r.l. for €1 thousand.
- *trade payables due to Fininvest Group companies* for a total of €5,255 thousand (€9,400 thousand), the most significant of which concern Publitalia '80 S.p.A. for €3,115 thousand (€6,035 thousand), Medusa Video S.r.l. for €1,217 thousand (€1,369 thousand), Radio e Reti S.r.l. for €366 thousand, Medusa Film S.p.A. for €111 thousand (€639 thousand), R.T.I. S.p.A. for €378 thousand (€104 thousand) and other minor debts (for amounts equal to or less than a maximum of €100 thousand) for a total of €68 thousand.

Amounts due to subsidiary companies of €146,242 thousand (€434,740 thousand) and to **associated companies** of €25,953 thousand (€20,241 thousand) are illustrated in the following table:

	31/12/2004	31/12/2003
<i>Subsidiary companies:</i>		
Current account and financial debts	53,788	341,818
Trade payables	92,454	92,922
Total	146,242	434,740
<i>Associated companies:</i>		
Current account and financial debts	14,820	6,855
Trade payables	11,133	13,386
Total	25,953	20,241

Interest rates for current accounts are regulated in line with market rates while commercial transactions are regulated at interest rates in line with market values.

Financial payables due to subsidiary companies at 31/12/2003 include a total loan of US\$ 350 million, equal to €296,384 thousand, contracted on 18 December 2003 by Mondadori International S.A. and paid back in advance on 23 June 2004, as explained in detail in item “D.1- bonds” above.

The details for each Company and the changes compared with 2003 are illustrated in appendix “D1”.

Amounts due to parent companies of €13,834 thousand represent monies due to Fininvest S.p.A. as a result of Mondadori adhering to the fiscal consolidation introduced by Legislative Decree 344/2003 as a modification of the regulations concerning Income taxes.

As far as the Group is concerned, the fiscal consolidation provides the parent company and the subsidiary companies with the option of choosing a consolidated tax system headed by the parent company. The system has a single taxable base as far as IRES is concerned that is calculated on the total of income and fiscal losses of the Group companies that adhere to the consolidation. The parent/consolidation company therefore presents, on the basis of the declarations supplied by the individual companies adhering to the consolidation, a consolidated income declaration and is responsible for the payment of the total amount of tax due. The individual companies involved in the consolidation now pay the amount of IRES due, where applicable, to the parent company, and not to the Finance Authorities as in the past, which subsequently is responsible for paying the total amount of consolidated tax due.

Income tax payables of €6,715 thousand (€13,107 thousand) concern:

	31/12/2004	31/12/2003
Payables for		
- Taxes on income for year:		
IRES	-	-
IRAP	1,382	-
Withholding tax	-	8,248
- IRPEF: - employees	4,384	4,338
- free-lancers and self-employed	949	521
Total taxes payable	6,715	13,107

The company's income has been fiscally defined and the relative taxes paid up to 1999, with the exception of:

- 1979: the case before the Central Tax Commission is pending after the Second Grade Tax Commission accepted the Company's defence and declared the recovery carried out by the tax authorities to be illegitimate.
- 1991: the failure to tax the deficit that came to light following the merger into AME Finanziaria (AMEF) of Arnoldo Mondadori Editore S.p.A. and was used to re-value a number of shares held by the merged company is being challenged.

The Regional Tax Commission has confirmed that the Company acted correctly, although the Financial Administration has appealed in the Court of Cassation.

- 1996-1997-1998-1999: following an inspection by the National Journalists' Social Security Association, the Company has been notified that it is being investigated and that it may be sanctioned for failure to apply withholding tax. The Company has appealed to the Provincial Tax Commission. This investigation is part of a wider investigation being carried out by the Financial Police dealing with:
 - substitute taxes for the years 1995 to 1999 (up to the present time the Company has been informed of the positive result for the company of the investigation concerning 1995);
 - VAT for the years 1997 to 1999 (up to the present time the Company has been informed of an investigation for 1997 which was closed following the definition of reduced tax sanctions).

With regard to the substitute tax cases, for the years 1996 to 1998, the Provincial Tax Commission discussed the case at its sitting of 21 March of this year and the Company is currently awaiting to be informed of the results.

For those years still fiscally open the taxes have been allocated and paid on the basis of the taxable income and the fiscal regulations in place at the time the provisions were made.

IRPEF for employees and professional services for a total of €5,333 thousand was paid in January 2005.

Amounts due to pension funds and social security institutions of €9,678 thousand (€9,084 thousand) refer to €5,433 thousand to contributions relating to salaries for December and for the thirteenth-month salary paid in January 2005, and for €4,245 thousand to allocations for contributions relating to deferred salaries.

Other liabilities of €57,073 thousand (€49,540 thousand) refer to:

	31/12/2004	31/12/2003
Payroll and other amounts due to employees	15,170	15,068
Authors and collaborators	25,570	18,668
Subscriber customers	11,517	11,784
Directors and statutory auditors	2,712	194
Agents	1,399	885
Loans payable	136	2,298
Dividends for shareholders	132	142
Others	437	501
Total	57,073	49,540

Payables to *subscriber customers* of €11,517 thousand (€11,784 thousand) relate to the Group's commitment for subscriptions taken out but not yet collected at the date of the financial statements. Subscriptions that have been taken out and paid for amounting to €24,929 thousand (€23,895 thousand) are shown under *Advances (D.5)*.

Payables to agents refer exclusively to commission due to agents. Allowances to clients matured at 31/12/2004 for €1,738 thousand have been reclassified under Reserve for Risks and Charges under “B.1- Reserve for pensions and similar”.

Accrued liabilities and deferred income: €11,180 thousand (€6,446 thousand).

Accrued liabilities and deferred income are calculated on the basis of their temporal characteristics and are made up as follows:

	31/12/2004	31/12/2003
Deferred payroll and relative charges	1,684	1,674
Interest on short-term loans and financial instruments	5,608	319
Insurance, association fees and other fees	506	429
Total accrued liabilities	7,798	2,422
Advertising revenues for magazines in 2005	2,099	2,683
Rent payables	981	1,145
Others	302	196
Total deferred income	3,382	4,024
Total accrued liabilities and deferred income	11,180	6,446

The increase in interest is due to the share of financial charges for the year concerning operations in financial instruments carried out to cover the risk of interest and exchange rates connected to the financial debt, the cash effects of which will be seen in future years.

Memorandum accounts: €354,863 thousand (€375,659 thousand).

The details are as follows:

	Sureties	Other guarantees	Total 31/12/2004	Total 31/12/2003
Guarantees, sureties and endorsements:				
- in favour of subsidiaries	-	72,843	72,843	68,879
- in favour of associated companies	1,005	1,575	2,580	2,771
- in favour of other companies	10,769	-	10,769	10,845
	11,774	74,418	86,192	82,495
Commitments			9,460	24,895
Others			259,211	268,269
Total			354,863	375,659

Guarantees, sureties and endorsements:

- *in favour of subsidiaries:* €72,843 thousand (€68,879 thousand) refers to assuming the responsibility for the payment, to the Milan VAT office on behalf of Subsidiary Companies, of the VAT credit surplus, which are then booked to the benefit of the Group.

- **in favour of associated companies:** €2,580 thousand (€2,771 thousand) refers to €1,005 thousand for a surety issued in favour of Intesa Leasing S.p.A. on behalf of Società Europea di Edizioni S.p.A. as a guarantee of the exact and punctual payment of monies due for leasing contracts and €1,575 thousand for letters of patronage issued to Banco Santander Central Hispano for guarantees given to Grupo Editorial Random House Mondadori.

- **in favour of other companies:** €10,769 thousand (€10,845 thousand) refers to counter securities supplied by the Company for sureties issued by:

- *banks* to the Milan VAT offices for €1,922 thousand as a guarantee for reimbursed credits and group VAT, the Lombardy Region Tax Authorities and the Ministry of Production for competitions in magazines for €7,775 thousand and other authorities and companies for a total of €1,057 thousand;
- *insurance companies* in favour of companies as guarantees for rental contracts amounting to €15 thousand.

Commitments: €9,460 thousand (€24,895 thousand) refer to fixed term contracts for sales of foreign currency for €4,730 thousand and fixed term contracts for the purchase of foreign currency for €4,730 thousand.

Others: €259,211 thousand (€268,269 thousand).

These refer to *Third-party and Group company* publishing goods on deposit that Mondadori is responsible for distributing and marketing.

Commitments and risks

For a correct valuation of the Group's balance sheet and financial position we would inform you that at 31/12/2004 there existed:

- a cross currency swap operation on the debt deriving from the debenture loan in US dollars in three tranches with expiry dates of 2013, 2015 and 2018 for, respectively, \$215 million, \$40 million and \$95 million;
- an interest rate swap operation on the debt deriving from a stand-by loan for €50 million that expires in November 2005.

The operations in question, implemented to cover the risk of exchange and interest rate fluctuations, have the same durations as the debts and are co-ordinated by, respectively, JPMorgan Chase Bank and Unicredit Banca d'Impresa.

It should also be noted that as a result of the 1,960,000 thousand 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.

Income statement

Production value

(Intergroup financial relations during 2004 with Associated Parties are explained in appendix "C2")

Sales of goods and services: €1,030,852 thousand (€948,697 thousand)

Details of sales in the individual sectors are given in the Report of the Board of Directors on the results of the financial year, while the following table outlines the details by category.

	2004	2003
Books	239,305	217,103
Magazines:		
• publications	480,785	426,606
• subscriptions	48,787	47,570
Advertising	215,954	213,668
Reproduction rights	11,838	8,663
Others (returns and rejects, materials, various services)	34,183	35,087
Total	1,030,852	948,697

Sales of books and magazines during the year are shown net of VAT borne by the publisher for €3,170 thousand and €17,176 thousand respectively (€2,680 thousand and €14,715 thousand in 2003).

In addition, sales from the publication of books and magazines are shown net of distribution and sales "premiums" which amounted to €157.6 million (€140.9 million).

Advertising revenues for the year are shown net of "agents' shares" which amounted to €83.9 million (€83.1 million).

Foreign sales amounted to €10,870 thousand (€10,995 thousand).

Revenues are broken down into the following geographical areas:

Geographical area	Books	Magazines	Rights	Advertising and others	2004	2003
Italy	236,952	521,766	11,127	250,137	1,019,982	937,702
EU countries	823	3,870	551	-	5,244	5,001
U S A	40	296	4	-	340	388
Switzerland	1,277	2,927	-	-	4,204	4,410
Other countries	213	713	156	-	1,082	1,196
Total	239,305	529,572	11,838	250,137	1,030,852	948,697

Other revenues amounted to €34,183 thousand (€35,087 thousand) and include:

	2004	2003
On-line revenues - content deal - management of sites	1,848	1,235
Various services, consultancy and assistance	24,472	24,699
Commercial articles, various volumes and special initiatives	2,780	3,457
Courses and conventions	2,680	2,890
By-products and recovered materials	2,317	2,781
Warehouse and various materials	86	25
Total	34,183	35,087

Changes in inventory of semi-finished and finished products: -€4,138 thousand (€2,382 thousand).

Details of the changes are given in under *Inventory* (C.I) in the Balance Sheet.

Other income and revenues: €41,118 thousand (€33,620 thousand).

These refer to:

	2004	2003
Expenses recovered from third parties:		
• development and distribution expenses	7,285	6,022
• advertising expenses	5,798	5,248
• cost of work for loan of personnel	3,258	2,799
• other costs and expenses (transport, shipping, rent, canteen)	15,775	15,382
Contribution to paper costs (Law 350 of 24/12/2003)	5,027	-
Others (promotional sales, rent, publishing loans)	3,184	3,000
Supplier bonus	428	533
Capital gains and windfall profits	328	596
Company rent	35	40
Total	41,118	33,620

The item *contribution to paper costs* refers to €5,027 thousand requested by the company in the form of tax credits for the cost of paper, in accordance with the provisions of article 4, paragraph 181 - 186 and 189 of law 350 of 24 December 2003.

Since the Finance Law includes a limit to the amount of allowance available, which could result in a pro-quota distribution of the benefits among the publishing companies requesting the benefits, and since at the time of drawing up the present financial statements the exact amount of the allowance was not known, it was decided to book a figure of 50% of the amount requested to the financial statements.

Production costs

(Intergroup financial relations during 2004 with Associated Parties are explained in appendix "D2")

Raw, ancillary and consumable materials and goods: €236,510 thousand
(€222,070 thousand).

	2004	2003
Paper for special initiatives	45	36
Electricity, water, gas fuel	1,525	1,670
Total purchase of raw materials and ancillary materials	1,571	1,706
Goods for sale	207,808	194,433
Consumption and maintenance materials	27,131	25,931
Total other purchases	234,939	220,364
Total	236,510	222,070

Services: €534,361 thousand (€494,127 thousand).

These are made up as follows:

	2004	2003
Rights and royalties	104,666	82,709
Third-party collaboration	24,650	23,274
Consultancy	11,616	9,917
Commission	8,558	5,806
	149,490	121,706
Printing:		
- printing, packaging and others	145,593	137,611
- paper	103,329	105,551
Transport and shipping	39,987	38,670
Advertising services	53,804	51,377
Other services	12,763	14,293
Travel and other expense reimbursements	6,305	5,661
Maintenance	2,835	2,569
Post office and telephones	3,409	4,104
Canteen and cleaning services	3,177	2,510
Market research	5,124	5,105
Insurance	1,982	1,729
Subscription management	2,104	1,616
Information agency	734	639
Total rights, commission, consultancy and services	530,636	493,141
Expenses for company boards:		
• Chairman and Board of Directors (*)	3,620	864
• Board of Statutory Auditors (*)	105	122
Total remuneration for Directors and Statutory Auditors	3,725	986
Total services	534,361	494,127

(*) Information concerning the remuneration for the year is given in appendix "I" (CONSOB decree 11971 of 14 May 1999).

Use of third-party assets: €12,614 thousand (€12,723 thousand).

Includes:

	2004	2003
Rent	8,186	8,376
Transport rentals and others	2,863	3,595
Data processing rental and others	1,565	752
Total	12,614	12,723

Personnel: €123,873 thousand (€119,757 thousand).

Includes:

	2004	2003
Payroll and other costs	90,909	87,936
Social security charges	25,754	24,580
Severance indemnities and pensions	7,210	7,241
Total	123,873	119,757

Cost per category are divided in the following way:

	2004	2003
Managers	22,109	20,163
Office workers	44,198	43,756
Journalists	53,582	50,364
Manual workers	3,984	5,474
Total	123,873	119,757

As at 31/12/2004, the Company employed 1,600 people, an increase compared with 31/12/2003 of 94, as illustrated in the table below.

Number of employees	31/12/2004	31/12/2003
Managers	84	87
Office workers	958	1,002
Journalists	449	461
Manual workers	109	144
Total	1,600	1,694

During the year the Company employed an average of 1,617 people (1,696 in 2003).

Depreciations and writedowns: €30,402 thousand (€19,857 thousand).

Details are given in the Balance sheet under “non-current assets” and “current assets”.

Changes in inventory of raw, ancillary and consumable materials and goods:
€1 thousand (€12 thousand).

A comment on this item can be found under *Inventory* (C.I) in the Balance Sheet.

Provisions for risks: €3,443 thousand (€3,478 thousand).

Details are given in the Balance Sheet under *Reserve for risks and charges (B.3)*.

Other provisions: €7,488 thousand (€7,637 thousand).

The details and changes in this item are illustrated in the following table:

	2004	2003
<i>Other costs and losses:</i>		
Settlements, reimbursements and discounts	7,249	4,081
Bad debts	3,549	2,661
Contributions and grants	1,582	1,866
Personnel loaned out	354	950
Information material	1,202	1,211
Representative expenses	1,504	1,499
Others	323	284
Capital/windfall losses	170	156
	<u>15,933</u>	<u>12,708</u>
<i>Less:</i>		
Utilisation of risk reserve		
- for credits	3,251	2,743
- legal	1,728	1,231
- others	4,227	1,846
Total	<u>6,727</u>	<u>6,888</u>
<i>Taxes:</i>		
Local taxes on property	165	165
Income tax and other taxes	596	584
Total	<u>761</u>	<u>749</u>
General total	<u>7,488</u>	<u>7,637</u>

Financial income and charges

Income from equity investments: €38,357 thousand (€42,187 thousand).

Dividends received during the year were as follows:

	2004	2003
<i>Subsidiary companies:</i>		
Mondadori International S.A.	10,000	-
Mondadori Pubblicità S.p.A.	3,600	7,080
Giulio Einaudi Editore S.p.A.	5,980	5,520
Sperling & Kupfer Editori S.p.A.	4,501	4,978
Edumond Le Monnier S.p.A.	2,856	2,040
Cemit Interactive Media S.p.A.	3,687	1,033
Fied S.p.A.	128	-
Edizioni Piemme S.p.A.	1,299	-
Mondadori Franchising S.p.A.	762	-
Total	32,813	20,651
<i>Associated companies:</i>		
Gruner und Jahr/Mondadori S.p.A.	3,188	3,323
Mondolibri S.p.A.	600	1,150
Società Europea di Edizioni S.p.A.	551	618
Mondadori Rodale S.r.l.	550	537
Harlequin Mondadori S.p.A.	350	500
Mach 2 Libri S.p.A.	240	188
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	65	52
Total	5,544	6,368
Total dividends	38,357	27,019
Tax credit on dividends (*)	-	15,168
General total	38,357	42,187

(*) As from 1 January 2004, with the application of the Legislative Decree 344 of 12 December 2003 that introduced the new IRES-Company Income Tax to replace IRPEG, dividends resolved and paid during 2004 are not considered as part of taxable income since 95% of their total is excluded from this equation. The tax credits due in accordance with the previous law are therefore no longer valid as from the same date.

Other financial income: €9,923 thousand (€13,685 thousand).

This item is made up as follows:

	2004	2003
<i>Financial income from:</i>		
• receivables from other subsidiary/associated companies	58	92
<i>Interest from:</i>		
• subsidiary companies	2,438	2,947
• associated companies	39	61
• banks	121	50
• clients	29	59
• others	174	67
<i>Income from cover for risk of exchange/interest rate changes</i>	7,055	9,991
<i>Other financial income</i>	9	418
Total	9,923	13,685

The amount at 31/12/2003 was adjusted from €13,845 thousand to €13,685 thousand after booking the differences in exchange gains to item *17 bis- Profit and losses on exchange operations* in the present Income Statement.

Financial income from other subsidiary/associated companies concerns the revaluation of advance tax on severance indemnities (law 140 of 28/5/1997).

Income from operations for covering exchange and interest rate changes refers to €1,148 thousand for actions taken to cover the risk of exchange operations and to €5,907 thousand for operations connected to the interest rates of Company debts. In order to evaluate all of the operations carried out by the Company that amount to a loss of €2,503 million, it is necessary to take into account an amount of €9,558 thousand from the next item, "*Interest and other financial charges*".

The rates applied to credits and debts from subsidiary and associated companies are in line with the average cost of money paid by Mondadori.

Interest and other financial charges: €29,469 thousand (€25,447 thousand):

	2004	2003
Interest on debts to:		
- subsidiary companies	16,871	1,134
- associated companies	317	326
	<hr/>	<hr/>
	17,188	1,460
- banks:		
• overdrafts	231	585
• short-term loans	2,172	10,197
	<hr/>	<hr/>
	2,403	10,782
Interest paid on various operations	138	157
Commissions, bank charges and various loans	182	1,195
Charges for covering exchange/interest rate changes (*)	9,558	11,853
Total	<hr/>	<hr/>
	29,469	25,447

(*) See comment in corresponding item under "Other financial income" that follows.

Financial charges represented 1.9 of turnover in 2004, as illustrated in the following table:

	2004	2003
Interest and financial charges on short-term loans	19,729	12,399
Other financial charges (commission/bank charges, cover for exchange/interest rate risks)	9,740	13,048
	<hr/>	<hr/>
	29,469	25,447
Interest on loans	+2,801	+3,182
Other financial income (credit/shares, cover for exchange/interest rate risks)	+7,122	+10,501
Total (A)	<hr/>	<hr/>
	19,546	11,764
Revenue from sales (B)	1,030,852	948,697
Percentage (A/B)	1.9%	1.2%

Profit and losses on exchange operations: €27 thousand (€42 thousand).

This includes definitive losses of €26 thousand and net profits of €53 thousand as the net result of the calculation of receivables and payables in foreign currency as of 31 December 2004 on the basis of exchanges carried out up to that date. Receivables registered a loss of €36 thousand while payables registered a profit of €89 thousand. As a result of not making these net profits of €53 thousand, a special net equity reserve was created in accordance with article 2426, paragraph 8 bis of the Civil Code.

Adjustments to the value of financial assets

Writedowns: €5,962 thousand (€7,848 thousand).

€5,962 thousand refers to charges due to losses sustained by subsidiary and associated companies during the year in order to adjust the book value of investments in the net equity of these companies.

Details are given in the Balance Sheet under *Investments*, while the table below gives details of the writedowns.

	2004	2003
Cover for losses	3,159	1,535
Reduction of capital and reserve	3,427	5,124
	<u>6,586</u>	<u>6,659</u>
Reserve for doubtful accounts:		
• provisions	2,678	3,124
• utilisations	-3,302	-2,942
	<u>-624</u>	<u>182</u>
Others	-	1,007
Total	<u>5,962</u>	<u>7,848</u>

Extraordinary income and charges

Income: €6,512 thousand (€1,402 thousand).

Basically refers to the windfall profits of €6,419 thousand from the reversals of the advance depreciations on fixed assets for the fiscal housekeeping of the financial statements in accordance with the new regulations of the Civil Code.

Charges: €3,077 thousand (€89 thousand).

Includes windfalls losses for €2,391 thousand referring to deferred taxes calculated on the windfall profits from the fiscal housekeeping referred to in the previous item, "Extraordinary Income" and capital losses of €686 thousand from losses on the disposal of stocks and company operations.

Income taxes for the year: €42,587 thousand (€54,509 thousand).

Provisions for taxes for the year refer to IRES for €35,689 thousand (€32,150 thousand in 2003 for IRPEG) and IRAP for €11,304 thousand (€10,028 thousand).

The item *deferred/advance taxes* of €4,406 thousand (-€12,103 thousand) mainly refers to advance taxes and the recovery of deferred taxes relative to the temporary differences in taxable income in previous years, as outlined in the following table:

Description	IRES		IRAP		2003
	Temporary difference	Fiscal effect (33% rate)	Temporary difference	Fiscal effect (4.25% rate)	Overall fiscal effect IRPEG/IRAP
Deferred taxes:					
- gains in instalments	120	39	30	1	60
- advance depreciations	1,208	399	1,208	52	-
Total	1,328	438	1,238	53	60
Advance taxes:					
- provisions to risk reserve	-4,125	-1,361	-1,285	-55	-12,484
- costs deductible in future years	7,968	2,629	287	12	323
- depreciations over fiscal maximum/writedowns	7,220	2,383	7,220	307	-2
Total	11,063	3,651	6,222	264	-12,163
Net total	12,391	4,089	7,460	317	-12,103

Comparison between ordinary tax rate and effective tax rate:

	2004			2003
	IRES	IRAP	Total	Total
Ordinary % rate applied	33	4.25	37.25	38.25
Effect of variation in increase/decrease:				
- Dividends	-9.13	-	-9.13	-
- Non-deductible costs	2.46	0.38	2.84	0.83
- Other permanent differences	-1.23	-	-1.23	-0.07
- Taxation for transparency	-0.21	-	-0.21	-
- Cost of work/collaboration	-	4.19	4.19	4.06
- Charges/income (financial and extraordinary)	-	-0.51	-0.51	-0.80
Effective tax rate	24.89	8.31	33.20	42.27
Taxes in previous years	-1.56	-0.20	-1.76	-
Effective tax rate on pre-tax profit	23.33	8.11	31.44	42.27

The effective tax rate at 31/12/2003, taking into consideration the tax credits on dividends booked to item *C.15/c Income from investments/Other companies*, amounted to 34.57% compared with 31.44% to 31/12/2004.

Supplementary tables

The financial statements, changes to the net equity (expressed in thousands of euros), in accordance with the principles laid down by the Italian Accountancy Board and CONSOB, and the tables containing information about the geographical areas of the Company's receivables and payables are contained in the appendices.

Consolidated financial statement

The appendices also include the Group's consolidated financial statement as of 31 December 2004 (as required by Legislative decree 127 of 9 April 1991).

Comments about the individual items are contained in the notes to the financial statement.

For the Board of Directors

Chairman

Marina Berlusconi

Changes in financial position
Changes in net shareholders' equity
Receivables and payables per area

Changes in financial position (in thousands of euros)

	2004	2003
<i>Sources of funds:</i>		
Profit (loss) for the year	92,863	74,461
Adjustments that do not cause changes in net working capital:		
Amortisation of fixed and intangible assets	18,176	18,166
Provisions for severance indemnities and pensions	7,401	7,241
Adjustments to investments and other items	1,453	4,516
Net working capital generated by ordinary activities	119,893	104,384
Cover for losses from investments	3,138	1,535
Net working capital generated by sales and other operations	123,031	105,919
Decrease in treasury stock	8,713	-
Decrease in investments	2,199	-
Loans	-	296,384
Reserve for severance indemnities relating to personnel from associated companies	99	368
Decrease in non-current payables	466	96
Decrease in non-current receivables	1,902	858
Total sources	136,410	403,625
<i>Application of funds:</i>		
Purchase of assets:		
Investments	5,750	17,142
Treasury stock	-	57,413
Fixed assets	4,899	3,373
Intangible assets	1,666	6,401
Dividends paid	72,533	62,411
Payments of severance indemnities and pensions	6,782	7,436
Cover for losses from investments	3,138	1,535
Increase in non-current receivables	223	-
Decrease in non-current payables	-	7,831
Company operations	-	1,495
Total charges	94,991	165,037
Increase (decrease) in working capital	41,419	238,588
Total	136,410	403,625

Changes in net working capital (in thousands of euros)

	2004	2003
<i>Increase (decrease) in current assets:</i>		
Goods and raw materials	-4,140	4,155
Receivables	3,055	-15,901
Banks	53,057	29,750
Cash	-4	-6
Accrued income and prepayments	3,269	-1,462
	55,237	16,536
<i>(Increase) decrease in current liabilities:</i>		
Reserve for risks and charges	-239	870
Banks	-17,591	-507
Short-term loans	-5,000	-247,000
Suppliers	1,179	16,986
Payables	30,735	7,699
Accrued liabilities and deferred income	4,734	-100
	13,818	-222,052
Increase (decrease) in net working capital	41,419	238,588

Changes in net shareholders' equity at 31/12/2002 (in thousands of euros)

	Share capital					
		Share premium	Law no. 72	Law no. 413/91	Legal reserve	Treasury stock
Balance at 1/1/2002	67,452	231,115	12,022	4,689	13,398	56,150
Allocation of profits 2001:						
Dividend						
Transfer to legal reserve					92	
Transfer to extraordinary reserve						
Transfer to reserve 124/93						
Reclassifications		-3,322				3,322
Company operations						
Profit for 2002						
Balance at 31/12/2002	67,452	227,793	12,022	4,689	13,490	59,472

Changes in net shareholders' equity at 31/12/2003 (in thousands of euros)

	Share capital					
		Share premium	Law no. 72	Law no. 413/91	Legal reserve	Treasury stock
Balance at 1/1/2003	67,452	227,793	12,022	4,689	13,490	59,472
Conversion of capital in euros						
Allocation of profits 2002:						
Dividend						
Transfer to legal reserve						
Transfer to extraordinary reserve						
Transfer to reserve 124/93						
Reclassifications		-57,413				57,413
Company operations						
Profit for 2003						
Balance at 31/12/2003	67,452	170,380	12,022	4,689	13,490	116,885

Changes in net shareholders' equity at 31/12/2004 (in thousands of euros)

	Share capital					
		Share premium	Law no. 72	Law no. 413/91	Legal reserve	Treasury stock
Balance at 1/1/2004	67,452	170,380	12,022	4,689	13,490	116,885
Allocation of profits 2003:						
Dividend						
Transfer to legal reserve						
Transfer to extraordinary reserve						
Transfer to reserve 124/93						
Reclassifications		5,195				-8,713
Company operations						
Profit for 2004						
Balance at 31/12/2004	67,452	175,575	12,022	4,689	13,490	108,172

Reserves						Net profit for year	Total shareholders' equity
Extra. Reserve	Law no. 675	Law no. 904	Govt. grants	Law no. 124/93	Merger reserve		
152,838	351	751	5,052	38		83,039	626,895
-100,433						-55,239	0
27,693						-92	-155,672
-283			283	15		-27,693	0
					478	-15	0
							478
						71,694	71,694
79,815	351	751	5,335	53	478	71,694	543,395

Reserves						Net profit for year	Total shareholders' equity
Extra. Reserve	Law no. 675	Law no. 904	Govt. grants	Law no. 124/93	Merger reserve		
79,815	351	751	5,335	53	478	71,694	543,395
							0
						-62,411	0
9,263				20		-9,263	-62,411
						-20	0
							0
							0
						74,461	74,461
89,078	351	751	5,335	73	478	74,461	555,445

Reserves						Net profit for year	Total shareholders' equity
Extra. Reserve	Law no. 675	Law no. 904	Govt. grants	Law no. 124/93	Merger reserve		
89,078	351	751	5,335	73	478	74,461	555,445
							0
						-72,533	-72,533
1,902						-1,902	0
3,518				26		-26	0
							0
						92,863	92,863
94,498	351	751	5,335	99	478	92,863	575,775

Division of receivables and payables by geographical area

(in thousands of euros)

	Italy	Other EU countries	USA	Switzerland	Canada	Other countries	Total
<i>Receivables:</i>							
from Clients	88,613	1,304	250	984	72	253	91,476
from Subsidiaries	141,358	9,016					150,374
from Associated Companies	24,852	95					24,947
from Parent Companies	3						3
taxes	3,454						3,454
advance income tax	19,425						19,425
from others	19,371	6,039	7,984	198	127	422	34,141
Total receivables	297,076	16,454	8,234	1,182	199	675	323,820
<i>Payables:</i>							
bonds		296,384					296,384
due to banks	100,612						100,612
advances	26,533						26,533
trade	106,840	1,993	1,668	64	7	43	110,615
due to Subsidiaries	135,208	10,602	432				146,242
due to Associated Companies	25,944	9					25,953
due to Parent Companies	13,834						13,834
taxes	6,715						6,715
due to pensions and social security institutions	9,678						9,678
due to others	49,718	1,728	5,303	37	6	281	57,073
Total payables	475,082	310,716	7,403	101	13	324	793,639

Appendix A: Investments

Name	Head office		Share capital	Shareholders' equity	Profit (loss) financial year 2004
<i>Subsidiary companies:</i>					
Arnoweb S.A.	Luxemburg	Euro	36,256,900	34,995,614	-2,198,055
Cemit Interactive Media S.p.A.	S.Mauro Torinese (TO)		3,835,000	7,579,425	3,595,233
Edizioni Piemme S.p.A.	Milan		566,661	7,671,811	1,427,503
Edumond Le Monnier S.p.A.	Milan		10,608,000	39,278,090	2,612,621
Fied S.p.A.	Milan		416,000	822,443	126,861
Giulio Einaudi Editore S.p.A.	Turin		23,920,000	27,652,192	4,914,339
Mondadori Electa S.p.A.	Milan		1,593,735	4,166,078	1,885,629
Mondadori Franchising S.p.A.	Rimini		1,954,000	4,460,920	1,907,320
Mondadori International S.A.	Luxembourg		393,625,900	517,060,150	8,382,154
Mondadori Printing S.p.A.	Milan		45,396,000	97,314,997	16,974,072
Mondadori Pubblicità S.p.A.	Milan		3,120,000	4,323,840	2,516,230
Mondadori Retail S.p.A.	Milan		2,700,000	6,700,000	-2,660,725
Mondadori Sistemi di Comunicazione S.r.l.	Milan		95,000	178,810	379,356
Monradio S.r.l.	Milan		500,000	500,000	-59,551
Prisco Spain S.A.	Barcelona		60,101	52,219	7,665
Sperling & Kupfer Editori S.p.A.	Milan		388,800	726,718	2,266,314
Subsidiary loss / writedown reserve					
Total					
<i>Associated companies:</i>					
ACI-Mondadori S.r.l.	Milan	Euro	1,080,000	506,276	84,013
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	Milan		400,000	633,188	
BOL Books on Line Italia S.p.A.	Milan Oltre-Segrate		1,000,000	1,271,271	-1,081,950
Gruner und Jahr/Mondadori S.p.A.	Milan		2,600,000	4,465,629	7,970,486
Grupo Editorial Random House Mondadori S.L.	Barcelona		10,002,000	13,303,439	271,870
Harlequin Mondadori S.p.A.	Milan		258,250	317,137	537,218
Hearst Mondadori Editoriale S.r.l.	Milan		99,600	675,059	913,976
Mach 2 Libri S.p.A.	Milan		646,250	8,491,969	2,795,353
Mondadori Rodale S.r.l.	Milan		90,000	669,918	938,576
Mondolibri S.p.A.	Milan		1,040,000	25,821,609	1,735,848
Press TV S.p.A.	Milan		1,500,000	3,000,000	-842,984
Società Europea di Edizioni S.p.A.	Milan		2,775,602	8,269,374	
Associated company loss / writedown reserve					
Total					

Total shareholders' equity	Share held	Shareholders' equity held	Balance sheet value		
			Purchased/ set up	Deposit of share capital	Total
32,797,559	99.99%	32,794,279	36,253,178		36,253,178
11,174,658	100.00%	11,174,658	15,291,202		15,291,202
9,099,314	70.00%	6,369,520	14,107,099		14,107,099
41,890,711	100.00%	41,890,711	55,988,443		55,988,443
949,304	100.00%	949,304	4,446,769		4,446,769
32,566,531	100.00%	32,566,531	28,087,408		28,087,408
6,051,707	100.00%	6,051,707	6,108,344		6,108,344
6,368,240	100.00%	6,368,240	1,882,212	2,001,058	3,883,270
525,442,304	99.99%	525,389,760	392,758,634	77,468,535	470,227,169
114,289,069	57.04%	65,190,485	68,931,502		68,931,502
6,840,070	100.00%	6,840,070	3,098,742		3,098,742
4,039,275	100.00%	4,039,275	2,700,000	1,358,000	4,058,000
558,166	100.00%	558,166	95,000		95,000
440,449	100.00%	440,449	500,000		500,000
59,884	100.00%	59,884	7,856,441		7,856,441
2,993,032	100.00%	2,993,032	9,035,407		9,035,407
			-5,629,919		-5,629,919
		743,676,070	641,510,462	80,827,593	722,338,055
590,289	50.00%	295,144	540,000		540,000
633,188 (c)	50.00%	316,594	206,583		206,583
189,321	50.00%	94,661	500,000		500,000
12,436,115	50.00%	6,218,057	1,203,313		1,203,313
13,575,309 (d)	6.01% (b)	815,876	13,841,696		13,841,696
854,355	50.00%	427,178	402,000		402,000
1,589,035	50.00%	794,518	49,800	48,728	98,528
11,287,322	20.00%	2,257,464	129,114		129,114
1,608,494	50.00%	804,247	45,000		45,000
27,557,457	50.00%	13,778,729	3,010,217		3,010,217
2,157,016	50.00%	1,078,508	750,000	328,500	1,078,500
8,269,374 (c)	31.28%	2,586,660	8,020,314		8,020,314
			-807,754		-807,754
		29,467,635	27,890,283	377,228	28,267,511

(follows)

Appendix A: Investments

(follow)

Name	Head office		Share capital	Shareholders' equity	Profit (loss) financial year 2004
<i>Other companies:</i>					
Atimod Publishing Investments S.A.	Luxemburg	Euro	10,373,800	10,541,553	175,044
Consorzio Sistemi Informativi Editoriali Distributivi-C.S.E.D.	Milan		103,291	152,208	-16,358
Consuledit S.r.l.	Milan		20,000	31,764	
Editrice Portoria S.p.A.	Milan		364,000	299,567	
Helit Investments S.A.	Luxemburg		10,373,800	10,541,546	171,208
Immobiliare Editori Giornali S.r.l.	Rome		830,462	706,499	
ISTUD S.p.A.	Milan		1,136,212	806,315	
Soc, Editrice Il Mulino S.p.A.	Bologna		1,175,000	1,470,542	
<i>Other companies loss/writedown reserve</i>					
Total					
Total direct investments					
General total					

(a) Shareholders' equity 31/12/1999.

(b) Associated for 50% through Arnoweb S.A. and Prisco Spain S.A.

(c) Shareholders' equity 31/12/2003 taking into account changes resolved during 2004.

(d) Consolidated financial statement.

(e) 100% share held by Mondadori International S.A.

Total shareholders' equity	Share held	Shareholders' equity held	Balance sheet value		
			Purchased/ set up	Deposit of share capital	Total
10,716,597	0.0001% (e)	11	18		18
135,850	10.00%	13,585	10,329		10,329
31,764 (c)	9.54%	3,030	985		985
299,567 (a)	16.78%	50,267	60,684		60,684
10,712,754	0.0001% (e)	11	22		22
706,499	7.88%	55,672	52,132		52,132
806,315	0.59%	4,757	6,714		6,714
1,470,542	7.05%	103,673	101,158		101,158
			-60,683		-60,683
		231,006	171,359	0	171,359
		773,374,711	669,572,104	81,204,821	750,776,925

Appendix B/1: Main indirectly controlled subsidiary and associated companies as of 31/12/2004

Name	Head office		Share capital	Shareholders' equity
<i>Subsidiary companies:</i>				
AME France S.a.r.l.	Paris	Euro	20,000	20,000
AME Publishing Ltd,	New York	US\$	50,000	190,629
Arnoldo Mondadori Deutschland GmbH	Munich	Euro	25,565	67,577
Artes Graficas Toledo S.A.	Toledo		5,409,000	4,703,000
Edizioni Frassinelli S.r.l.	Milan		10,400	228,561
Electa Napoli S.p.A.	Naples		155,000	1,039,853
Mondadori.com Inc. (U.S.A.)	New York	US\$	1,000	-21,154
Mondadori Finance S.A.	Luxemburg	Euro	4,731,000	1,662,475
MISA Finance Fund P.L.c.	Dublin			
Texto S.p.A.	Milan		110,000	110,000

Total

Associated companies:

Companies part of

Random House Mondadori Group:

	(a)			
Random House Mondadori S.A. (Colombia)		Bogotá	Pesos colom	2,960,900
Random House Mondadori S.A. de C.V. (Mexico)		Mexico D.F.	Pesos	122,846,651
Editorial Random House Mondadori Ltda (Colombia)		Bogotá	Pesos colom	779,596,000
Editorial Lumen S.A.		Barcelona	Euro	66,000
Editorial Sudamericana Argentina S.A. (Argentina)		Buenos Aires	Australes	8,366,513
Random House Mondadori S.A. (Chile)		Santiago	Pesos	3,652,935,967
Editorial Sudamericana Uruguay S.A.		Montevideo		9,892,775
Grijalbo Editor S.A. (Uruguay)		Montevideo	N,Pesos	500,000
Random House Mondadori S.A. (Venezuela)		Caracas	Bolivares	670,686,000
Market Self S.A.		Buenos Aires	Australes	30,200
Random House Mondadori S.A.		Barcelona	Euro	6,824,606

(Data from consolidated Financial Statement of Random House Mondadori Group)		Euro	10,002,000	13,303,439
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Profit (loss) for 2004	Total shareholders' equity	Share held by group	Shareholders' equity held in local currency	Shareholders' equity held in Euros (b)
8,391	28,391	99.99%	28,388	28,388
11,302	201,931	99.99%	201,911	148,235
2,580	70,157	99.99%	70,150	70,150
3,020,000	7,723,000	100.00%	7,723,000	7,723,000
670,043	898,604	100.00%	898,604	898,604
150,737	1,190,590	60.00%	714,354	714,354
	-21,154	99.99%	-21,152	-15,529
2,938,793 (c)	4,601,268	99.97%	4,599,888	4,599,888
	110,000	100.00%	110,000	110,000
			14,277,090	

49.99%
50.00%
50.00%
50.00%
50.00%
50.00%
49.95%
50.00%
50.00%
25.00%
50.00%

271,870	13,575,309	50.00%	6,787,654	6,787,654 <i>(follows)</i>
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Appendix B/1: Main indirectly controlled subsidiary and associated companies as of 31/12/2004

(follow)

Name	Head office		Share capital	Shareholders' equity
<i>Companies belonging to "Attica" group:</i>				
Attica Publications S.A.	Athens	Euro	4,590,000	
Alpha Records S.A.	Athens		390,000	
Attica Media Bulgaria Ltd	Sofia	Lev	155,000	
Balcan Publications Ltd	Cyprus	Cyprus Pounds	1,000	
City Serves S.A.	Athens	Euro	4,337,500	
E-One S.A.	Athens		2,054,292	
Emphasis S.A.	Athens		798,239	
Enallaktikes S.A.	Athens		410,858	
G.Dragounis S.A.	Athens		311,346	
International Radio Networks Holdings S.A.	Luxembourg		750,000	
International Radio Networks S.A.	Athens		380,000	
Ionikes Publishing S.A.	Athens		780,000	
Map Media S.A.	Budapest	Huf	60,000,000	
PBR Publication Ltd	Bucharest	Rol	2,000,000	
Prooptiki S.A.	Athens	Euro	1,760,822	
Tilerama S.A.	Athens		1,467,351	
Tiletheatis S.A.	Athens		2,641,500	
(Data from consolidated Financial Statement of Attica)		Euro	4,590,000	11,757,000
Casa Editrice e Distribuzione "Bences" S.r.l.,	Hungary	Ft	11,250,000	8,308,000
Edizioni EL S.r.l.	Trieste	Euro	620,000	4,094,843
Edizioni Electa Bruno Mondadori S.r.l.	Milan		10,400	121,131
Euromedia Luxembourg Two S.A.	Luxembourg	US\$	42,500,000	29,783,376
News Alert Investors LLC (U.S.A.)	New York	US\$	20,528,461	20,528,461
Novamusa Gelmar Biblioteca Nazionale Soc.Cons. a.r.l.	Rome	Euro	10,200	10,200
Novamusa Val di Noto Soc.Cons. a.r.l.	Messina		90,000	90,000
Novamusa Valdemone Soc.Cons. a.r.l.	Messina		90,000	90,000
Selcon S.r.l.	Milan		20,800	327,044
Venezia Accademia S.c.a.r.l.	Mestre (VE)		15,000	45,051
Venezia Musei società per i servizi museali S.c.a.r.l.	Venice		10,000	10,000
Venezia Musei S.c.a.r.l. (in liquid.)	Venice		10,000	6,941
Total				

(a) see also appendix "A - Investments"

(b) exchange rate:

US\$ Euro 1.3621

Ft Euro 245.97

(c) net of dividend advances of €4,700,000

Profit (loss) for 2004	Total shareholders' equity	Share held by group	Shareholders' equity held in local currency	Shareholders' equity held in Euros (b)
		40.00%		
		20.00%		
		20.00%		
		20.00%		
		9.00%		
		10.00%		
		32.80%		
		19.60%		
		20.00%		
		40.00%		
		39.88%		
		26.60%		
		20.00%		
		20.00%		
		20.00%		
		20.00%		
		28.68%		
2,924,000	14,681,000	40.00%	5,872,400	5,872,400
	8,308,000	15.40%	1,279,432	5,202
	4,094,843	50.00%	2,047,422	2,047,422
317,312	438,443	50.00%	219,222	219,222
	29,783,376	11.76%	3,502,525	2,571,415
	20,528,461	11.21%	2,301,240	1,689,480
	10,200	12.00%	1,224	1,224
	90,000	12.00%	10,800	10,800
	90,000	12.00%	10,800	10,800
	327,044	17.60%	57,560	57,560
	45,051	26.00%	11,713	11,713
4,593	14,593	34.00%	4,962	4,962
13,343	20,284	34.00%	6,897	6,897
				10,296,751

Appendix B/2: Table of significant investments as per article 120 of Legislative Decree no. 58/1998

In accordance with article 126 of the regulations approved by Consob deliberation 11971 of 14/05/1999 regarding significant investments as article 120 of Legislative Decree 58/1998

Name (country of origin)		Share capital	% of investment held	Method of investment
ACI-Mondadori S.r.l. (Italy)	EUR	1,080,000	50%	direct
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l. (Italy)	EUR	400,000	50%	direct
BOL Books on Line Italia S.p.A. (Italy)	EUR	1,000,000	50%	direct
Cemit Interactive Media S.p.A. (Italy)	EUR	3,835,000	100%	direct
Editrice Portoria S.p.A. (Italy)	EUR	364,000	16.785%	direct
Edizioni EL S.r.l. (Italy)	EUR	620,000	50%	indirect
Edizioni Electa Bruno Mondadori S.r.l. (Italy)	EUR	10,400	50%	indirect
Edizioni Frassinelli S.r.l. (Italy)	EUR	10,400	100%	indirect
Edizioni Piemme S.p.A. (Italy)	EUR	566,661	70%	direct
Edumond Le Monnier S.p.A. (Italy)	EUR	10,608,000	100%	direct
Electa Napoli S.p.A. (Italy)	EUR	155,000	60%	indirect
Fied S.p.A. (Italy)	EUR	416,000	100%	direct
Giulio Einaudi Editore S.p.A. (Italy)	EUR	23,920,000	100%	direct
Gruner und Jahr/Mondadori S.p.A. (Italy)	EUR	2,600,000	50%	direct
Harlequin Mondadori S.p.A. (Italy)	EUR	258,250	50%	direct
Hearst Mondadori Editoriale S.r.l. (Italy)	EUR	99,600	50%	direct
Mach 2 Libri S.p.A. (Italy)	EUR	646,250	24%	direct
				indirect
Mondadori Electa S.p.A. (Italy)	EUR	1,593,735	100%	direct
Mondadori Franchising S.p.A. (Italy)	EUR	1,954,000	100%	direct
				indirect
Mondadori Printing S.p.A. (Italy)	EUR	45,396,000	100%	direct
				indirect
Mondadori Pubblicità S.p.A. (Italy)	EUR	3,120,000	100%	direct
Mondadori Retail S.p.A. (Italy)	EUR	2,700,000	100%	direct
Mondadori Sistemi di comunicazione S.r.l. (Italy)	EUR	95,000	100%	direct
Mondadori-Rodale S.r.l. (Italy)	EUR	90,000	50%	direct
Mondolibri S.p.A. (Italy)	EUR	1,040,000	50%	direct
Monradio S.r.l. (Italy)	EUR	500,000	100%	direct
Press Tv S.p.A. (Italy)	EUR	1,500,000	50%	direct
Società Europea di Edizioni S.p.A. (Italy)	EUR	2,775,601.92	39.27%	direct
				indirect
Sperling & Kupfer Editori S.p.A. (Italy)	EUR	388,800	100%	direct
Texto S.p.A. (Italy)	EUR	110,000	100%	indirect
Venezia Accademia Società Consortile a r.l. (Italy)	EUR	15,000	26%	indirect
Venezia Musei Società Consortile a r.l. in liquid. (Italy)	EUR	10,000	34%	indirect
Venezia Musei Società per i servizi museali S.c.a.r.l. (Italy)	EUR	10,000	34%	indirect
				indirect
ABS Finance Advisory Company S.A. in liquid. (Luxemburg)	EUR	125,000	99.2%	indirect
ABS Finance Fund Sicav (Luxemburg)	EUR	542,022,681.68	64.90%	indirect
AME France S.a.r.l. (France)	EUR	20,000.00	100%	indirect
AME Publishing Ltd. (USA)	USD	50,000	100%	indirect
Arnoldo Mondadori Deutschland GmbH. (Germany)	EUR	25,564.59	100%	indirect
Arnoweb S.A. (Luxemburg)	EUR	36,256,900	99.9998%	direct
Artes Graficas Toledo S.A. (Spain)	EUR	5,409,000	100%	indirect
Atimod Publishing Investments S.A. (Luxemburg)	EUR	10,373,800	100%	indirect
				direct

as of 31 Decembre 2004

Shareholder	% held	Head office	Tax number	Set up date
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Bianca di Savoia 12	13277400159	17/11/2000
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Senato 18	10463540152	02/10/1991
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Lampedusa 13	13074160154	22/02/2000
Arnoldo Mondadori Editore S.p.A.	100%	San Mauro Torinese (TO) - via Toscana 9	04742700018	13/12/1984
Arnoldo Mondadori Editore S.p.A.	16.785%	Milan - via Chiossetto 1	02305160158	26/03/1975
Giulio Einaudi Editore S.p.A.	50%	Trieste - San Dorligo della Valle - via J. Ressel 5	00627340326	07/05/1984
Edumond Le Monnier S.p.A.	50%	Milan - via Trentacoste 7	06976090156	05/05/1983
Sperling & Kupfer Editori S.p.A.	100%	Milan - via Borgonuovo 24	07254880151	12/01/1984
Arnoldo Mondadori Editore S.p.A.	70%	Milan - viale Bianca Maria 25	00798930053	29/09/1982
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	03261490969	01/10/2001
Mondadori Electa S.p.A.	60%	Naples - via Francesco Caracciolo 13	04230890636	27/09/1983
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	04591640158	26/10/1979
Arnoldo Mondadori Editore S.p.A.	100%	Turin - via U. Biancamano 2	08367150151	03/06/1986
Arnoldo Mondadori Editore S.p.A.	50%	Milan - corso Monforte 54	09440000157	10/09/1988
Arnoldo Mondadori Editore S.p.A.	50%	Milan - corso Concordia 7	05946780151	15/10/1980
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Bianca di Savoia 12	12980290154	17/12/1999
Arnoldo Mondadori Editore S.p.A.	20%	Milan - via Quaranta 40	03782990158	06/05/1983
Sperling & Kupfer Ed. S.p.A.	4%			
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Trentacoste 7	01829090123	23/02/1989
Arnoldo Mondadori Editore S.p.A.	100%	Verucchio (RN) - Fraz. di Villa Verucchio via Statale Marecchia n. 51-51/a	08853520156	28/05/1987
Arnoldo Mondadori Editore S.p.A.	57.05%	Milan - via Bianca di Savoia 12	12319410150	28/11/1997
Mondadori International S.A.	42.95%			
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	08696660151	12/02/1987
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	00212560239	19/11/1946
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	03864370964	19/02/2003
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Bianca di Savoia 12	13066890156	25/02/2000
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Lampedusa 13	12853650153	25/06/1999
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	04571350968	15/10/2004
Arnoldo Mondadori Editore S.p.A.	50%	Milan - via Bianca di Savoia 12	03619240967	08/07/2002
Arnoldo Mondadori Editore S.p.A.	31.28%	Milan - via G. Negri 4	01790590150	27/02/1974
Fied S.p.A.	7.99%			
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Borgonuovo 24	00802780155	03/11/1927
Edumond Le Monnier S.p.A.	100%	Milan - viale Bianca Maria 25	03323610968	15/11/2001
Mondadori Electa S.p.A.	26%	Venice Mestre - via Manin 51	03377400274	21/03/2002
Mondadori Electa S.p.A.	34%	Venice Mestre - via Manin 51	03233710270	9/05/2000
Mondadori Electa S.p.A.	34%	Venice Mestre - via Manin 51	03534350271	22/04/2004
Mondadori International S.A.	99.2%	Luxemburg - 33, rue Notre Dame		12/12/2002
Misa Finance Fund PLC	64.90%	Luxemburg - 19-21 Boulevard du Prince Henri		03/02/1999
Mondadori International S.A.	100%	France- Paris - 9-11, avenue Franklin D. Roosevelt		23/06/2004
Mondadori International S.A.	100%	U.S.A. - New York N.Y. - 740 Broadway		01/02/1982
Mondadori International S.A.	100%	Germany - Munich - Tal 21		14/05/1970
Arnoldo Mondadori Editore S.p.A.	99.9998%	Luxemburg - 33, rue Notre Dame		16/12/1999
Mondadori Printing S.p.A.	100%	Spain - Toledo - C/Jarama S/N - Poligono Industrial		03/10/1974
Mondadori International S.A.	99.99991%	Luxemburg - 19-21 Boulevard du Prince Henri		03/03/2003
Arnoldo Mondadori Editore S.p.A.	0.00009%			

(follows)

Appendix B/2: Table of significant investments as per article 120 of Legislative Decree no. 58/1998

In accordance with article 126 of the regulations approved by Consob deliberation 11971 of 14/05/1999 regarding significant investments as article 120 of Legislative Decree 58/1998

Name (country of origin)		Share capital	% of investment held	Method of investment
Attica Publications S.A. (Greece)	EUR	4,590,000	40%	indirect
Casa Editrice e di distribuzione "Bences" S.r.l. (Hungary)	FT	11,250,000	22%	indirect
Euromedia Luxembourg Two S.A. (Luxemburg)	USD	42,500,000	11.765%	indirect
Grupo Editorial Random House Mondadori S.L. (Spain)	EUR	10,002,000	50.00%	indirect direct
Helit Investment S.A. (Luxemburg)	EUR	10,373,800	100%	indirect direct
Misa Finance Fund PLC (Ireland)	EUR	397,599,326	100%	indirect
Mondadori Belgium S.A. in liquid. (Belgium)	EUR	62,000	99.984%	direct
Mondadori Finance S.A. (Luxemburg)	EUR	4,731,000	99.978%	indirect
Mondadori International S.A. (Luxemburg)	EUR	393,625,900	99.99%	direct
Mondadori.com USA Inc. (USA)	USD	1,000	100%	indirect
News Alert Investors LLC (USA)	USD	20,528,461	11.21%	indirect
Prisco Spain S.A. (Spain)	EUR	60,101.30	100%	direct

as of 31 Decemebr 2004

Shareholder	% held	Head office	Tax number	Set up date
Atimod Publishing Investments S.A.	20%	Greece - Athens - Maroussi, 40 Kifissias Avenue		03/08/1994
Helit Investment S.A.	20%			
Edizioni Piemme S.p.A.	22%	Hungary 909 Pannonhalma - Var. 1.9090		01/01/1992
Arnoweb S.A.	11.765%	Luxemburg - 140 Boulevard de la Petrusse		13/03/2000
Arnoweb S.A.	33.99%			
Arnoldo Mondadori Editore S.p.A.	6.01%	Spain - Barcelona, Calle Travessera de Gracia 47/49		07/03/1991
Prisco Spain S.A.	10%			
Mondadori International S.A.	99.99991%	Luxemburg - 19-21 Boulevard du Prince Henri		03/03/2003
Arnoldo Mondadori Editore S.p.A.	0.00009%			
Mondadori Finance S.A.	100.00%	Ireland - Dublin - I.E.S.C. - 2, Harbourmaster Place		12/06/2003
Arnoldo Mondadori Editore S.p.A.	99.984%	Belgium - Bruxelles - Avenue Louise 109		22/03/2001
Mondadori International S.A.	99.978%	Luxemburg - 33, rue Notre Dame		12/12/2002
Arnoldo Mondadori Editore S.p.A.	99.99%	Luxemburg - 33, rue Notre Dame		18/09/1970
Arnoweb S.A.	100%	USA - Delaware - 1013 Centre Rd Wilmington 19805, New Castle Country		16/09/1999
Mondadori.com USA Inc,	11.21%	USA - New York 10022 - 575 Lexington Avenue, Suite 410		28/06/1999
Arnoldo Mondadori Editore S.p.A.	100%	Spain - Barcelona, Calle Travessera de Gracia 47/49		06/12/1988

Appendix C1: Receivables from subsidiary and associated companies as of 31/12/2004 (in thousands of euros)

	31/12/2004		31/12/2003		Changes
	Subsidiary	Associated	Subsidiary	Associated	
Relation between current accounts and financial debts:					
Arnoweb S.A.	8,955		10,900		-1,945
Edizioni Frassinelli S.r.l.	1,085		1,003		82
Edizioni Piemme S.p.A.	13,153		-		13,153
Electa Napoli S.p.A.	-		80		-80
Mondadori Electa S.p.A.	263		3,057		-2,794
Mondadori Franchising S.p.A.	1,607		185		1,422
Mondadori Printing S.p.A.	83		26,294		-26,211
Mondadori Retail S.p.A.	-		669		-669
Mondadori Sistemi di Comunicazione S.r.l.	-		299		-299
Monradio S.r.l.	142		-		142
Sperling & Kupfer Editori S.p.A.	6,910		4,771		2,139
ACI-Mondadori S.r.l.		-		380	-380
Mach 2 Libri S.p.A.		-		145	-145
Press TV S.p.A.		1,053		1,137	-84
Other companies for a total less than €52 thousand (*)	-	-	178	131	-309
Total	32,198	1,053	47,436	1,793	-15,978

(*) Amounts for the previous year also include receivables of Companies that left the Group during 2004.

	31/12/2004		31/12/2003		Changes
	Subsidiary	Associated	Subsidiary	Associated	
Commercial relations:					
AME France S.a.r.l.	54		-		54
Arnoweb S.A.	-		58		-58
Cemit Interactive Media S.p.A.	1,307		1,101		206
Edizioni Frassinelli S.r.l.	104		103		1
Edizioni Piemme S.p.A.	92		-		92
Edumond Le Monnier S.p.A.	620		500		120
Giulio Einaudi Editore S.p.A.	2,541		2,816		-275
Mondadori Electa S.p.A.	858		644		214
Mondadori Franchising S.p.A.	4,326		3,882		444
Mondadori Printing S.p.A.	1,106		1,016		90
Mondadori Pubblicità S.p.A.	103,569		101,334		2,235
Mondadori Retail S.p.A.	2,549		2,839		-290
Mondadori Sistemi di Comunicazione S.r.l.	85		94		-9
Sperling & Kupfer Editori S.p.A.	958		898		60
ACI-Mondadori S.r.l.		1,055		1,114	-59
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.		189		363	-174
BOL - Books On Line Italia S.p.A.		442		387	55
Edizioni EL S.r.l.		203		229	-26
Grüner und Jahr/Mondadori S.p.A.		1,554		994	560
Grupo Editorial Random House Mondadori S.L.		95		99	-4
Harlequin Mondadori S.p.A.		2,159		987	1,172
Hearst Mondadori Editoriale S.r.l.		620		536	84
Mach 2 Libri S.p.A.		14,030		10,801	3,229
Mondadori Rodale S.r.l.		1,439		1,781	-342
Mondolibri S.p.A.		1,508		1,513	-5
Press TV S.p.A.		462		372	90
Società Europea di Edizioni S.p.A.		138		705	-567
Other companies with amounts less than €52 thousand (*)	8	-	12	68	-72
Total	118,177	23,894	115,297	19,949	6,825
General total	150,375	24,947	162,733	21,742	-9,153

(*) Amounts for the previous year also include receivables of Companies that left the Group during 2004.

Appendix C2: Production value/financial income

- Intergroup economic relations for financial year 2004

(in thousands of euros)

	Income from sales and services	Other income and revenues	Income from investments	Other financial income	Total
<i>Parent companies</i>					
Fininvest S.p.A.	3	0	0	0	3
<i>Subsidiary companies</i>					
Arnoweb S.A.				298	298
Cemit Interactive Media S.p.A.	2,474	551	3,687		6,712
Edizioni Frassinelli S.r.l.	243	11		28	282
Edizioni Piemme S.p.A.		67	1,299	128	1,494
Edumond Le Monnier S.p.A.	1,406	489	2,856	262	5,013
Electa Napoli S.p.A.	23			1	24
Fied S.p.A.			128		128
Giulio Einaudi Editore S.p.A.	5,060	115	5,980		11,155
Mondadori Electa S.p.A.	1,681	669		94	2,444
Mondadori Franchising S.p.A.	9,746	219	762	4	10,731
Mondadori International S.A.			10,000	184	10,184
Mondadori Printing S.p.A.	2,580	637		1,472	4,689
Mondadori Pubblicità S.p.A.	216,312	9,236	3,600	130	229,278
Mondadori Retail S.p.A.	8,114	352		210	8,676
Mondadori Sistemi di Comunicazione S.r.l.	165	137		6	308
Sperling & Kupfer Editori S.p.A.	1,978	616	4,501	238	7,333
Total	249,782	13,099	32,813	3,055	298,749
<i>Associated companies</i>					
ACI-Mondadori S.r.l.	1,242	1,893		1	3,136
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.	18,439	3	65		18,507
BOL Books on Line Italia S.p.A.	1,176	15			1,191
Edizioni EL S.r.l.	364	3			367
Gr. Edit. Random House Mondadori S.L.	1,012				1,012
Gruner und Jahr/Mondadori S.p.A.	640	3,032	3,188		6,860
Harlequin Mondadori S.p.A.	56	477	350		883
Hearst Mondadori Editoriale S.r.l.	773	1,011			1,784
Mach 2 Libri S.p.A.	25,836	3	240		26,079
Mondadori Rodale S.r.l.	2,173	2,881	550	1	5,605
Mondolibri S.p.A.	3,802	502	600		4,904
PressTV S.p.A.	538	1,058		37	1,633
Società Europea di Edizioni S.p.A.	363	21	551		935
Total	56,414	10,899	5,544	39	72,896

	Income from sales and services	Other income and revenues	Income from investments	Other financial income	Total
<i>Fininvest Group companies</i>					
Alba Servizi Aerotrasporti S.p.A.		1			1
Banca Mediolanum S.p.A.	1				1
Elettronica industriale S.p.A.	2				2
Finedim Italia S.p.A.	4				4
Il Teatro Manzoni S.p.A.	1				1
Milan A.C. S.p.A.	1				1
Mediaset S.p.A.		2			2
Mediolanum S.p.A.		31			31
Medusa Film S.r.l.	10	3			13
Pagine Italia S.p.A.	1				1
Publitalia 80 S.p.A.	154				154
RTI Reti Televisive Italiane S.p.A.	373	1			374
Video Time S.p.A.		5			5
Total	547	43	0	0	590
General total	306,746	24,041	38,357	3,094	372,238

Appendix D1: Payables to subsidiary and associated companies

at 31/12/2004 (in thousands of euros)

	31/12/2004		31/12/2003		Changes
	Subsidiary	Associated	Subsidiary	Associated	
Relation between current account and financial debts					
Cemit Interactive Media S.p.A.	9,438		8,774		664
Edumond Le Monnier S.p.A.	12,248		9,002		3,246
Electa Napoli S.p.A.	205				205
Field S.p.A.	536		389		147
Giulio Einaudi Editore S.p.A.	7,967		8,000		-33
Mondadori International S.A.	9,040		296,978		-287,938
Mondadori Pubblicità S.p.A.	9,464		18,675		-9,211
Mondadori Retail S.p.A.	4,755				4,755
Mondadori Sistemi di comunicazione S.r.l.	91				91
ACI Mondadori S.r.l.		1,974			0
Gruner und Jahr/Mondadori S.p.A.		6,304		928	5,376
Harlequin Mondadori S.p.A.		4,983		3,735	1,248
Hearst Mondadori Editoriale S.r.l.		846		631	215
Mondadori Rodale S.r.l.		712		1,561	-849
Other companies for a total of less than €52 thousand (*)	44	1			45
Total	53,788	14,820	341,818	6,855	-282,039

(*) Total for previous year also includes debts of companies who left the Group during 2004.

	31/12/2004		31/12/2003		Changes
	Subsidiary	Associated	Subsidiary	Associated	
Commercial relations:					
AME France S.a.r.l.	98	-	-	-	98
AME Publishing Ltd	432	-	658	-	-226
Artes Graficas Toledo S.A.	1,457	-	718	-	739
Cemit Interactive Media S.p.A.	743	-	808	-	-65
Edizioni Frassinelli S.r.l.	1,904	-	1,664	-	240
Edumond Le Monnier S.p.A.	83	-	82	-	1
Electa Napoli S.p.A.	158	-	221	-	-63
Giulio Einaudi Editore S.p.A.	10,757	-	11,497	-	-740
Mondadori Electa S.p.A.	6,132	-	5,664	-	468
Mondadori Printing S.p.A.	57,058	-	59,416	-	-2,358
Mondadori Pubblicità S.p.A.	2,558	-	2,495	-	63
Mondadori Retail S.p.A.	182	-	205	-	-23
Sperling & Kupfer Editori S.p.A.	10,884	-	9,479	-	1,405
ACI-Mondadori S.r.l.	-	828	-	936	-108
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.	-	202	-	145	57
Edizioni EL S.r.l.	-	2,680	-	2,647	33
Gruner und Jahr/Mondadori S.p.A.	-	3,890	-	5,895	-2,005
Hearst Mondadori Editoriale S.r.l.	-	436	-	435	1
Mach 2 Libri S.p.A.	-	305	-	464	-159
Mondadori Rodale S.r.l.	-	1,366	-	1,732	-366
Mondolibri S.p.A.	-	826	-	262	564
Press TV S.p.A.	-	589	-	280	309
Società Europea di Edizioni S.p.A.	-	-	-	465	-465
Other companies with totals less than €52 thousand (*)	8	11	15	125	-121
Total	92,454	11,133	92,922	13,386	-2,819
General total	146,242	25,953	434,740	20,241	-284,858

(*) Total for previous year also includes debts of companies who left the Group during 2004.

Appendix D2: Production costs/financial charges

- Intergroup economic relations for financial year 2004

(in thousands of euros)

	Raw, ancillary and consumable materials	Services	Use of third party assets	Various charges	Interest and financial charges	Total
<i>Parent Companies</i>						
Fininvest S.p.A.	0	0	5	0	0	5
<i>Subsidiary companies</i>						
AME France S.a.r.l.		118	1	3		122
AME Publishing Ltd.	59	2,532	383	70	2	3,046
Artes Graficas Toledo S.A.		2,446				2,446
Cemit Interactive Media S.p.A.		1,667			166	1,833
Edizioni Frassinelli S.r.l.	3,573	50				3,623
Edizioni Piemme S.p.A.		23		1		24
Edumond Le Monnier S.p.A.	13	18		30	51	112
Electa Napoli S.p.A.	274					274
Fied S.p.A.					6	6
Giulio Einaudi Editore S.p.A.	28,834	96			119	29,049
Mondadori Deutschland GmbH		5				5
Mondadori Electa S.p.A.	13,968	494		97	1	14,560
Mondadori Franchising S.p.A.		3			17	20
Mondadori International S.A.		192			16,437	16,629
Mondadori Printing S.p.A.	300	217,113	104	45	522	218,084
Mondadori Pubblicità S.p.A.	3,725	1,881		4,245	70	9,921
Mondadori Retail S.p.A.	12	308		226	2	548
Mondadori Sistemi di Comunicazione S.r.l.					2	2
Sperling & Kupfer Editori S.p.A.	22,976	191				23,167
Total	73,734	227,137	488	4,717	17,395	323,471
<i>Associated companies</i>						
ACI-Mondadori S.r.l.	5,939	5			31	5,975
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.		2,333		158		2,491
BOL Books on Line Italia S.p.A.		1				1
Edizioni EL S.r.l.	3,832					3,832
Gruner und Jahr/Mondadori S.p.A.	43,654				161	43,815
Harlequin Mondadori S.p.A.	11,940	1			60	12,001
Hearst Mondadori Editoriale S.r.l.	3,704	29			19	3,752
Mach 2 Libri S.p.A.		1,737				1,737
Mondadori-Rodale S.r.l.	12,729	31			43	12,803
Mondolibri S.p.A.		1,969	54	21		2,044
Press TV S.p.A.	3,822				4	3,826
Società Europea di Edizioni S.p.A.				5		5
Total	85,620	6,106	54	184	318	92,282

	Raw, ancillary and consumable materials	Services	Use of third party assets	Various charges	Interest and financial charges	Total
<i>Other companies</i>						
Consorzio Sistemi Inf.vi Editoriali Distributivi		20				20
Consuledit S.r.l.		524				524
Istud S.p.A.		209		16		225
Selcon S.r.l.		4				4
Total	0	757	0	16	0	773
<i>Fininvest Group companies</i>						
Alba Servizi Aerotrasporti S.p.A.			96			96
Finedim Italia S.p.A.			13			13
Il Teatro Manzoni S.p.A.		26				26
Mediaset S.p.A.		20				20
Mediolanum Vita S.p.A.		12				12
Medusa Film S.p.A.		338				338
Medusa Video S.r.l.	323	1,723	1			2,047
Milan A.C. S.p.A.				8		8
Promoservice Italia S.r.l.		18				18
Publitalia 80 S.p.A.		20,538				20,538
Radio e Reti S.r.l.		426				426
R.T.I. Reti Televisive Italiane S.p.A.		695				695
Total	323	23,796	110	8	0	24,237
General total	159,677	257,796	657	4,925	17,713	440,768

Appendix E: Significant details from financial statements of subsidiaries

(in thousands of euros)

	Arnoweb	Cemit Interactive Media	Edizioni Piemme	Edumond Le Monnier	Fied	Giulio Einaudi Editore
Year ended at	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004
Balance Sheet						
Assets						
Intangible assets		1	736	19,221		74
Fixed assets		3,568	1,479	10,859		603
Financial assets	32,478	76	25	2,203	367	1,332
Total assets	32,478	3,645	2,240	32,283	367	2,009
Inventories						
Receivables from clients		2,503	5,732	16,236		4,522
Receivables from Group Companies	8,958	8,338	22,038	11,455		19,274
Receivables from others		10,198		13,603	536	19,070
Financial activities (not assets)		223	5,824	2,527	6	10,567
Cash and equivalents	2,148	75	3,668	1,598	46	46
Total current assets	11,106	21,337	37,262	45,419	588	53,479
Accrued income and prepaid expenses	5	32	921	33		46
Total assets	43,589	25,014	40,423	77,735	955	55,534
Liabilities						
Share capital	36,257	3,835	567	10,608	416	23,920
Reserves	-1,261	3,744	7,104	28,670	406	3,732
Shareholders contribution to capital account						
Profit (loss) for year	-2,198	3,595	1,428	2,613	127	4,914
Total shareholders' equity	32,798	11,174	9,099	41,891	949	32,566
Reserve for risks and charges		383	600	4,008		7,310
Severance indemnities		2,109	775	4,049		2,656
Payables due to banks		1	136	3		2
Trade payables		7,244	8,257	9,558	6	2,821
Payables due to Group companies	10,647	1,701	13,225	1,358		2,507
Other payables	135	2,273	7,982	16,142		6,570
Accrued liabilities and deferred income	9	129	349	726		1,102
Total liabilities	43,589	25,014	40,423	77,735	955	55,534

Mondadori Electa	Mondadori Franchising	Mondadori International	Mondadori Printing	Mondadori Pubblicità	Mondadori Retail	Mondadori Sistemi di Comunicaz.	Monradio	Prisco Spain	Sperling & Kupfer Editori
31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004
118	179	673	536	6	3,706	2	104		15
720	1,044	80	149,382	484	4,017				101
403	5	121,602	9,100	243	386			19	226
1,241	1,228	122,355	159,018	733	8,109	2	104	19	342
9,380	12,666		18,328		17,958				2,234
5,502	6,529		49,151	147,212	1,461	944			641
7,043	2	607,891	78,309	13,750	4,927	91		1	10,586
2,387	896	15	8,902	1,387	1,413	17	7		4,941
66	1,472	83,887	2,370	784		263	501	42	20
24,378	21,565	9,502	157,060	163,133	25,759	1,315	508	43	18,422
829	35	523	82	14	78				14
26,448	22,828	824,173	316,160	163,880	33,946	1,317	612	62	18,778
1,594	1,954	393,626	45,396	3,120	2,700	95	500	60	389
2,572	506	45,966	51,919	1,204	2,643	84		-8	338
	2,001	77,469			1,358				
1,886	1,907	8,382	16,974	2,516	-2,661	379	-60	8	2,266
6,052	6,368	525,443	114,289	6,840	4,039	558	440	60	2,993
1,338	51		6,264	2,435	358				800
1,375	371		36,508	4,831	1,912				793
1,233		296,384	14,044						
8,610	8,687	6	126,936	12,269	22,618	287	21		2,710
4,961	6,460	6	2,571	126,646	2,549	86	142	2	8,036
2,799	821	1,625	15,059	10,859	2,144	209	9		3,418
80	70	709	489		326	177			28
26,448	22,828	824,173	316,160	163,880	33,946	1,317	612	62	18,778

(follows)

Appendix E: Significant details from financial statements of subsidiaries

(in thousands of euros)

(follow)

	Arnoweb	Cemit Interactive Media	Edizioni Piemme	Edumond Le Monnier	Fied	Giulio Einaudi Editore
Year ended at	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004
Income statement						
Revenues from sales		28,580	35,224	83,103		44,112
Changes in product inventories		790	1,366	-4,028		-489
Other revenues		5,532	2,408	2,564		1,213
Total production value	0	34,902	38,998	81,639	0	44,836
Purchases and services	38	23,402	29,848	62,368	18	30,068
Personnel		5,683	3,961	10,335		5,461
Depreciations and writedowns	49	748	1,451	4,425		727
Changes in inventory of raw, ancillary and consumable materials and goods			161	-1,011		
Provisions			162	780		708
Other charges		202	611	131	2	441
Total production costs	87	30,035	36,194	77,028	20	37,405
Income from investments				80	141	248
Financial income (charges)	54	167	-260	-172	6	1,060
Total financial income (charges)	54	167	-260	-92	147	1,308
Revaluations (writedowns)	-2,123		-10			
Extraordinary income (charges)	-31	806	294	349		3
Profit before tax	-2,187	5,840	2,828	4,868	127	8,742
Income tax for period	11	2,245	1,400	2,255		3,828
Profit (loss) for period	-2,198	3,595	1,428	2,613	127	4,914

Mondadori Electa	Mondadori Franchising	Mondadori International	Mondadori Printing	Mondadori Pubblicità	Mondadori Retail	Mondadori Sistemi di Comunicaz.	Monradio	Prisco Spain	Sperling & Kupfer Editori
31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004	31-12-2004
40,285	31,771		442,130	336,671	77,072	2,725	0		23,753
-240			814		839				20
654	685	188	6,547	5,806	1,561				215
40,699	32,456	188	449,491	342,477	79,472	2,725		0	23,988
34,294	29,369	395	328,809	317,890	71,284	2,096	35		17,162
3,735	1,541	353	71,063	11,510	8,213				2,994
555	367	95	32,068	1,546	2,595	1	26		147
-	-1,902		1,404		0				
267	8				142				
552	137		3,312	6,414	445	6		6	372
39,403	29,520	843	436,656	337,360	82,679	2,103	61	6	20,675
0									
-142	23	10,956	-1,528	-95	-237	-16	1	14	250
-142	23	10,956	-1,528	-95	-237	-16	1	14	250
0		-829	-4,445						
289	37	-22	7,994		1,068				
1,443	2,996	9,450	14,856	5,022	-2,376	606	-60	8	3,563
-443	1,089	1,068	-2,118	2,506	285	227			1,297
1,886	1,907	8,382	16,974	2,516	-2,661	379	-60	8	2,266

Appendix F: Significant details from financial statements of the most important indirectly controlled companies

(in thousands of euros)

	Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.)	Edizioni Frassinelli (100% owned by Sperling & Kupfer S.p.A.)
Year ended at	31-12-2004	31-12-2004
Balance Sheet		
Assets		
Intangible assets		
Fixed assets	6,802	
Financial assets		
Total assets	6,802	0
Inventories	1,356	437
Receivables from clients	1,961	98
Receivables from Group Companies	4,188	1,880
Receivables from others	576	943
Financial activities (not assets)		
Cash and equivalents	679	3
Total current assets	8,760	3,361
Accrued income and prepaid expenses	12	1
Total assets	15,574	3,362
Liabilities		
Share capital	5,409	10
Reserves	-706	219
Shareholders contribution to capital account		
Profit (loss) for year	3,020	670
Total shareholders' equity	7,723	899
Reserve for risks and charges		100
Severance indemnities		15
Payables due to banks	1,591	
Trade payables	4,534	301
Payables due to Group companies	325	1,362
Other payables	565	682
Accrued liabilities and deferred income	836	3
Total liabilities	15,574	3,362

	Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.)	Edizioni Frassinelli (100% owned by Sperling & Kupfer S.p.A.)
Year ended at	31-12-2004	31-12-2004
Income statement		
Revenues from sales	19,463	4,190
Changes in product inventories	22	-12
Other revenues	382	4
Total production value	19,867	4,182
Purchases and services	13,847	2,946
Personnel	4,964	90
Depreciations and writedowns	1,433	10
Changes in inventory of raw, ancillary and consumable materials and goods	53	
Provisions		
Other charges	828	19
Total production costs	21,125	3,065
Income from investments		
Financial income (charges)	-167	-34
Total financial income (charges)	-167	-34
Revaluations (writedowns)		
Extraordinary income (charges)	4,445	
Profit before tax	3,020	1,083
Income tax for period		413
Profit (loss) for period	3,020	670

Appendix G: Significant details from financial statements of associated companies (in thousands of euros)

	ACI Mondadori	Ag, Lomb, Distr, Giorn, Riviste	BOL Books On Line Italia	Gruner und Jahr/Mondadori
Year ended at	31-12-2004	31-12-2003	31-12-2004	31-12-2004
Balance sheet				
Assets				
Receivables from shareholders				
Intangible assets	21	7	5	262
Fixed assets	64	96	25	618
Financial assets	13			204
Total assets	98	103	30	1,084
Inventories	331	2,728	105	1,800
Receivables from clients	2,720	1,210	608	7,580
Receivables from Group Companies	3,750	5		
Receivables from others	327	883		14,959
Financial activities (not assets)				109
Cash and equivalents	694	1,612	1,591	238
Total current assets	7,822	6,438	2,304	24,686
Accrued income and prepaid expenses	34	1,059	0	47
Total assets	7,954	7,600	2,334	25,817
Liabilities				
Share capital	1,080	400	1,000	2,600
Reserves	-574	90	271	1,866
Shareholders contribution to capital account				
Profit (loss) for year	84	143	-1,082	7,970
Total shareholders' equity	590	633	189	12,436
Reserve for risks and charges	537			720
Severance indemnities	601	181	158	2,539
Payables due to banks	2,000			
Trade payables	2,516	758		8,017
Payables due to Group companies	1,057	129		
Other payables	554	373	1,987	2,027
Accrued liabilities and deferred income	99	5,526		78
Total liabilities	7,954	7,600	2,334	25,817

Grupo Editorial Random House Md (consolidated) 31-12-2004	Harlequin Mondadori 31-12-2004	Hearst Mondadori 31-12-2004	Mach 2 Libri 31-12-2004	Mondadori Rodale 31-12-2004	Mondolibri 31-12-2004	Press TV 31-12-2004	Società Europea di Edizioni 31-12-2003
3,506	65	1	316	1	869	62	13,631
3,258	59	27	609	31	1,417		2,000
672	22		283	0	325		669
7,436	146	28	1,208	32	2,611	62	16,300
17,746	467	529	17,701	1,140	9,479	188	1,694
56,086	2,310	2,487	39,119	4,485	11,287	4,424	28,737
789		1,282	687	2,078	866	668	
19,300	466	274	3,769	211	10,974	2,351	9,322
	424						
6,521	618	102	4,423	168	18,657	491	10,297
100,442	4,285	4,674	65,699	8,082	51,263	8,122	50,050
415	587	42	150	108	349	24	338
108,293	5,018	4,744	67,057	8,222	54,223	8,208	66,688
10,002	258	100	646	90	1,040	1,500	2,776
3,301	59	478	7,846	579	24,781	1,500	3,621
		97					
272	537	914	2,795	939	1,736	-843	1,872
13,575	854	1,589	11,287	1,608	27,557	2,157	8,269
11,694		153	1,536	239	118	190	4,900
	517	352	1,614	574	4,457		7,169
36							
37,337	3,335	1,365	19,280	2,878	16,732	4,119	28,609
18,132		744	31,367	1,685	1,481	1,538	
27,519	267	361	1,970	795	3,597	161	17,536
	45	180	3	443	281	43	205
108,293	5,018	4,744	67,057	8,222	54,223	8,208	66,688

(follows)

Appendix G: Significant details from financial statements of associated companies (in thousands of euros)

(follow)

	ACI Mondadori	Ag, Lomb, Distr, Giorn, Riviste	BOL Books On Line Italia	Gruner und Jahr/Mondadori
Year ended at	31-12-2004	31-12-2003	31-12-2004	31-12-2004
Income statement				
Revenues from sales	16,087	4,161	5,867	54,896
Changes in product inventories	-83		21	-62
Other revenues	473	116	3	1,785
Total production value	16,477	4,277	5,891	56,619
Purchases and services	13,230	3,213	6,239	36,225
Personnel	1,888	621	637	10,018
Depreciations and writedowns	713	42	153	373
Changes in inventory of raw, ancillary and consumable materials and goods				393
Provisions	161	3		365
Other charges	286	127	6	266
Total production costs	16,278	4,006	7,035	47,640
Income from investments				
Financial income (charges)	-22	14	28	267
Total financial income (charges)	-22	14	28	267
Revaluations (writedowns)				
Extraordinary income (charges)		-4	34	-456
Profit before tax	177	281	-1,082	8,790
Income tax for period	93	138		820
Profit (loss) for eperiod	84	143	-1,082	7,970

Grupo Editorial Random House Md (consolidated) 31-12-2004	Harlequin Mondadori 31-12-2004	Hearst Mondadori 31-12-2004	Mach 2 Libri 31-12-2004	Mondadori Rodale 31-12-2004	Mondolibri 31-12-2004	Press TV 31-12-2004	Società Europea di Edizioni 31-12-2003
99,171	11,907	9,063	152,260	21,501	85,652	13,095	105,566
342	221	144		-6	-669	17	
384	237	217	896	266	1,551	198	2,220
99,897	12,365	9,424	153,156	21,761	86,534	13,310	107,786
25,368	9,875	7,129	144,461	17,501	67,016	13,893	74,653
21,479	1,490	1,414	5,253	2,428	10,187	74	21,957
1,667	88	50	1,087	37	6,162	9	2,168
			-1,612				126
11,427		69	272	143		85	1,446
38,898	21	53	185	66	333	60	2,171
98,839	11,474	8,715	149,646	20,175	83,698	14,121	102,521
							8
-598	74	20	25	47	287	-32	-17
-598	74	20	25	47	287	-32	-9
							49
863		31	572	26	841	0	43
1,323	965	760	4,107	1,659	3,964	-843	5,348
1,051	428	-154	1,312	720	2,228	0	3,476
272	537	914	2,795	939	1,736	-843	1,872

Appendix H: Fees paid to directors, statutory auditors and general managers (art.78 of CONSOB resolution 11971 of 14 May 1999)

Surname and name	Position held	Position		Fee (in thousands of euros)			
		Period position held	Expiry date of position held	Remuneration for position	Non financial benefit	Bonuses and other incentives	Other fees
Berlusconi Marina	Chairman	1/1 - 31/12/2004	App. of Financial Statements 2005	250.0	-	-	-
Costa Maurizio	Vice-Chairman and Chief Executive	1/1 - 31/12/2004	""""	3,201.3 (*)	8.6	310.0	706.0 (1)
Barbaro Francesco	Director	1/1 - 31/12/2004	""""	10.0	4.5	180.0	308.6 (1)
Berlusconi Pier Silvio	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Cannatelli Pasquale	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Confalonieri Fedele	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Ermolli Bruno	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Forneron Mondadori Martina	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Poli Roberto	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Puerari Giovanni	Director	1/1 - 31/12/2004	""""	60.0	3.8	160.0	230.8 (1)
Resca Mario	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Spadacini Marco	Director	1/1 - 31/12/2004	""""	10.0	-	-	-
Frattini Achille	Chairman Board of Statutory Auditors Mondadori	1/1 - 31/12/2004	App. of Financial Statements 2005	45.0	-	-	-
Frattini Achille	Acting Statutory Auditor Subsidiary Company	1/1 - 31/12/2004	""""	46.4	-	-	-
Aiello Antonio	Acting Statutory Auditor Mondadori	1/1 - 31/12/2004	""""	30.0	-	-	-
Superti Furga Ferdinando	Acting Statutory Auditor Mondadori	1/1 - 31/12/2004	""""	30.0	-	-	-

(*) 2,500 of which as extraordinary one-off bonus.

(1) Salary.

Appendix H: Stock-options assigned to directors and executives

(A)	(B)	Options held at beginning of year			Options assigned during year			Options taken up during year			Options expired during year	Options held at end of year		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
Name and surname	Position held	Number of options	Average price during year	Average expiry date	Number of options	Average price during year	Average expiry date	Number of options	Average price during year	Average market price during year	Number of options	Number of options	Average price during year	Average expiry date
Marina Berlusconi	Chairman				150,000	7.749	31.12.2008					150,000	7.749	31.12.2008
											Tot.	150,000		
Maurizio Costa	Vice-Chairman and Chief Executive	32,000*	12.97	30.06.2004							32,000			
		40,000**	10.67	30.06.2005								40,000	10.67	30.06.2005
		110,000**	6.56	30.06.2005				110,000	6.56	8.4574				
		96,000***	6.85	30.06.2006								96,000	6.85	30.06.2006
		110,000****	6.47	31.12.2007								110,000	6.47	31.12.2007
					110,000	7.749	31.12.2008					110,000	7.749	31.12.2008
											Tot.	356,000		
Francesco Barbaro	Director	20,000*	12.97	30.06.2004							20,000			
		25,000**	10.67	30.06.2005								25,000	10.67	30.06.2005
		70,000**	6.56	30.06.2005				70,000	6.56	8.00				
		60,000***	6.85	30.06.2006								60,000	6.85	30.06.2006
		70,000****	6.47	31.12.2007								70,000	6.47	31.12.2007
					70,000	7.749	31.12.2008					70,000	7.749	31.12.2008
											Tot.	225,000		
Giovanni Puerari	Director	15,000*	12.97	30.06.2004							15,000			
		19,000**	10.67	30.06.2005								19,000	10.67	30.06.2005
		50,000**	6.56	30.06.2005				50,000	6.56	8.3122				
		45,000***	6.85	30.06.2006								45,000	6.85	30.06.2006
		50,000****	6.47	31.12.2007								50,000	6.47	31.12.2007
					50,000	7.749	31.12.2008					50,000	7.749	31.12.2008
											Tot.	164,000		

(*) options assigned during 2000

(**) options assigned during 2001

(***) options assigned during 2002

(****) options assigned during 2003

A description of the main principles of the Stock-option Plan is given in the report on the year.

Consolidated Financial Statements
of the Mondadori Group
as of 31 December 2004

Balance sheet
and Consolidated Income statement
as of 31 December 2004

Balance sheet

Assets

(in thousands of euros)	Year ended 31 December 2004			Year ended 31 December 2003
	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		419		489
2 research, development and advertising costs				
3 industrial patents and intellectual property rights		1,200		1,120
4 concessions, licences and trade marks		116,760		134,369
5 goodwill		5,570		7,919
6 assets under construction and advances		48		319
7 others		4,390		5,829
8 consolidation differences		5,487		8,381
Total			133,874	158,426
II- Fixed assets				
1 land and buildings		78,599		82,447
2 plant and machinery		87,510		92,978
3 industrial and commercial equipment		2,525		2,409
4 other assets		12,996		16,659
5 assets under construction and advances		2,865		5,385
Total			184,495	199,878
III- Financial assets				
1 investments in:				
a) subsidiary companies		2,050		461
b) associated companies		87,007		64,568
c) parent companies				
d) other companies		2,480		4,951
Total		91,537		69,980
		<i>within 12 months</i>	<i>over 12 months</i>	
2 current receivables:				
a) from subsidiary companies			0	
b) from associated companies			0	
c) from parent companies			0	
d) from other companies		3,035	2,910	5,746
Total		3,035	2,910	5,746
3 other securities				
4 treasury stock			130,207	116,885
Total			227,689	192,611
Total non-current assets (B)			546,058	550,915

(in thousands of euros)	Year ended 31 December 2004			Year ended
	Sub Total 1	Sub Total 2	Total 3	31 December 2003
C) Current assets				
I- Inventories				
1 raw materials		13,249		13,851
2 semi-finished products, work in progress		30,260		34,640
3 contract work in progress		11,235		9,489
4 finished products and goods		74,755		75,534
5 advances		22		7
Total			129,521	133,521
	<i>within 12 months</i>	<i>over 12 months</i>		
II- Receivables				
1 trade accounts	349,160	14,188	363,348	350,226
2 due from subsidiaries	479		479	625
3 due from associated companies	52,358		52,358	56,404
3 bis due from affiliated companies	3,661		3,661	5,166
4 due from parent companies	11		11	2
4 bis tax credits	9,090	2,455	11,545	19,833
4 ter advance taxes	44,709	320	45,029	29,714
5 others	55,059	243	55,302	65,321
Total	514,527	17,206	531,733	527,291
III- Financial assets (current)				
1 investments in subsidiaries				
2 investments in associated companies				
3 investments in parent companies				
4 other investments				
5 treasury stock				
6 other securities			553,456	580,330
Total			553,456	580,330
IV- Cash and equivalents				
1 cash, banks and postal accounts			80,089	42,263
2 cheques			14	261
3 cash and commercial in hand			241	161
Total			80,344	42,685
Total current assets (C)			1,295,054	1,283,827
D) Accrued income and prepaid expenses				
1 accrued income			710	565
2 prepaid expenses			12,488	8,574
3 premium on loans				
Total accrued income and prepaid expenses (D)			13,198	9,139
Total assets			1,854,310	1,843,881

Balance sheet

Liabilities

(in thousands of euros)	Year ended 31 December 2004		Total 3	Year ended 31 December 2003
	Sub Total 1	Sub Total 2		
A) Shareholders' equity				
I- Share capital			67,452	67,452
II- Share premium reserve			153,540	170,380
III- Revaluation reserve			16,712	16,712
IV- Legal reserve			13,490	13,490
V- Reserve for treasury stock				
VI- Statutory reserve			130,207	116,885
VII- Other reserves				
1) Extraordinary reserve		14,684		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		98		73
6) Merger reserve		478		478
7) Other reserves		4,092		4,223
			17,605	12,029
VIII- Profit (loss) carried forward			81,379	72,869
IX- Profit (loss) for the year			104,114	82,101
Consolidated Group Shareholders' equity			584,499	551,918
Minority interest			3,269	3,282
Total Shareholders' equity (A)			587,768	555,200
B) Reserve for risks and charges				
1 retirement benefits		10,853		10,166
2 income taxes		15,124		14,769
3 other		23,672		26,651
Total reserve for risks and charges (B)			49,649	51,586
C) Reserve for severance indemnities			102,715	100,722
	<i>within 12 months</i>	<i>over 12 months</i>		
D) Debs and other payables				
1 bonds		296,384	296,384	296,384
2 convertible bonds		109,900	109,900	109,900
3 due to shareholders for loans			0	
4 due to banks	104,928	12,881	117,809	151,547
5 due to other financiers			0	1,360
6 advances	36,070		36,070	35,831
7 trade accounts	325,000	241	325,241	336,957
8 debts represented by credit instruments			0	
9 due to subsidiaries	588		588	689
10 due to associated companies	50,075		50,075	43,824
10bis due to affiliated companies	5,775		5,775	9,595
11 due to parent companies	14,531		14,531	
12 income taxes payable	14,740		14,740	19,537
13 due to pension funds and social security institutions	18,456		18,456	17,853
14 others	106,778		106,778	101,136
Total debs and other payables (D)	676,941	419,406	1,096,347	1,124,613

(in thousands of euros)	Year ended 31 December 2004		Total 3	Year ended 31 December 2003
	Sub Total	Sub Total		
	1	2		
E) Accrued liabilities and deferred income				
1 accrued liabilities		10,562		5,986
2 deferred income		7,269		5,774
3 discounts on loans				
Total accrued liabilities and deferred income (E)			17,831	11,760
Total liabilities			1,854,310	1,843,881
Memorandum accounts				
1 Guarantees and sureties				
a) in favour of subsidiaries				
b) in favour of associated companies				
c) in favour of third parties			121,936	108,459
2 Commitments			4,730	12,448
3 Risks			1,360	
4 Others			106,695	95,785
Total memorandum accounts			234,721	216,692

- 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 uppercse letters.

For the Board of Directors
Chairman
Marina Berlusconi

Income statement

(in thousands of euros)	Financial year 2004			Financial year 2003
	Sub Total	Sub Total	Total	
	1	2	3	
A) Production value				
1 Revenues from sales of goods and services		1,652,798		1,538,144
2 Changes in inventory of semi-finished and finished goods		-5,184		6,116
3 Changes in contract work in progress		1,775		809
4 Increase in company-produced additions to fixed assets		134		143
5 Other income and revenues				
a) operating grants	6,681			4,736
b) other income and revenues	46,908			44,313
		53,589		
Total production value (A)			1,703,112	1,594,261
B) Production costs				
6 Raw, ancillary and consumable materials and goods		507,531		486,463
7 Services		649,765		598,537
8 Use of third party assets		23,515		22,927
9 Personnel:				
a) wages and salaries	182,782			177,738
b) social contributions	57,288			55,425
c) severance indemnities	15,153			15,258
d) retirement benefits	28			25
e) other costs	3,845			4,025
Total		259,096		252,471
10 Depreciations, amortisation and writedowns				
a) amortisation of intangible assets	21,076			23,494
b) depreciation of fixed assets	34,755			38,813
c) other writedowns of assets	7,226			
d) writedowns of doubtful accounts	11,340			7,975
Total		74,397		70,282
11 Changes in inventory of raw, ancillary and consumable materials and goods		605		-815
12 Provisions for risks		5,140		4,870
13 Other provisions		31		30
14 Other operating expenses		13,613		13,240
Total production costs (B)			1,533,693	1,448,005
Difference between production value and production costs (A-B.)			169,419	146,256

(in thousands of euros)	Financial year 2004		Total 3	Financial year 2003
	Sub Total 1	Sub Total 2		
C) Financial income and charges				
15 Income from equity investments				
a) Subsidiaries				
b) Associated companies		184		201
c) Other investments				
Total		184		201
16 Other financial income				
a) from long term receivables				
• Subsidiaries				
• Associated companies				
• Parent companies				
• Other companies		64		101
Total		64		101
b) from long term securities				
c) from short term securities		15,201		20,512
d) other income				
• Subsidiaries				5
• Associated companies		386		426
• Parent companies				
• Other companies		9,777		12,692
Total		10,163		13,123
Total		25,428		33,736
17 Interest and financial charges				
a) Subsidiaries		3		29
b) Associated companies		318		326
c) Parent companies				
d) Other companies		31,212		28,973
Total		31,533		29,328
17bis Profit (loss) on currency exchange				-1,725
Total financial income and charges (C)			-6,260	2,884
D) Adjustments to the value of financial assets				
18 Revaluations				
a) Equity investments		5,460		4,997
b) Other long term financial assets				
c) Securities				
Total		5,460		4,997
19 Writedowns				
a) Equity investments		4,784		8,365
b) Other long term financial assets				
c) Securities		2,051		3,772
Total		6,835		12,137
Total adjustments to the value of financial assets (D)			-1,375	-7,140

(follows)

Income statement

(follow)

(in thousands of euros)	Financial year 2004			Financial year 2003
	Sub Total 1	Sub Total 2	Total 3	
E) Extraordinary income and charges				
20 Income				
a) Gains on disposals	4,460			3,929
b) Others	5,202			6,587
Total		9,662		10,516
21 Charges				
a) Losses on disposals	249			66
b) Taxation relative to prior years	70			436
c) Others	1,632			1,837
Total		1,951		2,339
Total extraordinary income and (charges) (E)			7,711	8,177
Profit before tax			169,495	150,177
22 Current, deferred and advance taxes for period			64,915	67,499
23 Result for the period			104,580	82,678
Net profit (loss) for the period pertaining to minority interests			466	577
Net profit (loss) for the period			104,114	82,101

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

For the Board of Directors

Chairman

Marina Berlusconi

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, and in accordance with the new legislative regulations concerning financial statements introduced with the reforms of company law by Legislative Decree 6 of 17 January 2003.

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 on a net equity basis.

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 31/12/2004	% held as of 31/12/2003
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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

Cemit Interactive Media S.p.A.	S,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	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.p.A.	Naples	Publishing	Euro	155,000.00	60.00	60.00
Mondadori Retail S.p.A.	Milan	Trade	Euro	2,700,000.00	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 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
Mondadori Sistemi di Comunicazione S.r.l.	Milan	Services	Euro	95,000.00	100.00	100.00
Monradio S.r.l.	Milan	Radio	Euro	500,000.00	100.00	(*)
Promopi Libri S.r.l.					(**)	70.00
Sperling & Kupfer Editori S.p.A.	Milan	Publishing	Euro	388,800.00	100.00	100.00

Foreign subsidiaries

ABS Finance Advisory Company					(***)	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	99.99
Helit Investments S.A.	Luxembourg	Financial	Euro	10,373,800.00	99.99	(§§)
Mondadori Finance S.A.	Luxembourg	Financial	Euro	4,731,000.00	99.96	99.96
Mondadori International S.A.	Luxembourg	Financial	Euro	393,625,900.00	99.99	99

Companies valued using the proportional method

Mondolibri S.p.A.	Milan	Trade and publishing	Euro	1,040,000.00	50.00	50.00
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Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/2004	% held as of 31/12/2003
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	20.00	10.00
Attica Media Bulgaria Ltd	Sofia	Publishing	Lev	155,000.00	20.40	10.20
Attica Publishing S.A.	Athens	Publishing	Euro	4,590,000.00	40.00	20.00
Balcan Publications Ltd	Cyprus	Financial	Cyprus pounds	1,000	20.00	10.00
BOL Books on Line Italia S.p.A.	Milan	Trade	Euro	1,000,000.00	50.00	50.00
City Servers S.A.	Athens	Printing	Euro	4,337,500.00	9.00	4.50
Random House Mondadori S.A.	Bogotá	Trade	Pesos	2,960,900	50.00	50.00
E-One S.A.	Athens	Internet	Euro	2,054,292.01	10.00	5.00
Editorial Random House Mondadori Ltda	Bogotá	Publishing	Pesos	779,596,000	50.00	50.00
Editorial Lumen S.A.	Barcelona	Publishing	Euro	65,999.96	50.00	50.00
Editorial Sudamericana S.A.	B. Aires	Publishing	Ars	8,366,513	50.00	50.00
Random House Mondadori S.A.	Santiago	Publishing	Pesos	3,652,935,967	50.00	50.00
Editorial Sudamericana Uruguay S.A.	Montevideo	Publishing	Pesos	9,892,775	49.95	49.88
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
Emphasis S.A.	Athens	Publishing	Euro	798,239.18	32.80	16.40
Enallaktikes S.A.	Athens	Publishing	Euro	410,858.40	19.60	9.80
G. Dragounis S.A.	Athens	Publishing	Euro	311,346.00	20.00	10.00
Grijalbo Editor S.A.	Montevideo	Publishing	N. Pesos	500,000	50.00	50.00
Random House Mondadori S.A.	Caracas	Publishing	Bolivares	670,686,000	50.00	50.00
Grupo Editorial Random House Mondadori S.L.	Barcelona	Publishing	Euro	10,002,000.00	50.00	50.00
Gruner 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	40.00	20.00
International Radio Networks S.A.	Athens	Publishing	Euro	380,000.00	39.88	19.94
Ionikes Publishing S.A.	Athens	Publishing	Euro	780,000.00	26.60	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	20.00	10.00
Market Self S.A.	B. Aires	Publishing	Ars	30,200	25.00	25.00
Mondadori Informatica e-BisMedia S.r.l.					(***)	50.00
Mondadori Rodale S.r.l.	Milan	Publishing	Euro	90,000.00	50.00	50.00
Nueva Galaxia Gutenberg S.A.					(S)	50.00
PBR Publication Ltd	Bucharest	Publishing	Rol	2,000,000	20.00	10.00

(follows)

(follow)

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/2004	% held as of 31/12/2003
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	20.00	10.00
Random House Mondadori S.A.	Barcelona	Publishing	Euro	6,824,606.24	50.00	50.00
Random House Mondadori S.A. de CV	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	39.27
Tilerama S.A.	Athens	Publishing	Euro	1,467,351.43	20.00	10.00
Tiletheatis S.A.	Athens	Publishing	Euro	2,641,500.00	28.68	14.34

Companies valued at cost

AME France S.a.r.l.	Paris	Services	Euro	20,000.00	99.99	(*)
AME Publishing Ltd	New York	Services	US \$	50,000	99.99	99.99
Arnoldo Mondadori Deutschland GmbH	Munich	Services	Euro	25,564.50	99.99	99.99
Casa Editrice e di Distribuzione Bences	Pannonhalma	Trade	Ft	11,250,000	15.40	15.40
Consuledit S.r.l.	Milan	Services	Euro	20,000.00	9.54	9.54
Consorzio Aeromobili Fininvest					(***)	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
Giulio Einaudi Editore S.p.A. (under extr. 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					(***)	99.99
Mondadori Belgium S.A.					(***)	99.98
Mondadori, Com, USA Inc	Delaware	Services	US \$	1,000	99.99	99.99
News Alert Investors Llc	New York	Services	US \$	20,528,461	11.21	11.21
Novamusa Gelmar Biblioteca Nazionale S.c.a.r.l.	Rome	Services	Euro	10,200.00	12.00	12.00
Novamusa Val di Noto S.c.a.r.l.	Messina	Services	Euro	90,000.00	12.00	12.00
Novamusa Valdemone S.c.a.r.l.	Messina	Services	Euro	90,000.00	12.00	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
Texto S.p.A.	Milan	Publishing	Euro	110,000.00	100.00	(\$\$)
Veleno S.p.A.					(***)	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. (in liquid.)	Venice	Services	Euro	10,000.00	34.00	34.00
Venezia Musei Società per i servizi museali S.c.a.r.l.	Venice	Services	Euro	10,000.00	34.00	(*)

The most significant changes in the consolidation area in 2004 were as follows:

(*) set up in 2004;

(**) merged into Edizioni Piemme S.p.A.

(***) liquidated in 2004;

(§) disposed of in 2004;

(§§) purchased in 2004.

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 2004, 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.

Accounting principles and valuation methods

The accounting principles and valuation methods adopted in preparing the Consolidated Financial Statements as of 31 December 2004 are in accordance with current regulations and the provisions introduced by Legislative Decree 127 of 9/4/1991, based on those issued by the Italian Accounting Profession and the new legislative regulations concerning financial statements introduced with the reforms of company law by Legislative Decree 6 of 17 January 2003.

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	30.00
- furniture and fixtures	12.00
- various small equipment	25.00
- motor vehicles	20.00 - 30.00

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 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 Shareholders' Meetings, 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. LIFO valorisation 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 realisable 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 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) Amounts expressed in foreign currencies

Revenues, costs, income and charges relating to operations in foreign currencies are booked at the exchange rate in force at the time the specific operations were carried out. Assets and liabilities in foreign currencies that do not constitute assets are booked at the exchange rate in force at the end of the financial year and the relative losses and gains deriving from currency exchanges are booked to the Income Statement. Any eventual net profits are provided for in specific reserves that cannot be distributed until they are realized. Non-cash assets in foreign currencies are booked either at the exchange rate in force at the time of their purchase or at the lower rate at the end of the financial year, when there is a long-term loss deriving from negative exchange rate fluctuations.

n) Commitments and guarantees

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

o) Current, deferred and advance 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.

Advance 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, including deferred taxes", while advance tax assets are entered under C4, "Advance taxes". 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. Any eventual potential fiscal benefit connected to the losses is booked to the financial statement if there is reasonable certainty of obtaining in the future taxes that could absorb the losses, within the period they are deductible.

p) Financial instruments for covering the risks associated with exchange and tax rates

Financial instruments used to cover the risk of exchange and tax rate fluctuations and losses 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.

We therefore confirm that the 2004 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.

Information about the business activities of the Group, the relevant events after the period and the various sectors and geographical areas where the Group operates is given in the "Report on the results for the year".

Details in items in the Consolidated Financial Statements

In the following sections the amounts in brackets, which are expressed in thousands of euros, refer to the Consolidated Financial Statements as of 31 December 2003.

The items referring to the previous year have been reclassified in order to make them comparable with the data as of 31 December 2004.

Assets

B) Non-current assets

B.I. Intangible assets

Amounted to €133,874 thousand (€158,426 thousand). Movements of intangible assets and amortisation are as follows:

Intangible assets	Gross value	Amortisation funds	Writedowns	Net book value
Balance at 31/12/2003	341,190	(182,764)		158,426
Additions during the period	3,602			3,602
Writedowns			(7,226)	(7,226)
Amortisation		(21,076)		(21,076)
Reclassifications and reversals	(29,679)	29,685		6
Disposals and other movements	(533)	675		142
Total intangible assets	314,580	(173,480)	(7,226)	133,874

The capitalised costs of €3,602 thousand for the year mainly concern the purchase of software (€676 thousand), the renovation of buildings and offices (€564 thousand), licences for the use of software (€738 thousand) and the purchase of imprints (€833 thousand).

Depreciations of €21,076 thousand are mainly due to Group publishing titles and series.

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.

During 2004 writedowns were carried out on a number of titles for a total of €7,226 thousand, in order to adjust the value to the capacity of each of them to contribute to the production of future economic results, as part of anticipatory economic plans.

The item "Reclassifications and reversals" mainly concerns intangible asset reversals depreciated as of 31 December 2004.

The item "Disposals and other movements" refers to the variation in the consolidation area as a result of Mondadori Sistemi di Comunicazione S.r.l. becoming part of the Group, for €128 thousand.

The total of intangible assets 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	10							10
Capital increase/reconstruction	1							1
Set-up costs	408							408
Patents/rights		380						380
Software		820						820
Titles and publishing brands			87,944					87,944
Series			28,739					28,739
Licences			77					77
Goodwill				5,570				5,570
Assets under construction and advances					48			48
Cost of software purchase						1,054		1,054
Building, office and other renovation						1,524		1,524
Leasehold acquisition costs						30		30
Others						1,782		1,782
Consolidation differences							5,487	5,487
Total intangible costs	419	1,200	116,760	5,570	48	4,390	5,487	133,874

“Goodwill” is mainly due to the purchase of “Mursia Scuola” and Poseidonia for €3,026 thousand, and to the purchase of the company division responsible for the shops owned by Mondadori Retail S.p.A. for €2,544 thousand.

“Series” includes goodwill following the purchases of publishing companies in the previous year. This amount is depreciated over 20 years.

“Consolidation differences” concern the purchase of the Sperling & Kupfer Group for €366 thousand and the former Le Monnier Group for €5,121 thousand.

B.II. Fixed assets

Amounted to €184,495 thousand (€199,878 thousand) 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
	(=)	(+)	(-)	(+o-)		(+o-)	(=)	(-)	(=)
Land and buildings	146,509	715	(206)			28	147,046	(68,447)	78,599
Plant and machinery	372,076	15,769	(4,004)			(320)	383,521	(296,011)	87,510
Equipment	9,304	916	(92)			14	10,142	(7,617)	2,525
Furniture and office machines	58,905	3,399	(1,650)		22	1,009	61,685	(50,553)	11,132
Motor vehicles	7,455	570	(831)			20	7,214	(5,350)	1,864
Assets under construction	5,385	367		(2,887)			2,865		2,865
Total fixed assets	599,634	21,736	(6,783)	(2,887)	22	751	612,473	(427,978)	184,495

Investments made during 2004, amounting to €21,736 thousand, of which €21,369 thousand entered production, were mainly concerned with the Printing Division, in order to maintain the high quality of printing, and with office equipment as part of normal turn over.

Disposals for the year were mainly concerned, as with investments, with the Printing Division and office equipment.

During 2004 the depreciation rate of some categories of tangible assets were revised, including rotary machines (10% instead of 20%), electronic office machinery (30% instead of 20%) and motor vehicles (30% instead of 25%), in order to have an up-to-date evaluation of the useful life of the assets.

In 2004 the depreciation of assets bought during the year was calculated on the basis of the reference rate in force at the time the individual assets entered production, while up to 2003 a 50% depreciation rate was applied.

The new practices described above resulted in the amount of depreciations booked in 2004 being lower than it would have been if the same criteria use din 2003 had been applied for a total of €4,042 thousand, gross of fiscal effects.

The details of this category are shown in the following table:

	€ ,000	€ ,000
	Amount with new rate	Amount with old rate
Land and buildings	78,599	78,596
Plant and machinery	87,510	81,875
Equipment	2,525	2,422
Furniture and office machines	11,132	12,687
Motor vehicles	1,864	2,008
Assets in progress	2,865	2,865
Total fixed assets	184,495	180,453

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

Revaluations	Law		Voluntary revaluation in 1984	Law	
	No. 576/1975	No. 72/1983		No. 408/1990	No. 413/1991
Land and buildings	68	3,615	39,780	163	8,106
Plant and machinery	1,171	2,687	4,577	-	-
Furniture and office machines	-	2	-	-	-
Other assets	-	2	-	-	-
Total revaluations	1,239	6,306	44,357	163	8,106

Movements of accumulated depreciations were as follows:

Accumulated depreciations	Balances at 31/12/2003 (=)	Depreciation for year (+)	Disposals (-)	Variations in consolidation area (+o-)	Other changes (+o-)	Balances at 31/12/2004 (=)
Land and buildings	64,062	4,392	(10)	-	3	68,447
Plant and machinery	279,098	21,691	(3,312)	-	(1,466)	296,011
Equipment	6,895	766	(89)	-	45	7,617
Furniture and office machines	44,730	6,768	(1,398)	-	453	50,553
Motor vehicles	4,971	1,138	(746)	-	(13)	5,350
Total	399,756	34,755	(5,555)	0	(978)	427,978

B.III. Non-current assets

B.III.1) Investments amounted to €91,537 thousand (€69,980 thousand) and are made up as follows:

	€ ,000 31/12/2004	€ ,000 31/12/2003
Investments valued at net equity	87,052	63,920
Investments valued at cost	4,485	6,060
Total investments	91,537	69,980

Movements during the year were as followed:

	Valued at net equity	Valued at cost	Total
Balance at 31 December 2003	63,920	6,060	69,980
Movements during the year:			
- result of equity investments	6,126		6,126
- acquisitions, start-ups and increases in capital	26,244	1,940	28,184
- dividends	(5,645)		(5,645)
- change from cost to integral		(95)	(95)
- writedowns, disposals and other adjustments	(3,593)	(3,420)	(7,013)
Total investments	87,052	4,485	91,537

The main operations that affected the value of investments concerned:

- the purchase of a further 20% of the Attica Publications Group, Greek publishers listed on the Athens Stock Exchange, which increased Mondadori's holding to 40%;
- the purchase of the entire share capital of Texto S.p.A., which operates in the school textbook sector
- the writedown of over €2 million of Euromedia Luxembourg Two S.A., in order to align the book value of the investment with the market value of the Group's net equity;
- the liquidation of Mondadori Informatica e-Bismedia S.r.l., Mondadori Belgium S.A. and Veleno S.p.A.

The following table shows details of the balance at 31 December 2004:

	€ ,000 31/12/2004	€ ,000 31/12/2003
Investments in subsidiary companies:		
- AME Publishing Ltd	33	33
- Mondadori Sistemi di Comunicazione S.r.l.	-	95
- AME Deutschland GmbH	20	20
- AME France S.a.r.l.	20	-
- Prisco Spain S.A.	60	53
- Mondadori Informatica e-Bismedia S.r.l.	-	255
- Mondadori Belgium S.A.	-	5
- Texto S.p.A.	1,917	-
Total investments in subsidiary companies	2,050	461
Investments in associated companies:		
- Gruner und Jahr/Mondadori S.p.A.	4,905	5,420
- Mach 2 Libri S.p.A.	2,255	2,210
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	429	316
- Harlequin Mondadori S.p.A.	427	509
- Hearst Mondadori Editoriale S.r.l.	691	338
- Mondadori Rodale S.r.l.	804	885
- Edizioni Electa Bruno Mondadori S.r.l.	219	141
- Edizioni EL S.r.l.	1,794	1,669
- Grupo Editorial Random House Mondadori S.L.	24,346	25,259
- Società Europea di Edizioni S.p.A.	8,542	8,437
- BOL Books on line Italia S.p.A.	95	110
- ACI Mondadori S.r.l.	308	253
- Veleno S.p.A.	-	934
- Press Tv S.p.A.	1,079	56
- Venezia Musei S.c.a.r.l.	3	3
- Venezia Musei società per i servizi museali S.c.a.r.l.	3	-
- Venezia Accademia S.c.a.r.l.	4	4
- Consorzio Forma	1	1
- Consorzio Covar	1	1
- Casa Editrice e di Distribuzione Bences	3	13
- Attica Publications S.A.	41,098	18,009
Total investments in associated companies	87,007	64,568
Investments in other companies:		
- Editrice Portoria S.p.A.	0	0
- Euromedia Luxembourg Two S.A.	2,257	4,713
- Società Editrice Il Mulino S.p.A.	113	113
- Consuedit S.r.l.	1	1
- Consorzio Aeromobili Fininvest	-	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
- Novamusa Gelmar S.c.a.r.l.	2	2
- Novamusa Val di Noto S.c.a.r.l.	18	18
- Novamusa Valdemone S.c.a.r.l.	18	18
- Consorzio Fridriciano	2	2
Total investments in other companies	2,480	4,951
Total investments	91,537	69,980

The amount attributed to Attica also includes the difference between share of net equity purchased and the price paid which at the time the financial statements were drawn up amounted to approximately €35 million, net of depreciations booked to the income statement in both 2003 and 2004.

Goodwill is due to the good prospects of profitability for the Group.

The purchase of shares in Texto S.p.A. was finalised near the end of the financial year and is therefore booked at cost in the Financial Statements.

Revenues for 2004 were close to €2 million and the result for the year was substantially balanced. The company has a net equity of around €1 million and does not have any financial debts.

B.III.2.d) Other receivables amounted to €5,945 thousand (5,746 thousand). The variation is due to the increase in “Guarantee deposits” for the purchase of “Radio 101”, finalised in 2005, and the reduction in tax credits for advance IRE on severance payments.

	€ ,000 31/12/2004		€ ,000 31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Guarantee deposits	1,879	335	378	385
Earnest money	206	207	206	207
IRE tax credits for severance indemnity	945	2,368	579	3,905
Loans	5	-	9	-
Others	-	-	-	77
Total other receivables	3,035	2,910	1,172	4,574

B.III.4) Treasury stock amounted to €130,207 thousand (€116,885 thousand) and is represented by ordinary shares in Arnoldo Mondadori Editore S.p.A. During the year movements of treasury stock concerned purchases totalling €27,735 thousand and disposals totalling €14,413 thousand.

Disposals during the year were mainly the result of the Stock Option Plan, at a unit price for the year of €6.56.

At 31 December 2004 the portfolio of treasury stock held by Arnoldo Mondadori Editore S.p.A. totalled 16,407,120 shares, corresponding to 6.32% of the share capital for an average value of €6.62 per share.

A further 2,899,419 ordinary Mondadori shares, equal to 1.12%, are held by the subsidiary Mondadori International S.A.

The book value is inferior to the current Stock Market value.

The share acquisitions were carried out on the market in accordance with the authorisation received from Shareholders’ Meetings, as per article 2357 of the Civil Code.

C) Working capital

C.I. Inventory

“Inventory” amounted to €129,521 thousand (€133,521 thousand) net of writedowns for €11,014 thousand (€10,514 thousand).

	€ ,000 31/12/2004	€ ,000 31/12/2003
Raw, ancillary and consumable materials	13,715	14,281
Writedowns of raw, ancillary and consumable materials	(466)	(430)
Total raw, ancillary and consumable materials	13,249	13,851
Work in progress and semi-finished goods	31,314	35,888
Writedowns of work in progress and semi-finished goods	(1,054)	(1,248)
Total work in progress and semi-finished goods	30,260	34,640
Contract work in progress	11,359	9,489
Writedowns of contract work in progress	(124)	-
Total contract work in progress	11,235	9,489
Finished products and goods	84,125	84,370
Writedowns of finished products and goods	(9,370)	(8,836)
Total finished products and goods	74,755	75,534
Advances	22	7
Total inventory	129,521	133,521

The overall decrease as at 31 December 2004 is due to the fall in “Work in progress and semi-finished goods”, which in the previous year was characterised by a number of important orders from the Parent company, and to the decrease in the net value of “Finished products and goods”, following a larger writedown reserve.

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.

Movements in inventory writedowns	€ ,000				31/12/2004
	31/12/2003	Changes in consolidation area/ others	Provisions	Utilisations	
Writedowns of raw materials	430	-	65	(29)	466
Writedowns of work in progress and semi-finished products	1,248	(29)	-	(165)	1,054
Writedowns of contract work in progress	-	29	95	-	124
Writedowns of finished products and goods	8,836	-	1,700	(1,166)	9,370
Total	10,514	0	1,860	(1,360)	11,014

C.II. Receivables

Trade and other receivables amounted to €531,733 thousand (€527,291 thousand). The details of geographical area, where requested, is supplied in the appendices attached to the Notes. Details of this item given below.

C.II.1) Trade receivables amounted to €363,348 thousand (€350,226 thousand). The increase compared with 2003 is mainly due to “Bookshop clients” as a result of notable increases in sales.

“Magazine clients” also registered a notable increase, due to increased revenues from add-on sales. However, for a correct interpretation of the results it is necessary to compare the data with that for “Returned goods client account”, the increase in which is due to add-on sales.

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	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Bookshop clients	127,455	944	115,952	789
Magazine clients	92,241	-	61,792	-
School clients	11,482	-	11,514	-
Instalment clients	9,790	12,920	10,233	13,052
Advertising clients	144,610	-	137,920	-
Printing work clients	53,082	-	56,658	-
Subscription clients and various	23,043	-	22,081	-
Direct marketing services clients	19,049	-	18,862	-
Invoices to be issued	10,429	-	11,900	-
Credit notes to be issued	(5,290)	-	(4,838)	-
Returned goods client account	(109,186)	-	(81,181)	-
Financial receivables from clients	723	324	797	319
Bad debt reserve	(28,268)	-	(25,160)	-
Interest in arrears risk reserve	-	-	(464)	-
Total trade receivables	349,160	14,188	336,066	14,160

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				
	31/12/2003	Changes in consolid. area/others	Provisions	Utilisations	31/12/2004
Bad debt reserve	25,160	5	11,340	(8,237)	28,268

C.II.2) Receivables from subsidiary companies amounted to €479 thousand (€625 thousand), as illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Mondadori Sistemi di Comunicazione S.r.l.	-	-	148	-
- AME France S.a.r.l.	55	-	-	-
- AME Publishing Ltd	8	-	-	-
- Texto S.p.A.	6	-	-	-
Financial receivables:				
- Mondadori Sistemi di Comunicazione S.r.l.	-	-	299	-
- Mondadori Informatica e-Bismedia S.r.l.	-	-	178	-
- AME France S.a.r.l.	410	-	-	-
Total receivables from subsidiary companies	479	0	625	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 €52,358 thousand (€56.404 thousand).

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Editrice Portoria S.p.A.	-	-	68	-
- Gruner und Jahr/Mondadori S.p.A.	2,561	-	1,753	-
- Mach 2 Libri S.p.A.	16,792	-	13,496	-
- Agenzia Lombarda Distrib, Giornali e Riviste S.r.l.	189	-	362	-
- Harlequin Mondadori S.p.A.	2,305	-	1,085	-
- Hearst Mondadori Editoriale S.r.l.	1,558	-	1,483	-
- Mondadori Rodale S.r.l.	2,931	-	3,995	-
- Venezia Accademia S.c.a.r.l.	48	-	17	-
- Edizioni Electa Bruno Mondadori S.r.l.	283	-	293	-
- Edizioni EL S.r.l.	591	-	607	-
- Grupo Editorial Random House Mondadori S.L.	239	-	566	-
- Società Europea di Edizioni S.p.A.	5,341	-	10,133	-
- Venezia Musei società per i servizi museali S.c.a.r.l.	247	-	-	-
- Press Tv S.p.A.	1,757	-	1,689	-
- BOL Books on line Italia S.p.A.	713	-	537	-
- ACI Mondadori S.r.l.	2,729	-	2,619	-
- Mondolibri S.p.A.	3,333	-	3,957	-
- Venezia Musei S.c.a.r.l.	52	-	143	-
Financial receivables:				
- Editrice Portoria S.p.A.	-	-	131	-
- Venezia Accademia S.c.a.r.l.	24	-	24	-
- Mach 2 Libri S.p.A.	-	-	145	-
- Press Tv S.p.A.	1,053	-	1,138	-
- ACI Mondadori S.r.l.	-	-	380	-
- Grupo Editorial Random House Mondadori S.L.	8,958	-	10,961	-
- Edizioni Electa Bruno Mondadori S.r.l.	654	-	822	-
Total receivables from associated companies	52,358	0	56,404	0

The most significant changes compared with 2003 concerns Mach 2 Libri S.p.A., which increased its debt to the Group following an increased volume of business in Large Scale Retail Outlets, and Società Europea di Edizioni S.p.A., which registered a decrease in its debt to the Group as a result of minor costs for printing publishing products carried out by Mondadori Printing S.p.A.

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 €11 thousand (€2 thousand) and are of a commercial nature. All operations are carried out in accordance with market conditions.

C.II.4 bis) Receivables from affiliated companies amounted to €3,661 thousand (€5,166 thousand), as illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial receivables:				
- Pagine Italia S.p.A.	2,823	-	4,615	-
- RTI S.p.A.	396	-	67	-
- Publitalia 80 S.p.A.	159	-	186	-
- Medusa Video S.r.l.	66	-	60	-
- Promoservice Italia S.r.l.	150	-	78	-
- Finedim Italia S.p.A.	4	-	-	-
- Il Teatro Manzoni S.p.A.	1	-	1	-
- Mediolanum S.p.A.	-	-	60	-
- Mediolanum Gestione Fondi S.p.A.	-	-	11	-
- Banca Mediolanum S.p.A.	56	-	71	-
- Medusa Film S.p.A.	6	-	15	-
- Videotime S.p.A.	-	-	2	-
Total receivables from affiliated companies	3,661	0	5,166	0

Commercial transactions with affiliated companies are carried out according to market conditions. At the end of the financial year there were no financial receivable.

C.II.4 bis) Tax credits amounted to €11,545 thousand (€19,833 thousand). Compared with the previous year there was a decrease due to Mondadori Group companies adhering to the fiscal consolidation, which resulted in tax payables for IRES tax, net of advances and deductions, being booked under payables in the Fininvest S.p.A. fiscal consolidation.

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Receivables from tax authorities for VAT to be recovered	6,981	2,455	9,036	-
Receivables from tax authorities for IRPEG/ILOR reimbursements	184	-	296	-
Receivables from tax authorities for IRPEG/IRAP	-	-	177	-
Receivables from tax authorities for IRES advances	472	-	28,867	-
Receivables from tax authorities for withholding tax	99	-	16,780	-
Payables from tax authorities for IRES for year	-	-	(36,932)	-
Receivables from tax authorities for IRAP advances	875	-	9,982	-
Payables from tax authorities for IRAP for year	(854)	-	(10,294)	-
Other receivables from tax authorities	1,333	-	1,921	-
Total other receivables	9,090	2,455	19,833	0

C.II.4 ter) Advance taxes amounted to €45,029 thousand (€29,714 thousand). This significant increase was largely due to the Mondadori Printing S.p.A. (approximately €7 million) and Mondadori Electa S.p.A. (approximately €1.2 million) which, as a result of the positive results registered in 2004 and the anticipatory economic plans, began to book the advance taxes in 2004.

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Advance IRES payments	42,036	310	26,985	-
Advance IRAP payments	2,673	10	2,729	-
Total receivables for advance taxes	44,709	320	29,714	0

Details of the temporary differences that were the reason for the advance taxes are given in the appendices attached to the Notes.

C.II.5) Other receivables amounted to €55,302 thousand (€65,321 thousand). The most significant changes concerned “Advances to authors and collaborators”, connected to the increase in the book sector mentioned above, and “Financial receivables”, which decreased as a result of the payment to Mondolibri S.p.A of a sum owed by Bertelsmann for approximately €7 million.

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Advances to agents	1,446	-	1,510	-
Advances to authors and collaborators	42,177	-	40,795	-
Advances to suppliers	3,197	-	2,449	-
Advances to personnel	616	243	680	339
Receivables from social security institutions	41	-	81	5
Receivables for deposits	303	-	326	-
Financial receivables	824	-	8,659	1,565
Others	6,455	-	8,910	2
Total other receivables	55,059	243	63,410	1,911

There are no receivables due in more than five years.

C.III. Financial activities that do not constitute assets

These amounted to €553,456 thousand (€580,330 thousand) 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 €350,106 thousand. 64.9% 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 and money market products;
- direct investments mainly in variable-rate bonds and guaranteed-capital products for €125,158 thousand;
- investments in hedge-funds for €78,192 thousand.

C.IV. Cash and banks

The total of liquid assets amounted to €80,344 thousand (€42,685 thousand).

These are represented by:

- deposits in bank accounts held by Group companies with banks for €78,259 thousand and in post office accounts for €1,830 thousand;
- cheques and cash for €255 thousand, for small day-to-day payments.

D) Accrued income and prepaid expenses

Amounted to €13,198 thousand (€9.139 thousand) and are made up as follows:

	€ ,000 31/12/2004	€ ,000 31/12/2003
Interest earned	612	402
Others	98	163
Total accrued income	710	565
Interest paid	12	-
Lease payments and rents	338	579
Insurance	633	601
Third party publications for sale	9,496	6,183
Commission, rights	26	22
Others	1,983	1,189
Total prepaid expenses	12,488	8,574
Premium on loans	-	-
Total prepaid expenses and accrued income	13,198	9,139

“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.

Notes on the items in the Consolidated Balance sheet

Liabilities

A) Shareholders' equity

Amounted to €584,499 thousand (€551,918 thousand).

The share capital, fully subscribed and paid up, as of 31 December 2004 is represented by 259,429,832 ordinary shares with a par value of €0.26.

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 €49,649 thousand (€51,586 thousand) and is made up as follows:

	€ ,000 31 /12/2004	€ ,000 31/12/2003
Retirement reserve and similar obligations	10,853	10,166
Tax reserve, including deferred taxes	15,124	14,769
Others:		
- legal risks	7,969	8,267
- equity investments reserve	973	973
- commitments to advertising agency	5,015	6,514
- risks for contractual disputes	5,529	5,322
- other risks	4,186	5,575
Total reserve for risks and other charges	49,649	51,586

The item "Retirement reserve and similar obligations" includes supplementary indemnities for clients for €10,032 thousand and indemnities for freelance journalists and the relative contributions. During the year there were provisions for €989 thousand, utilisations for €498 thousand and reclassifications for €196 thousand.

The "Tax reserve, including deferred taxes" 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 relative to the other temporary differences between the accounting result and the fiscal income taxable in future years.

Details of the temporary differences that produced the deferred taxes are included in the appendices to the Notes.

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 the effect of changes in the consolidation for €1,495 thousand and utilisations for €1,793 thousand.

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 €2,203 thousand for provisions and decreased by €3,702 thousand for utilisations.

C) Severance indemnities

Amounted to €102,715 thousand (€100,722 thousand) and the changes during the year were as follows:

	€ ,000 31/12/2004	€ ,000 31/12/2003
Total severance indemnities at beginning of year	100,722	101,789
Movements during the year:		
- provisions	15,153	15,258
- payments	(8,744)	(12,716)
- contribution to pension fund as per Law 297/82	(900)	(909)
- transfers to/from other companies	72	147
- utilisation for pension funds	(1,281)	(1,190)
- utilisation for advances	(2,055)	(1,850)
- variations in consolidation area	(252)	193
Total severance indemnities at end of year	102,715	100,722

D) Payables

Trade and other payables amounted to €1,096,347 thousand (€1,124,613 thousand).

The composition by geographic area, where requested, is provided in the appendices to the Notes.

These are made up as follows:.

D.1) Amounts due for bonds amounted to €296,384 thousand (€296,384 thousand) and represented debts deriving from the Private Placement operation carried out by Mondadori International S.A. in 2003 with American institutional investors.

The amount raised on the market, equal to \$350 millions 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 (€109,900 thousand) and represented bonds issued by Mondadori Finance S.A., reserved for professional investors, 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.4) Amounts due to banks amounted to €117,809 thousand (€151,547 thousand) and concerned current account overdrafts for €2,419 thousand and loans for €115,390 thousand.

	€ ,000			€ ,000		
	31/12/2004			31/12/2003		
	Interest rate	within 12 months	over 12 months	within 12 months	over 12 months	
Secured loans:						
- IMI	3.91% . 2.928%	1,802	2,202	2,688	4,004	
- Mediocredito Lombardo		-	-	85	611	
- Mediocredito Trentino	3.42%	361	2,308	345	2,669	
Unsecured loans:						
- Credito Bergamasco	2.331%	25,000	-	30,000	-	
- San Paolo IMI	3.75%	51	78	58	122	
- Credito Emiliano	2.312% . 2.311%	50,000	-	50,000	-	
- Banco Bilbao Vizcaya	2.358%	25,000	-	25,000	-	
- Ministero Industria Commercio e Artigianato	3.63% . 2.178% . 3.54%	66	7,303	-	6,094	
- Mediocredito Lombardo	3.15%	229	990	222	1,219	
Total payable for loans		102,509	12,881	108,398	14,719	

Accrued payments due for a period longer than 5 years amounted to €4,774 thousand.

As of 31 December 2004, mortgages on property owned by the Group for a total of €6,802 thousand was granted as guarantees for loans.

D.6) Advances amounted to €36,070 thousand (€35,831 thousand) and include advances from customers for magazine subscriptions for €24,928 thousand, shipping expenses advanced by foreign subscribers for €103 thousand and various advances from suppliers for €11,039 thousand.

D.7) Trade payables amounted to €325,241 thousand (€336,957 thousand), of which €241 thousand is due after 12 months and within 5 years.

The decrease compared with 2003 is mainly due to lower investments made by Group printing companies and a different mix of purchases. In 2004 there was a large increase in costs that had to be paid in the short term, such as the rights for add-on sales products linked to newspapers.

D.9) Amounts due to subsidiary companies amounted to €588 thousand (€689 thousand) and are illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial payable:				
- Mondadori Sistemi di Comunicazione S.r.l.	-	-	26	-
- Mondadori Informatica e-Bismedia S.r.l.	-	-	2	-
- AME Publishing Ltd	436	-	661	-
- AME Deutschland GmbH	8	-	-	-
- AME France S.a.r.l.	98	-	-	-
- Texto S.p.A.	2	-	-	-
Financial payables:				
- Texto S.p.A.	44	-	-	-
Total amounts due to subsidiary companies	588	0	689	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.10) Amounts due to associated companies amounted to €50,075 thousand (€43,824 thousand). The commercial payables were mainly due to the distribution activities carried out by Arnoldo Mondadori Editore S.p.A. and the advertising activities carried out by Mondadori Pubblicità 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.

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial payables:				
- Editrice Portoria S.p.A.	-	-	120	-
- Gruner und Jahr/Mondadori S.p.A.	10,877	-	13,725	-
- Mach 2 Libri S.p.A.	305	-	504	-
- Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.	202	-	145	-
- Venezia Accademia S.c.a.r.l.	100	-	283	-
- Venezia Musei S.c.a.r.l.	1	-	152	-
- Hearst Mondadori Editoriale S.r.l.	2,930	-	2,517	-
- Mondadori Rodale S.r.l.	5,904	-	6,225	-
- BOL Books on line Italia S.p.A.	-	-	21	-
- Harlequin Mondadori S.r.l.	63	-	-	-
- Edizioni EL S.r.l.	2,707	-	2,742	-
- Grupo Editorial Random House Mondadori S.L.	10	-	6	-
- Società Europea di Edizioni S.p.A.	4,232	-	3,606	-
- Venezia Musei società per i servizi museali S.c.a.r.l.	395	-	-	-
- ACI Mondadori S.r.l.	3,492	-	4,079	-
- Press Tv S.p.A.	1,883	-	557	-
- Mondolibri S.p.A.	461	-	261	-
Financial payables:				
- Hearst Mondadori Editoriale S.r.l.	846	-	631	-
- Mondadori Rodale S.r.l.	712	-	1,561	-
- Mach 2 Libri S.p.A.	2	-	-	-
- ACI Mondadori S.r.l.	1,974	-	-	-
- Gruner und Jahr/Mondadori S.p.A.	6,304	-	928	-
- Euromedia Luxembourg Two S.A.	1,693	-	2,026	-
- Harlequin Mondadori S.p.A.	4,982	-	3,735	-
Total amounts due to associated companies	50,075	0	43,824	0

D.10 bis) Amounts due to affiliated companies amounted to €5,775 thousand (€9,595 thousand) and are illustrated in the following table:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Commercial payables:				
- Pagine Italia S.p.A.	40	-	980	-
- RTI S.p.A.	509	-	167	-
- Publitalia 80 S.p.A.	3,257	-	6,035	-
- Medusa Video S.r.l.	1,284	-	1,461	-
- Promoservice Italia S.r.l.	1	-	125	-
- Eis S.r.l	21	-	16	-
- Eis Roma S.r.l	4	-	4	-
- Il Teatro Manzoni S.p.A.	26	-	16	-
- Elettronica Industriale S.p.A.	4	-	-	-
- Finedim Italia S.p.A.	16	-	-	-
- Medusa Cinema S.p.A.	2	-	-	-
- Banca Mediolanum S.p.A.	14	-	-	-
- Consorzio Aeromobili Fininvest	2	-	70	-
- Medusa Film S.p.A.	150	-	639	-
- Isim S.p.A.	2	-	13	-
- Radio e Reti S.r.l	443	-	69	-
Total amounts due to affiliated companies	5,775	0	9,595	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) Amounts due to parent companies amounted to €14,531 thousand (zero at 31 December 2003) and refer to the net amount due for tax that the companies adhering to the fiscal consolidation must pay Fininvest S.p.A., the consolidation company.

D.12) Income tax payables amounted to €14,740 thousand (€19,537 thousand).

In comparison with the previous year there was a decrease in Substitutive tax following the payment of the 2004 instalment and a decrease in income tax for the year following the decision by Mondadori Group companies to adhere to the fiscal consolidation.

This decision resulted in an increase in the amount owed for taxes to Fininvest S.p.A.

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
IRES on income for the year	2,197	-	6,967	-
IRAP for the year	2,150	-	865	-
Withholding taxes on wages and salaries	10,099	-	9,747	-
Substitutive tax	-	-	626	-
VAT	228	-	-	-
Others	66	-	1,332	-
Total income taxes payable	14,740	0	19,537	0

D.13) Amounts due to pension funds and social security institutions amounted to €18,456 thousand (€17,853 thousand) and include:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
INPS contributions	8,871	-	9,154	-
INAIL contributions	63	-	85	-
PREVINDAI contributions	267	-	276	-
ENASARCO contributions	444	-	372	-
Contributions on holidays due but not taken	4,188	-	4,097	-
Others	4,623	-	3,869	-
Total amounts due to pension funds and social security institutions	18,456	0	17,853	0

D.14) Other liabilities amounted to €106,778 thousand (€101,136 thousand) and include:

	€ ,000		€ ,000	
	31/12/2004		31/12/2003	
	within 12 months	over 12 months	within 12 months	over 12 months
Payroll and other amounts due to personnel	29,230	-	29,172	-
Authors and collaborators	45,940	-	39,417	-
Agents	13,541	-	12,795	-
Subscriber and instalment customers	11,517	-	11,784	-
Loans payable	656	-	4,786	67
Dividends for shareholders	140	-	150	-
Others	5,754	-	2,965	-
Total other liabilities	106,778	0	101,069	67

The most significant changes refer to “Amounts due to authors and collaborators”, as a result of the notable improvement in revenues from the Book Division, and “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 €3,247 thousand.

There are no payables due for longer than 5 years.

E) Accrued liabilities and deferred income

Amounted to €17,831 thousand (€11,760 thousand) and are made up as follows:

	€ ,000 31/12/2004	€ ,000 31/12/2003
Interest payable	6,670	1,586
Deferred payroll expenses	2,522	2,414
Others	1,370	1,986
Total accrued liabilities	10,562	5,986
Interest receivable	1,048	1,066
Rent payable	1,027	1,173
Others	5,194	3,535
Total deferred income	7,269	5,774
Premium on loans	-	-
Total accrued liabilities and deferred income	17,831	11,760

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

The increase in interest payable is due to the share of financial charges for the year relative to operations in financial instruments carried out in order to cover the risk of increases in exchange and interest rates connected to the financial debt, the amounts for which will be seen in future years.

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

The “Others” item in the deferred income section includes the deferred share of the gains from the advance completion of an operation in financial instruments that will be booked to future years.

There are no “Accrued liabilities and deferred income” that expire longer than 5 years.

Memorandum accounts

Guarantees, sureties and endorsements

Amounted to €121,936 thousand (€108,459 thousand).

They include sureties issued mainly in favour of the Tax Authorities and the Ministry of Production for prize-giving operations and competitions for €7,978 thousand and by banks to the VAT offices for €87,233 thousand and other guarantees for €26,725 thousand.

Commitments

Amounted to €4,730 thousand (€12,448 thousand).

These refer to fixed term contracts for sales of foreign currency for the entire amount.

Risks

Amounted to €1,360 thousand and represent advances paid by the factoring companies on VAT credit reimbursements.

Others

Amounted to €106,695 thousand (€95,785 thousand) and refer to third-party goods on deposit for distribution and sale for €102,781 thousand, 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 31/12/2004 there existed:

- a cross currency swap operation 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;
- an interest rate swap operation on the debt deriving from a stand-by loan with an expiry date of 2005 for €50 million.

The operations, carried out to cover the risk of exchange and interest rate fluctuations, have the same durations as the debts and are co-ordinated by, respectively, JPMorgan Chase Bank and UniCredit Banca d'Impresa.

It should also be noted that as a result of the 1,960,000 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 2003.

A) Production value

A.1) Sales of goods and services

Amounted to €1,652,798 thousand (€1,538,144 thousand), an increase of 7.5% compared with 31 December 2003.

Sales of “Books”, “Magazines” and “Direct marketing” are shown net of VAT borne by the publisher for €7,875 thousand, €17,187 thousand and €404 thousand 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 €8,765 thousand, including €6,794 thousand to Euro a Pagine Italia S.p.A. and €1,775 thousand to RTI S.p.A. mainly for printing services.

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

Amounted to -€5,184 thousand (€6,116 thousand). Details of the changes are given in the Balance Sheet under “Inventory”.

A.3) Changes in contract work in progress

Amounted to €1,775 thousand (€809 thousand). 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 2004, labour costs of €134 thousand (€143 thousand) were booked under fixed assets.

A.5) Other income and revenues

Amounted to €53,589 thousand (€49,049 thousand) and included the recovery of development and distribution costs for magazines (€6,261 thousand), transportation costs (€1,001 thousand), personnel costs (€554 thousand) and income from the sale of paper and production rejects (€6,413 thousand), all of which are booked under “Others”.

“Contributions” includes €5,027 thousand relating to the request by Group companies for tax relief on paper costs during 2004, as per article 4, paragraph 181 - 186 and 189 of Law 350 of 24 December 2003.

Since the Finance Law includes a limit to the amount of allowance available, which could result in a pro-quota distribution of the benefits among the publishing companies requesting the benefits, and since at the time of drawing up the present financial statements the exact amount of the allowance was not known, it was decided to book a figure of 40% of the amount requested to the financial statements.

	€ ,000 2004	€ ,000 2003
Expenses recovered from third parties	27,085	24,667
Capital gains on disposals of assets	440	683
Supplier bonuses and other third party contributions	4,984	4,960
Rents	906	802
Instalments	915	948
Contingent assets	1,453	2,147
Contributions for operating expenses	6,681	4,736
Others	11,125	10,106
Total other income and revenues	53,589	49,049

The Mondadori Group billed the Fininvest Group for €62 thousand.

B) Production costs

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

Amounted to €507,531 thousand (€486,463 thousand) and are made up as follows:

	€ ,000 2004	€ ,000 2003
Paper	203,733	207,738
Electricity, water, gas, fuel	14,231	14,328
Other production materials	35,092	35,218
Total purchase of raw and ancillary materials	253,056	257,284
Goods for sale	215,041	191,110
Consumption and maintenance materials	6,197	5,994
Others	33,237	32,075
Total purchase of consumable materials and goods	254,475	229,179
Total cost of raw, ancillary and consumable materials and goods	507,531	486,463

The increase in costs compared with 2003 is due to "Goods for sale", as a result of further increases in revenues from add-on sales and an increase in the number of Mondadori Franchising S.p.A. outlets.

The Mondadori Group purchased goods from Medusa Video S.r.l., a company in the Fininvest Group, for a total of €329 thousand.

B.7) Services

Amounted to €649,765 thousand (€598,537), an increase compared with the previous year that was due to a higher production volume as a result of excellent sales in the Book Division (increases in "Third-party processing" and "Commissions"), and a the success of add-on sales, which caused the increase in the cost of "Rights and royalties".

“Directors’ and statutory auditors’ fees” are made up of fees paid to Directors and Statutory Auditors for €5,771 thousand and €356 thousand 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 €46.4 thousand.

The Mondadori Group purchased services from the Fininvest Group for a total of €23,925 thousand, including €20,538 thousand to Publitalia 80 S.p.A. for advertising space, €731 thousand to RTI S.p.A. for the purchase of rights, €338 thousand to Medusa Film S.p.A. and €1,723 thousand to Medusa Video S.r.l. for the purchase of rights, and €85 thousand to Pagine Italia S.p.A. and €426 thousand to Radio e Reti S.r.l. for advertising space.

	€ ,000 2004	€ ,000 2003
Commissions	55,348	51,264
Rights and royalties	141,475	115,452
Third-party consultancy and collaboration	53,301	51,748
	250,124	218,464
Third-party processing	127,443	119,209
Purchase of advertising space	61,542	60,533
Transport and shipping	56,761	56,386
Advertising services	55,354	53,435
Other services	35,453	33,656
Post office and telephone	12,067	12,438
Travel and other expense reimbursements	10,874	10,043
Job order services	9,772	8,666
Maintenance	8,332	7,922
Canteen and cleaning services	6,400	5,696
Insurance	3,887	3,709
Market research	5,629	5,170
Directors’ and statutory auditors’ fees	6,127	3,210
Total cost for services	649,765	598,537

B.8) Use of third-party assets

Costs for the use of third-party assets amounted to €23,515 thousand (€22,927 thousand) and were substantially in line with the previous year.

“Rent” includes the costs for a number of company offices, particularly the head office at Segrate, and for renting space inside museums where publishing products and other merchandise is sold.

The following table illustrates the details:

	€ ,000 2004	€ ,000 2003
Rent	17,239	16,769
Lease and rental payments	6,215	6,109
Others	61	49
Total cost of use of third-party assets	23,515	22,927

The Mondadori Group had costs for the use of third-party assets referring to the Fininvest Group for a total of €115 thousand.

B.9) Personnel costs

Personnel costs amounted to €259,096 thousand (€252,471 thousand), an increase of 2.6% even though the average number of employees fell.

The following table illustrates the details of the personnel.

Average number of employees	31/12/2004	31/12/2003
Managers	169	168
Journalists	458	456
Office workers	2,572	2,617
Manual workers	1,431	1,550
Total	4,630	4,791

B.10) Depreciations and writedowns

Amounted to €74,397 thousand (€70,282 thousand). 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 €605 thousand (-€815 thousand). A comment on "Inventory" can be found in the relative item in the Balance Sheet.

B.12) Provisions for risks

Amounted to €5,140 thousand (€4,870 thousand) 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 €31 thousand (€30 thousand) and are represented by depreciations on capital goods on rental.

B.14) Other operating costs

Amounted to €13,613 thousand (€13,240 thousand). 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 (€3,558 thousand) for the legal expenses, and to Mondadori Printing S.p.A. (€939 thousand) 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 €3,550 thousand, Mondolibri S.p.A. for €2,680 thousand, Mondadori Pubblicità S.p.A. for €5,106 thousand, Mondadori Printing Sp.A. for €342 thousand, Giulio Einaudi Editore S.p.A. for €249 thousand and Edizioni Piemme S.p.A. for €247 thousand.

“Taxes and dues” increased as a result of the VAT that could not be deducted from purchases relative to sales of goods exempt from VAT registered by Mondadori Electa S.p.A. in the exhibition organisation and cultural event sector.

	€ ,000 2004	€ ,000 2003
Settlements and reimbursements	5,180	5,106
Bad debts	12,530	11,170
Contributions and grants	2,200	2,502
Capital losses	229	353
Contingent liabilities	754	732
Information material, entertainment expenses and others	4,400	4,486
Utilisation of risk reserve	(14,473)	(13,359)
Sub total	10,820	10,990
Taxes and dues	2,793	2,250
Total cost of other operating costs	13,613	13,240

C) Financial income and charges

Compared with 2003, there was an overall decrease in financial income and charges of around €10 million. Taking into account the profit (losses) on currency exchange operations and the writedowns in current assets, the variation is reduced to around 7 million.

This change was almost entirely due (€6.7 million) to the reasons given in the comments on accrued liabilities and deferred income.

The item “Others” in other financial income includes the effects of financial instruments for covering the risk of exchange and interest rate fluctuations.

C.16) Other financial income

Amounted to €25,428 thousand (€33,736 thousand).

	€ ,000 2004	€ ,000 2003
Financial income from long-term receivables	64	101
Financial income from capital gains	-	-
Financial income from current assets	14,323	20,512
Gains from disposals of stock	878	-
Interest from banks	713	1,152
Interest from subsidiary companies	-	5
Interest from associated companies	386	426
Interest from customers	103	120
Others	8,961	11,420
Total other financial income	25,428	33,736

C.17) Interest and other financial charges

Amounted to €31,533 thousand (€29,328 thousand).

	€ ,000 2004	€ ,000 2003
Interest to banks	21,687	14,914
Interest to subsidiary companies	3	29
Interest to associated companies	318	326
Interest payable on leasing and others	28	33
Losses on share disposals	3,016	11,518
Utilisation of share writedown reserve	(3,585)	(7,735)
Others	10,066	10,243
Total interest and other financial charges	31,533	29,328

C.17 bis) Profits (losses) on currency exchange operations

Amounted to -€339 thousand (-€1,725 thousand).

	€ ,000 2004	€ ,000 2003
Profits realised	713	651
Profits not realised	93	7
Total profits on exchange operations	806	658
Losses realised	(1,091)	(2,348)
Losses not realised	(54)	(35)
Total losses on exchange operations	(1,145)	(2,383)
Total profits (losses) on exchange operations	(339)	(1,725)

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 €5,460 thousand (€4,997 thousand), as illustrated in the table below:

	€ ,000 2004	€ ,000 2003
Companies valued at net equity:		
- Harlequin Mondadori S.p.A.	268	351
- Mondadori Rodale S.r.l.	469	552
- Mach 2 Libri S.p.A.	272	227
- Gruner und Jahr/Mondadori S.p.A.	2,673	3,250
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	178	71
- Hearst Mondadori Editoriale S.r.l.	353	195
- Edizioni Electa Bruno Mondadori S.r.l.	158	84
- Edizioni EL S.r.l.	312	267
- Società Europea di Edizioni S.p.A.	715	-
- ACI Mondadori S.r.l.	55	-
- Prisco Spain S.A.	7	-
Total revaluations	5,460	4,997

D.19) Writedowns

Amounted to €6,835 thousand (€12,137 thousand):

	€ ,000 2004	€ ,000 2003
Companies valued at net equity:		
- Società Europea di Edizioni S.p.A.	-	384
- Mondadori Informatica-e-Bismedia S.r.l.	-	666
- BOL Books on line Italia S.p.A.	540	701
- Grupo Editorial Random House Mondadori S.L.	935	5,353
- Prisco Spain S.A.	-	3
- Attica Publications S.A.	726	148
- ACI Mondadori S.r.l.	-	192
- Press Tv S.p.A.	422	744
	<hr/> 2,623	<hr/> 8,191
Companies valued at cost:		
- Veleno S.p.A.	-	88
- Casa Editrice e di Distribuzione Bences	10	-
- Marchgrange Ltd	-	15
- Mondadori Belgium S.A.	25	57
- Euromedia Luxembourg Two S.A.	2,123	-
- Consorzio Aeromobili Fininvest	3	-
- Venezia Accademia S.c.a.r.l.	-	14
	<hr/> 2,161	<hr/> 174
- Stocks	2,051	3,772
Total writedowns	<hr/> 6,835	<hr/> 12,137

The writedown of associated companies made it possible to include the negative results in the consolidated financial Statement using the net equity method. Writedowns of investments valued at cost makes it possible to register the relative long-term losses.

E) Extraordinary income and charges

E.20) Income

Amounted to €9,662 thousand (€10,516 thousand) and is made up as follows:

	€ ,000 2004	€ ,000 2003
Gains on disposals	4,460	3,929
Others	5,202	6,587
Total extraordinary income	<hr/> 9,662	<hr/> 10,516

“Gains on disposals” were mainly due to the disposal of land owned by Artes Graficas Toledo S.A.

“Others” include contingent assets of an extraordinary nature mainly represented by utilisations of risk reserves and adjustments of the results registered at 31 December 2003 of companies valued by the net equity method

E.21) Charges

Amounted to €1,951 thousand (€2,339 thousand) and are made up as follows:

	€ ,000 2004	€ ,000 2003
Losses on disposals	249	66
Tax for previous year	70	436
Others	1,632	1,837
Total extraordinary charges	1,951	2,339

“Losses on disposals” refer mainly to the disposal of Volftp.

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

“Others” mainly include extraordinary windfall losses and adjustments of the results at 31 December 2003 of companies valued using the net equity method.

22) Current, deferred and advance income taxes

Amounted to €64,915 thousand (€67,499 thousand) and are shown in the following table:

	€ ,000 2004	€ ,000 2003
Current taxes	70,835	50,427
Deferred/advance taxes	(5,920)	17,072
Total income tax for the year	64,915	67,499

Despite improved results, income taxes decreased as a result of results not subject to IRES for a total of approximately €12 million (€7 million due to the utilisation of previous fiscal losses and € 5 million due to the government contribution to paper costs), and the effect of the inclusion for the first time of advance taxes paid by two Group companies for approximately €8.2 million.

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 2004 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	575,774	92,862
Different accounting principles between Financial Statements and Consolidated Financial Statements		
- Leasing	7,011	(870)
- Valuations using net equity method of non-consolidated companies	9,119	(2,141)
Dividends received by consolidated companies	0	(38,563)
Writedowns of consolidated companies	10,075	4,480
Elimination of intergroup profits	(2,246)	(8)
Elimination of intergroup operations	(90,551)	10,272
Equity and income contribution, net of amounts expressed in items above, from consolidated companies	75,317	38,082
Balances as per Consolidated Financial Statements	584,499	104,114

Consolidated statement of changes in financial position

Consolidated statement of changes in financial position as at 31 December 2004

	€ ,000	€ ,000
	2004	2003
Sources of funds:		
Profit (loss) for the year	104,114	82,101
Profit (loss) minority interests	466	577
<i>Adjustments that do not cause changes in working capital:</i>		
Amortisation of fixed and intangible assets	55,831	62,307
Provisions for severance indemnities	15,153	15,258
Valuation of associated companies	(6,126)	1,001
Net working capital generated by sales and other operations	169,438	161,244
Net value of intangible assets sold	25	81
Net value of fixed assets sold	1,228	1,112
Net value of financial assets disposed of, written down	12,753	9,041
Other variations in financial assets	7,053	-
Other variations in intangible assets	1,136	-
Increase in m/l term loans	-	347
Increase in m/l term loans	-	408,163
Decrease in non-current payables	-	1,649
Other variations in shareholders' equity	870	1,472
Increase in third party shareholders' equity	-	2,348
Total funds	192,503	585,457
Application of funds:		
Purchase of intangible assets	3,602	17,634
Other variations in intangible assets	-	211
Purchase of fixed assets	21,736	34,881
Other variations in fixed assets	-	2,265
Purchase of financial assets	28,184	20,550
Net changes in treasury stock in portfolio	13,322	57,413
Dividend payment	72,534	62,410
Impact on reserves of foreign exchange differences	(131)	1,176
Decrease in minority interests in net equity	479	-
Advance payment of staff severance indemnities	10,799	14,566
Other changes in severance indemnities	2,361	1,759
Decrease in non-current debts	5,509	-
Increase in non-current debts	199	-
Decrease in m/l term loans	1,838	-
Total charges	160,432	212,865
Increase (decrease) in net working capital	32,071	372,592
<i>Due to:</i>		
Increase (decrease) in current assets:		
Inventories	(4,000)	12,386
Receivables	4,442	23,019
Fixed interest securities	(26,874)	173,034
Banks	37,659	(43,051)
Accrued income and prepayments	4,059	(1,310)
Total current assets	15,286	164,078
(Increase) decrease in current liabilities:		
Reserve for risks and charges	1,937	9,576
Current portion of m/l term loans	5,889	246,699
Banks	26,011	(7,104)
Other payables	(10,981)	(41,552)
Accrued liabilities and deferred income	(6,071)	895
Total current liabilities	16,785	208,514
Increase (decrease) in net working capital	32,071	372,592

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\2003	67,452	227,793	12,023	4,689	13,490	59,472
Movements:						
- Adjustments to consolidation area						
- 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

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\2004	67,452	170,380	12,023	4,689	13,490	116,885
Movements:						
- Adjustments to consolidation area						
- Profit destination						
- Payment of dividends						
- Reclassifications		(16,840)				13,322
- Currency translation increases (decreases)						
- Other movements						
- Net profit for the year						
Balances at 31\12\2004	67,452	153,540	12,023	4,689	13,490	130,207

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)
						(1,176)	1,472		(1,176)
								82,101	82,101
9,264	351	73	751	5,335	478	(4,223)	72,869	82,101	551,918

er 2004

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
9,264	351	73	751	5,335	478	(4,223)	72,869	82,101	551,918
1,902		25					84	(9,567)	84
3,518							7,640	(72,534)	(72,534)
						131	786		131
								104,114	104,114
14,684	351	98	751	5,335	478	(4,092)	81,379	104,114	584,499

Reclassified consolidated Balance sheet and Income statement

Reclassified consolidated Balance sheet

	€ millions 31/12/2004	€ millions 31/12/2003
Intangible assets	133.9	158.4
Fixed assets	184.5	199.9
Financial assets	227.7	192.6
Inventories	129.5	133.5
Receivables and other assets	531.3	510.6
Cash and banks	647.4	648.9
Total assets	1,854.3	1,843.9
Shareholders' equity	584.5	551.9
Minority interests	3.3	3.3
Reserves for risks and charges	49.6	42.4
Reserve for severance indemnities	102.7	100.7
Other payables and liabilities	563.5	569.6
Financial payables	550.7	576.0
Total liabilities	1,854.3	1,843.9

Reclassified consolidated Income statement

	€ millions 31/12/2004	€ millions 31/12/2003	Change %
Revenues from sales	1,650.2	1,536.0	7.4%
Personnel costs	257.8	250.3	3.0%
Product and operating costs	1,156.9	1,073.5	7.8%
Gross operating profit	235.5	212.2	11.0%
<i>Gross operating profit as a % of revenues</i>	<i>14.3%</i>	<i>13.8%</i>	
Depreciation of fixed assets	34.4	38.3	(10.2%)
Operating profit	201.1	173.9	15.6%
<i>Operating profit as a % of revenues</i>	<i>12.2%</i>	<i>11.3%</i>	
Depreciation of intangible assets	28.2	23.3	21.0%
Net financial income (charges)	(8.5)	(1.1)	n.a.
Other income (charges), net	2.3	3.2	(28.1%)
Extraordinary income (charges), net	5.2	1.8	n.a.
Internet	(2.4)	(4.3)	(44.2%)
Profit before taxation	169.5	150.2	12.8%
Current, deferred and advance income taxes for year	(64.9)	(67.5)	(3.9%)
Minority interests	0.5	0.6	(16.7%)
Net profit for the year	104.1	82.1	26.8%
<i>Net profit for the year as a % of revenues</i>	<i>6.3%</i>	<i>5.3%</i>	

Relations with related parties

€ ,000	Income	Other income	Cost of raw materials
Parent companies:			
- Fininvest S.p.A.	3	-	-
Subsidiary companies:			
- AME Publishing Ltd	-	-	59
- AME Deutschland GmbH	-	-	-
- AME France S.a.r.l.	-	-	-
- Mondadori.com Inc.	-	-	-
Associated companies:			
- Gruner und Jahr/Mondadori S.p.A.	3,933	3,426	43,768
- Mach 2 Libri S.p.A.	29,221	4	-
- Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	18,439	3	-
- Venezia Accademia S.c.a.r.l.	-	40	-
- Venezia Musei S.c.a.r.l.	-	-	1
- Venezia Musei Società per i servizi museali S.c.a.r.l.	350	13	-
- Hearst Mondadori Editoriale S.r.l.	4,127	1,055	3,704
- Harlequin Mondadori S.p.A.	571	477	11,944
- Mondadori Rodale S.r.l.	8,725	3,083	12,729
- BOL Books on line Italia S.p.A.	1,828	89	10
- Edizioni Electa Bruno Mondadori S.r.l.	634	6	-
- Edizioni EL S.r.l.	374	370	3,917
- Grupo Editorial Random House Mondadori S.L.	1,447	-	-
- Società Europea di Edizioni S.p.A.	16,549	183	-
- ACI Mondadori S.r.l.	7,433	1,911	5,939
- Press TV S.p.A.	5,563	1,128	3,822
- Mondolibri S.p.A.	6,692	854	72
Affiliated companies:			
- Pagine Italia S.p.A.	6,794	-	-
- RTI S.p.A.	1,775	1	-
- Publitalia 80 S.p.A.	154	-	-
- Medusa Video S.r.l.	-	19	329
- Promoservice Italia S.r.l.	-	-	-
- Mediaset S.p.A.	-	2	-
- Il Teatro Manzoni S.p.A.	1	-	-
- Mediolanum S.p.A.	-	31	-
- Banca Mediolanum S.p.A.	21	-	-
- Medusa Film S.p.A.	10	3	-
- Videotime S.p.A.	-	5	-
- Finedim Italia S.p.A.	4	-	-
- Radio e Reti S.r.l.	-	-	-
- Alba Servizi Aerotrasporti S.p.A.	-	1	-
- Elettronica Industriale S.p.A.	2	-	-
- Milan AC S.p.A.	1	-	-
- Mediolanum Vita S.p.A.	-	-	-
- Medusa Cinema S.p.A.	-	-	-
Other companies:			
- Il Mulino S.p.A.	2	-	-
- Selcon S.r.l.	-	-	-
- Istud - Istituto Studi Direzionali S.p.A.	-	-	-

Cost of services	Cost of using third-party assets	Various charges	Income from investments	Other financial income	Financial interest and charges
-	5	-	-	-	-
3,374	383	70	-	-	-
98	-	-	-	-	-
168	1	3	-	-	-
-	-	-	-	-	3
15,744	-	-	-	-	161
1,753	-	-	-	-	-
2,333	-	158	-	-	-
495	-	-	-	-	-
44	-	-	-	-	-
495	-	-	-	-	-
5,723	-	-	-	-	19
1	-	-	-	-	60
9,770	-	-	-	-	43
1	-	-	-	-	-
-	-	-	-	-	-
63	-	-	-	-	-
-	-	-	-	-	-
18,067	-	5	-	-	-
5,826	-	-	-	-	31
2,244	-	-	-	-	4
1,053	57	17	-	-	-
105	-	-	-	-	-
731	-	-	-	-	-
20,539	-	-	-	-	-
1,724	-	-	-	-	-
18	-	-	-	-	-
-	-	-	-	-	-
34	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
338	-	-	-	-	-
-	-	-	-	-	-
-	13	-	-	-	-
426	-	-	-	-	-
-	96	-	-	-	-
-	-	-	-	-	-
-	-	8	-	-	-
12	-	-	-	-	-
2	1	-	-	-	-
-	-	-	-	-	-
3	-	-	-	-	-
7	-	-	-	-	-

Receivables by geographic area

€ ,000	Italy	EU countries	USA	Other countries	Total 2004
Receivables from clients	332,649	24,618	3,963	2,118	363,348
Receivables from subsidiaries	6	465	8	-	479
Receivables from associated companies	43,161	9,197	-	-	52,358
Receivables from parent companies	11	-	-	-	11
Receivables from affiliated companies	3,661	-	-	-	3,661
Receivables from others	28,076	10,800	14,739	1,687	55,302

Payables by geographic area

€ ,000	Italy	EU countries	USA	Other countries	Total 2004
Payables for bonds	-	-	296,384	-	296,384
Payables for convertible bonds	-	109,900	-	-	109,900
Payables to banks	116,204	1,605	-	-	117,809
Payables for advances	35,566	311	112	81	36,070
Trade payables	290,028	33,139	1,693	381	325,241
Payables to subsidiaries	46	106	436	-	588
Payables to associated companies	48,372	1,703	-	-	50,075
Payables to parent companies	14,531	-	-	-	14,531
Payables to affiliated companies	5,775	-	-	-	5,775
Payables to others	91,695	5,871	8,142	1,070	106,778

Description of temporary differences that produced advance taxes

€ ,000	Temporary difference total	Current tax rate	Deferred tax assets
Bad debt reserve	19,418	33%	6,408
Warehouse writedown reserve	9,238	33%	3,049
Reserve for risks	39,976	33%	13,192
Difference between book value and fiscal value of intangible assets	27,007	33%	8,912
Difference between book value and fiscal value of fixed assets	10,445	33%	3,447
Tax losses	7,438	33%	2,455
Other temporary differences	14,798	33%	4,883
Total for IRES purposes	128,320		42,346
Warehouse writedown reserve	7,223	4.25%	307
Reserve for risks	734	4.25%	31
Difference between book value and fiscal value of intangible assets	27,007	4.25%	1,148
Difference between book value and fiscal value of fixed assets	10,445	4.25%	444
Other temporary differences	17,722	4.25%	753
Total for IRAP purposes	63,131		2,683

Description of temporary differences that produced deferred taxes

€ ,000	Temporary difference total	Current tax rate	Deferred tax liabilities
Difference between book value and fiscal value of fixed assets	31,327	33%	10,338
Other temporary differences	3,806	33%	1,256
Total for IRES purposes	35,133		11,594
Difference between book value and fiscal value of fixed assets	31,455	4.25%	1,337
Other temporary differences	806	4.25%	34
Total for IRAP purposes	32,261		1,371
Temporary differences excluded from calculation of advance and deferred taxes	5,339		
Tax losses brought forward	8,331		

Comparison between Financial Statement fiscal charges and theoretical fiscal charges

€ ,000	Result before taxes	Tax	Tax rate
Theoretical IRES	169,495	55,933	33.00%
Theoretical IRAP	169,495	7,204	4.25%
Total theoretical taxes		63,137	37.25%
Effective IRES		45,193	26.67%
Effective IRAP		19,722	11.63%
Total effective taxes		64,915	38.30%

€ ,000	Tax	Tax rate
Theoretical taxes	63,137	37.25%
Effect relative to loss-making subsidiaries	731	0.43%
Effect of non-deductible depreciations booked in financial statements	1,085	0.64%
Advance/deferred taxes on difference originated in previous years	(1,813)	(1.07%)
Effect of utilisation of tax losses from previous years	(2,312)	(1.36%)
Effect of adjustments of companies valued at net equity	(2,022)	(1.19%)
Tax credits for state contributions	(1,659)	(0.98%)
Effect of different tax rates on taxable income of foreign subsidiaries	(4,947)	(2.92%)
Net effect of other permanent differences	197	0.12%
Effect of different tax bases for IRAP	12,518	7.38%
Effective taxes	64,915	38.30%

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 2004 (art. 153. Legislative Decree no. 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:

- ensured that legal requirements have been fulfilled and that the articles of association and the principles of correct administration have been adhered to;
- taken part in all meetings of the Shareholders and of the Board of Directors, obtaining from the Directors information on the general performance of the Company, the probable future development of business activities and the significant operations affecting the Company's economic and financial position, ensuring that resolutions taken and implemented are clearly not imprudent, risky, potentially conflictual, in contrast with the resolutions of the Shareholders' meetings or likely to compromise the Company's business mission;
- ascertained 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 verified the internal control systems, the activities carried out as part of the control system and the administrative-accounting system, as well as checking the dependability of the latter to correctly represent the method of running the Company, by means of obtaining information, examining company documents and analysing the results of the work carried out by the external auditors. We have also had periodic meetings with the head of internal control, with whom we have exchanged information on the results of the verifications of subsidiary companies, and we have taken part in meetings of the internal control committee;
- evaluated and verified the adequacy of the instructions given to subsidiary companies. These instructions have made it possible for the subsidiaries to provide the Controlling company with the information it needs to comply with the communication obligations foreseen by current legislation;
- checked that the Annual Report, the Financial Statements and the Consolidated Financial Statements for the year ended 31 December 2004 have been presented according to current legislation, through direct checks and discussions with the External Auditors.

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 2004 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, including 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 on the Balance Sheet and Consolidated Financial Statements, we have reason to believe that it does not contain any judgements worthy of concern;
 - the Board of Statutory Auditors endorsed the fees allocated to the Board of Directors, the Chairman, Deputy Chairman and Chief Executive, in accordance with article 2389, paragraph 3, of the Civil Code, as well as the confirmation of Reconta Ernst & Young S.p.A. as the External Auditors for the Balance Sheet and Consolidated Financial Statements for the three-year period 2004-2006, as per article 158 of Legislative decree 58/98;
 - there were 8 meetings of the Board of Directors and 12 meetings of the Board of Statutory Auditors;
 - the Company engaged Reconta Ernst & Young S.p.A. to audit the annual and interim reports and consolidation reports in addition to:
 - provide an analysis of company procedures for the marketing and handling of audiovisual products, at a cost of €40,000;
 - continue with the analysis and organisational project relating to the introduction of international accountancy principles (IAS/IFRS), at a cost of €46,000;
 - the Company commissioned the following companies, which have ongoing connections with Reconta Ernst & Young S.p.A. and are part of the same international network, for the tasks specified below:
 - Ernst & Young Financial-Business Advisors S.p.A., to carry out information surveys and monitoring of the publishing market, at a cost of €34,229 and to carry out information surveys and due diligence of companies as part of the project to purchase companies operating in the radio broadcasting sector, at a cost of €350,000;
 - Studio Legale e Tributario, to deal with any eventual legal cases arising from labour disputes, at a cost of €27,030, and to act as fiscal consultants, at a cost of €2,550.

In March 2005 the Board of Statutory Auditors received a claim, as per article 2408, paragraph 1, of the Civil Code, from a shareholder requesting verification of the assets of the subsidiary Mondadori International S.A. On conclusion of the investigation, the Board of Statutory Auditors informed the shareholder in question that no discord had been found relating to the assets of the balance sheet examined.

In conclusion, we endorse the approval of the Financial Statements as at 31 December 2004, with profit for the year of €92,862,697 and we also endorse the dividend allocation proposed by the Board of Directors, also in consideration of the reserves available.

Milan, April 1, 2005

The Board of Statutory Auditors

Dott. Achille Frattini, Chairman

Dott. Antonio Aiello

Prof. Ferdinando Superti Furga

Independent 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 financial statements of Arnoldo Mondadori Editore S.p.A. as of and for the year ended December 31, 2004. These financial statements are the responsibility of Arnoldo Mondadori Editore S.p.A.'s management. Our responsibility is to express an opinion on these 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 to determine whether the 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 financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the 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 5, 2004.

3. In our opinion, the financial statements of Arnoldo Mondadori Editore S.p.A. comply with the (Italian)¹ regulations governing financial statements; accordingly, they present clearly and give a true and fair view of the financial position of Arnoldo Mondadori Editore S.p.A. as of December 31, 2004 and the results of its operations for the year then ended.
4. Following the modifications introduced by Legislative Decree no. 6 of January 17, 2003, the second paragraph of article 2426 of the Civil Code, which permitted adjustments and provisions to be recorded exclusively in accordance with the tax regulations, was repealed. Consequently, as more fully described in the notes to the financial statements, the company has eliminated the adjustments and provisions recorded in previous years in accordance with the aforementioned regulation, and has included the effects of this in extraordinary income as required by (Italian)¹ accounting principles.

Milan, April 1, 2005

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

(¹) Words added in translation from original Italian text

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Milan, April 1, 2005

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

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