

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital €67,451,756.32

Head Offices in Milan

Administrative Offices in Segrate (MI)

Quarterly report as of 31 March 2005

Corporate Boards

Board of Directors

Chairman

Marina Berlusconi

Vice Chairman and Chief Executive

Maurizio Costa

Directors

Francesco Barbaro (*)

Pier Silvio Berlusconi

Pasquale Cannatelli

Fedele Confalonieri

Bruno Ermolli

Martina Forneron Mondadori

Roberto Poli

Giovanni Puerari

Mario Resca

Marco Spadacini

(*) Secretary

Powers

Chairman: legal representative of the company in dealings with third parties and legal matters. Vice Chairman and Chief Executive: ordinary administration with power of signature limited to areas covered by authorisation.

Board of Statutory Auditors

Chairman

Achille Frattini

Acting Statutory Auditors

Antonio Aiello

Ferdinando Superti Furga

Substitute Statutory Auditors

Francesco A. Giampaolo

Francesco Vittadini

Contents

Report of the Board of Directors

The Mondadori Group's business activities:	
– The first quarter of 2005	9
– Accounting principles and evaluation criteria adopted	10
– Volume of business per geographical and business area	10
– Book division	11
– Magazine division	13
– Printing division	15
– Direct division	15
– Radio	16
Financial situation	17
Capital investments	18
Personnel	18
Other information	19
Expectations for the full year	21
Balance Sheet and Income Statement	24

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

The Mondadori Group's business activities

First quarter 2005

The first quarter of 2005 was characterised by the continuingly weak macroeconomic scenario, with a moderate increase in GDP and strong international competition partly as a result of the weak dollar. Although Mondadori registered a modest increase in revenues, it was still able to increase profitability.

Once again add-on sales linked to magazines were particularly good, while revenues in the Book division also registered a healthy increase.

In January 2005 Radio One-o-One was purchased, and this was consolidated using the line-by-line method in the accounts for the first quarter.

In addition, some data referring to the first quarter of 2004 has been re-processed in order to make it compatible with the data for the first quarter of this year. In particular, costs and revenues concerning the Group's internet activities (Mondadori.com and Bol) have been classified in the respective areas of the financial statements, following the conclusion of the process designed to integrate these activities into the Group's traditional business activities.

Consolidated revenues amounted to €418.3 million, a 1.6% increase compared with the figure of €411.8 million for the same period in 2004.

Gross operating profit rose to €55.7 million, an increase of 4.1% compared with the €53.5 million as at 31 March 2004. This figure also includes the share of the government contribution to the cost of paper for 2004, which amounted to €6.3 million, that was not itemised in the previous year. There was also a rise in gross operating profit as a proportion of revenues from 13.0% in 2004 to 13.3%.

Operating profit came to €47.6 million, an increase of 8.2% compared with the €44.0 million of March 2004. As a proportion of revenues this figure represents a rise from 10.7% to 11.4%.

Profit before taxes also registered a significant increase from €36.4 million in 2004 to €44.0 million, a rise of 20.9%. As a proportion of revenues this represents an increase from 8.8% to 10.5%.

Gross cash-flow amounted to €57.1 compared with €51.0 million for the same period in 2004.

The data referred to above is illustrated in the table below:

Reclassified income statement	€m 31 March 2005	€m 31 March 2004	% change
Revenues	418.3	411.8	1.6%
Personnel costs	66.9	63.5	5.4%
Cost of sales and operating costs	295.7	294.8	0.3%
Gross operating profit	55.7	53.5	4.1%
<i>As a proportion of revenues</i>	<i>13.3%</i>	<i>13.0%</i>	
Technical depreciations	8.1	9.5	(14.7%)
Operating profit	47.6	44.0	8.2%
<i>As a proportion of revenues</i>	<i>11.4%</i>	<i>10.7%</i>	
Depreciations of intangible assets	5.0	5.1	(2.0%)
Net financial income (charges)	(0.3)	(0.3)	-
Other income (charges), net	1.4	(2.3)	n.a.
Extraordinary income (charges), net	0.3	0.1	n.a.
Pre-tax profit	44.0	36.4	20.9%
<i>As a proportion of revenues</i>	<i>10.5%</i>	<i>8.8%</i>	
Gross cash flow	57.1	51.0	

The Group's **financial position** at 31 March 2005 showed a surplus of €119.3 million, an increase compared with the €103.9 million at the same stage in 2004.

Accounting principles and evaluation criteria adopted

The accounting principles and evaluation criteria adopted for drawing up the financial statements as of 31 March 2005 are the same as those adopted for the Consolidated Financial Statements at year end, with the exception that the amount of taxes due for the period has not been included, in accordance with CONSOB Regulations pertaining to Half-Yearly Reports.

It should be noted that depreciations of fixed assets are also affected by the revision of the useful life of some assets.

Volume of business per geographical and business area

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

Business volume for each business activity	€m		% change
	31 March 2005	31 March 2004	
Books	93.3	87.8	6.3%
Magazines	239.1	228.5	4.6%
Printing	116.9	118.5	(1.4%)
Direct	46.9	42.2	11.1%
Others	4.4	4.5	(2.2%)
Total revenues	500.6	481.5	4.0%
Intergroup revenues	(82.3)	(69.7)	18.1%
Total consolidated revenues	418.3	411.8	1.6%

Business volume by geographical area	€m		% change
	31 March 2005	31 March 2004	
Italy	396.2	387.9	2.1%
EU countries	19.6	19.5	0.5%
USA	1.0	2.4	(58.3%)
Other countries	1.5	2.0	(25%)
Total consolidated revenues	418.3	411.8	1.6%

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

Book division

According to data from Demoskopie referring to the first quarter of 2005, the overall book market registered an increase both in terms of copies sold (+2.6%) and in terms of value (+3.8%), although this increase was inferior to the increases seen in recent years. The Mondadori Book division registered an increase in revenues of 6.3%, which was a higher increase than the Group's competitors.

In the first quarter of 2005, **Edizioni Mondadori** confirmed the constant increase trend it has displayed in recent years, with net revenues rising by 11.5% compared with 2004 for a total of 42.5 million.

This result was once again greatly helped by the "Dan Brown phenomenon", which saw overall sales of the hardcover, paperback and illustrated editions of *The Da Vinci Code* and the hardcover edition of *Angels and Demons* amount to 3,500,000.

But Mondadori's success was not just concerned with Dan Brown. In the first quarter of 2005, some of the publishing company's traditional authors confirmed their reputations, including Gabriel Garcia Márquez (200,000 copies of *Memoria delle Mie Puttane Tristi*) and Patricia Cornwell (150,000 copies of *La traccia*), while new authors also produced some fine results with the most obvious example being the debut of Alessandro Piperno whose *Con le Peggiori Intenzioni* has already sold more than 100,000 copies.

During the first quarter of 2005 the traditional Oscar campaign was launched, with the series established by Arnaldo Mondadori also celebrating its fortieth anniversary this year with a special advertising campaign and a catalogue containing a previously unpublished story by Garcia Márquez.

Special mention should also be made of the experiment that took place with the launch of the new novel by Valerio Massimo Manfredi, *L'impero dei Draghi*, which went on sale at the same time both in bookshops and on newsstands, where it was sold as a supplement with *Panorama*. Up to the present time the results have been very encouraging with 150,000 copies sold.

In the first three months of 2005 **Einaudi** registered revenues of €10.4 million, an 11.1% decrease compared with the previous year.

This decrease was essentially due to the new supply programme introduced in the large-scale retailing sector and to the closure of a number of agencies responsible for instalment sales.

The most successful titles during the first quarter included *Complotto Contro l'America* by Philip Roth, *Amagansett* by Mark Mills, *I Bambini Sono di Sinistra* by Claudio Bisio, *Il Petalo Cremisi e il Bianco* and *A Voce Nuda* by Michel Faber (the first of which in the cut-price edition), and *La Mandorla* di Nedjma and *Amore Lontano* by Sebastiano Vassalli, all of which made their debut in the first part of 2005.

In the first quarter of 2005 net revenues for the **Sperling & Kupfer Group** amounted to €8.0 million, a 3.6% decrease compared with the same period in the previous year.

This slight decrease was mainly due to the subsidiary Frassinelli which in 2004 benefited from an exceptional increase in sales as a result of the success of *Pamela*, from which the television film “Elisa di Rivombrosa”, was made.

The most important titles for the first quarter of 2005 were *I Segreti del Codice* by Dan Burstein and, for Frassinelli, *Niente di Grave* by Justine Lévy.

In the first three months of 2005, the subsidiary **Piemme** continued to register excellent results with a 8.4% increase in sales to €10.3 million.

The results obtained thanks to the development of the Narrativa e Saggistica line were particularly good, with special mention due to two titles that originally came out the previous year, *La Taverna del Doge Loredan* by Onagro and *Il Cacciatore di Aquiloni* (reprinted for the fourteenth time), and two new titles, *Murata Viva* (25,000 copies) and *Cesare Padrone di Roma* by Guido Cervo (11,000 copies).

The Religion line re-focused its offer, with the result that it registered the same revenues as the previous year from just half the number of titles. The most successful titles it published during the period included *Non Uccidere in Nome di Dio* by Giovanni Paolo II (23,000 copies) and *Mistero Medjugorje* by Antonio Socci (20,000 copies), while one of last year's books, *Con Occhi Nuovi* by Alessandra Borghese, continued to sell well with 7,000 copies supplied in the first three months of 2005.

As for the Battello a Vapore line, the new series Ulysses More confirmed its success with the second volume, *La Bottega delle Mappe Dimenticate* (20,000 copies).

The Geronimo Stilton line confirmed its positive trend with an 8% increase compared with 2004.

In the first quarter of 2005, **Mondadori Electa** registered revenues of €10.0 million with an increase of 28.2% compared with the previous year. In particular, publishing activities increased by 16%, the Cultural Assets activities by 45.4% and the subsidiary Electa Napoli was in line with the previous year.

The results were mainly due to:

- The organisation of exhibitions with “I Miti Greci” at Palazzo Reale in Milan and “Turner and Venice” at Palazzo Correr in Venice, both of which had excellent results;
- commission publishing;
- newspaper add-on sales with, for example, the “City Book” series for the *Corriere della Sera*.

During the first three months of 2005 **Edumond Le Monnier** registered a 3.7% increase in revenues compared with the previous year.

These sales revenues have such a marginal importance on the overall total for the year, due to the seasonal nature of the school publishing sector, that the data referred to above has no particular significance. As is commonly accepted, the majority of the Company’s revenues are generated between the end of the second quarter and the end of the third quarter of the year.

During the first three months of the year, the Company’s activities were concentrated on the production of new publishing titles for academic year 2005-2006 and on their promotion with teachers. Edumond Le Monnier, through its various publishing imprints, has over 400 new titles on offer covering all the types of schools and age ranges.

Magazine division

The Magazine division registered consolidated revenues for €239.1 million, an increase of 4.6% compared with the same period in the previous year.

Magazines	€m	€m	%change
	31 March 2005	31 March 2004	
Circulation	171.1	159.7	7.1%
Advertising	68.0	68.8	(1.2%)
Total magazines	239.1	228.5	4.6%

Circulation

The quarter was characterised by strong competition in the television sector, with four new titles being launched in less than a month. The two fortnightly and two weekly titles also all have the very low cover price of just €0.50.

Mondadori has been very much in the forefront in this initial part of the year, launching *2TV* and *STAR+TV* which are intended to satisfy two different groups of readers. The fortnightly magazine, *2TV*, is designed to provide the basic information about television programmes, concentrating on maximising utility and simplicity, while the weekly *STAR+TV* is designed to satisfy the ever-growing desire to know everything about the stars of television programmes and to satisfy the high level of curiosity they provoke. At the beginning of February around 1.3-1.4 million extra copies of the magazines, on sale at a low price, were delivered to newsstands. This initiative obviously affected the circulation of all other magazines with the most evident effect as far as Mondadori's television titles were concerned being seen on traditional television guides, while the effect on *Sorrisi e Canzoni TV* was much smaller and the title maintained its leadership position in the sector despite a drop of 8/9% in circulation figures and a significantly higher cover price (€1.30 without any add-on products) compared with its competitors. This excellent performance was due to the quality of the product, which is the most important magazine available for all the family, and to the calibre of the add-on products that are always designed and aimed at the family market. Special note should also be made of the *Garzantine* initiative which, among the other successful initiatives represented by DVDs, music CDs and other add-on products, exceeded even the most optimistic expectations with sales of over 4.7 million for the first 10 issues.

Circulation revenues for the first three months of the year were up 7.1%. Of particular importance was the performance of Mondadori titles, which registered a further increase of 24% in add-on sales, while revenues from the distribution of third-party titles decreased mainly as a result of the failure of Press Tv to publish "Grande Fratello" and of the drop in revenues from Mondadori/Rodale, the joint venture responsible for *Men's Health* and *Starbene*.

Add-on sales registered very positive performances for publishing products (influenced by *Garzantine*) and DVDs, while sales of music CDs and objects were stable and video and CDrom sales fell.

Advertising

For the total advertising market, the first three months of 2005 were marked by a slowdown, a confirmation of a trend that began in the final months of last year.

The Television advertising market displayed signs of tiredness while advertising in the Print media, both in newspapers and magazines, experienced a recovery and Radio advertising a sharp drop.

Mondadori Pubblicità registered a slight decrease of 1.2% compared with the same period in 2004 when, it should be noted, there was a brilliant +4.1% on the first three months of 2003.

Overall, in the face of a marked fall in investments in FMCGs and cosmetics, the fashion, car, leisure, business and finance sectors performed positively.

There was a certain discontinuity in Mondadori Pubblicità's revenues in the first three months of 2005 when compared with the same period of 2004: on the one hand, they include the radio sector in which the Group has only recently entered with the purchase of Radio 101 and Rock FM, and the two new TV titles, *StarTv* and *2TV*, launched in January; on the other hand a number of titles, including *Controcampo* and *Vera Magazine*, are no longer in Mondadori Pubblicità's portfolio.

Printing division

During the first quarter of 2005 there were no significant variations compared with the same period of the previous year in the printing sector.

The positive results obtained in hardback and paperback books last year were confirmed, also as a result of the continuing positive trend in the add-on sale of books with newspapers and magazines.

There was a reduction in the volume of illustrated books printed, which was strongly influenced by strong competition from printers in the Far East and the weak dollar.

The foreign market continues to be characterised by strong competition among European printers and, in this context, Mondadori Printing managed to both improve its profitability and market share for the printing of magazines and catalogues

As forecast at the end of last year, the cost of paper registered a slight increase, interrupting a long period of decreases that began in the second half of 2001.

Revenues net of cost of paper	€m	€m	%change
	31 March 2005	31 March 2004	
Magazines	29.5	29.9	(1.3%)
Books	24.8	23.3	6.4%
Catalogues and promotional material	6.5	6.3	3.2%
Directories	0.8	2.0	(60.0%)
Total revenues net of cost of paper	61.6	61.5	0.2%

The increase in printing revenues, net of the cost of paper, was 0.2% and the performances of each type of product were in line with the table above.

Direct division

The Mondadori Group recorded an overall increase in revenues of 11.1%.

Direct marketing

Mondolibri registered a fall in sales (-5.4%) compared with the same period of 2004, largely the result of different monthly invoicing for the *Notizie Letterarie* (both for the book of the month and for orders).

The first quarter of 2005 for **Cemit** was, meanwhile, a period of consolidation in its business and improvements in results, with an increase in revenues compared with the same period of 2004 (+6.9%).

At the beginning of 2005 the new Marketing & Business Development department became fully operational, dedicated to carrying out research into new innovative solutions that respond to clients' needs.

The Company also continued its technology development programme, which concentrates in particular on the development of the databases.

Retail

Compared with the first quarter of 2004 **Mondadori Franchising**, recorded yet another marked increase in sales, thanks largely to the new affiliations of the last twelve months: in fact the number of bookstores increased from 132 to 150 and were joined by

the new Edicolè outlets, franchised newsstands carrying the Mondadori brand which at the end of the first quarter, numbered six.

Also **Mondadori Retail** recorded a marked increase in revenues (+17.4%) thanks to its stores with a consolidated presence around the country (+6% on the previous year), the new openings of 2004 and sales to large-scale clients.

Direct	€m		%change
	31 March 2005	31 March 2004	
Mondolibri SpA (proportional)	10.5	11.1	(5.4%)
Cemit Interactive Media SpA	7.7	7.2	6.9%
Subtotal direct marketing	18.2	18.3	(0.5%)
Mondadori Franchising SpA	7.8	6.1	27.9%
Mondadori Retail Srl	20.9	17.8	17.4%
Subtotal retail	28.7	23.9	20.1%
Total direct	46.9	42.2	11.1%

Radio

In January 2005 the Mondadori Group entered the radio sector with the acquisition of the national radio station Radio 101, which has been successfully operating for 30 years. Radio 101 has links to the first private radio station in Italy, Radio Milano International, although in recent years it has been in the doldrums.

A new company, Monradio, has been set up to take charge of radio activities and to develop the Mondadori Group's presence in the Italian radio sector.

The first months of the year were mainly taken up with putting in place the new organisational structure and new management. The new scheduling is currently under preparation and the re-launch of Radio 101 will begin around the summer and continue over the two-year period 2005-2006.

The aim of the re-launch is to create a new Radio 101, perfectly integrated with the activities of the Mondadori Group, and to develop synergy with the Magazine, Retail and Book sectors and with other Group companies.

With these aims in mind, with respect to the current positioning, more attention will be given to women listeners, both in terms of the music programming and the editorial content.

In April 2005 the new musical programming was introduced and in subsequent months it is intended to concentrate on the content and the broadcasting presentation aspects, for which important figures in the radio sector will be engaged.

A plan has also been put into action to increase the range of the radio signal over a larger area by purchasing new frequencies, so that by 2006 over 80% of the population will be able to receive the signal instead of the current figure of 56%.

Advertising revenues for the first three months of the year amounted to €688 thousand.

Financial situation

The Mondadori Group's financial situation as of 31 March 2005 showed a profit of €119.3 million, which represents an increase compared with the figures at 31 December 2004, as illustrated in the following table:

Net financial position	€m 31 March 2005	€m 31 December 2004	€m 31 March 2004
Short-term bank deposits	84.0	78.3	54.7
Short-term borrowings from banks	(3.2)	(2.4)	(11.8)
Financing (short and medium/long term)	(65.3)	(115.4)	(78.0)
	15.5	(39.5)	(35.1)
Fixed interest securities	555.2	553.5	541.2
Bonds	(296.4)	(296.4)	(296.4)
Convertible bonds	(109.9)	(109.9)	(109.9)
Loans from other sources	-	-	(1.4)
Cash, post office accounts, net receivables from affiliates and third parties and accrued interest income	(44.8)	(10.7)	5.9
Net financial receivables (payables)	119.6	97.0	104.3
Payables for leasing	(0.3)	(0.3)	(0.4)
Net financial position	119.3	96.7	103.9

The world economic recovery that began in 2004 continued in the first three months of 2005. The biggest growth was seen in the USA and China, while in Europe recovery prospects were still disappointing. The first three months of the year registered an increase in world GDP of around 3.7%.

In the USA the GDP increased by 3.1% thanks to an increase in consumer spending, the reserve dynamic and to company investments. Unemployment was 5.2% and inflation 3.1%.

In the euro zone growth in the first quarter amounted to 2.5%, with forecasts for a 1.5% increase in the GDP for the year, while in Italy the GDP increased by 1.2%. The risk of protracted slowdown in the European economy is mainly due to the high cost of oil, the strength of the euro and to a decline in competitiveness. Unemployment was still less than 9% while inflation amounted to 1.9%.

The Federal Reserve Bank increased the Federal funds rate by 50 bps, rising from 2.25% at the end of 2004 to 2.75% at the end of March. At the end of the first quarter, the Federal Reserve Bank increased the Federal funds rate by a further 25 bps to 3.0% (on 3 May). The European Central Bank left the minimum rate applied to the main refinancing operations in the Eurosystem at 2%, a figure that has been applied since June 2003.

In this macroeconomic context both the dollar and the sterling were reinforced. The dollar, which during the period was rather volatile, gained around 4% compared with the euro, moving from 1.35 at the beginning of the year to 1.29 at the end of March,

while sterling increased by almost 3% during the quarter, moving from 0.707 at the end of December 2004 to 0.686 at the end of March.

As of 31 March 2005, the Mondadori Group's overall lines of credit amounted to over €1,040 million.

As of 31 March 2005, 1.9% of the Group's short-term credit facilities, amounting to €622 million, had been used by means of self-liquidising lines of credit (bank discount bills) and stand-by financing of less than 18 months minus a day.

The medium/long term lines of credit of €421.6 million were made up of €296.4 million from a private placement in dollars in the USA, divided into three tranches with expiry dates in 2013/2015/2018, and by €109.9 million from a convertible debenture loan in ordinary Mondadori shares with an expiry date of 2008. As of 31 March the Group also had subsidised medium/long term loans for publishers amounting to €15.3 million.

Capital investments

In the first quarter of 2005 the Group made investments of €8.2 million in technical investments, €6.4 million of which was for plant and machinery for Mondadori Printing SpA that has not yet entered into production. The other investments mainly concerned new office furniture and equipment.

Personnel

As of 31 March 2005, the personnel employed by the consolidated Group amounted to 4,642, while during the same period the average number of personnel amounted to 4,648.

The following table shows the changes in Group personnel that occurred during the first quarter of 2005.

Personnel	31 March 2005	31 December 2004	change
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,485	1,491	(6)
- Manual workers	110	109	1
	1,595	1,600	(5)
Italian subsidiaries:			
- Managers, journalists and office staff	1,698	1,676	22
- Manual workers	1,203	1,203	-
	2,901	2,879	22
Foreign subsidiaries:			
- Managers, journalists and office staff	42	42	-
- Manual workers	104	104	-
	146	146	-
Total	4,642	4,625	17

Other information

Changeover to International Accounting Principles

With regard to the adoption of the new international accounting principles, in order to meet the new requirements, the company is in the process of ensuring the conformity of information systems and reporting procedures.

The Mondadori Group has decided, taking advantage of the extension foreseen by the Consob resolution n° 14990 of 14 April 2005, that the first results to be prepared and published applying the new IAS/IFRS accounting principles will be those for the Consolidated Results for the first half of the year 2005.

The process of reconciliation, foreseen by IFRS 1, is being completed on the figures for the consolidated net assets as at 1 January 2004 and at 31 December 2004 and the final results for 2004, outlined according to IAS/IFRS principles.

Mondadori has commissioned the auditing company Reconta Ernst & Young, already responsible for the auditing of the accounts to 31 December 2004, to make a complete audit of the balances emerging from the abovementioned reconciliations.

In conformity with Consob resolutions regarding the transition to the IAS/IFRS principles, the figures relating to the reconciliation foreseen by IFRS 1 will be provided at the same time as the results for the first half of 2005, which will be presented according to the IAS/IFRS principles. The market will also be informed of the results of the verification of balances made by the auditing company.

The Mondadori Group, with regard to the principle options/exemptions foreseen by IFRS, has decided:

- to take advantage of the exemption regarding the retroactive application of IFRS 3 concerning the aggregation of companies before 1 January 2004;
- to take advantage of the possibility to use the historical cost method of evaluation for intangible assets, fixed assets and financial investments, while only a small number of buildings will be valued at a fair value instead of at their historical cost;
- to take advantage of the exemption that allows companies to not itemise any actuarial difference that derives from severance indemnities as per IAS 19;
- to take advantage of the exemption that allows companies to not reconstruct the comparative data relating to financial instruments, taken from IAS 32 and 39, practices that will be applied as of 1 January 2005.

The following is a summary of the most significant differences between international accounting principles and Italian accounting principles.

Presentation of financial statements

The Balance Sheet will illustrate the rising liquidity of the items, with separate entries for current and non-current items. The Income Statements will be based on a classification of costs and revenues divided by type. The Financial Statement table will be defined in accordance with the indirect method of representing financial operations.

Consolidation area

The consolidation area will not be significantly changed.

All subsidiary companies will be fully consolidated, irrespective of their importance to the overall financial and economic situation. All associated companies and all companies that Mondadori controls together with other partners will be consolidated using the net equity method.

As a consequence of this Mondolibri SpA, which had previously been consolidated using the proportional method, will be consolidated using the net equity method.

Intangible assets

The most important values concerning intangible assets are represented by magazine titles, publishing series, imprints and goodwill deriving from purchases.

As from 2005 these will be joined by intangible assets pertaining to the radio sector, represented by the radio concessions and frequencies.

All of these assets are classified as assets with an indefinite life and, therefore, in accordance with the provisions of IAS 38, are no longer systematically depreciated but are subjected to an annual impairment test, as per IAS 36.

Fixed assets

In accordance with the provisions contained in IAS 16, the value of land will be booked separately from the value of any buildings constructed on that land.

Fixed assets are valued using the historical cost method. In order to align the values to market values, some buildings will be valued using the fair value method instead of the historical cost method, as allowed by IFRS 1.

Depreciations will be calculated on the basis of the useful life of each asset. The depreciation method and the useful life of assets will be regularly revised.

Treasury stock

The value currently booked to non-current assets will be booked to a direct reduction of shareholders' equity and invested capital.

Inventories

In compliance with IAS 2, inventories of raw materials, which are currently valued using the L.I.F.O. method, will be entered in the financial statements using the adjusted average cost method.

Inventories of semi-finished goods, work in progress and finished goods will be quantified, respectively, based on the average of industrial costs, taking into account the progress of the work and using the F.I.F.O. method, guaranteeing continuity of evaluation in respect of Italian principles.

Severance indemnities

Amounts due to personnel for severance indemnities will be calculated on the basis of the conditions contained in IAS 19. With regard to this, Mondadori has commissioned an independent actuary and agreed the basic assumptions.

Stock option plans

Stock option plans will be valued in accordance with the provisions contained in IFRS 2, and at the time they are allocated, with the cost booked to the income statement having a counterpart in the shareholders' equity reserves.

Financial instruments

Financial assets and liabilities will be valued and represented in accordance with the provisions contained in IAS 39 and IAS 32.

The main effects concern:

- a) the evaluation and representation of convertible debenture bonds with expiry at 20.10.2008, which will be divided into “liabilities” and “shareholders equity”;
- b) the evaluation and representation of “derived” instruments.

Given the division, as per IAS, into trade derivatives and coverage, the classification of existing contracts as “coverage”, with consequent hedge accounting, will be subject to a impairment test, as provided for by IAS 39.

Expectations for the full year

In an economic context that remains difficult, Mondadori believes that it can achieve results for the current year that will be essentially in line with those of 2004.

For the Board of Directors
Chairman
Marina Berlusconi

***Mondadori Group
Balance Sheet and Income Statement***

BALANCE SHEET

ASSETS

(in thousands of euros)	PERIOD AT 31 MARCH 2005			PERIOD AT 31 MARCH 2004	YEAR ENDED 31 DECEMBER 2004
	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		615		447	419
2 research, development and advertising costs			1,187	1,455	1,200
3 industrial patents and intellectual property rights			164,317	131,563	116,760
4 concessions, licences and trade marks			5,175	7,472	5,570
5 goodwill			68		48
6 assets under construction and advances			4,305	5,501	4,390
7 others			9,000	7,667	5,487
8 consolidation differences					
TOTAL			184,667	154,105	133,874
II- FIXED ASSETS					
1 land and buildings		77,632		81,413	78,599
2 plant and machinery		83,746		86,325	87,510
3 industrial and commercial equipment		2,912		2,273	2,525
4 other assets		12,434		16,301	12,996
5 assets under construction and advances		6,662		8,544	2,865
TOTAL			183,386	194,856	184,495
III- FINANCIAL ASSETS					
1 investments in:					
a) subsidiary companies		2,052		182	2,050
b) associated companies		89,442		62,467	87,007
c) parent companies					
d) other companies		2,500		4,951	2,480
TOTAL		93,994		67,600	91,537
			<i>Within 12 months</i>	<i>Over 12 months</i>	
2 current receivables:					
a) subsidiary companies					0
b) associated companies					0
c) parent companies					0
d) other companies		1,598	2,794	4,392	5,567
TOTAL		1,598	2,794	4,392	5,567
3 other securities					
4 treasury stock			126,246	116,192	130,207
TOTAL			224,632	189,359	227,689
TOTAL NON-CURRENT ASSETS (B)			592,685	538,320	546,058

ASSETS

(in thousands of euros)		PERIOD AT 31 MARCH 2005			PERIOD AT 31 MARCH 2004	YEAR ENDED 31 DECEMBER 2004
		Sub total 1	Sub total 2	TOTAL 3		
C) CURRENT ASSETS						
I- INVENTORIES						
	1 raw materials		14,059		13,497	13,249
	2 semi-finished products		21,197		20,389	30,260
	3 contract work in progress		7,042		8,211	11,235
	4 finished products and goods		84,166		82,491	74,755
	5 advances					22
TOTAL				126,464	124,588	129,521
		<i>Within 12 months</i>	<i>Over 12 months</i>			
II- RECEIVABLES						
	1 trade accounts	341,489	14,526	356,015	352,817	367,009
	2 due from subsidiaries	609		609		479
	3 due from associated companies	55,492		55,492	65,599	52,358
	4 due from parent companies	1		1		11
	4 bis tax credits	18,337		18,337	19,666	11,545
	4 ter advance taxes	43,824	1,372	45,196	29,714	45,029
	5 others	62,697	221	62,918	70,970	55,302
TOTAL		522,449	16,119	538,568	538,766	531,733
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			555,180	541,241	553,456
TOTAL				555,180	541,241	553,456
IV- CASH AND EQUIVALENTS						
	1 cash, banks and postal accounts			85,258	55,394	80,089
	2 cheques					14
	3 cash and commercial papers in hand			258	165	241
TOTAL				85,516	55,559	80,344
TOTAL CURRENT ASSETS (C)				1,305,728	1,260,154	1,295,054
D) ACCRUED INCOME AND PREPAID EXPENSES						
	1 accrued income		1,026		585	710
	2 prepaid expenses		4,705		4,463	12,488
	3 premium on loans					
TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)				5,731	5,048	13,198
TOTAL ASSETS				1,904,144	1,803,522	1,854,310

BALANCE SHEET

LIABILITIES (in thousands of euros)	PERIOD AT 31 MARCH 2005			PERIOD AT 31	YEAR ENDED
	Sub total	Sub total	TOTAL	MARCH	31
	1	2	3	2004	DECEMBER 2004
A) SHAREHOLDERS' EQUITY					
I- SHARE CAPITAL			67,452	67,452	67,452
II- SHARE PREMIUM RESERVE			157,501	171,073	153,540
III- REVALUATION RESERVE			16,712	16,712	16,712
IV- LEGAL RESERVE			13,490	13,490	13,490
V- STATUTORY RESERVE					
VI- RESERVE FOR TREASURY STOCK			126,246	116,192	130,207
VII- OTHER RESERVES					
1) Extraordinary reserve		14,684		9,264	14,684
2) Reserve law 675 of 12/8/1977		351		351	351
3) Conferral reserve Law 904 of 16/12/1977		751		751	751
4) Capital account contribution reserve		5,335		5,335	5,335
5) Reserve Law 124/93 art. 13		98		73	98
6) Merger reserve		478		478	478
7) Other reserves		-3,440		-3,297	-4,092
			18,257	12,955	17,605
VIII- PROFIT (LOSS) CARRIED FORWARD			185,841	154,930	81,379
IX- PROFIT (LOSS) FOR PERIOD					
1) Gross profit for period			44,016	36,407	
2) Profit for year					104,114
CONSOLIDATED GROUP SHAREHOLDERS' EQUITY			629,515	589,211	584,499
MINORITY INTEREST			3,268	3,414	3,269
TOTAL SHAREHOLDERS' EQUITY (A)			632,783	592,625	587,768
B) RESERVE FOR RISKS AND CHARGES					
1 retirement benefits		10,887		10,252	10,853
2 income taxes including deferred taxes		31,764		14,809	15,124
3 others		24,209		26,666	23,672
TOTAL RESERVE FOR RISKS AND CHARGES (B)			66,860	51,727	49,649
C) RESERVE FOR SEVERANCE INDEMNITIES			104,530	102,109	102,715
	<i>Within 12 months</i>	<i>Over 12 months</i>			
D) DEBTS AND OTHER PAYABLES					
1 bonds		296,384	296,384	296,384	296,384
2 convertible bonds		109,900	109,900	109,900	109,900
3 due to shareholders' for loans			0		
4 due to banks	55,659	12,803	68,462	89,830	117,809
5 due to other financiers			0	1,360	
6 advances	40,105		40,105	36,093	36,070
7 trade accounts	330,137	243	330,380	334,775	331,016
8 debts represented by credit instruments			0		
9 due to subsidiaries	651		651	255	588
10 due to associated companies	37,770		37,770	43,613	50,075
11 due to parent companies	14,532		14,532		14,531
12 income taxes payable	10,028		10,028	13,909	14,740
13 due to pension funds and social security institutions	15,159		15,159	14,929	18,456
14 others	123,270	30,614	153,884	99,787	106,778
TOTAL DEBTS AND OTHER PAYABLES (D)	627,311	449,944	1,077,255	1,040,835	1,096,347
E) ACCRUED LIABILITIES AND DEFERRED INCOME					
1 accrued liabilities		15,814		10,840	10,562
2 deferred income		6,902		5,386	7,269
3 discounts on loans					
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME (E)			22,716	16,226	17,831
TOTAL LIABILITIES			1,904,144	1,803,522	1,854,310
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
2 COMMITMENTS					4,730
3 RISKS					1,360
4 OTHERS					106,695
TOTAL MEMORANDUM ACCOUNTS			0	0	234,721
1) Total of items preceded by lowercase letters and (in certain cases) by Arabic numerals					For the Board of Directors
2) Total of items preceded by Arabic numerals and (in certain cases) by lowercase letters					Chairman
3) Total of items preceded by Roman numerals and uppercase letters					Marina Berlusconi

INCOME STATEMENT

(in thousands of euros)	PERIOD AT 31 MARCH 2005			PERIOD AT 31	YEAR ENDED
	Sub total	Sub total	TOTAL	MARCH	31
	1	2	3	2004	DECEMBER
					2004
A) PRODUCTION VALUE					
1 REVENUES FROM SALES OF GOODS AND SERVICES		418,333		411,787	1,652,798
2 CHANGES IN INVENTORY OF SEMI-FINISHED GOODS		374		-7,302	-5,184
3 CHANGES IN CONTRACT WORK IN PROGRESS		-4,193		-1,278	1,775
4 INCREASE IN COMPANY-PRODUCED ADDITIONS TO FIXED ASSETS				23	134
5 OTHER INCOME AND REVENUES					
a) operating grants	6,778			540	6,681
b) other income and revenues	8,947			9,649	46,908
		15,725			
TOTAL PRODUCTION VALUE (A)			430,239	413,419	1,703,112
B) PRODUCTION COSTS					
6 RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS		124,870		127,240	507,531
7 SERVICES		171,369		156,666	649,765
8 USE OF THIRD PARTY ASSETS		6,219		5,992	23,515
9 PERSONNEL					
a) wages and salaries	47,785			45,186	182,782
b) social contributions	14,753			13,928	57,288
c) severance indemnities	3,913			3,939	15,153
d) retirement benefits	4			5	28
e) other costs	431			435	3,845
TOTAL		66,886		63,493	259,096
10 DEPRECIATIONS, AMORTISATION AND WRITEDOWNS					
a) amortisation of intangible assets	5,024			5,109	21,076
b) depreciation of fixed assets	8,088			9,436	34,755
c) other writedowns of assets					7,226
d) writedowns of doubtful accounts	2,157			2,025	11,340
TOTAL		15,269		16,570	74,397
11 CHANGES IN INVENTORY OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS		-785		345	605
12 PROVISIONS FOR RISKS		158		214	5,140
13 OTHER PROVISIONS		4		6	31
14 OTHER OPERATING EXPENSES		3,565		3,612	13,613
TOTAL PRODUCTION COSTS (B)			387,555	374,138	1,533,693
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS (A-B)			42,684	39,281	169,419
C) FINANCIAL INCOME AND CHARGES					
15 INCOME FROM EQUITY INVESTMENTS					
a) Subsidiaries					
b) Associated companies					184
c) Other companies					
TOTAL		0		0	184
16 OTHER FINANCIAL INCOME					
a) from long term receivables					
* Subsidiaries					
* Associated companies					
* Parent companies					
* Other companies	15			20	64
TOTAL	15			20	64
b) from long term securities	283				
c) from short term securities	2,934			4,212	15,201
d) Other income					
* Subsidiaries				1	
* Associated companies	80			100	386
* Parent companies					
* Other companies	1,476			2,445	9,777
TOTAL	1,556			2,546	10,163
TOTAL		4,788		6,778	25,428
17 INTEREST AND FINANCIAL CHARGES					
a) Subsidiaries	1				3
b) Associated companies	63			105	318
c) Parent companies					
d) Other companies	4,515			6,328	31,212
TOTAL		4,579		6,433	31,533
17bis PROFIT (LOSS) ON CURRENCY EXCHANGE		-292		-20	-339
TOTAL FINANCIAL INCOME AND (CHARGES) (C)			-83	325	-6,260

INCOME STATEMENT (continued)

(in thousands of euros)	PERIOD AT 31 MARCH 2005			PERIOD AT 31	YEAR ENDED
	Sub total	Sub total	TOTAL	MARCH	31
	1	2	3	2004	DECEMBER
					2004
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS					
18 REVALUATIONS					
a) equity investments		2,440		1,127	5,460
b) other long term financial assets					
c) securities					
TOTAL		2,440		1,127	5,460
19 WRITEDOWNS					
a) equity investments		1,502		3,093	4,784
b) other long term financial assets					
c) securities				586	2,051
TOTAL		1,502		3,679	6,835
TOTAL ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS (D)			938	-2,552	-1,375
E) EXTRAORDINARY INCOME AND CHARGES					
20 INCOME					
a) Gains on disposals		95			4,460
b) Others		603		265	5,202
TOTAL		698		265	9,662
21 CHARGES					
a) Losses on disposals				702	249
b) Taxation relative to prior years		5			70
c) Others		216		210	1,632
TOTAL		221		912	1,951
TOTAL EXTRAORDINARY INCOME AND (CHARGES) (E)			477	-647	7,711
RESULT BEFORE TAX			44,016	36,407	169,495
22 INCOME TAX FOR PERIOD					64,915
23 RESULT FOR PERIOD					104,580
PROFIT (LOSS) FOR PERIOD PERTAINING TO MINORITY INTERESTS					466
PROFIT (LOSS) FOR PERIOD					104,114

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