Annual report 1999

MONDADORI

The Shareholders are hereby invited to the Ordinary and Extraordinary General Meeting to be held on 26 April 2000 at 16.00 p.m. at the Company's administrative offices in Segrate (MI) - Via Mondadori 1 - at first calling and, if necessary, at second calling on 3 May 2000 at the same time and place, to pass resolution on the following:

Agenda

Ordinary General Meeting

1) Financial statements as of 31 December 1999, report 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 1999 and related enclosures.
2) Authorisation to effect a buy back and to utilise Company shares, as per the combined dispositions of the articles 2357 and 2357 ter of the Civil Code, following the revocation of the pertinent Shareholders' resolutions of 29 April 1999.
3) Proposal to establish a Stock Option Plan for 2000 and succeeding years.
4) Nomination of the Board of Directors and its Chairman, subject to the determination of the number of Directors and emoluments of the same.
5) Nomination of the Board of Statutory Auditors and its Chairman for the years 2000/2001/2002 and determination of emoluments of the same.
6) Modifications to the Stock Ownership Plan for Top Management established by the Shareholders' resolution of 24 June 1998; resulting resolutions.

Extraordinary General Meeting

1) Powers to the Board of Directors, as per Art. 2443 of the Civil Code, to effect a free capital increase, on or before 31 December 2000, for a maximum total of a nominal 300,000,000 lire, through the issue of ordinary shares to be allocated to participants of the Stock Ownership Plan for Top Management, as per Art. 2349 of the Civil Code. Resolutions and statutory changes resulting.
2) Changes to the powers granted to the Board of Directors by the Shareholders' resolution of 24 June 1998, as per Art. 2443 of the Civil Code, for the paid capital increase to service the Stock Ownership Plan for Top Management, resulting modifications to the plan itself.
3) Proposal to effect a share split, from 1,000 lire to 500 lire as the nominal value of the shares of the Company's capital through the allocation of:
   - n. 2 newly issued ordinary shares with a nominal value of 500 lire each, valid from January 1, 2000, against the annulment and replacement of each ordinary share with a nominal value of 1,000 lire each.
   - n. 2 savings shares with a nominal value of 500 lire each, valid from January 1, 2000, against the annulment and replacement of each savings share with a nominal value of 1,000 lire each.

Resolutions and statutory modifications resulting.

The Shareholders Meeting may be attended by Shareholders who own ordinary shares and who present the relevant certificates, as per art. 34 of the Consob ruling 11768 of 23/12/1998, issued by an intermediary belonging to the Monte Titoli S.p.A. centralised management system.

In conformity with current legislation, the reports of the Board of Directors on the subjects contained in the agenda are deposited at the Company's administrative offices and at the offices of Borsa Italia S.p.A. fifteen days before the Shareholders' Meeting, where they may be examined by the public. Shareholders have the right to obtain copies of these reports.

With reference to point 5 of the ordinary part of the agenda, it should be remembered that in accordance with art. 17 of the Company Statutes nominations will take place for the Board of Statutory Auditors, composed of three Acting Statutory Auditors and two Substitute Statutory Auditors, on the basis of lists presented by Shareholders who, either individually or together with other Shareholders, represent at least 3% of the share capital and who can provide documentary evidence of this by means of certificates issued by an intermediary belonging to the Monte Titoli S.p.A. centralised management system. Each Shareholder must not present more than one list. Each list must contain a number of candidates, in numerical order, not greater than the number of Acting and Substitute Auditors to be elected. The lists, accompanied by a professional curriculum for each candidate and counter-signed by the Shareholder or Shareholders who present it, must be deposited with the Company's administration offices at least 5 days before the first calling of the Shareholders' Meeting. Each list must also be accompanied, within the same deadline, by a declaration from each candidate stating that he accepts the nomination and declaring that in the eyes of the law he is not illegible or incompatible with the office. It should also be remembered that in accordance with the aforementioned art. 17 of the Statutes of Arnoldo Mondadori Editore S.p.A., individuals who already hold the office of Acting statutory auditors in more than seven Italian companies that are quoted on markets regulated in Italy cannot be elected as Statutory Auditors.
In the event that no lists are presented, the Board of Statutory Auditors and its Chairman are nominated by the Shareholders Meeting by legal majority.

For the Board of Directors
Chairman
Leonardo Mondadori

Board of Directors

Chairman
Leonardo Mondadori (*)

Senior Vice Chairman
Luca Formenton

Chief Executive
Maurizio Costa (*)

Directors
Marina Elvira Berlusconi (*)
Pier Silvio Berlusconi
Francesco Barbaro
Fedele Confalonieri (*)
Roberto Poli
Giovanni Puerari
Claudio Sposito (*)

Secretary
Giovanni Puerari

(*) Members of the Executive Committee.

Board of Statutory Auditors

Acting Statutory Auditors
Franco Iorio (Chairman)
Antonio Aiello
Achille Frattini

Substitute Statutory Auditors
Gianfranco Polerani
Francesco A. Giampaolo

Powers
Chairman: powers of legal representation in dealings with third parties and legal proceedings.

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

Contents

Report of the Board of Directors on the results of the financial year 1999

Shareholders,

the results achieved in 1999 are even better than the positive results achieved in previous years. The Group's consolidated net profit amounted to 152.8 billion, an increase in comparison with 1998 of 58.6% after allocating 120.5 billion for technical depreciations and intangible fixed assets (120.2 billion in 1998).
Moreover, if the extraordinary entry for contingent assets relating to past deferred tax amounting to 37.1 billion is subtracted from the 1999 result, the figure is equal to 115.7 billion, an increase of 20.1% in comparison with the previous year.
Sales increased by 8% from 2,439 billion in 1998 to 2,634 billion in 1999.
Gross operating profit increased from 296.5 billion in 1998 to 323.1 billion in 1999, an increase of 9.0 %, which represents 12.3% of turnover (compared with 12.2% in 1998).
The net profit for Arnoldo Mondadori Editore S.p.A. was 341.5 billion (82.4 billion in 1998), after allocating 49.8 billion for depreciations (76.8 billion in 1998). The Parent Company's results were strongly influenced by the operation designed to Group together all printing operations in Mondadori Printing S.p.A., which came into effect on 1st August 1999.
This operation, which was described in detail in the Report of the Board of Directors on the results for the first half of 1999, involved extraordinary capital gains of 290.8 billion being entered in the Parent Company's income statement.
Without the above mentioned capital gains, the Parent Company's result would have come to 127.3 billion, an increase of 54.5% compared with the previous year.
Before proceeding with an analysis of these results, we would like to draw your attention to some particular points relative to the areas in which the Group operates, to the operations carried out in 1999 that led to these results and also to operations currently underway.
On the macro-economic front, 1999 saw the introduction of the Euro as the common currency for the fifteen European countries that are taking part in the first phase of the single currency project. During the first two quarters of 1999 the increase in GDP for those countries in the Euro area was lower than expected, although it began to recover in the third quarter and the recovery was consolidated in the last quarter.
In Italy the last three-month period saw a 2.1%[1] increase in comparison with the same period in 1998. However, it should be noted that the growth factors were essentially linked to investments and exports while consumer spending was put on hold.

[1] Source ISTAT.

The prospects for economic growth in 2000 are favourable thanks to a recovery in exports and an increase in consumer confidence, and forecasts for 2000 are for a 2.6% increase in the Italian GDP.
In 1999 the average rate of inflation was 1.7%[2] compared with 1.8% in 1998, which is an extremely low level in comparison with the average figures for previous years but is still higher than the other countries in the Euro. It should be noted that 2000 has begun with a progressive increase in prices (+2.4% as of February) that is essentially linked to an increase in the cost of oil.

In 1999 there was no significant increase in the cost of paper, with both LWC paper (women's and specialist sectors) and BC paper (TV guides) decreasing by approximately 2% in comparison with 1998. Forecasts for 2000 indicate that increases will be slightly higher than inflation.

Moving on to an analysis of the individual markets in which the Mondadori Group operates, it should be noted that the **book** and **mail-order markets** continue to be weak. The fall in terms of quantity in these sectors that was registered in the first part of the year was confirmed in the second

[2] Source ISTAT.

half of the year, a situation that was only partly compensated for by an increase in terms of value (-2% for quantity and +1.1% for value). There were, however, positive signals from the large-scale retail sector. In this context the Mondadori Group maintained its position as market leader in the area of traditional publishing activities and concentrated on an expansion programme in the school textbook area where, thanks to the acquisition of Le Monnier Group, the school textbook sector of Mursia and the Poseidonia publishing house, Mondadori is now the leader in the Italian market. At the same time the project aimed at strengthening sales channels, both in the form of directly owned bookshops and franchising bookshops, has continued.

The magazine market consolidated the positive results achieved in 1998, with the programme of introducing innovations and improving the quality of the products being the crucial factor that made it possible to increase the Group's lead over its competitors.
Mondadori has undoubtedly lived up to its position as leader in the sector, reinforcing its position (the market share increased by one point to 38%) and achieving an 11.7% increase in circulation figures for Mondadori titles. The expansion of the publishing portfolio has also been carried out by signing agreements with prestigious partners such as the U.S. Hearst Group and Il Sole 24 Ore. The joint-ventures that resulted from these agreements began operating at the beginning of 2000 and concern the launch by Hearst-Mondadori Editoriale S.r.l. of an Italian edition of *Cosmopolitan*, and by Mondadori-Sole 24 Ore S.p.A. of the monthly *Ventiquattro* supplement to *Il Sole 24 Ore* daily newspaper, as well as a "newsletter" dedicated to personal finance that is published as an insert to *Panorama.*

1999 saw the positive trend in the overall **advertising market** continue with an increase of 12% compared with the previous year, while in the magazine sector the increase amounted to 7%. The optimism that we expressed when commenting on the 1998 results was confirmed by the results achieved in 1999 by the Mondadori Group, which showed an overall increase in advertising sales of more than 20% in comparison with the figures for the previous year, while the rate of increase for comparable products (more than 9%) was higher than the market.

The **Printing Division**, which in 1999 saw all the Group's printing activities in Italian factories concentrated in Mondadori Printing S.p.A., was characterised by a contraction of the European market for commercial products (catalogues for mail-order sales) and an increase in the demand for magazine and newspaper printing.

The **Direct Marketing** sector saw the implementation of the agreement between Mondadori and the Bertelsmann Group for the creation of Mondolibri S.p.A., which became operational on 1st July 1999, that incorporates the activities of Club degli Editori and Euroclub.
Cemit Direct Media S.p.A. closed the year with sales that were in line with 1998, while net profits almost doubled thanks to business activities with an high added value (data base management) and the careful management of operating costs.

Mondadori Informatica continued with its development policy, producing a 24.3% increase in sales.
As far as the process of focussing on our core-business is concerned, it was decided to close the stationery sector since it was identified as being non-strategic for our Group.
More detailed information on these divisions and on the Group's other business activities is given in the comments on the specific sections.

During 1999 the Mondadori Group carried out a series of operations linked to its strategic plan. It should be remembered that the Group's objectives and strategies for the coming years are based on expansion, while paying close attention to profitability and the financial structure.
While the policy of reinforcing the core-business has continued, new emphasis has been placed on investments, in particular in reinforcing the magazine sector with the launch of new titles, in the "need to know" publishing sector and in retail and new business (Internet). More detailed comment on the first three points can be found in the specific sections, but here we would like to make a specific comment on the development of the Group's Internet interests.

Acceleration of Internet activities: creation of Mondadori.com

The increasing opportunities linked to the development of Internet have encouraged the Mondadori Group to speed up its own interest in this area.
With the conclusion of the 1995-1998 three-year experimental phase, the Group approved an important investment plan at the beginning of 1999. In March an independent division - Mondadori.com – was created in order to Group together all the necessary resources for the development of Mondadori on the Internet, making use of the Group's recognised strong points in traditional media.
During the year the structure and editorial plan was defined, with the emphasis put on both the specific strong points of the Group (recognised leadership in content, linked to the Group's excellent distribution structure) and the opportunity offered by the new-economy in terms of acquisitions and partnerships. The editorial plan involved the definition of an integrated system of vertical sites (*destination sites*) in areas where the Group has always been a leader, such as technology, the women's sector, news and entertainment and the young people's sector.
With the aim of speeding up this process, some operations have already been carried out. On 29 April 1999 Mondadori S.p.A. bought the division concerned with creating and managing the VOLFTP Internet site from Exol S.p.A. This site, which is one of the most popular on the Italian market, will make it possible for Mondadori to reinforce its leadership in Information Technology.
On 2 August an agreement was signed with the American search engine AltaVista (operational from 30 August), and this was followed by the acquisition of 10% of News Alert (12 October) and an agreement with Microsoft for e-books (14 October).
In one year Mondadori has invested (between internal development and acquisitions) more than 15 billion in support of the Internet project.

From this introduction we now move on to comment on the main results relating to 1999.

Reclassified Income statement:

Income statement

(bn lire)	31/12/1999	31/12/1998	% Change
Income from sales	**2,634.1**	**2,439.4**	**8.0%**
Personnel costs	456.7	448.8	
Product and management costs	1,854.2	1,694.1	
Gross operating profit	**323.1**	**296.5**	**9.0%**
MOL effect (on income)	*12.3%*	*12.2%*	
Technical depreciations	68.1	62.8	
Operating profit	**255.0**	**233.7**	**9.1%**
Operating result effect (on income)	*9.7%*	*9.6%*	
Amortisation of titles, goodwill and deferred charges	52.4	57.4	
Net financial income (charges)	(0.5)	0.1	
Other income (charges), net	12.1	10.0	
Extraordinary items	37.9	1.8	
Profits before taxation and minority interests	**252.2**	**188.2**	**34.0%**
Income taxes	(100.7)	(91.7)	
Tax rate	*39.9%*	*48.7%*	
Minority interests	(1.2)	0.1	
Net profit	**152.8**	**96.3**	**58.6%**

The **consolidated revenues** of the Mondadori Group for 1999 amounted to 2,634.1 billion, an increase of 8% on 1998.

Book Division sales in 1999 include sales from companies bought during the year (Le Monnier, Poseidonia and the division bought from Mursia). Further details can be found in the specific section.

As for the Printing Division, the data takes into account the constitution of Mondadori Printing S.p.A and should be interpreted jointly with the data relative to Intercompany sales.

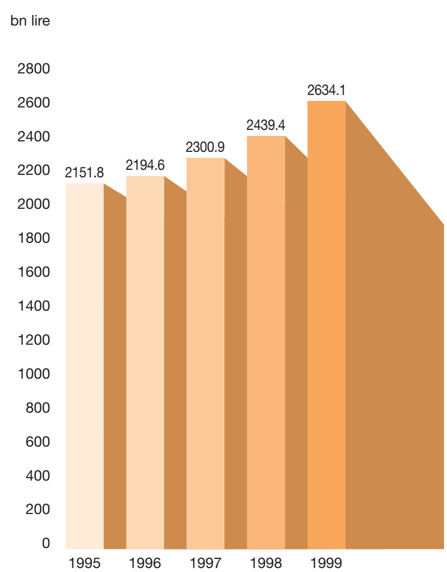
Direct Marketing was affected by the integration of Club degli Editori (Mondadori) and Euroclub (Bertelsmann) in the creation of Mondolibri S.p.A, operational in the second half of the year. Further details can be found in the specific section.

The decrease in "Others" is attributable to the disposal of Auguri di Mondadori S.r.l. which took place in December 1999 (38.0 billion sales in 1998).

Income from foreign sales amounted to 401.5 billion (323.8 billion in 1998).

Consolidated revenues

(bn lire)	**1999**	**1998**	**% change**
Book Division	700.2	575.8	21.6%
Magazine Division	1,386.2	1,220.0	13.6%
Printing Division	600.6	486.2	23.5%
Direct Marketing	136.4	147.3	-7.4%
Computer Publishing and New Media	84.5	69.2	22.0%
Others	22.5	58.1	-61.2%
Total sales	2,930.5	2,556.7	14.6%
Intercompany sales	(296.4)	(117.3)	152.6%
Consolidated sales	**2,634.1**	**2,439.4**	**8.0%**



Mondadori Group: consolidated revenues

Personnel costs amounted to 456.7 billion, an increase of 1.7 % compared with the previous year. At the end of 1999 the Group had 5,286 employees (5,132 in 1998).

Product and management costs amounted to 1,854.2 billion (1,694.1 billion in 1998), an increase of 7.5 %, and was made up as follows:

Product and management costs

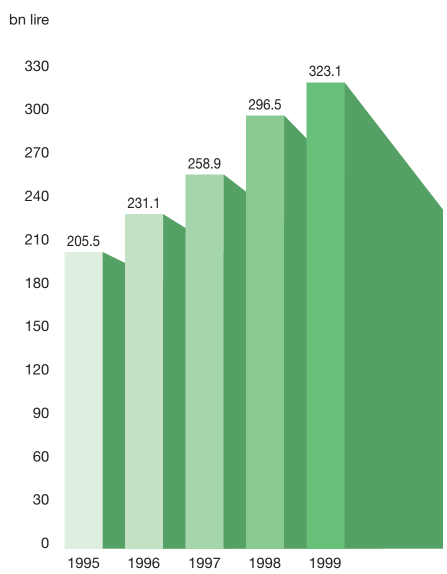
(bn lire)	**1999**	**1998**
Raw, ancillary and consumable materials and goods and stock variations	836.0	785.0
Services	995.2	898.6
Use of third party assets	35.3	31.2
Other costs	61.2	45.7
Recovery third party expenses and other sources	(73.4)	(66.4)
Total	**1,854.2**	**1,694.1**

Gross operating profit increased from 296.5 billion in 1998 to 323.1 billion in 1999, an increase of 9%. As a percentage of sales this is equal to 12.3%.

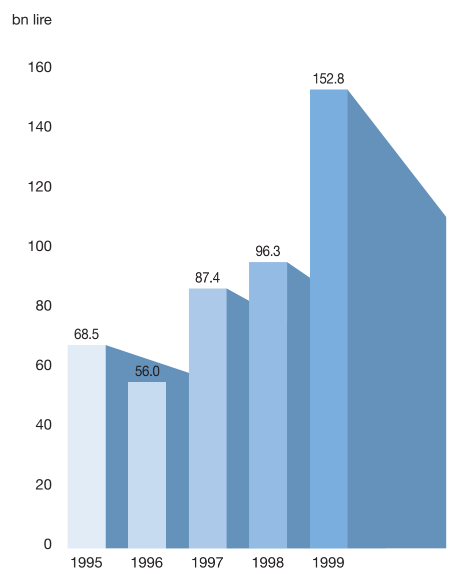
Operating profit increased to 255.0 billion from 233.7 billion in the previous year, an increase of 9.1%. Operating profit as a percentage of revenues increased from 9.6% in 1998 to the current 9.7%.

Total depreciations (technical and immaterial) increased from 120.2 billion in 1998 to 120.5 billion in 1999.

Pre-tax profits increased from 188.2 billion to 252.2 billion, an increase of 33.9%.



Mondadori Group: gross operating profit



Mondadori Group: net profit

Net profit amounted to 152.8 billion, compared with 96.3 billion in 1998.The 1999 result is net of the extraordinary entry relative to contingent assets for past deferred taxes amounting to 115.7 billion, an increase of 20.1% compared with the previous year.

Cash flow (net profit + depreciations) amounted to 273.3 billion (216.5 billion in 1998: + 26.2%) and is described on page 43.

The **results** of the Group's Reclassified balance sheet over the last two years is shown in the table in this page.

The **net financial position** at the end of 1999 showed a surplus of 283.5 billion (216.8 at the end of 1998) after the distribution to shareholders of dividends amounting to 65.6 billion and the acquisition of company shares for 33.8 billion. Further details can be found in the specific section.

The Group's **capital expenditure** amounted to 80.4 billion (43.5 billion in 1998).

Balance sheet – assets

(bn lire)	31/12/1999	31/12/1998
Intangible assets	416.0	389.3
Fixed assets	347.3	319.7
Financial assets	121.6	84.5
Inventories	240.0	237.9
Receivables and other assets	956.9	896.4
Cash and banks	851.5	579.5
Total assets	**2,933.2**	**2,507.3**

Balance sheet - liabilities and Shareholders' equity

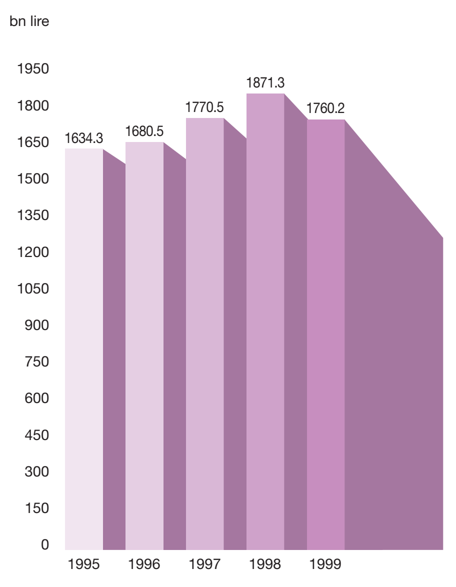
(bn lire)	31/12/1999	31/12/1998
Shareholders' equity	1,100.1	987.1
Minority interests	15.1	16.9
Reserve for risks and charges	101.9	102.1
Reserve for severance indemnities	183.3	177.5
Other liabilities	981.8	899.3
Financial payables	551.1	324.4
Total liabilities and Shareholders' equity	**2,933.2**	**2,507.3**

The financial statements of Arnoldo Mondadori Editore S.p.A. show a **net profit** of 341.5 billion (compared with 82.4 in 1998). The result was achieved after allocating 49.8 billion for total depreciations, 6.1 billion for advanced depreciations (76.8 billion in 1998 with 13.9 billion for advanced depreciations) and taxes of 166.2 billion (81.7 billion in 1998).

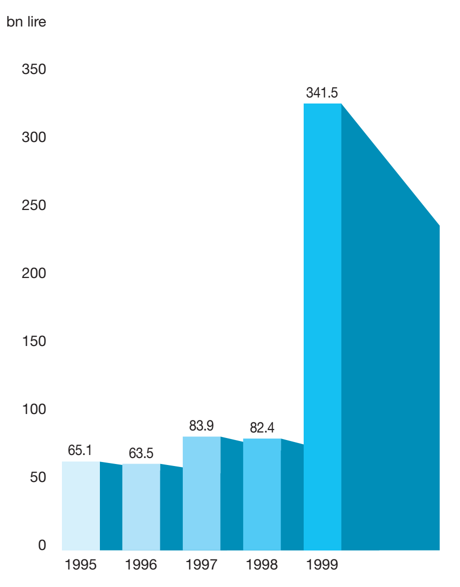
The Parent Company's **sales** amounted to 1,760.2 billion compared with 1,871.3 in 1998, a fall of 111.1 billion (-5.9%)

The results and the amount of business done by the Parent Company, Arnoldo Mondadori Editore, were influenced by the extraordinary operation relative to the transfer of all printing activities to Mondadori Printing S.p.A., with effect from 1st August 1999.
In relation to this operation, gross capital gains of 290.8 billion were entered in the income statement. The year's results, net of the above mentioned capital gains and after booking 76.7 billion of substitute tax to the current taxes for the year, would have been 127.3 billion. As far as sales are concerned, it should be noted that the figure of 1,760.2 billion includes printing revenues only for the first seven months of the year.

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.



Mondadori S.p.A.: consolidated revenues



Mondadori S.p.A.: net profit

In 1999 the Italian book market registered a fall in bookshop channels in terms of volume (-2%) and a slight increase in terms of value (+1.1%), the first positive signal after two years of decline in the volume of business. However, the large-scale retail sector emphasised its growing importance in book selling with an increase that is currently estimated to be around 5% per year. In this climate the Mondadori Group confirmed its role as absolute market leader with a largely stable share of around 30%, both in terms of copies and value.
The table in this page summarises the market share in terms of value for the main players in the Italian book market.

In 1999 the book division successfully implemented two fundamental strategies. The first of these was concerned with improving profitability and efficiency in traditional business (trade books) by means of containing returns, increasing the percentage of production absorption and reducing working capital, while the second strategy involved the Mondadori Group speeding up development in the school/professional business sector with the acquisition in April of the Le Monnier Group of Florence and in July of the majority share in Poseidonia, a Bologna publishing house.

Books: market share

Publisher	Share 1999	Share 1998	% change
Mondadori	18.8	19.8	-1.0
Einaudi	5.8	5.3	+0.5
Sperling & Kupfer	4.3	4.0	+0.3
Other companies of the Mondadori Group	0.9	1.1	-0.2
Mondadori Group[3]	**29.8**	**30.2**	**-0.4**
Associated companies[4]	1.6	1.6	-
Extended Mondadori Group	**31.4**	**31.8**	**-0.4**
Rizzoli Group	16.1	15.5	+0.6
Longanesi Group	8.8	9.6	-0.8
Feltrinelli	4.8	5.1	-0.3

Source: Demoskopea bookshop channels: data in terms of value.

[3] Mondadori, Sperling & Kupfer, Einaudi, Frassinelli, Electa, Leonardo.
[4] Baldini & Castoldi, Zelig.

These operations have enabled Mondadori to become market leader in the school textbook sector with a share of 14.6%.

In 1999 the Book Division registered sales of 700.2 billion, compared with 575.8 in the previous year (+21.6%). On a comparable basis this represents a 10.3% increase.

Total book production in the division[5] amounted to 2,315 new titles (compared with 2,477 in 1998) and 3,424 reprints (3,038 in 1998) for a total of 44.2 million copies compared with 49.4 in the previous year.

Comments on the specific activities concern four areas in particular:

1. Publishing activities, in the strictest sense (Trade books), including Edizioni Mondadori, the publishing activities of the Elemond Group (Giulio Einaudi and Art and illustrated books) and the Sperling & Kupfer Group.
2. Retail (Ellemme and Mondadori Franchising).
3. School textbooks (school textbooks from the Elemond Group and the Le Monnier Group).
4. Foreign activities (Grijalbo Group).

Books: revenues

(bn lire)	1999	1998	% change
Edizioni Mondadori	191.5	198.2	-3.4%
Book distribution	82.4	56.8	45.2%
Royalties	8.9	10.0	-11.2%
Elemond Group	218.8	190.9	14.6%
Grijalbo Group	74.0	67.0	10.6%
Le Monnier Group	52.4	-	n.a.
Sperling & Kupfer Group	43.9	37.6	16.7%
Ellemme	33.3	31.2	6.6%
Mondadori Franchising	16.4	3.9	316.8%
Others	3.7	1.9	88.3%
Sub total	725.5	597.8	21.4%
Inter-divisional intergroup sales	(25.3)	(22.0)	14.8%
Total sales	**700.2**	**575.8**	**21.6%**
Total (on a comparable basis)	**635.1**	**575.8**	**10.3%**

[5] Includes Mondadori, Sperling & Kupfer, Frassinelli, Einaudi and Electa (excluding Educational Publishing).

Trade books

Edizioni Mondadori

The good results achieved in 1999 are a reward for the editorial policy that over the years has concentrated on the improvement and development of the portfolio. Authors like John Grisham (*Il testamento*, 200,000 copies), Patricia Cornwell (*Punto d'origine* and *Croce del sud*, 130,000 copies) and Andrea De Carlo (*Nel momento*, 150,000 copies) have continued to attract more readers with every new book, while the enormous success of *Hannibal* (over 300,000 copies sold) is based on the popularity Thomas Harris has earned with his previous books also issued by the publishing house.
Further confirmation also comes from Italian authors, such as Luciano De Crescenzo (*Le donne sono diverse*, 100,000 copies) and Bruno Vespa, whose *Dieci anni che hanno sconvolto l'Italia* achieved sales of 120,000 by the end of the year.
In the new literary series Scrittori Italiani e Stranieri, the new book by Andrea Camilleri, *Gli arancini di Montalbano* (250,000 copies) and the previously unpublished *Vero all'alba* by Ernest Hemingway (50,000 copies) achieved excellent results. 1999 also saw the thirtieth anniversary of Meridiani with the publication of a catalogue dedicated to the entire collection of this prestigious series from Mondadori.
In the fiction/non-fiction sector it is worth noting the success achieved by the different innovative ideas, such as the series of small books whose first title, *Il piccolo libro della calma*, sold 250,000 copies, and the book+video formula that, after the 300,000 copies sold by Aldo, Giovanni and Giacomo with their *Tel chi el telùn,* will also be used for other titles in 2000.
The children's sector saw new titles in the successful series Le Ragazzine, Animorphs and Piccoli Brividi, while the new series Il Club delle baby sitter and I sassolini are exclusively dedicated to Italian authors.
The Mass-Market sector is led by the I Miti imprint which, thanks to the 32 titles it published during the year, has consolidated its predominant position with a market share of almost 50% in the 6,000 - 8,000 lire price range. 1999 also witnessed the definitive confirmation of the I Supermiti imprint which, with more than 800,000 copies sold, covers a wide range of subjects including cinema, music, art and comics. Alongside popular titles such as *Asterix*, *le storie più belle* (150,000 copies) and *Paperodissea* (180,000 copies), other successful titles include *De Andrè, i testi e gli spartiti* (120,000 copies) and *Gli Impressionisti*, 100,000 copies of which were published in conjunction with the *I Cento Capolavori dell'Ermitage* exhibition organised in Rome by the Mondadori Group.
2000 will see the launch of two new series, I Meridiani-Classici dello spirito and Uomini e religioni, that represent the publisher's commitment to extending and widening the range of products on offer.
During the year the results will be seen of further rationalisation of the distribution and sales processes, which will lead, by means of checking the first line and the increase of supplies, to an improvement in the rate of absorption and to containing the number of returns.

Book distribution

During the year the book distribution sector registered a slight increase in the number of copies (+1%) and a marked increase in the number of shipments (+20%), due to an improved standard of service that allows clients to make smaller but more frequent orders. The completion of technological innovations at the central warehouse has further reduced shipment times, with 80% of shipments being carried out within three calendar days of the order being received.

Sperling & Kupfer Group

In 1999 the Sperling & Kupfer Group registered sales of 43.9 billion, compared with 37.6 in 1998 (+16.7%), thanks to the brilliant results achieved by the Group's two publishing houses, Sperling & Kupfer Editori and Edizioni Frassinelli. Production was aimed at containing the number of titles published, with the result that the number of new titles was reduced to 301 (337 in the previous year), plus 271 reprints (248 in 1998) for a total of 5.3 million copies, compared with 5.5 million in 1998.

Sperling & Kupfer Editori achieved extraordinary success with the new book by Rosemary Altea (more than 260,000 copies sold), as well as excellent results from the publishing house's traditionally successful authors (particularly Stephen King and Danielle Steel) and confirmation of the popularity of the titles in the low-priced Sperling Paperback series.

Edizioni Frassinelli published the successful new book by Nicholas Sparks, while the rest of the company's catalogue also produced positive results.
The number of new titles was further reduced (61 titles in 1997, 51 in 1998, 43 in 1999) while the number of reprints increased (38 compared with 25 in 1998).

Giulio Einaudi Editore

The company registered net sales of 67.4 billion, substantially in line with the previous year, with particularly favourable results being achieved by Einaudi titles in the bookshop market where they recorded a 15% increase in sales. However, the negative trend established the previous year in large-scale retail channels, attributable to fiction/non-fiction titles but not to the publishing house's catalogue authors, was confirmed.

Instalment sales held up relatively well in comparison to 1998, with a different composition of publishers' sales that saw Meridiani Mondadori being privileged in comparison to the more traditional products of the sector.
The net result registered a decrease of 3.8 billion, after provisions for 3.7 billion were made in order to cover risks identified in the slow rotation of some titles in warehouses and other company locations.

During the year Einaudi achieved a market share of 6.5% in terms of quantity and 5.8% in terms of value, consolidating its position as the third largest Italian publisher after Mondadori and Rizzoli and increasing its advantage over its direct competitors (Feltrinelli, Adelphi and Garzanti).

For the third successive year an author from the Einaudi catalogue was awarded the Nobel Prize for Literature. This year the Prize went to Günther Grass, author of books of the calibre of *Il Rombo*, *La Ratta*, *Mostrare la lingua* and, more recently, *È una lunga storia* (1998) and *Il mio secolo*, the latter having been published in 1999.

Among the most popular books with both critics and public alike were, in the foreign section, *Tutte le anime* by Javier Marìas, *Underworld* by Don De Lillo and *I giardini dell'Eden* by Ethan Cohen, while in the Italian writers' section there was *In tutti i sensi come l'amore* by Simona Vinci, *Q* by Luther Blisset and *L'isola dell'angelo caduto* by Carlo Lucarelli. As for non-fiction, those titles worthy of particular note were *Cuori e denari* by Giorgio Ruffolo, the refined fresco by Marino Berengo in *L'Europa delle città* and *Teoria generale della politica* by Norberto Bobbio.

Of particular note in the fiction/non-fiction sector was the Stile Libero series for the variety of the products on offer, developed with the aid of various media-support systems, such as music CDs and videos, issued with the books. Among these *La vita è bella* by Roberto Benigni and *Vajont* by Marco Paolini were particularly successful.

2000 began with positive sales results both for 1999 products and for the first new products of the new year. The company's intention is to concentrate on increased efficiency in the instalment network and on new initiatives in the on-line publishing sector. As far as new publishing initiatives are concerned, the year will see the launch of *La Storia del Teatro Europeo* and a new series of Stile Libero Noir, as well as the development of university textbooks.

Art and illustrated books

The Art and illustrated book area closed the 1999 financial year with an increase of 22.7% on net profits, which amounted to 51.8 billion compared with 42.2 billion in the previous year.
The market registered a slight recovery determined by, amongst other things, a period of interest in "cultural spending" which saw an increase in the commissioned work sector (corporations, companies, institutions), where there was a 40% increase in net sales and margins held up well. There was, however, a slight fall in net sales in the bookshop and large-scale retail channels (-3%).

Some of the more significant titles published over the year were *Il Cenacolo Vinciano*, *Duccio*, *Giani* and *Raffaello* in art books, *Pikionis*, *Neutra*, *Siza* and *Rossi* in architecture and *Natura morta*, *Pittura barocca*, *Venezia* and the new Quadrifolio series in medium-priced books.

However, there were evident signs of difficulty in the instalment sales sector and in the foreign sales area, which after four years of expansion suffered the negative effects of an international crisis in the sector.

In the exhibition sector 1999 was a year of radical changes with a reduction in some traditional activities that are no longer very profitable, such as pre-sold catalogues and the acquisition of catalogues for exhibitions organised by third parties.
The sector concerned with directly organising important events, however, continued to develop, with sales increasing from 167 million in 1998 to 3.6 billion in 1999.
The considerable success of *L'Anima e il Volto* at Palazzo Reale in Milan was also repeated for the *Hokusai* exhibition, which was presented at the same venue, while at the end of the year the *I Cento Capolavori dell'Ermitage* exhibition opened in Rome at the Scuderie del Quirinale. This event promises to be the most important European exhibition of 2000, attracting 180,000 visitors and selling more than 15,000 catalogues in the bookshop in the first two months alone.

In the museum services area net sales increased by approximately 60%, reaching a break-even figure and giving substance to the forecast that the concessions bought in the previous three-year period will produce their first surplus in 2000.

Educational Publishing

In 1999 the educational publishing market was substantially stable. The extra year of compulsory education did not entirely compensate for the drop in numbers due to the fall in the birth rate, the dramatic effect of which can now also be seen in secondary schools.
The 200 billion contribution set aside for low-wage families, which has been allocated in a random way by local authorities and in some cases with incredible delays, has not compensated for the price freeze requested by the Education Ministry and the reduction in prices of some texts that are "lighter" than in the past, while second-hand books continue to pose a big threat.
Thanks to the important acquisitions policy initiated in 1999 (Mursia, Le Monnier and Poseidonia) and to the growth of Elemond imprints, the textbook sector registered sales of 158.4 billion at the end of 1999, an increase of 86% compared with 1998.
As a result of the critical situation in the sector competition has become even more intense, particularly among the larger publishing groups. At the end of 1999 four groups accounted for more than 50% of textbooks adopted by the Ministry of Education:

Educational books: revenues

(bn lire)	1999	1998	% change
Elemond textbooks	93.3	85.0	+9.7%
Acquisitions (Mursia, Poseidonia, Le Monnier)	65.1	-	n.a.
Total	**158.4**	**85.0**	**+86.3%**

- The Mondadori Group and the Zanichelli Group with approximately 15% each;
- RCS with approximately 13.5%;
- Bruno Mondadori - Paravia with slightly less than 10%.

Of the other publishers that operate in the market only 11 have a share between 1% and 6% for a total of approximately 30%, and among these is the UTET and La Scuola + Giunti group for the secondary school market. The remaining 17% of the market is shared between 150 publishers that produce specific products for schools and often concentrate either on a limited number of texts or on specific segments of the market.

In 1999 important resources were deployed for promoting texts with printed material, off-line and on-line electronic support or refresher courses for teachers (more than 100), which were organised in collaboration with Microsoft. The introduction of new technology, strongly supported by the Education Ministry, generated widespread curiosity about the use of new equipment, even if it has not yet created a market.
The publishing house Poseidonia, bought by Elemond at the end of July 1999, also registered good results both in terms of sales and profitability, despite the fact that it suffered a slight drop in the number of textbooks adopted by the Ministry of Education.

2000 presents a good deal of uncertainty for school textbook publishing, since it is far from clear what teachers and head teachers will decide to do about adopting textbooks for this transitory year before the new law on reorganising the school system comes into force in 2001/2002. Other uncertainties concern the new ministerial provisions regarding the configuration of textbooks, the price ceiling to be established for every compulsory school year and the effects of the independence that every local authority in the country will have from September 2000.
As for production during the year,

all the imprints took into account the new regulations, making important investments as a result of the vast choice of books in the catalogues.

Retail

In the retail area, which involves Ellemme and Mondadori Franchising, overall turnover increased from 35 billion in 1998 to 50 billion in 1999.

Ellemme

In the light of an average market increase of 1.1% in terms of value, the Mondadori and Ellemme bookshops registered net sales of 43.9 billion, an increase of 6.6% compared with 1998. Mondadori's share of Group sales figures amounted to 45.6%, compared with 40.3% in the previous year.
During 1999 some important investments were made, while in 2000 it is planned to re-style the Milan sales outlet, take over the Le Monnier bookshop in Florence and open a new bookshop in Padova.

Mondadori Franchising

In its first year of business the company registered net sales of 16.3 billion from the 58 Gulliver bookshops bought in October 1998 from Opportunity Books and the ten new branches of Libreria Mondadori. In 1999 the franchising market was enlarged with the arrival of Rizzoli, which up to the present time has only opened one shop, in Milan in October 1999.

Abroad

Grijalbo Group (100%)

The Group's consolidated sales amounted to 40.7 million dollars, an increase of 5.4% compared with 1998. This improvement was due to both the good results achieved in Spain and to the increase in sales in Latin America (in particular the 22% increase in Argentina). In Spain the 5.9% increase in sales compared with the previous year was mainly due to the successful sales figures for *Alexandros*, *Hannibal* and the Biblioteca García Márquez. These projects enabled the company to consolidate its market share on a national level and to gain important international visibility, since both the first two titles were number one best-sellers in all Spanish-language markets.
It is worth noting that *Alexandros* had the best sales figures in Spain in 1999 with more than 400,000 copies sold, a figure that increases to 700,000 for the entire Spanish-language international market.

It should be remembered that Grijalbo Mondadori Group is the first company on an international level to open a bookshop in Cuba. During the Book Fair week the bookshop registered sales of 18,000 dollars, an enormous figure for the Cuban market.

The following table illustrates the consolidated sales for each of the areas in which the Mondadori Grijalbo Group operates:

Grijalbo Group: consolidated revenues

(US $ m)	1999	1998	% change
Sales in Spain	20.8	22.1	5.9%
Sales in America	23.0	21.2	8.5%
Total sales	43.8	43.3	1.2%
Intergroup sales	-3.1	-4.7	-34.0%
Consolidated sales	**40.7**	**38.6**	**5.4%**

The Magazine Division registered consolidated sales of 1,386.2 billion, an increase on the previous year of 13.6%. This result, which follows the excellent result registered in 1998, was achieved thanks to an intense programme of developing and reinforcing the products, and in spite of the relative stability of the circulation market, which in fact was counterbalanced by the continuing growth of the advertising market.
In the light of this it should be emphasised that the market rewarded those players who concentrated mainly on innovation and quality with performances above the average.
The following table gives an overall picture of the situation.

Magazines: revenues

(bn lire)	**1999**	**1998**	**% change**
Circulation	812.9	754.7	+9.1%
Advertising	573.2	474.7	+20.7%
Total Sales	**1,386.2**	**1,220.0**	**+13.6%**

Circulation

Magazine circulation

(bn lire)	1999	1998	% change
Circulation of Mondadori Titles	611.3	547.2	+11.7%
Circulation of Specialised Titles (IT + Elemond)	20.9	16.6	+26%
Circulation of Third Party Titles	180.6	190.9	-5.4%
Total circulation	**812.9**	**754.7**	**+9.1%**

After a very positive year in 1998, the market was substantially stable in 1999.
Mondadori, the clear leader in the magazine sector, with an increase close to 3% (7.5% if supplements are also considered), further increased its share of the market which now stands at 38%. These results demonstrate how the editorial strength of the Group is capable of reinforcing and renewing itself in the face of a market that is increasingly competitive, partly as a result of the arrival of new international players.
Consequently Mondadori's strategy is based on the following:

1. **Substantial increase in profitability.** The Magazine Division achieved a significant increase in profitability mainly thanks to a large increase in both circulation and advertising sales.
   In particular, circulation sales benefited from both the increase in copies and from brand and media extension operations.
   Advertising sales also registered large increases, something which will be examined in more detail in the section devoted to advertising.
   A good deal of attention was also paid to controlling editorial and promotional costs.

2. **Capacity for innovation on the publishing front.** Mondadori increased the performance of almost all its titles not just by improving and expanding the quality but, in particular, by developing its main brands. The strategic objective was to satisfy the growing demand from readers for information, adding a wide range of editorial products to the basic magazines, including supplements specialised in subjects that are complementary to the main title, such as health, cookery, fitness, the home, Internet and high-tech, and multi-media support, such as videos and CD-ROMs. It should be noted that new important editorial initiatives were also launched in 1999.

3. **Agreements with prestigious national and international players.** Mondadori's established leadership position favoured the signing of agreements with prestigious partners, such as the Hearst Group of the U.S. and Il Sole 24 Ore, in order to expand the editorial portfolio of the division.

As far as the main products are concerned, the following initiatives were of particular importance:

- in the Women's magazine market, which is so important and strategic because of its size, both in terms of circulation and advertising, Mondadori maintained a market share well over 50% with *Donna Moderna* and *Grazia*. In particular, *Donna Moderna* increased its circulation figures with an average of 618,000 copies while *Grazia* maintained its circulation figures (280,000 average copies);
- in the newsmagazine sector *Panorama*, with an average circulation of 567,000 copies (+12.5%), reinforced its market leadership and increased its advantage over its direct competitor by 180,000 copies, at the same time increasing its market share to 60% thanks in part to the continued development of its brand extension.
  In this vein, *Panorama Web*, a monthly supplement launched at the end of 1998 dealing with subjects relating to computers

and on-line information, and *Panorama Next*, a new supplement dedicated to high-tech launched at the end of October, both had good results.
It is also worth noting the excellent circulation performance of the media extension initiatives involving the "Larousse" and *Millennio* encyclopaedias and the *Panorama* calendar;

- in the Television and Entertainment sector, *TV Sorrisi e Canzoni*, the leading Italian magazine, maintained circulation of 1.6 million copies and further increased its editorial initiatives with a new monthly supplement on health. Between 1998 and 1999 monthly supplements dealing with subjects that are complementary to the main title, such as games *(TV Giochi)*, children *(Kids),* cooking *(In Tavola)* and health *(Sorrisi & Salute)*, were launched. Apart from these supplements, *TV Sorrisi e Canzoni* has carried out important promotional initiatives of particular interest to its readers, such as the six videos issued under the title "L'emozione della vita" and various CDs. With *TV Sorrisi e Canzoni*, *Guida TV* and *Telepiù*, Mondadori has a 75% share of the market in this sector;
- with a 19% increase and circulation figures of 475,000, *Chi* confirmed its positive trend and the success of its editorial policy, which is still unique in the Italian publishing area;
- in the home sector, Mondadori, with its two monthly magazines *Casa Facile* and *Casaviva* and two supplements *Grazia Casa* and *Casa Idea*, reinforced its leadership with a market share of more than 60%.

As explained in the introduction, apart from the traditional activities of managing and developing the existing portfolio, 1999 was characterised by the launch of new editorial initiatives and the signing of agreements with important national and international partners.

Development of new products. After the launch of two successful titles in 1998 (*Top Girl* and *Panorama Travel*), Mondadori began an important programme in autumn 1999 to develop new products, the first examples of which were *Y&S* (launched in 25 October) and *Tu* (24 November).
Tu, in particular, represents the most important editorial initiative undertaken by Mondadori in recent years. This weekly title in the women's mass-market segment immediately achieved extremely high circulation figures with more than 600,000 copies being sold, and represents Mondadori's response to the new opportunities linked to the liberalisation of retail channels.

Agreements: on 15 September an agreement was signed with the American Hearst Group for a joint-venture. The prior objective of the new company, Hearst-Mondadori Editoriale, is to publish Hearst magazine titles in Italy, and the first initiative will involve the launch of the Italian edition of *Cosmopolitan*, a title that with 41 international editions is the biggest selling women's magazine in the world.

On 16 December Mondadori signed an agreement with Il Sole 24 Ore to develop the know-how of the two companies in the publishing field, and the first operation was the constitution of a new jointly-owned company that became operational at the beginning of 2000.
The first two publishing initiatives under this agreement are a monthly magazine - *Ventiquattro* - issued as a supplement to *Il Sole 24 Ore*, a national daily newspaper, and a newsletter dedicated to personal finance that will be published every week with *Panorama*.

A major change in 1999 was the **liberalisation of distribution channels**. After the introduction of the law relating to this, the experimental phase of the liberalisation of the sale of magazines and newspapers in channels other than traditional newsstands, such as supermarkets, bookshops, specialist shops and tobacconists, was introduced. The positive effects of these new sales outlets were mainly linked to the possibility of attracting new consumer groups that normally do not go to newsstands. First results, even though they are based on the limited number of retail outlets currently involved in the scheme (600 out of a potential total of 2,000), confirm expectations and highlight an increase in circulation figures for Mondadori titles, particularly in the women's, specialised and TV-entertainment segments.

The Magazine Division also includes sales of other publisher's titles and publications by Mondadori Informatica and the Elemond Group, as well as publications by the associated company Grüner und Jahr/Mondadori (jointly owned with Bertelsmann, the German publishing group).

As far as the affiliated company **Grüner und Jahr** is concerned, important results were achieved by the monthly science magazine *Focus* which registered sales of 732,000 copies over the year, a further increase of 8% compared with 1998. The company closed its financial statements on 30 June 1999 with sales of 33.9 billion (a 14.1% increase compared with 1998) and net profits of 4.2 billion.

As for sales of other **publishers' titles**, in 1999 Mondadori registered sales of 180.6 billion. Mondadori's distribution network serves approximately 36,000 newsstands in Italy by means of 150 local distributors.

Outlook for 2000

The overall market should remain substantially stable, and it seems fair to suppose that there will be a recovery in the men's life-style, women's mass-market and specialised publishing segments.
Against this background, Mondadori will continue to reinforce its successful brands, pursue its circulation objectives for the new titles launched in 1999, strive to ensure that the publishing initiatives linked to the agreements with Hearst and Il Sole 24 Ore are successful and continue with its plans for new publishing initiatives linked to emerging segments in the publishing market.
At the same time, further agreements with other international partners are also possible.

Advertising

In 1999 the advertising market continued the positive trend began in 1997, registering an increase of +12% compared with the previous year. Of particular note was the increase in general printed advertising (+14%), which included an excellent performance in newspaper advertising (+20%) and a + 7% increase for magazines, while both the radio (+24%) and television (+10%) markets continued to increase.

The following table gives a summary of the advertising market in 1999 compared with 1998:

Advertising Market

(bn lire)	1999	1998	% change
Television	6,968	6,314	+10%
Magazines	**2,036**	**1,886**	**+7%**
Newspapers	2,815	2,318	+20%
Radio	528	426	+24%
Posters	304	274	+11%
Total market	**12,652**	**11,218**	**+12%**

Source: Nielsen

In this context **Mondadori Pubblicità** achieved an excellent performance with an overall increase of +20.7% and a +16.3% increase in the newspaper sector alone. This result was partly due to an increase in average prices (+ 1%), while the general market registered a drop in this figure (-2.5%)[6]. This performance has played a decisive part in the overall profitability of the Magazine Division.

In particular, advertising results for *Il Giornale* were excellent with sales almost doubling, producing an increase that had a significant effect on the market performance. This success is mainly due to the introduction of colour and to a new positioning of the newspaper in relation to advertisers.

The details relating to the individual titles are as follows:

- the significant increase in specialised titles (+28%), and in particular the exceptional performance of *Casa Facile* and *Starbene*. The increases of almost +90% for these two titles confirmed their leadership positions in their segments, and further improvement is forecast;
- the good result achieved by *Panorama* (+ 10%) and its new supplement *Panorama Web*;
- the notable increase achieved by *TV Sorrisi e Canzoni* (+ 12%), a title which is aimed mainly at mass consumers and has suffered no negative effects from the introduction into the Mondadori Pubblicità portfolio of *Famiglia Cristiana*;
- *Chi*, with an increase of 49%, confirmed its position as an highly competitive product not just from the circulation point of view but also from the advertising point of view;
- the continuing success of *Focus* (+ 26%), achieved by a substantial increase in price (+21%);
- the continued leadership in the women's magazine sector (+ 5.4%), thanks to the consolidation of the supplements issued with *Grazia* and *Donna Moderna* that

[6] It should be noted that the market data includes Mondadori (approximately 30% market share), therefore if Mondadori was excluded the data would be even worse.

contribute to widening the offer for advertisers as well as improving the magazines themselves. It should be noted that the advertising price of *Donna Moderna* was significantly increased (+7%) in sharp contrast to the market trend;

- the good results achieved by advertising sales for *Famiglia Cristiana*, a title that since January 1999 has completed the offer in the family segment.

Mondadori Pubblicità signed an agreement for advertising sales with Walt Disney, which took effect from 1st October 1999. This represents another phase in the operation, which has already been amply illustrated, to complete the portfolio of products and it also helps to attract new groups of advertising clients.

Initial forecasts for 2000 continue to be very comforting with a projected increase of around 10% for the first four months of the year.

1999 was characterised by increased demand in the Italian market for printing magazines and newspapers, supported by the growth of the advertising market.
The European market for commercial products continued to be stagnant, while the printing price war between competitors continued unabated.
The demand for high-quality offset printing continued to be stable in a sector that is faced with the problem of an high number of competitors in both the Italian and European markets, as well as the increasing threat represented by printers in the Far East.

On 1st August 1999 Mondadori Printing S.p.A. was formed, with the new company encompassing the 4 Italian plants previously owned by Mondadori and the Martellago plant previously owned by Elemond S.p.A.
Artes Graficas Toledo S.A. (Spain) also comes under the management umbrella of Mondadori Printing.

The following table gives a summary of the business activities of the Printing Division in 1999, with sales shown net of the cost of paper and transportation according to the type of printed product:

Printing: revenues (net of paper and transport costs)

(bn lire)	**1999**	**1998**
Magazines	207.8	208.9
Books	143.7	134.9
Catalogues/ promotional material	62.0	73.5
Directories	29.3	46.9
Total printing sales	**442.8**	**464.2**

The decrease in printing sales did not undermine the excellent use of plant since the amount of work carried out was on average higher than internal capacity and the amount of work sub-contracted out was also very high.
In Mondadori's Italian plants in 1999, 280,000 tons of paper were processed in comparison with 291,000 tons in 1998 (-3.8%), a figure which confirms the high level of production in the 5 plants.

In 1999 two sheet offset printing presses, a stapling line and a Timson offset rotary press came in to production. The Timson rotary press was installed in the Cles plant and increases the book-printing capacity from 40 million to 75 million.

During the year investments in the various plants amounted to 32.1 billion, while the rotary press damaged in the fire at the Pomezia plant was repaired at a cost of 7.4 billion (covered by insurance).
It has also been decided to invest in a large-format rotogravure rotary press that will begin production in the first months of 2001.
The staff redundancy programme introduced in 1998 as a result of new technology was completed during the year.

Artes Graficas Toledo, which operates within the Printing Division, achieved sales of 42.7 billion compared with 36.8 billion in 1998, and produced a profit of 1.2 billion (2.7 in 1998) after provisions of 1.9 billion (1.5 billion in 1998) for depreciations.

In the first months of 2000 a reel-fed rotary offset press began operation in the Verona plant.

Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. currently operate whit the following machinery:

Printing: machines currently in operation

	Verona	Melzo	Cles	Pomezia	Martellago	Toledo	Total
Rotogravure	7	4	-	-	-	-	11
Rotary offset	4	-	1	3	-	-	8
Flat offset	13	-	-	-	5	7	25
Cameron	-	-	3	-	-	-	3

In 1999 the Group's Direct Marketing sector was characterised by the creation of Mondolibri S.p.A., a joint-venture between the Mondadori Group – through its Club degli Editori S.p.A. subsidiary – and the Bertelsmann Group – through its Euroclub Italia S.p.A. subsidiary.
This operation, which had been planned for some time, was aimed at creating synergies and capitalising on the know-how of the two most important operators in the sector in order to introduce a policy of rationalisation of the structure, initiatives and costs, as well as introducing new development projects aimed at finding new clients in a reference market that is showing some signs of recovery, and to overcome the difficulties that have arisen from the introduction of the Privacy Laws.

In the first six-months of the year, **Club degli Editori S.p.A.** carried on with its traditional activities and registered sales of 49.5 billion, a drop of 4.8% compared with the same period in 1998. After this period the company continued to manage its database and, among its assets, the Mondolibri S.p.A. property in Brescia. The net result as at 31 December 1999 amounted to 643 million.

Mondolibri S.p.A., formed by the merger of two subsidiary companies of the two partners, commenced operations on 1st July 1999. The company is Italian market leader in the mail-order publishing sales sector (over 40% of market share), and its main competitors are all very small in comparison. Sales for the first six months amounted to 82 billion, while the company has approximately 1.7 million members.

Cemit Direct Media S.p.A. closed the year with sales that were in line with those registered at 31 December 1998, while net profit almost doubled as a result of activities with higher contribution margins (data base management), a policy of containing operating costs and extraordinary income (advance tax).
Cemit maintains its position of undisputed leader in a sector where, with the exception of Seat Direct, the other competitors are very small and are only able to offer their clients fragmentary and specialist services.

Direct Marketing: sales

(bn lire)	**1999**	**1998**	**% change**
CDE Publishing 1st half of year	49.5	52.0	-4.8%
CDE Publishing 2nd half of year	-	48.4	-
CDE Services	3.0	4.1	-25.9%
Mondolibri 2nd half of year (proportional)	41.1	-	-
Cemit	42.6	42.7	-0.1%
Total sales	**136.4**	**147.3**	**-7.4%**

Magazine Area
Mondadori Informatica is present in the specialist market with the monthly titles *PC Professionale* (sector leader, average circulation 100,000 copies), *Computer Inter@ctive*, a monthly title with CD-Rom aimed at the consumer market with circulation figures of approximately 80,000 copies, *ZeroUno* (a monthly title with controlled circulation – approximately 15,000 copies), *PC Trade* (approximately 16,000 copies) and the weekly *PC Week* (controlled circulation with average sales of 35,000 copies).
Magazine sales amounted to 27,034 million. Circulation sales were substantially in line with the figures for 1998, while advertising sales increased by 12%.

Education Area (Books, Training Courses and Conferences)
The Book division (software-user manuals, in particular Microsoft software) registered sales of 9,716 million, partly due to the publication of manuals for the new MS Office 2000 software.
The Courses and Conferences division, which specialises in offering training courses for software use, is continually growing and registered sales of 9,068 million for the year. Rooms for holding computer courses are available in the Mondadori Informatica headquarters and in the Informatica Center in Bologna.

Consumer & Retail Area (Multicenter, M.I. Center, M.I. Corner, Infoclub)
The wholly-owned Mondadori Informatica Center stores (Milan, Bologna, Pisa) generated sales of 5.535 million, a decrease in comparison with the previous year as a result of the sale of the store at Porta Vittoria in Milan.The Multicenter in Milan was particularly successful, registering sales of almost 30 billion in its first full year of business.
There are currently 11 affiliated Mondadori Informatica Center stores, 5 of which were opened in 1999.

The growing opportunities linked to the development of the Internet encouraged the Mondadori Group to accelerate its activities in this area. After the conclusion of the 1995–1998 three-year experimental phase, at the beginning of 1999 the Group approved an important investment plan. In March an independent division – Mondadori.com – was created in order to bring together under one roof all the resources necessary for the development of Mondadori on the Internet, making use of the Group's recognised strong points in traditional media.

During the year the structure and editorial plan was defined, with the emphasis put on both the specific strong points of the Group (recognised leadership in content, linked to the Group's excellent distribution structure) and the development of the new economy. This editorial plan involved the definition of an integrated system of vertical sites (*destination sites*) in areas where the Group has always been the leader, such as technology, the women's sector, the news and entertainment sectors and the young people's sector.

With the aim of accelerating this process, the VOLFTP Internet site was bought in April, since Information Technology, the sector where VOLFTP is the leader in the Italian market, constitutes one of the most significant elements for Mondadori's entrance into the Internet sector. VOLFTP, with an average of over 9 million pages visited every month and more than 40,000 contacts every day, is capable of concentrating the attention of computer users who are offered an excellent range of services constructed around its main function, which is the downloading of the most up-to-date utility programs available on the market.

In August Mondadori.com signed an agreement with AltaVista Company to include its search engine on the Mondadori site. The version of AltaVista incorporated in Mondadori.com is for all intents and purposes the search engine housed at Palo Alto, California, where all users' requests are sent.

On 12 October 10% of News Alert Investors LCC , an American company specialising in the syndication of financial information in real time on the Internet, was bought for $2.5 million.
The agreement with News Alert LLC is aimed at reinforcing real time financial news, a sector where the U.S. company is the undisputed leader thanks to a network of important content providers, including Reuters, AP, Business Wire, Dow Jones and PC Quote, that supply news and data which is then offered in fuller, personalised versions to clients. These clients currently include American Express, CBS Market Watch, Datex and Dow Jones. This partnership will enable Mondadori.com to use the technology supplied by the U.S. company to offer visitors to its site financial information in Italian.

On 14 October at the Frankfurt Book Fair, a letter of intent was signed with Microsoft Corp. for the publication of the first electronic books (eBook) destined for the Italian market, to be used with Microsoft Reader, a programme that brings the quality of printed books to the computer.
Mondadori will produce a CD-ROM, with an initial number of electronic books in Italian, to be issued with some of its highest circulation titles and will make it available for downloading from Internet in the new eBookstore that will be created as part of the overall Internet offer available at *www.mondadori.com.*
Mondadori believes that the collaboration agreement signed with Microsoft for the common purpose of creating and developing an Italian market for the eBook, represents an important step for its global strategy on Internet business. This technology signals a new way of gaining access to information,

introducing an approach to business that identifies Internet not just as an efficient, widespread distribution channel, but also as a means of communication capable of proposing new parameters in the publishing business.

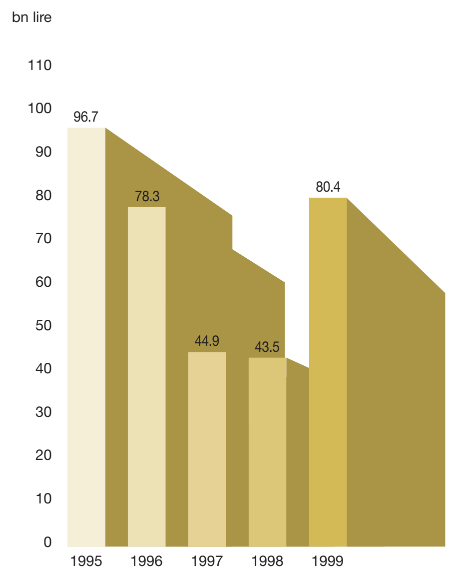
On 24 December Webmond S.A. was founded (with a capital of 25 million Euros) in order to manage all the Group's Internet activities.

A good deal of work was carried out in subsequent months to improve the contents available on the site and to prepare for the launch of four vertical portals planned for the beginning of 2000.

To sum up, in the space of one year Mondadori has invested more than 15 billion lire (between internal development and acquisitions) for the development of the Internet project, a figure that is destined to increase in 2000.
2000 began with a series of important agreements and operations, the details of which will be given in the section on Significant events during the current year on page 51.

In 1999 the Group made technical investments for a total of 80.4 billion, 45.2 billion of which were in the printing area. In addition to these investments the Group also acquired the divisions of the Mursia publishing house, Le Monnier Group and Poseidonia connected with school textbooks, the VOLFTP web site and a share (10%) of News Alert Investors LLC for the Internet project. The total amount of investments for these operations came to 88.7 billion.

As far as technical investments are concerned, a Timson reel-fed rotary offset press came into production at the Cles plant for a cost of 12.5 billion.
An offset printing press and a new stapling line, for a total of 10 billion, were acquired for the Verona plant where, in the first few months of 2000, a reel-fed rotary offset press for the printing of high-quality products began production.
It has also been decided to invest in a large-format (3.6 metre) rotogravure rotary press to be installed at the Verona plant in 2001.
In all company plants work was carried out to renew equipment, improve safety and protect the environment.
The office automation programme (personal computers and local networks) continued both in Mondadori and in the other companies of the Group.



Mondadori Group: capital expenditure

The Mondadori Group's financial position as of 31 December 1999, including debts for leasing, showed a surplus of 283.4 billion (216.8 billion at 31 December 1998). The table below illustrates the situation.

Financial position

(bn lire)	**31/12/1999**	**31/12/1998**
Short term bank deposits	376.3	451.0
Short term borrowing from banks	(76.8)	(97.2)
Financing (short and medium/long term)	(450.9)	(214.2)
	(151.5)	139.6
Fixed interest securities	465.0	107.9
Cash, post office accounts, net financial receivables from affiliates and third parties and accrued interest income	(13.2)	7.5
Net cash and financial receivables	300.4	255.1
Leasing debts	(17.0)	(38.3)
Net financial position	**283.4**	**216.8**

With the abolition of the Bank of Italy's Minimum Lending Rate, the reference rates are those applied on refinancing operations by the Central European Bank. In 1999 Euro market rates were as follows: the upper limit of the range of Euro rates (marginal refinancing rates) dropped from 4.5% at the beginning of the year to 4.0% at 31 December, while the lower limit (deposit rate) returned to 2% at the beginning of the year after having slipped to 1.5% for six months (with refinancing rates at 3.5%).
Over the year the three-month Euribor rate (base 365) increased from 3.3% to 3.5%, with an average value of 3.0% (near the end of the year rates rose again as a result of fear of the so-called millennium bug). The average cost of money for Mondadori in the same period was 3.2% (3.0% without taking into account subsidised loans at the old rates).
The prime IBA rate in 1999 dropped from 6.375% to 6.25%.

Forecasts for 2000 are for interest rate increases that should accompany the economic recovery, cushioning any inflationary tendencies, and in fact the European Central Bank implemented the first increase in interest rates, equal to a quarter of a point, at the beginning of February.
As far as exchange rates are concerned, 1999 was characterised by the progressive weakening of the Euro after the spectacular events at the beginning of the year.
As for the foreign currencies that interested Mondadori, the Euro/dollar exchange rate changed from 1.17 at the beginning of January

to parity at the end of the year (1.00), while the Euro/sterling exchange rate changed from 0.71 to 0.62.
Translating all of this into lire, the strengthened American dollar and British pound increased from 1,642 to 1,927 (dollars) and from 2,723 to 3,114 (sterling).
The main reason why these two currencies were so strong is that the American and British economies were characterised by different growth rates in comparison with the Euro countries.

The table below summarises the 66.6 billion increase in the net financial position.

Cash flow summary

(bn lire)	1999	1998
Net result	152.8	96.3
Depreciations	120.5	120.2
Self-finance	**273.3**	**216.5**
Changes in working capital	62.9	53.4
Net investments	(179.6)	(62.3)
Severance indemnities	5.8	1.6
Buy-back of company shares (net of sales)	(33.8)	(31.1)
Other activities/Liabilities	(22.0)	(14.6)
Operating surplus/(Requirement)	***106.4***	***163.6***
Capital movement	(39.8)	(164.5)
of which dividends	(65.6)	(158.7)
Financial surplus/(Requirement)	**66.6**	**(0.9)**
Initial net financial position	216.8	217.8
Change	66.6	(0.9)
Final net financial position	**283.4**	**216.8**

Positive values = source of financing

As of 31.12.1999 the Group had unused lines of credit in the form of bank overdrafts and other short term credit facilities equal to approximately 850 billion, in addition to the Elemond Group's short term lines of credit for approximately 175 billion.
The short term credit facilities were used principally by means of self-liquidating lines of credit (such as discount bills), ensuring a competitive debt mix.
The medium/long term lines, apart from subsidised loans in accordance with law 416/81 for publishers (approximately 40 billion), are made up of a revolving multi-currency credit facility with a duration of five years equal to 300 billion. At the end of the year this facility, launched in November 1997, had been used for a total of 210 billion, while the unused part (90 billion) constitutes a reserve for the future needs of the Group.

Mondadori International, which manages the liquidity of the Group by means of various financial investments, generated net profits of 22.4 billion (24.6 billion in 1998) during 1999.
During the year a policy of diversifying the portfolio was implemented in order to maintain good profitability of the liquidity invested during a period characterised by low interest rates.
In March 1999 ABS Finance Fund, a Sicav asset management company jointly owned by Mondadori International, Mediaset Investment and Trefinance, began operating.
ABS Finance Fund's policy is characterised by investments in monetary instruments and obligations and the guarantee of invested capital.

As of 31 December 1999 Group companies employed 5,286 people.The following table shows details of Group personnel.

Personnel

	31/12/1999	31/12/1998	Change
Arnoldo Mondadori Editore			
Managers, journalists and office staff	1,402	1,836	-461
Workers	194	1,612	-1,418
	1,596	3,475	-1,879
Italian Subsidiaries			
Managers, journalists and office staff	1,734	1,051	+683
Workers	1,482	128	+1,354
	3,216	1,179	+2,037
Foreign Subsidiaries			
Managers, journalists and office staff	295	296	-1
Workers	179	182	-3
	474	478	-4
Grand Total	**5,286**	**5,132**	**+154**

The variation in the number of personnel was as follows:

- personnel due to acquisitions during the year	+156
- founding of Mondolibri S.p.A. (Euroclub)	+174
- sale of Auguri di Mondadori S.r.l.	-76
- turnover	-100

The total cost of Arnoldo Mondadori S.p.A. personnel for 1999 was 272.0 billion (331.1 billion in 1998) while the figure for the entire Group in 1999 was 456.7 billion (448.8 billion in 1998).

The variation in numbers in comparison with 31 December 1998 is due, apart from normal turnover, to the following:

- in January Elemond S.p.A. acquired the school textbook division of Mursia, with the subsequent transfer of 7 employees from Mursia to Elemond;
- on 30 April 1999 Arnoldo Mondadori S.p.A. completed the acquisition of the division of Exol S.p.A. concerned with the creation and managing of the "VOLFTP" Web site on Internet. This operation included the "acquisition" of 8 employees based in Cagliari;
- on 31 May 1999 the redundancy programme at the Verona offices of Arnoldo Mondadori Editore came to an end, resulting in the shedding of 127 employees (66 of which in the second half of 1998) who had the possibility of either choosing to benefit from the provisions of law 223/91 or take early retirement;
- between January and June 1999 32 employees resigned at the Verona plant, taking advantage of the benefits afforded them by the union redundancy agreement;

- on 1st June 1999 the Le Monnier Group became part of the Mondadori Group. This acquisition involved five Florence-based companies, including a bookshop, a printing company and three school textbook publishers with a total of 128 personnel;
- on 1st July 1999, following the splitting up of those divisions of CDE and Euroclub concerned with the mail-order sale of books and other publishing products, Mondolibri S.p.A. was founded with 348 employees (174 of whom came from Euroclub);
- on 1st August 1999 Arnoldo Mondadori Editore S.p.A. and Elemond S.p.A. handed over their printing divisions to Mondadori Printing S.p.A., an operation that involved the transfer of 1,877 employees to Mondadori Printing S.p.A.;
- in November 1999 Elemond S.p.A. completed the acquisition of the shares in Poseidonia S.r.l., an operation that increased the number of personnel by 13;
- since December Auguri di Mondadori is no longer a part of the Group, following the sale of the shares to a third party. There were 82 personnel involved in this operation.

The average number of personnel employed in 1999 was 2,646 for Mondadori (3,523 in 1998) and 5,214 for the Group (5,205 in 1998).

On 31.12.1998 both the conditions and remuneration parts of the contract for commercial management expired.
On 31.12.1999 both the conditions and remuneration parts of the contract for industrial management expired.
On 30.09.1999 both the conditions and remuneration parts of the contract for journalists expired.
On 31.12.1999 both the conditions and remuneration parts of the contract for editorial graphic designers expired.
The remuneration part of the commercial contract expires on 31.12.2000 while the conditions expire on 31.12.2002.

We now take this opportunity of providing you with information relating to the following specific subjects:

1. Y2K problem

In the first half of the year the plan approved in May 1997 was carried out.
In the second half of the year the planned tests were carried out. The project enabled business to continue as normal when work was resumed at the beginning of the new year. The cost of the project came within the forecast budget of 1.6 billion.

2. Plan for converting to Euro

The Contingency Plan and the implementation plan (Master Plan) continued. During 2000 the operating structure training programme will be carried out and the configuration of the systems will be completed. The calendar for carrying out the conversion will be fixed during the first half of the year. The calendar will ensure that the conversion process is planned for a different period for each company in the Group, and the whole project will be completed by the second half of 2001.

3. Savings share conversion

The Extraordinary Shareholders' Meeting of 29 April 1999 resolved to assign the holders of savings shares the faculty to convert them on an equal basis into ordinary shares by 31 December 1999, on the basis of one ordinary share for every savings share.
On the date of the Shareholders' Meeting the number of savings shares amounted to 858,558, of which 610,863 were held in the Mondadori portfolio and 247,695 were in circulation. By 31 December 1999 – the deadline set for exercising the right to convert the shares – 782,852 savings shares had been converted into the same number of ordinary shares, including 610,863 of the company's own shares. Consequently the share capital of 129,351,116,000 lire, fully paid-up, on 31 December 1999 was divided up into 129,275,410 ordinary shares and 75,706 savings shares.

4. Share buy-back

We should remind you that the Ordinary Shareholders' Meeting of 29 April 1999 agreed, amongst other things,
to the authorisation, in accordance with article 2357 of the Civil Code, to a share buy-back of a further maximum of 3 million shares, as regards the 2,240,303 ordinary shares (of which 2,066,803 at December 31, 1998 and 173,500 bought in the period between January 1st and April 29, 1999) and the 610,863 savings shares in the company's portfolio on that date. Between 1st May and 31 December 1,182,000 ordinary shares, equal to 0.91% of the ordinary share capital, were bought for a total of 40,008 million lire (average cost per share, 33,847 lire). During the same period 538,000 shares for a value of 23,854 million were sold by the company. On 31 December 1999 the number of ordinary shares owned by the company amounted to 3,495,166 (2.70% of the ordinary share capital), on the books for 68,984 million lire, an average of 19,737 lire per share. This figure includes the 610,863 savings shares converted into the same number of ordinary shares on 15 December 1999.

5. Capital increase

At the meeting held on 7 July 1999 the Board of Directors, in accordance with the authorisation conferred on it, ex article 2443 of the Civil Code, by the Extraordinary Shareholders' Meetings of 24 June 1998 and 29 April 1999, decided to increase the paid-up share capital in the following way:

1) in paid-up shares for a total of 49,500,000 lire by means of the issue of 49,500 new ordinary shares with a par value of 1,000 lire each to be offered in subscription, with the exclusion of the shareholders' right of option in accordance with art. 2441, paragraph 8 of the Civil Code, to the participants in the Management Stock Ownership Plan;

2) in bonus shares (by partly using the profits from financial year 1998 for the purpose agreed on by the Shareholders' Meeting of 29 April 1999 in accordance with art. 2349 of the Civil code), by means of the issue of 205,000 new ordinary shares with a par value of 1,000 lire each, to be assigned to the participants in the Management Stock Ownership Plan who subscribed to the paid-up shares referred to in point 1); all of which to be completed by 31 December 1999.

On 17 September 1999 the share capital was increased from 129,096,616,000 lire to 129,351,116,000 lire by means of the issue of a total of 254,500 ordinary shares with a par value of 1,000 lire each, comprising:

- 49,500 paid-up shares at a price of 28,043 lire each for a total of 1,388,128,500 lire;
- 205,000 bonus shares assigned to the participants in the Management Stock Ownership Plan who subscribed to the above mentioned paid-up shares.

(follows)

6. Directors, Statutory Auditors and Chief Executive Officers' Stock Options

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

Name and surname	Company shares	No. shares owned end of previous fin. yr. (*)	No. shares bought (*)	No. shares sold (*)	No. shares owned end of previous fin. yr. (*)
Mondadori Leonardo	A. Mondadori Editore	450,250	17,000	182,000	285,250
Costa Maurizio	A. Mondadori Editore	57,000 (***)	67,500 (***)	-	124,500(***)
Barbaro Francesco	A. Mondadori Editore	20,000 (***)	18,000 (***)	-	38,000 (***)
Berlusconi Marina	-	-	-	-	-
Berlusconi Pier Silvio	A. Mondadori Editore	138,000	-	-	138,000
Confalonieri Fedele	-	-	-	-	-
Formenton Luca	A. Mondadori Editore	2,810	-	-	2,810
Formenton Luca	Mondadori International S.A.	13	-	-	13
Poli Roberto	-	-	-	-	-
Puerari Giovanni	A. Mondadori Editore	11,000 (**)	18,000 (***)	-	29,000
Sposito Claudio	-	-	-	-	-
Iorio Franco	-	-	-	-	-
Aiello Antonio	-	-	-	-	-
Frattini Achille	-	-	-	-	-
Giampaolo Francesco	-	-	-	-	-
Polerani Gianfranco	-	-	-	-	-

(*) Ordinary shares.
(**) Of which 10,000 from Stock Option.
(***) From Stock Option.

7. Information on Stock Options

The Shareholders' Meeting of June 24, 1998 approved the creation of a Stock Ownership Plan for management over the three-year period 1997, 1998 and 1999.
The Plan was aimed at senior managers of the company and its subsidiaries, editors and deputy editors of the Company and its subsidiaries and managers of the Parent Company with executive functions in the Company itself.

The Plan approved by the aforementioned meeting concerned a percentage of the company's share capital not exceeding 0.9% and is conditional on the attainment, for each of the years concerned, of specified performance targets.

In particular:
- a level of consolidated ROE not lower than the budget as a first condition to participation in the Plan;
- the attainment of consolidated free cash flow targets, for the assignment of additional paid and free shares;
- an increase of not less than 20% in the average reference price of the shares in Q4 of the year in question compared with the average for the same Q4 of the previous year, for a further increase in the allocation of free and paid shares.

The plan foresees:
- the allocation, for each year, to individual participants of an option to underwrite, at a price equal to the average reference price of 30 trading days prior to the Shareholders' Meeting to approve the Annual Report of the year in question, the shares issued as a result of paid capital increases reserved for the purpose, agreed by the Board of Directors in line with the resolution of the Shareholders' Meeting of June 24, 1998, as per Art. 2443 of the Civil Code, up to a maximum nominal value of 270,000,000 lire and within the limits of the resolution itself;
- the free allocation to the beneficiaries, that have subscribed the paid shares outlined above, of a fixed number of shares issued following a free capital increase, based on the extraordinary assignment of profits as per Art. 2349 of the Civil Code, agreed by the Board in line with the resolution of the Shareholders' Meeting made year by year, as per Art. 2343 of the Civil Code and within the limits of the resolution itself.

The paid capital increases reserved for the participants in the Stock Ownership Plan have been agree by the Board of Directors, on the basis of the aforementioned resolution of the Shareholders' Meeting of June 24, 1998, as follows:

- on September 25, 1998, through the issue of 36,500 ordinary shares with a nominal value of 1,000 lire each at a unit price of 21,385.10 (equal to the average trading price in the 30 days prior to the AGM that approved the Annual Report and Financial Statements for 1997). On the same date the Board agreed to issue 128,500 shares to be allocated free to the participants of the Share Ownership Plan who had subscribed the paid shares. The capital increases were effected in their entirety on November 23, 1998, in order to complete the Plan for 1997;
- on 7 July 1999, through the issue of 49,500 ordinary shares with a nominal value of 1,000 lire each at a unit price of 28,043 (equal to the average trading price in the 30 days prior to the AGM that approved the Annual Report and Financial Statements for 1998). On the same date the Board agreed to issue 205,000 shares to be allocated free to the participants of the Share Ownership Plan who had subscribed the paid shares. The capital increases were effected in their entirety on September 17, 1999, in order to complete the Plan for 1998.

The Board's three-year mandate, as per Art. 2443 of the Civil Code, authorised by the Shareholders' Meeting of June 24, 1998 for the paid capital increases in favour of the Share Ownership Plan consists therefore in a nominal maximum of 184,000,000 lire. The execution of the Plan for 1999 will be as per the outline in the illustrative report of the Ordinary and Extraordinary Shareholders' Meeting of April 26, 2000.

It should be noted that the Company has not agreed to loans or offered guarantees for the subscription of shares under the Stock Option Plan.

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In conclusion, with reference to Consob communication 97001574 of 20 February 1997 and 98015375 of 27 February 1998, it should be noted that commercial relations with the Fininvest Group, described in the notes, are carried out in accordance with normal market conditions.

Significant events during the current year

The beginning of 2000 has been characterised in particular by an acceleration in the activities linked to the development of the Group's interests in the Internet.

On 27 January Mondadori agreed to invest a sum of 5 million dollars in the EuroMedia venture fund capital promoted by the Fininvest Group. This fund invests in companies, which are mainly American, operating in the new-media, Internet and e-commerce sectors.

On 2 March an agreement was reached with Salon.com to reinforce development in the news and entertainment area,
and on 16 March a definitive agreement was signed with the Bertelsmann Group for the creation of the BOL Italia joint-venture.
This agreement, in particular, is aimed at launching what is expected to be the most important Italian e-commerce site for media products (books, CDs, software, etc.)

As far as the magazine division is concerned, on 22 March *Cosmopolitan* was launched, the first operation in the joint-venture with the American Hearst Group, while on 23 March an agreement was signed with the American Rodale Press group for the launch, in a joint-venture, of the men's monthly *Men's Health* and the setting up of a group of health titles, which also includes the monthly *Starbene*.

It should be pointed out that Group revenues at the end of February amounted to 403 billion, an increase of 11.9% in comparison with the previous financial year.
This result reflects the good performance of all the Divisions, in line with forecasts, and a particularly positive performance for the Magazine Division, thanks to both editorial initiatives and excellent advertising sales figures.

The Financial statements as of 31 December 1999 closed with a net profit of 341,506,454,591 lire which the Board of Directors proposes to allocate in the following way:

Net profit for the year	lire	341,506,454,591
a) to the legal reserve (which amounts to 20% of the capital)		50,900,000
Profits available for distribution		341,455,554,591
b) to the Shareholders, a dividend of 700 lire for each of the 75,706 savings shares in circulation and 680 lire for each of the 124,830,544 ordinary shares in circulation (taking account of the 4,444,866 shares held by the company the division is proportional as per Art. 2357 para 3 of the Civil Code and is gross of legal withholding tax).		84,937,764,120
c) to the reserve fund ex lege 124/93 art.13		22,871,443
d) extraordinary allocation, in accordance with art. 2349 Civ. Cod., for the Management Stock Option Plan up to a maximum of (the amount not allocated will be booked to the extraordinary reserve)		300,000,000
e) the difference to the extraordinary reserve		256,194,919,028

We propose that the dividend 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 22 May 2000, for payment from 25 May 2000. The allocation of the dividends ensures that Shareholders are assigned a full tax credit of 58.73%, as laid out in art. 105, paragraph 1 point a) of the T.U.I.R.

We therefore submit the following text to you for the motion:

"The Ordinary General Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A.,
- having heard and approved the matters explained by the Board of Directors
- having taken note of the matters contained in the Report of the Board of Statutory Auditors and the Consolidated financial statements of 31/12/1999
resolves
1. to approve the Report of the Board of Directors on the Company's performance and to approve the Financial statements for the year ended 31/12/1999, together with the notes;

2. to approve the allocation of the net profit for the year ended 31/12/1999 as proposed by the Board of Directors ".

For the Board of Directors
Chairman
Leonardo Mondadori

Authorisation to buy and use company shares as per the combined dispositions of Arts. 2357 and 2357 para 3 of the Civil Code, prior to the revocation of the Shareholders' resolution of April 29, 1999

The Shareholders' Meeting of April 29, 1999 had authorised, for a period of 18 months from the date of the resolution, the purchase of company shares up to a maximum of a further 3,000,000 shares in addition to the 2,851,166 shares already in the Company's portfolio at the time of the resolution, at a unit price not more than 20% below and not more than 10% above the official trading price on the day preceding that of purchase.

The Shareholders' Meeting of April 29, 1999 also authorised the Board of Directors to sell company shares in the portfolio at a price not less than 80% of the official trading price on the day preceding each single operation.

In line with the aforementioned resolution, the Company acquired 2,990,450 ordinary shares and sold 1,396,750.

Taking account of the shares that were already in the Company's portfolio, the Company now holds a total of 4,444,866 shares, which represents 3.43% of the Company's ordinary share capital. Given that the authorisation mentioned above is due to expire shortly, we would suggest that the resolution be revoked, for the part not yet effected, and that authorisation be granted to the Board to buy and use company shares for a period of 18 months from the date of the resolution, as per the following:

1. Reasons for the authorisation to buy and use company shares.

The reasons for this request are to enable the Board of Directors to:

- contain anomalous movements resulting from market volatility and not attributable to real economic events, by acting to stabilise the share price;
- to use Company shares as a possible exchange in the acquisition of stakes in the context of the Company's investment policy;
- to authorise the Board of Directors to use Company shares, bought under the terms of this resolution or already in the Company's portfolio, to be allocated to employees of the Company, its subsidiaries and the Parent Company whose activities have a determining impact on the attainment of the Group's strategic objectives for the agreed Stock Ownership Plan and, on the basis of the outline provided in the Board of Directors' Report for the establishment of a Stock Option Plan for the year 2000 and succeeding years.

It is further requested that authorisation be granted to buy the shares allocated freely to the participants of the Share Ownership Plan, established by the Shareholder's resolution of June 24, 1998, should a said participant be found so obliged under the terms laid out or should the contract between the Company and the said individual be terminated before the expiry of the three-year lock-up period.

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

The authorisation covers ordinary and/or savings shares, in addition to those already in the Company's portfolio on the date of the resolution, for a maximum nominal value of 3,000,000,000 lire.

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

The maximum number of shares, as at para. 2 above, to which the authorisation refers, will not exceed, in line with Art. 2357, para. 3 of the Civil Code, a tenth of the Company's share capital, including the shares already in the Company's portfolio or, in any case,

purchasable by the Company within the terms of the previous Shareholders' authorisation of April 29, 1999.
It is also noted that none of the subsidiaries of Arnoldo Mondadori S.p.A. owns shares in the Parent Company, and that, in any case, at any time, the maximum number of Company shares held must not exceed one tenth of the total share capital including shares that might be held by subsidiaries.

4. Duration of the authorisation.
The duration of the authorisation is requested for 18 months following the date of the resolution by the Ordinary Shareholders' Meeting, while the authorisation for the use of Company shares is requested without a time limit.

5. The corresponding minimum and maximum.
With the exception of eventual purchases of the shares allocated freely to the participants of the Stock Ownership Plan, for whom a corresponding price equal to the nominal value has been determined, the corresponding minimum and maximum price for the acquisition of the shares will be determined at the same conditions as foreseen by the previous authorisation and therefore at a unit price not more than 20% below and not more than 10% above the official trading price on the day preceding that of purchase.

6. Method of purchase.
With the exception of eventual purchases of the shares allocated freely to the participants of the Stock Ownership Plan, for whom, should conditions emerge that oblige the sale to the Company of assigned shares, such purchases will be carried out on the market in line with the terms agree with the Borsa Italiana S.p.A., that allow for equal treatment to that of the Shareholders, as per Art. 132 of Legislative Decree n. 58 of February 24, 1998.
The terms of use for Company shares bought may be enabled either by alienation of the same on the Stock Exchange, by blocking or as a corresponding amount against the acquisition of equity stakes that fall within the Company's investment policy, on condition that the price or attributed unit value is not less than 80% of the reference price of the shares on the trading day prior to each single operation.

Shareholders,

If you agree with our proposal we would invite you to pass the resolution:

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

resolves

1. to revoke, for the part not yet effected, the resolution authorising the acquisition, sale and conversion of Company shares passed by the Ordinary Shareholders' Meeting of April 29, 1999;

2. to authorise, as per Art. 2357 of the Civil Code, the purchase, in one or more occasions, for a period of 18 months from the date of the present resolution, of a further number of ordinary and/or savings shares, in addition to those already in the Company's portfolio on the date of the resolution, for a maximum nominal value of 3,000,000,000 lire at a corresponding unit price of not more than 20% below and not more than 10% above the official trading price on the day preceding that of purchase.

At any time the maximum number of shares held will not exceed a tenth of the Company's share capital, including shares that may be held by subsidiary companies;

3. to authorise the purchase of share, in one or more occasions, for a period of 18 months from the date of the present resolution, to be allocated freely to the participants of the Share Ownership Plan, should a said participant be found obliged to sell his shares back to the Company, this will be done at a price equal to the nominal value of the shares themselves;

4. to mandate the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to proceed with the acquisition of Company shares at the aforementioned conditions, in the time frame considered to be in the best interests of the Company, in the manner laid out by current regulations and in this way, with the exception of purchases as at para. 3 above, on the market as agreed with Borsa Italiana S.p.A. that allows equal treatment to Shareholders, as per Art. 132 of Legislative Decree n. 58 of February 24, 1998;

5. to establish a "closed reserve of Company shares", as per Art. 2357, para. 3, final clause of the Civil Code, equal to the number of Company shares listed as assets on the balance sheet, withdrawing the relative sum, in connection with the purchases effected, from the "overpricing reserve" and within the limits of the same;

6. to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, as per Art. 2357, para. 3, of the Civil Code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, use Company shares acquired on the basis of this authorisation or those already in the Company's portfolio, both through alienation or blocking, both for the acquisition of equity stakes which are part of the Company's investment policy, giving to the administrators the option to establish, each time, within the terms and regulations, method and conditions, considered to be in the best interests of the Company, on condition that the price or unit value attributed to the shares is not less than 80% of the reference price on the trading day prior to each single operation. This authorisation has been agreed without a time limit;

7. to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, as per Art. 2357, para. 3, of the Civil Code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, use Company shares acquired on the basis of this authorisation or those already in the Company's portfolio to allocate, to managers of the company, its subsidiaries and Parent Company whose functions have a relevant impact on the attainment of the Group's strategic objectives, options for the acquisition of the shares, as per the outline indicated in the Report of the Board of Directors on the proposal to establish a Stock Option Plan for 2000 and subsequent years. This authorisation has been agreed without a time limit.

Proposal for the establishment of a Stock Option Plan for 2000 and subsequent years.

The Stock Ownership Plan 1997-1999 has underlined the utility of giving the Company a tool to provide incentives and encourage loyalty in staff with a clear focus on the attainment of strategic objectives. Institutional investors have expressed appreciation for the Plan that has enhanced management's capacity to develop the process of value creation.

The Board therefore believes that it is in the interests of the Company to introduce, from 2000, a Stock Option Plan for management that takes account of the experience of the Stock Ownership Plan 1997-1999, as well as the evolution of applicable legislation.

The three-year plan could be organised on the basis of the annual allocation of option rights for the purchase of Company shares, on the basis of guidelines to be drawn up by a specially appointed Stock Option Committee. The Plan could become effective from the year 2000.

The Plan should foresee the allocation of option rights for the purchase of ordinary shares already in the Company's portfolio.

Option rights will be personal and non-transferable.

The individuals involved in the Plan could be selected by the Committee from among the managers of the Company, it subsidiaries and Parent company whose functions have a relevant impact on the attainment of the Group's strategic objectives.

In line with the practice established under the previous Stock Ownership Plan 1997-1999, to total number of shares to be dedicated to the Stock Option Plan for the entire three-year period must not exceed 1% of the Company's current share capital.

The right of purchase for the shares will be dependent on the attainment of economic/financial performance objectives to be defined by the Committee and the continuing employee status of the participant.

Such limits will be defined by the Committee and laid out in a specially prepared Regulations document.

The price for the purchase of shares will be the normal value of the share, in line with current fiscal regulations.

The Committee will be made up of non-executive directors and will be responsible for the Regulations that will affect the Plan in all its features to be approved by the Board of Directors. The Committee will also have responsibility for ensuring that the Plan is executed.

The Board believes that it is also necessary to establish plans, with characteristics the same as those outlined above, for the shares of subsidiaries and associated companies directly or indirectly controlled by A.M.E., should the strategies of the Group necessitate the introduction of this method of providing incentives and encouraging loyalty for the creation of value of the Company's shares.

Shareholders,

You are invited to pass resolution on the following:

The Shareholders,

- *convinced of the need to establish a Stock Option Plan for managers of the Company, its subsidiaries and Parent Company whose functions have a relevant impact on the attainment of the Group's strategic objectives, with a view to encouraging* *loyalty and the shared responsibilities of participants in the Plan in the management of the Group and the growth of its value;*

- *convinced of the need to appoint a Committee made up of non-executive directors for the management of the Plan and with the necessary powers to select the participants and define the performance objectives for the allocation of option rights and the execution of the Plan in all its aspects;*

resolves

1. *to approve the establishment of a Stock Option Plan for the Company's shares, for managers of the Company, its subsidiaries and Parent Company whose functions have a relevant impact on the attainment of the Group's strategic objectives, for a period of three years, as well as, at the discretion of the Board of Directors, plans, with characteristics the same as those outlined above, for the shares of subsidiaries and associated companies directly or indirectly controlled by the Company itself;*

2. *to nominate, from among the non-executive directors of the Company, a Committee for the management of the Stock Option Plan, that will also have the necessary powers to select the participants and define the performance objectives for the allocation of option rights and the execution of the Plan in all its aspects. The Committee will also be responsible for the Regulations that will affect the Plan in all its features to be approved by the Board of Directors. The Committee will also have responsibility for ensuring that the Plan is executed. The members of the Committee will act as a collegiate and will be assisted by the Chairman of the Board of Statutory Auditors who will take part in the meetings of the Committee but may not vote. The appointment will be effective until the expiry of the mandate for the Board of Directors nominated by the Shareholders on April 26, 2000.*

Nominations for the Board of Directors, following the determination of its number, the period of mandate and emoluments. Nomination of the Chairman.

You are reminded that with the Shareholders' Meeting called to approve the Annual Report and the Financial statements for the year ended December 31, 1999 the mandate of the current Board of Directors expires. You are therefore asked to proceed with the nomination of the Board of Directors, following the determination of its number, the period of mandate and emoluments, bearing in mind that as per Art. 9 of the Company Statute the Board of Directors must consist of a minimum of three and a maximum of eleven members. You are also asked to proceed with the nomination of the Chairman of the Board.

Nomination for the Board of Statutory Auditors and its Chairman for the three-year period 2000/2001/2002, following the determination of emoluments.

You are reminded that with the Shareholders' Meeting called to approve the Annual Report and the Financial statements for the year

ended December 31, 1999 the mandate of the current Board of Statutory Auditors expires. You are therefore asked to proceed with the nomination of the Board of Statutory Auditors, comprising three Acting Statutory Auditors and two Substitute Statutory Auditors, and its Chairman for the three-year period 2000/2001/2002, and the determination of emoluments.
You are reminded that Art. 17 of the Company Statute foresees, in line with Art. 148 of the Legislative Decree n. 58 of February 24, 1998 concerning the nomination of an Acting Statutory Auditor by minority interests, that the nomination of the Board of Statutory Auditors be carried out on the basis of lists that may be presented by Shareholders that, individually or together with other Shareholders, represent at least 3% of the Company's share capital.
Each Shareholder may not present more than one list.
Each list must include a number of candidates not greater than the number of Acting and Substitute Statutory Auditors to be elected, ranked by number, and must be deposited at the Company's Corporate Offices not less than five days prior to the first calling of the Shareholders' Meeting. Each list must include, within the time indicated above, declarations from the candidates accepting the nomination and a declaration that they are not subject to conflicts of interest nor precluded under the terms of current legislation from serving in this role.
As per the aforementioned that Art. 17 of the Company Statute, Statutory Auditors may not be elected who are Acting Statutory Auditors in more than seven Italian companies with financial instruments listed on markets operating under Italian regulations.
In the absence of lists, the Board of Statutory Auditors will be elected by a simple majority.

Changes to the Stock Ownership Plan for Management established by the Shareholders' Resolution of June 24, 1998, resulting resolutions.

The Shareholders' Meeting of June 24, 1998 approved the creation of a Management Stock Ownership Plan for the three-year period 1997, 1998 and 1999 for managers of the Company and its subsidiaries who managed organisational units, executive directors of the Company and its subsidiaries, staff journalists of the Company and its subsidiaries with the role of editor or deputy editor of titles and managers of the Parent Company whose function is in favour of the Company.

The plan foresees:

- the allocation, for each year of the plan, to the participants an option to subscribe, at price equal to the average reference price in the thirty trading days prior to the date of the Shareholders' Meeting to approve the Annual Report for the year in question, the reserved shares issued following the paid capital increase, agreed by the Board of Directors in line with the mandate from the Shareholders' Meeting of June 24, 1998, as per Art. 2443 of the Civil Code, up to a nominal maximum of 270,000,000 lire and within the limits established by the mandate itself;
- the free allocation to the participants, who have subscribed the paid shares as above, of a fixed number of shares issued following free capital increases, to be set against extraordinary use of profits as per Art. 2349 of the Civil Code, agreed by the Board of Directors in line with the mandate extended, year by year, by the Shareholders as per Art. 2443 of the Civil Code and within the limits established by the mandate itself.

The paid capital increases, reserved for the participants of the Stock Ownership Plan, have been agreed by the Board of Directors, on the basis of the aforementioned mandate from the Shareholders on June 24, 1998, as follows:

- on September 25, 1998 for a nominal 36,500,000 lire, in the service of the Stock Ownership Plan for the year 1997 (increase

effected on November 23, 1998);
- on July 7, 1999 for a nominal 49,500,000 lire, in the service of the Stock Ownership Plan for the year 1998 (increase effected on September 17, 1999).

The three-year mandate given to the Board of Directors by the Shareholders' Meeting of June 24, 1998 as per Art. 2443 of the Civil Code, for the paid capital increases in service of the Stock Ownership Plan therefore has a residual nominal amount of 184,000,000 lire.

The Shareholders also entrusted the management of the plan to a Committee (established following the resolution of the Board of Directors of May 6, 1998) consisting of the non-executive directors Marina Berlusconi, Fedele Confalonieri and Roberto Poli, assisted by the Chairman of the Board of Statutory Auditors, Franco Iorio.

The Shareholders' Meeting of June 24, 1998 and the Board of Directors' Meeting of April 29, 1999 also established the economic, financial and share price objectives whose attainment would lead to the effective implementation of the Plan, also in 1999. In particular:
1) consolidated ROE not less than the budget for admission to the Plan;
2) the attainment of fixed consolidated free cash flow objectives for the allocation of additional individual quantities of paid and free shares;
b) an increase of not less than 20% in the average reference price of Mondadori shares in Q4 of the year in question compared with the same Q4 of the previous year, for the allocation of additional individual quantities of paid and free shares.

The Shareholders also resolved that the paid and free shares issued in service of the Plan be subject to a three-year lock up.

The Committee, composed by the aforementioned non-executive directors, given that, according to first indications, the objectives fixed had been met, held that the allocation of paid and free shares for 1999 could proceed.

Furthermore, the Committee, with a view to determining the number of shares to be allocated, the issuing price and the regulations to be applied, considered it necessary to take into account the indications laid out in Art. 13 of Legislative decree n. 505 of December 23, 1999, that introduces new fiscal regulations for stock option plans. Concerning the existing plan the new legislation highlights two relevant aspects:

1) **the determination of the subscription price for paid shares.** The Plan indicates the market price current at the time when the shares are allocated. In the absence of regulations at the time of the approval of the Plan (June 1998), the Shareholders established that such a market price should correspond to a "price equal to the average reference price on the thirty trading days prior to the Shareholders' Meeting to approve the Annual Report of the year in question". The new regulation indicates that the price be determined by the normal taxable value, in other words, an average of the price in the month preceding the meeting of the Board of Directors to deliberate the free and paid capital increase in service of the Plan. It is therefore necessary to adjust the Shareholders' resolution to take account of this new legislation;

2) **the application of income tax on the value of the free shares allocated to employees with a value of more than 4,000,000 lire.** The previous exclusion from tax liability has been abolished. Ordinary liability is now therefore applicable, at the time of allocation, on the normal value (as defined above) of the free shares allocated. The Committee, having considered

favourably the application of the Plan also for 1999, has observed that, given the immediate liability for the free allocation, it is necessary to allow the sale of a sufficient number of shares allocated freely so that participants in the Plan might have sufficient financial resources to pay the taxes due. On the remainder of the shares the three-year lock up will remain in place. Also in this case it is necessary to modify the Shareholders' resolution.

Given the above and taking account of the first evaluation of the number and the qualifications of possible beneficiaries, the Committee has decided that the effective realisation of the Plan for 1999 will mean an extraordinary allocation of profit, as per Art. 2349 of the Civil Code, from the result of 1999, of a maximum of 300,000,000 lire and, consequently, the free capital increase must be for a maximum of 300,000,000 lire, with the issue of ordinary shares for a maximum overall nominal value of 300,000,000 lire.
It is therefore necessary for an Extraordinary Shareholders' Meeting to renew the mandate for the Board of Directors, as per Art. 2443 of the Civil Code, to permit the effective realisation of the Stock Ownership Plan for the year 1999 also in the matter of the allocation of free shares.
On the basis of the above, the Committee also consider that it is necessary to modify:

(a) the resolution of the Shareholders' Meeting of June 24, 1998, so that the subscription price for the shares offered against payment to the participants of the Management Stock Ownership Plan be equal to the average of the reference price in the month preceding the meeting of the Board of Directors that will deliberate the paid and free capital increase for 1999;

(b) the resolution of the Shareholders' Meeting of June 24, 1998, so that a sufficient number of free shares allocated for the year 1999 be exempted from the lock up, the number to be determined by the Committee so that participants in the Plan might have sufficient financial resources to pay the taxes due.

The Board of Directors share the view of the Committee a therefore proposes the following proposals to the Shareholders.

In conclusion, the Board reminds the Shareholders that with the present meeting the mandate of the Committee for the Realisation of the Management Stock Ownership Plan expires, and that it is therefore necessary to proceed with the nomination of a new Committee and the attribution of powers to the same to permit the management of the Plan itself until its completion.

Shareholders,

You are invited to pass resolution on the following:

The Shareholders of Arnoldo Mondadori Editore S.p.A., having examined the report of the Board of Directors

resolves

1) to modify the resolution, Item 1 on the Agenda of the Shareholders' Meeting of June 24, 1998, concerning the creation of a Management Stock Ownership Plan for the three-year period 1997/1998/1999 so that:

(a) the subscription price for the shares offered against payment to the participants of the Management Stock Ownership Plan be equal to the average of the reference price in the month preceding the meeting of the Board of Directors that will deliberate the paid and free capital increase for 1999.

(b) a sufficient number of free shares allocated for the year 1999 be exempted from the lock up, the number to be determined by the Committee so that participants in the Plan might have sufficient financial resources to pay the taxes due.

The resolution as at point (a) above, will require, at an Extraordinary Shareholders' Meeting, modification of the mandate given, as per Art. 2443 of the Civil Code, by the Shareholders' Meeting of June 24, 1998 for the paid capital increase to service the Management Stock Ownership Plan, in the part concerning the determination of the subscription price for newly issued shares;

2) to nominate, from among the non-executive directors of the Company, a Committee for the management of the Stock Option Plan, that will also have the necessary powers to select the participants and define the performance objectives for the allocation of option rights and the execution of the Plan in all its aspects. The Committee will also be responsible for the Regulations that will affect the Plan in all its features to be approved by the Board of Directors. The Committee will also have responsibility for ensuring that the Plan is executed. The members of the Committee will act as a collegiate and will be assisted by the Chairman of the Board of Statutory Auditors who will take part in the meetings of the Committee but may not vote. The appointment will be effective until the expiry of the mandate for the Board of Directors nominated by the Shareholders on April 26, 2000.

For the Board of Directors
Chairman
Leonardo Mondadori

Consolidated financial statements of the Mondadori Group as of 31 December 1999

Consolidated Balance sheet
and Income statement
as of 31 December 1999

Balance sheet

Assets

(in millions of lire)	within 12 months	over 12 months	Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
A. Receivables from Shareholders for unpaid share capital					0	0
B. Non-current assets						
I- Intangible assets						
1 set-up and expansion costs				1,681		3,441
2 research, development and advertising costs						
3 industrial patent rights and use of original works				225		1,712
4 concessions, licences and trade marks				319,017		310,794
5 goodwill				38,498		27,637
6 assets under construction and advances				970		479
7 others				14,148		17,170
8 consolidation differences				41,435		28,052
Total					415,974	389,285
II- Fixed assets						
1 land and buildings				169,871		150,578
2 plant and machinery				124,849		129,733
3 industrial and commercial equipment				2,504		2,248
4 other assets				32,827		30,219
5 assets under construction and advances				17,257		6,942
Total					347,308	319,720
III- Financial assets						
1 Investments in:						
a) subsidiary companies				5,495		835
b) affiliated companies				23,520		23,205
c) other companies				797		2,975
Total				29,812		27,015
	within 12 months	*over 12 months*				
2 current receivables						
a) from subsidiary companies						
b) from affiliated companies						
c) from parent companies						
d) from other companies	983	19,029		20,012		29,393
Total	983	19,029		20,012		29,393
3 other securities				5		205
4 treasury stock				71,744		37,895
Total					121,573	94,508
Total non-current assets B.					884,855	803,513

(in millions of lire)		Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
C. Current assets					
I- Inventories					
1 raw, ancillary and consumable materials			24,638		19,252
2 semifinished products, work in progress			45,786		51,818
3 work in progress to order			14,859		13,130
4 finished products and goods			154,667		153,722
5 advances					
Total				239,950	237,922
	within 12 months	*over 12 months*			
II- Receivables					
1 trade accounts	676,146	23,752	699,898		692,174
2 due from subsidiaries	7,992		7,992		742
3 due from affiliated companies	36,106		36,106		33,480
4 due from parent company	228		228		1,300
5 due from third parties	191,761	1,594	193,355		158,399
Total	912,233	25,346		937,579	886,095
III- Financial assets (current)					
1 investments in subsidiaries					30
2 investments in affiliated companies					
3 other investments			2,072		
4 treasury stock					
5 other securities			465,177		107,924
Total				467,249	107,954
IV- Cash and equivalents					
1 cash at banks and PO			378,641		453,128
2 cheques			1,445		214
3 cash and commercial papers in hand			291		240
Total				380,377	453,582
Total current assets C.				2,025,155	1,685,553
D. Accrued income and prepayments					
1 accrued income			1,913		1,690
2 prepayments			20,533		15,544
3 premium on loans			746		1,011
Total accrued income and prepayments D.				23,192	18,245
Total assets				2,933,202	2,507,311

Balance sheet

Liabilities

(in millions of lire)		Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
A. Shareholders' equity					
I- Share capital				129,351	129,097
II- Share premium reserve				483,752	513,502
III- Revaluation reserve				32,358	32,358
IV- Legal reserve				25,819	25,078
V- Reserve for treasury stock				68,984	37,895
VI- Statutory reserve					
VII- Other reserves					
1) Extraordinary reserve			32,522		16,707
2) Reserve ex Law 675 of 12/8/1977			680		680
3) Conferral reserve ex Law 904 of 16/12/1977			1,454		1,454
4) Capital account contribution reserve			9,782		9,782
5) Reserve ex Law 124/93 art. 13			28		17
6) Other reserves			162,633		124,265
				207,099	152,905
VIII- Profit (loss) carried forward					
IX- Profit (loss) for the year					
1) Profit for the year				152,765	96,306
Consolidated Group Shareholders' equity				1,100,128	987,141
Minority interest				15,102	16,852
Total Shareholders' equity A.				1,115,230	1,003,993
B. Reserve for risks and charges					
1 retirement benefits			2,153		2,530
2 income taxes			46,697		56,001
3 other			53,003		43,549
Total reserve for risks and charges B.				101,853	102,080
C. Reserve for severance indemnities				183,263	177,505
	within 12 months	*over 12 months*			
D. Debts and other payables					
1 bonds					
2 convertible bonds					
3 due to banks	498,843	28,970	527,813		311,522
4 due to third parties					
5 advances	63,978		63,978		61,719
6 trade accounts	591,545	4,439	595,984		552,692
7 debts represented by credit instruments					
8 due to subsidiaries	1,079		1,079		430
9 due to affiliated companies	51,947		51,947		33,165
10 due to parent companies	170		170		486
11 income taxes payable	40,742		40,742		42,847
12 due to pension funds and social security entities	30,338		30,338		29,532
13 other liabilities	199,299	2,649	201,948		171,274
Total debts and other payables D.	1,477,941	36,058		1,513,999	1,203,667

	Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
	Year ended 31 December 1999			
E. Accrued liabilities and deferred income				
1 accrued liabilities		8,736		11,140
2 deferred income		10,121		8,926
3 discounts on loans				
Total accrued liabilities and deferred income E.			18,857	20,066
Total liabilities			2,933,202	2,507,311
Memorandum accounts				
1 Guarantees and sureties				
a) in favour of subsidiaries				
b) in favour of affiliated companies			14,133	14,932
c) in favour of third parties			49,776	68,452
2 Commitments			106,286	86,802
3 Risks				
4 Others			128,436	142,641
Total memorandum accounts			298,631	312,827

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 roman numerals and uppercase letters.

For the Board of Directors
Chairman
Leonardo Mondadori

Income statement

(in millions of lire)	Financial year 1999 Sub Total 1	Sub Total 2	Total 3	Financial year 1998
A. Production value				
1 Income from sales of goods and services		2,634,079		2,439,380
2 Changes in inventory of semifinished products		-11,262		42,117
3 Changes in WIP to order		1,704		-6,116
4 Increase in internal investments		432		332
5 Other income and revenues				
a) operating grants	613			258
b) other income and revenues	76,250			72,480
		76,863		
Total production value A.			2,701,816	2,548,451
B. Production costs				
6 Raw, ancillary and consumable materials and goods		830,364		815,791
7 Services		999,620		898,574
8 Use of third party assets		35,268		31,187
9 Personnel costs				
a) wages and salaries	318,345			311,353
b) social contributions	102,458			101,200
c) severance indemnities	25,369			25,153
d) retirement benefits	69			36
e) other costs	10,484			11,072
Total		456,725		448,814
10 Depreciation, amortisation and writedowns				
a) amortisation of intangible assets	52,395			57,380
b) depreciation of fixed assets	68,109			62,799
c) other writedowns of assets				5
d) writedown of doubtful accounts	24,158			14,999
Total		144,662		135,183
11 Changes in inventory of raw, ancillary and consumable materials and goods		-1,805		5,234
12 Provisions for risks		17,012		12,424
13 Other provisions				
14 Other operating expenses		29,141		20,021
Total production costs B.			2,510,987	2,367,228
Difference between production value and production costs A.-B.			190,829	181,223

	Sub Total 1	Financial year 1999 Sub Total 2	Total 3	Financial year 1998
C. Financial income and charges				
15 Income from investments				
a) Subsidiaries	6,000			3,493
b) Affiliated companies				
c) Other investments	56			196
Total		6,056		3,689
16 Other financial income				
a) from long term receivables				
* Subsidiaries				
* Affiliated companies				
* Parent companies				
* Other companies	354			773
Total	354			773
b) from long term securities	10,980			
c) from short term securities	27,473			5,958
d) other income				
* Subsidiaries	43			29
* Affiliated companies	107			139
* Parent companies				750
* Other companies	8,344			30,775
	8,494			31,693
Total		47,301		38,424
17 Interest and other financial charges				
a) Subsidiaries	7			3
b) Affiliated companies	274			505
c) Parent companies				3
d) Other companies	36,493			37,830
Total		36,774		38,341
Total financial income and (charges) C.			16,583	3,772
D. Adjustments to the value of financial assets				
18 Revaluations				
a) investments	8,405			4,891
b) other long term financial assets				
c) securities				
Total		8,405		4,891
19 Writedowns				
a) investments	2,419			3,228
b) other long term financial assets				
c) securities				35
Total		2,419		3,263
Total adjustments to the value of financial assets D.			5,986	1,628

(follows)

Income statement

(in millions of lire)	Financial year 1999 Sub Total 1	Sub Total 2	Total 3	Financial year 1998
E. Extraordinary items				
20 Income				
a) Gains on disposals	6,589			2,025
b) Other	43,923			721
Total		50,512		2,746
21 Charges				
a) Losses on disposals	5,316			1,158
b) Taxation relative to prior years	34			20
c) Other	6,367			16
Total		11,717		1,194
Total extraordinary income and (charges) E.			38,795	1,552
Profite before tax			252,193	188,175
22 Income tax for the year			100,654	91,728
23 Results for the year			151,539	96,447
Net profit (loss) for the year pertaining to minority interest			-1,226	141
Net profit (loss) for the year			152,765	96,306

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
Leonardo Mondadori

Introduction

The general part of the Directors' report has already given a great deal of information on the results and financial position of both the Holding Company and the companies belonging to the Mondadori Group and on those operations in 1999 which led to various changes in the composition of the Group. The changes are detailed in point b) below.

Form and contents

a) 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.
The consolidation method used is the line-by-line method required by the EC VII Directive and by Document no. 17 of the Accounting Principles Commission set up by the Italian Accounting Profession.
A reconciliation between the Holding Company's Accounts and the Consolidated financial statement for 1999 has also been provided.

b) Area of consolidation

The Consolidated financial statements include the accounts of the Holding Company and those of the Italian and foreign companies in which Mondadori holds, directly or indirectly, the majority of the share capital and controls the management: these investments have been consolidated on a line-by-line basis. The companies are listed in the appendix.
The companies included in the consolidation area where a check is carried out connected to third parties and where a share of not less than twenty percent of the share capital is held (joint-venture) are consolidated on a proportional basis, grouping line-by-line the share part of every asset, liability, income and costs of the subsidiary company determined on the basis of the percentage of the Holding.
The more significant changes in the consolidation area in 1999 were as follows:

- Acquisition of 95.56% of Le Monnier Group and in particular of the following companies:
  - Armando Paoletti S.p.A. (95.56%)
  - Athena Finanziaria S.r.l. (95.56%)
  - Casa Editrice Felice Le Monnier S.p.A. (95.56%)
  - Editoriale e Finanziaria Le Monnier S.p.A. (95.56%)
  - Fin Felix S.r.l. (95.56%) incorporated in Casa Editrice Felice Le Monnier S.p.A. during 1999
  - Libreria Le Monnier S.p.A. (95.56%)
  - Heinemann Le Monnier S.r.l. (47.78%)
- Acquisition of Casa Editrice Poseidonia S.r.l. (87.5%)
- Disposal of Auguri di Mondadori S.r.l. (100%)
- Disposal of Grijalbo Dargaud S.A. (50%)
- Founding of Arnoweb S.A. (100%), Webmond S.A. (100%) and Mondadori.Com Inc. (100%)
- Founding of Mondolibri S.p.A. (50%) by means of splitting up the book club division of Club degli Editori S.p.A.; the holding is consolidated proportionally
- Founding of Hearst Mondadori Editoriale S.r.l. (50%)
- Acquisition of News Alert Investors LLC (10%)

c) Financial statements used in the consolidation

The financial statements used in the consolidation are those approved by the AGMs of the individual companies or those prepared by the Board of Directors for approval by the AGMs. They have all been drawn up at the same year-end date, namely 31 December 1999, and they have been prepared on the basis of the same Group accounting principles.

d) Consolidated financial statements expressed in Euro

In accordance with Consob Communication 98083971 of 26 October 1998, the "Consolidated financial statements in Euro" appendix contains the Balance sheet and Income statement expressed in millions of Euro.

Consolidation policies

a) Elimination of investments, recognition of goodwill and minority interests

The net book value of investments in consolidated companies is eliminated against the related net equity.

Any excess between the purchase cost of investments and their net equity at the date of acquisition is booked to the value of the title or series, or to consolidation differences in the event that this difference, or a residual part of it, does not reflect the higher value of the individual fixed or intangible assets of the companies acquired.

The portion of net equity pertaining to minority interests in the companies consolidated is booked to a separate item in the balance sheet, while minority interests in the net profit for the year of the companies included in the consolidation area are shown separately in the Group income statement.

b) Elimination of intercompany items and intercompany profits

All balances and the more significant transactions between Group companies and the related intercompany profits not realised by means of transactions with third parties are eliminated during the consolidation process.

The Shareholders' equity and net profit of the Holding Company as of 31/12/1999 differ from the consolidated figures because of the items shown in the reconciliation of Shareholders' equity and net profit of the Holding Company with those of the Group.

c) Income taxes on retained earnings of consolidated companies

These are not accounted for when it is presumed that such earnings will be distributed with a tax credit for the Parent Company.

d) Adjustments for tax purposes

Value adjustments and provisions made exclusively in application of tax regulations are eliminated.

Accounting principles and valuation methods

In preparing their respective financial statements, Mondadori and the companies included in the consolidation area have made reference to the accounting principles issued by the Italian Accounting Profession and, where necessary, to international accounting principles (I.A.S.).
The more significant accounting principles have been applied on a consistent basis over time and are explained below.
Historical cost has been adopted as a basic principle in most cases, except for the revaluation of fixed assets foreseen by specific legal regulations. Arnoldo Mondadori Editore S.p.A., now amalgamated, also revalued certain of its fixed assets on the basis of a sworn expert appraisal in its 1984 financial statements.

Intangible assets. Intangible assets and long term costs in general are booked under assets.

Goodwill that has been purchased is booked at a value up to the cost incurred and is amortised on a straight-line basis over a period of 5-10 years.

Titles and series. The value attributed to this item includes:

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

Amortisation of series is normally charged over a twenty-year period.
Titles clearly hold a position of uncontested leadership in their segment and a consolidated and substantial level of profitability. The titles acquired along with the activities of Silvio Berlusconi Editore S.p.A., the value of which is entered in the financial statements, are amortised over a period of 20 years.
The value of titles is constantly reviewed in the light of economic prospects.

Consolidation differences are the difference between the amount paid for the portion of Shareholders' equity of the company acquired and the corresponding net amount deriving from the current value of the tangible assets and liabilities of the company concerned. Amortisation is generally over a period of ten years on a straight-line basis, which is in line with Group accounting principles.

Deferred charges (costs for rights issues, mergers, taking over leasing contracts, software, etc.) are booked at cost and generally amortised on a straight-line basis over a period not exceeding five years. In certain cases (expenses for the lease of buildings), they are amortised according to the residual duration of the respective contracts.

Development and advertising costs are not included in intangible assets as they are all charged directly to the income statement in the year they are incurred. However, the cost of "launch campaigns" for new products and new company activities can be included when the utility of the development and advertising costs will be felt in future years in correlation with the manifest influx of the corresponding income.

Fixed assets and depreciations

Fixed assets are valued at purchase or production cost, with the exception of revaluations carried out by Italian companies in accordance with Law 576 of 2/12/1975, no. 72 of 19/3/1983, no. 413 of 30/12/1991 and no. 408 of 29/12/1990, and the revaluation carried out on certain fixed assets by AME, now amalgamated, in its 1984 financial statements. Cost includes ancillary expenses and, for internal constructions, a portion of indirect manufacturing overheads. Maintenance and repair expenses are booked directly to the Income statement during the year in which they are incurred, except for those that increase the useful life of the assets, which are charged to the asset concerned and depreciated over the residual useful life.

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.

Depreciations are charged on fixed assets on the basis of their costs (restated in certain cases), calculated on a straight-line basis and reduced by 50% in their first year, according to the estimated useful life of the assets. These rates are in line with those that are permissible for fiscal purposes as ordinary depreciation. Fixed assets whose value at the end of the year is considered to be permanently lower than their net book value calculated according to the methods already explained are written down to their actual value.

Investments. Investments in affiliated companies in which Mondadori and other Group companies hold between 20% and 50% of the share capital and take part in management are valued according to the net equity method. Other investments of less than 20%, or those that are in liquidation or in any case not significant, are valued at acquisition cost, reduced where necessary to take into account permanent reductions in value.

Securities. Other participations (not considered long-term investments) and fixed-interest securities are shown at the lower of cost and estimated realisable value based on the trend in the market.
In the case of permanent loss in value, the securities are written down to their actual worth.

Treasury stock. The Company's own shares bought in accordance with art. 2357 of the Civil Code and in accordance with the deliberations of the Shareholders' Meeting of 16 March 1998 and the Shareholders' Meeting of 29 April 1999, are valued at the 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 valorization criteria are applied.

Inventory. Inventory is valued at the lower of purchase cost, including overheads, or production cost and market value (replacement cost for raw materials and stocks, net realisable value for work in progress and finished products). The more important methods of valuation at cost used by the Holding Company and its subsidiaries are summarised below:
- Paper, stocks and raw materials for papermills: "lifo".
- Printing in progress: average industrial cost.
- Finished editions: FIFO based on average production cost for the year.
- Goods (finished editions on sale and other goods); average cost.

The valuation at cost of Finished Editions is gradually reduced on the basis of percentages applied to comparable categories of book production in order to take account of obsolescence.

Receivables and payables. Receivables and payables are booked at face value. Receivables are then adjusted by a reserve for doubtful accounts that takes into account their collectability and the returns to be received for the period.
Receivables and payables in foreign currencies that are not part of the Euro area are charged to the Financial statement at the exchange rate in force when they were due.
Any loss arising on the adjustment of foreign currency receivables and payables to the year-end exchange rate is charged to the Income statement and credited to the risk reserve.

Accruals and prepayments. Accrued income and prepayments and accrued liabilities and deferred income are calculated on an accrual basis.

Reserves for risks and charges

The ***reserve for retirement benefits*** includes the previously fixed indemnities payable to freelance journalists at the end of the period of collaboration.

The other ***reserves for risks and charges*** include provisions to cover losses or liabilities that are relevant for legal purposes and that certainly or probably exist, but whose amount or date of occurrence was impossible to establish at the end of the year. The provisions reflect the best possible estimate that could be made on the basis of available data. The risks for which a contingent liability is only possible are disclosed in the notes or in the Directors' report, without setting up a reserve for them.

Reserve for severance indemnities. This reflects the full amount due to employees on the basis of current laws and labour contracts.

Revenues. Revenues are recognised:
- when ownership is transferred, which normally coincides with the delivery or shipment of goods;
- at the time services are rendered or completed.

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

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

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

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

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

Translation of Financial statements expressed in foreign currency

Financial statements expressed in foreign currency are translated into Italian lire as follows:
- Income statement items are translated at the average exchange rate for the year;
- Balance sheet items are translated at the year-end exchange rate, except for the net profit or loss for the year, which is converted at the average exchange rate as it comes from the income statement.

Exchange rate used	Year 1999		Year 1998	
	Year-end rate	Average rate	Year-end rate	Average rate
U.S. dollar	1,927.40	1,819.34	1,653.10	1,736.49
Peseta	11.64	11.64	11.64	11.64
Swiss franc	1,206.32	1,209.93	1,208.41	1,198.33
Euro	1,936.27	1,936.27	1,936.27	1,936.27

The difference between the net profit or loss for the year resulting from the translation at the average exchange rate and that resulting from translation at the year-end exchange rate is booked to an equity account called "other reserves". The same account contains the effect of changes in exchange rates between the end of the previous year and the end of the year in review on opening net equity items.
The financial statements of companies operating in countries with high rates of inflation are translated according to the principles of accounting for inflation.

Costs deriving from the introduction of the Euro and the Y2K problem
The costs incurred in adjusting the systems, programmes and individual instruments to the introduction of the Euro and the Y2K problem are shown and entered in the Income statement in the year in which they are incurred under production costs. The costs relatives to the acquisition of new fixed and intangible assets are entered under the Company activities in accordance with normal procedures. The nature and consistency of operations already carried out, currently being carried out and yet to be carried out, including any eventual writedowns to be attributed to items already entered in the assets, are referred to in the report on the running of the Company.

Capital commitments and guarantees. Capital commitments and guarantees are shown in the memorandum accounts at their contractual value.

Adaptation of the prior year's Financial statement balances

The balances shown in the 1998 Consolidated financial statements have been adjusted and reclassified where necessary so as to make them comparable with those of 1999, whose format has changed due to clarifications on how to interpret the pertinent regulations.

Additional 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 on 23 April 1999 the Milan Regional Tax Commission confirmed the annulment of the assessment notice.

There is no further news concerning the Court of Milan's investigation of the Fiscal Police, as mentioned in last year's Financial statements. The 2nd Direct Tax Office has informed us of two notices of assessment claiming that the "provision" set aside for paying the deferred taxes is subject to taxation, and that the non-payment of withholding tax on this is subject to sanctions. Both notices were presented in front of the relevant Provincial Tax Commission which found in favour of the claimant. On 24 March 1999 and 9 April 1999 the 2nd Direct Tax Office sent notification of appeal in the Regional Tax Commission against the sentence of 21 January 1998. On 20 March 2000 the appeal against the "provision" was discussed by the Regional Tax Commission which found in favour of Mondadori, and on 14 April 2000 the appeal against the alleged non-payment of withholding tax will be examined.

We therefore confirm that the 1999 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 of items in the Consolidated financial statements

In the following sections the amounts in brackets, which are expressed in millions of lire, refer to the Balance sheet and Income statements as of 31 December 1998.

Balance sheet

Assets

Non-current assets

Intangible assets: 415,974 million (389,285 million).

Movements of intangible assets and amortisation are as follows:

Intangible assets	Cost	Accumulated amortisation	Net book value
Balance at 31/12/1998	669,547	-280,262	389,285
Additions during the year	78,802		78,802
Amortisation		-52,395	-52,395
Variation in consolidated area	11,653	-10,442	1,211
Reclassifications and reversals	-53,739	53,739	
Disposals and other movements	-1,391	462	-929
Balance at 31/12/1999	704,872	-288,898	415,974

The capitalised costs of 78,802 million for the year mainly concern:

- the value attributed to the series and to goodwill relative to the acquisition of the Le Monnier Group for 51,430 million;
- goodwill relative to the acquisition of the school textbook division of Mursia S.p.A. for 14,000 million and of the VOLFTP Internet site from Exol S.p.A. for 5,691 million;
- 1,920 million for the renovation of buildings and offices;
- 4,176 million for the purchase of software.

Other costs, for equipment and acquiring utilisation rights, brands and licences, amounting to 1,585 million complete this entry.

Reclassifications and reversals are exclusively concerned with fixed asset reversals depreciated as of 31 December 1999.

The balance shown in the Balance sheet at 31 December 1999 is made up as follows:

Intangible assets	Set-up and expansion costs	Patents and use of original work	Concessions, licences, trade marks	Goodwill	Assets under construction	Others	Consolidation differences	Total
Start-up costs/change in by-laws	1,678							1,678
Capital increase/								
Reconstruction	3							3
Set-up costs								
Patents/rights		151						151
Software		74						74
Titles			255,917					255,917
Series			62,901					62,901
Licences			199					199
Goodwill				38,498				38,498
Cost of creating new publications								
Cost of purchase of software					970	5,550		6,520
Building, office and								
other renovation						5,454		5,454
Leasehold acquisition								
costs						2,383		2,383
Others						761		761
Consolidation differences							41,435	41,435
Total	1,681	225	319,017	38,498	970	14,148	41,435	415,974

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 based on IAS 38 international principles.

This period is periodically reviewed in the light of economic prospects while the assets are amortised over a period of 5-10 years.

Goodwill is amortised over a period of 5-10 years. Goodwill for a total of 12,600 million, relative to the school textbook division of Mursia, acquired by the subsidiary company Elemond S.p.A. in 1999, is amortised over 10 years in view of the consolidated penetration of the imprint in the school textbook sector.

Consolidation differences concern the Le Monnier Group for 19,599 million, the Elemond Group for 14,582 million, Cemit S.p.A. for 2,101 million, the Sperling & Kupfer Group for 4,240 million, Mondadori Informatica S.p.A. for 592 million and the Grijalbo Group for 321 million.

Fixed assets: 347,308 million (319,720 million).

Movements on fixed assets during the year were as follows:

Fixed assets	Opening balance (=)	Additions (+)	Disposals (-)	Changes work in progress (+)	Changes in consolidation area	Other changes (+o-)	Closing balance (=)	Amm. reserve (-)	Net closing balance (=)
Land and buildings	230,616	19,283			13,679	-1	263,577	93,706	169,871
Plant and machinery	525,865	45,654	22,856		11,550	110	560,323	435,474	124,849
Equipment	11,716	1,294	203		-717	-89	12,001	9,497	2,504
Furniture and office machines	83,665	12,019	2,994		520	-801	92,409	64,492	27,917
Motor vehicles	12,345	2,139	1,568		583	106	13,605	8,695	4,910
Assets under construction	6,942			10,315			17,257		17,257
Total	871,149	80,389	27,621	10,315	25,615	-675	959,172	611,864	347,308

The gross value of the fixed assets shown in the Consolidated financial statements includes the following amounts relating to revaluations:

Fixed assets	Revaluation under laws			Voluntary revaluation in 1984
	no. 576/1975	no. 72/1983	no. 408/1990 no. 413/1991	
Land and buildings	135	6,984	16,529	77,025
Plant and machinery	2,483	7,680		10,699
Furniture and office machines		13		
Total	2,618	14,677	16,529	87,724

In 1999 the Group made overall capital investments worth 80.4 billion lire.
Direct investments made in 1999, equal to 80.4 billion, mainly involved the printing plants for 45.2 billion and the head office in Milan for 8.2 billion.

Investments involved work carried out on machinery in the production sectors, aimed at improving plant technology, upgrading equipment and maintaining production capacity.
Improvements were made to systems and buildings in the interests of safety and respect for the environment.
Office automation investments (personal computers and local networks) have continued with a view to increasing the level of information integration and sharing with the central system.

Disposals of 27.6 billion mainly concerned disposals of equipment and machinery (22.8 billion) and furniture, furnishings and office equipment (4.8 billion).

Variations in the consolidation area totalling 25.6 billion were mainly concerned with line-by-line consolidations as a result of the acquisition of the Le Monnier Group in June 1999.

Movements of accumulated depreciations were as follows:

Accumulated depreciation	Balances at 31/12/1998 (=)	Depreciation for year (+)	Disposals (-)	Variations in consolidation area (+)	Other changes (+o-)	Balances at 31/12/1999 (=)
Fixed assets:						
Land and buildings	80,038	7,852		5,792	24	93,706
Plant and machinery	396,132	48,239	-18,631	9,536	198	435,474
Equipment	9,468	916	-131	-715	-41	9,497
Furniture, office machines	58,157	9,079	-2,796	580	-528	64,492
Motor vehicles	7,634	2,023	-1,231	399	-130	8,695
Total	551,429	68,109	-22,789	15,592	-477	611,864

The ratio of accumulated depreciation to fixed assets is 63.8%.

Fixed assets are burdened with mortgages and liens to guarantee loans granted to the Group amounting to 41 billion at 31 December 1999.

Non-current financial assets

Investments: 29,812 million (27,015 million).

The value of investments is made up as follows:

	31/12/1999	31/12/1998
Investments valued at net equity	23,230	23,089
Investments valued at cost	6,582	3,926
Total	29,812	27,015

For details, please refer to the appendix entitled "Companies belonging to the Mondadori Group".

Movements during the year were as follows:

	Valued at net equity	Valued at cost	Total
Balance at 31/12/1998	23,089	3,926	27,015
Movements during the year			
- result of equity investments	6,204		6,204
- acquisitions, start-ups and increases in capital	1,392	4,774	6,166
- dividends	-6,721		-6,721
- change from net equity to cost	-418	73	-345
- writedowns, disposals and other adjustments	-316	-2,191	-2,507
Balance at 31/12/1999	23,230	6,582	29,812

The increase in acquisitions, start-ups and increases in capital for investments valued at cost were mainly due to the setting-up of Mondadori.Com Inc. (4,656 million), while the decrease in the entry for other changes is due to the reclassification of the investments in assets item into a stake in the working capital of Fivefactor S.p.A. (-1,972 million) following its disposal on 8 March 2000.

Other receivables: 20,012 million (29,393 million).

These include loans and guarantee deposits with third parties, and are split as follows:

	31/12/1999		31/12/1998	
	Within 12 months	Over 12 months	Within 12 months	Over 12 months
Loans	164	100	126	176
Contractual deposit for paper supplied by Cartiere di Ascoli-Marsoni S.p.A.			10,000	
Tax credits for severance indemnity (law 140/97)	417	16,465		15,886
Guarantee deposits		1,330	3	1,566
Earnest money	402	950	400	1,200
Others		184		36
Total	983	19,029	10,529	18,864

Tax credits refer to tax paid in advance on severance pay including revaluation, utilisable when tax is paid on severance payments as from 1st January 2000.

The loan to Cartiere di Ascoli-Marsoni was paid back for an amount of 5 billion in March 1999, while the earnest money is due to be paid back within 8 years. All other receivables are due within 5 years.

Treasury stock: 71,744 million (37,895 million).

	31/12/1999	31/12/1998
Arnoldo Mondadori Editore S.p.A. shares	68,984	37,895
Athena Finanziaria S.r.l. shares	2,760	
Total	71,744	37,895

The portfolio of Mondadori shares, amounting to 2.7% of the share capital, consists of:

- 978,666 ordinary shares (610,863 the result of the conversion of savings shares authorised by the Extraordinary Shareholders' Meeting of 29 April 1999), with a par value of 1,000 lire each on the books at a value of 6,813 million, deriving 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 AME;
- 2,516.500 ordinary shares with a par value of 1,000 lire each acquired for 62,171 million in accordance with the deliberation of the Shareholders' Meetings of 16 March 1998 and 29 April 1999.

These shares are matched by an equity reserve for the same amount. The carrying values are below current market prices.

Shares of Athena Finanziaria S.r.l. represent 10% of the share capital of the Company and are held by the subsidiary company Editoriale e Finanziaria Le Monnier S.p.A.

Working capital

Inventory: 239,950 million (237,922 million)

Inventory is made up as follows:

Products, goods and raw materials	31/12/1999	31/12/1998	Change
Paper	22,373	17,439	4,934
Ink, printing and other raw materials	3,222	3,133	89
Work in progress	47,776	52,913	-5,137
Work in progress to order	14,859	13,130	1,729
Finished products and goods	181,084	176,671	4,413
Total	269,314	263,286	6,028
Writedown of slow-moving goods and products	-29,364	-25,364	-4,000
Total	239,950	237,922	2,028

The inventory at 31/12/1999 remained substantially in line with 1998. With regard to the writedown of slow-moving goods and products for 29,634 million (25,364 million), provisions for 8,389 million net of utilisations were made for 3,939 million.

Receivables: 937,579 million (886,095 million).

Trade and other receivables increased by 51,484 million; in particular:
trade receivables amounted to 699,898 million (692,174 million).

They have increased by 7,724 million.

	31/12/1999	31/12/1998
Total trade receivables	895,761	880,603
less:		
returns outstanding	-137,478	-129,184
reserve for bad and doubtful accounts	-57,728	-58,192
reserve for past due interest	-657	-1,053
Total	699,898	692,174

Receivables due in more than 12 months amount to 23,752 million (23,890 million) and mainly relate to the Elemond Group for instalment customers equal to 23,456 million.
These receivables are due within five years.
During 1999 the subsidiary company Mondadori Printing S.p.A. assigned pro-soluto receivables for 66 billion from Pagine Italia S.p.A.
Receivables from the Fininvest Group amounted to 3,052 million. Of these the largest balances concern Pagine Italia S.p.A. for 1,348 million, Medusa Video S.r.l. for 415 million, Promoservice Italia S.r.l. for 360 million, Publitalia '80 S.p.A. for 305 million and other minor companies for a total of 624 million. Commercial dealings with the Fininvest Group are carried out according to market conditions.

The ***reserve for bad and doubtful debts*** of 57,728 million (58,192 million) has seen the following movements:

	Reserve art. 71 DPR 917/1986	Supplement fund	Total
Balance at 31/12/1998	17,254	40,938	58,192
Utilisations	-5,577	-16,215	-21,792
Provisions	8,557	15,997	24,554
Changes in consolidation area and others	611	-3,837	-3,226
Balance at 31/12/1999	20,845	36,883	57,728

The reserve is considered adequate to cope with foreseeable risks of possible insolvencies, having been calculated, company by company, by analysing the state of receivables in dispute and the collectability of all other receivables. The reserve represents 6.4% of receivables net of profit.

Receivables from subsidiary companies of 7,992 million (742 million) and those ***from affiliated companies*** of 36,106 million (33,480 million) are made up as follows:

	31/12/1999	31/12/1998
Subsidiary companies		
Current account receivables	1,760	645
Trade receivables	6,232	97
Total	7,992	742
Affiliated companies		
Current account receivables	1,475	2,689
Trade receivables	34,631	30,791
Total	36,106	33,480

Current accounts are regulated at market rates of interest. Trade receivables are regulated at market values.

Receivables from subsidiary companies regard receivables from Fininvest S.p.A. for 228 million (1,300 million). Commercial dealings with the Parent Company are carried out according to market conditions.

Other receivables amount to 193,355 million (158,399 million).

They are made up as follows:

	31/12/1999		31/12/1998	
	Within 12 months	Over 12 months	Within 12 months	Over 12 months
Loans	1,236		5,498	
VAT credit	39,074		41,155	
Income tax credits	44,242		20,814	
Advances to authors and collaborators	68,304	292	64,243	
Advances to agents	13,131		12,301	
Advances to suppliers	5,706		3,779	
Advances and loans to personnel	1,845	959	1,736	1,018
Insurance indemnities	6,000			
Other receivables	12,223	343	7,652	203
Total	191,761	1,594	157,178	1,221

Income tax credits include receivables for advance tax for 27,254 million relative to the companies included in the consolidation area and itemised as a result of the no. 25 new accounting principles regarding income tax.
Deferred tax is calculated on the basis of tax rates in force at the time of the Financial statement, which correspond to the tax rate applied at the time the differences are booked.
The amount indicated refers mainly to the Parent Company for 17,488 million and to the Elemond Group for 5,966 million.
The application of new accounting principles has resulted in extraordinary income of 37,016 million being entered in the Financial statement.
Both VAT credits and income tax credits include accrued interest.
Receivables due in more than 12 months mainly consist of loans made to personnel for a total of 959 million.

Financial assets

Other securities: 465,177 million (107,924 million).

These are investments made in stocks and shares using arbitrage instruments which, while guaranteeing the capital invested, make it possible to obtain returns that are higher than the market. The Group's financial policy is based on progressive diversification of investments, in order to be able to react to the fall in interest rates that has characterised and is currently still characterising financial markets.
The amount indicated includes investments for 242.4 billion in ABS Financial Fund Sicav for the management of cash, jointly owned by Mondadori International, Mediaset Investment and Trefinance (Fininvest Group).

Cash and banks: 380,377 million (453,582 million).

This includes deposits in post office current accounts for 2,314 million and with banks for 376,327 million (mainly investments in money market instruments), which are remunerated at top market rates, as well as cash and cheques for 1,736 million.

Accrued income and prepayments: 23,192 million (18,245 million)

These are made up as follows:

	31/12/1999	31/12/1998
Interest earned	1,647	1,570
Other accrued income	266	120
Total accrued income	1,913	1,690
Interest paid		51
Lease payments and rents	1,741	1,387
Third party publications for sale	14,418	11,757
Other prepayments	4,374	2,349
Total prepayments	20,533	15,544
Premium on loans	746	1,011
Total prepayments and accrued income	23,192	18,245

Liabilities

Consolidated Group Shareholders' equity: 1,100,128 million (987,141 million)

The **share capital** is represented by 129,275,410 ordinary shares and 75,706 savings shares, each with a par value of 1,000 lire.

The following changes in the items making up Shareholders' equity took place during the year:

	Share capital	Legal reserve	Treas. stock reserve	Other reserves	Net profit for year	Total
Balance at 31/12/1998	129,097	25,078	37,895	698,765	96,306	987,141
Allocation of 1998 net profit:						
- capital increase 17/9/1999						
Paid-up shares	49			1,339		1,388
Bonus shares	205			-205		
- Dividends					-65,653	-65,653
- Legal reserve		741			-741	
- Extraordinary reserve and other reserves				16,030	-16,030	
- Reclassified			31,089	-31,089		
Other reserves				38,369	-13,882	24,487
Net profit for the year					152,765	152,765
Balance at 31/12/1999	129,351	25,819	68,984	723,209	152,765	1,100,128

The reserves are made up as follows:

	31/12/1999	31/12/1998
Share premium reserve	431,515	461,265
Savings share conversion reserve	52,237	52,237
Reserve Law 72 of 19/3/1983	23,279	23,279
Reserve Law 413 of 30/12/1991	9,079	9,079
Extraordinary reserve	32,522	16,707
Reserve Law 675 of 12/8/1977	680	680
Reserve Law 124/93 art. 13	28	17
Reserve Law 904 of 16/12/1977	1,454	1,454
Government grants reserve	9,782	9,782
Other reserves	162,633	124,265
Total	723,209	698,765

Other reserves include the profits of subsidiaries and affiliates from prior years, the effects from consolidation adjustments and exchange losses.

Minority interests: 15,102 million (16,852 million).

Movements during the year were as follows:

Balance at 31/12/1998	16,852
Share of net result for the year	-1,226
Change in consolidation area	-628
Exchange effects and other movements	104
Balance at 31/12/1999	15,102

Reserve for risks and charges: 101,853 million (102,080 million).

For the ***reserve for retirement benefits*** of 2,153 million (2,530 million), which consists of the fixed indemnity due to freelance journalists and the relative contributions, there were provisions for 69 million net of utilisations for 446 million.

The ***reserve for income taxes*** of 46,697 million (56,001 million) includes adequate provisions for the year to cover deferred taxes due in future years on capital gains for which taxation can be postponed under current law, deferred taxes on consolidation entries and any additional tax that may be payable on the basis of current fiscal litigation.
Deferred tax is calculated on the basis of the rates in force at the time of the Financial statement, which corresponds to the tax rate applied at the time the differences are booked.

The ***reserve for other risks and charges*** of 53,003 million (43,549 million) is to cover potential liabilities arising from lawsuits, uncollectable amounts, contractual clauses and commitments and potential exchange losses deriving from the valuation of receivables and payables at the exchange rates ruling at year end.

Changes in the reserve during 1999 were as follows:

	Balance at 31/12/1998 (=)	Provisions (+)	Utilisation (-)	Other changes (+o-)	Balance at 31/12/1999 (=)
Legal risks	16,852	2,919	-1,197		18,574
Uncollectables	4,050	500	-11		4,539
Exchange losses	734	12	-730	-5	11
Commitments to advertising agency	11,932	4,372	-4,174		12,130
Risks for contractual proc.		4,175			4,175
Returns and other risks	9,981	5,046	-1,420	-33	13,574
Total	43,549	17,024	-7,532	-38	53,003

Severance indemnities: 183,263 million (177,505 million).

The reserve covers the total amount due to employees for severance indemnities accruing 31/12/1999.

Changes during the year were as follows:

Balance at 31/12/1998	177,505
Provisions	25,369
Payments	-18,105
Contribution to pension fund as per Law 297/82	-1,176
Utilisation for pension funds	-865
Variations in consolidation area	1,756
Transfer in/out of personnel and other	-1,221
Balance at 31/12/1999	183,263

Payables: 1,513,999 million (1,203,667 million).

The change was brought about by the increase in amounts due to banks for 216,291 million, in trade payables for 43,292 million, in advances for 2,259 million, in payables to subsidiary and affiliated companies for 19,431 million, in payables to social security institutions for 806 million and in other payables for 30,674 million, and in the reduction of tax payables for 2,105 million and in payables to parent companies for 316 million.

The ***amounts due to banks*** of 527,813 million (311,522 million) increased by 200,932 million and include:

	31/12/1999		31/12/1998	
	Within 12 months	Over 12 months	Within 12 months	Over 12 months
Current account overdrafts, bank credits on exports and advances on loans	76,827		97,270	
Loans	422,016	28,970	174,838	39,414
Total	498,843	28,970	272,108	39,414

The total of *Loans,* within and over twelve months, amounting to 450,986 million (214,252 million at the end of 1998), is analysed in the next two tables. The first shows movements during the year, the second gives the breakdown at 31/12/1999.

Medium/long term loans: 28,970 million (39,414 million). Movements are as follows:

	Secured	Others	Total
Balance at 31/12/1998	53,136	161,116	214,252 (1)
Repayments	13,724	1,116	14,840
	39,412	160,000	199,412
New loans and others	1,574	250,000	251,574
Subtotal	40,986	410,000	450,986
of which:			
Due within 12 months	12,016	410,000	422,016
Due over 12 months	28,970		28,970

(1) 174,838 million of which in short term loans.

These loans are due to the following banks and credit institutions:

	Interest rate at 31/12/1999	31/12/1999	31/12/1998
Secured loans:			
I.M.I. (low interest) (*)	4.307%	39,204	52,527
Mediobanca (low interest)	5.216%	208	609
Mediocredito	13.490%	435	
Ministero Industria e Commercio	0.908%	1,139	
		40,986	53,136
Unsecured loans:			
Comit pool/ Barclays Bank (Multicurrency)	3.496%	210,000	160,000
CariVerona Banca	3.651%	100,000	
Credito Emiliano	3.653%	50,000	
S.Paolo/IMI	3.725%	50,000	
Banca Nazionale del Lavoro			1,116
		410,000	161,116
Balance at 31/12/1999		450,986	214,252

(*) average rate for various loans.

As regards the expiry dates of these loans, the principal amounts of the loans repayable by the end of 2000 and in subsequent years are as follows:

By the end of 2000	422,016
By the end of 2001	4,795
By the end of 2002	4,982
By the end of 2003	5,097
By the end of 2004 and others	14,096
Total	450,986

The collateral offered as security by the various Group companies consists of mortgages and liens for a total value of 212.3 billion on fixed and intangible assets owned at 31 December 1999.

The net financial position of the Group at 31 December 1999 showed a positive balance, including payables for leasing of 283,453 million, as shown in the following table (the reasons for the changes have already been discussed in the general part of the report):

	31/12/1999	31/12/1998
Short-term bank deposits	376,327	451,079
Short-term bank borrowings	-76,827	-97,270
Loans: within 12 months	-422,016	-174,838
over 12 months	-28,970	-39,414
Net cash at banks	-151,486	139,557
Fixed interest credit instruments	465,077	107,998
Cash, post office accounts and cheques	4,050	2,503
New loans to third parties and Group companies	-15,033	7,464
Accrued interest	-2,218	-2,392
Net financial credits	300,390	255,130
Payables for leasing	-16,937	-38,285
Extended net financial standing	283,453	216,845

The ***advances*** of 63,978 million (61,719 million) include subscriptions of 47,528 million (43,197 million), shipping expenses advanced by foreign subscribers for 403 million (387 million) and advances from other customers for services and processing worth 16,047 million (18,135 million).

Trade payables amount to 595,984 million (552,692 million) and include amounts due for the purchase of fixed assets under leasing formulas for 16,937 million (38,285 million, including the medium/long term portion). Medium/long term payables amount to 4,439 million and relate mainly to lease payments.
Payables to the Fininvest Group amount to 13,582 million. The more significant of these concern amounts to Publitalia '80 S.p.A. for 9,881 million, Promoservice Italia S.r.l. for 1,532 million, Medusa Film S.p.A. for 900 million, Pagine Italia S.p.A. for 301 million and Radio e Reti S.r.l. for 181 million. Commercial dealings with the Fininvest Group are based on market conditions.

The ***amounts due to subsidiary companies*** of 1,079 million (430 million) and ***those due to affiliated companies*** of 51,947 million (33,165 million) are made up as follows:

	31/12/1999	31/12/1998
Subsidiary companies		
Current account payables	250	263
Trade payables	829	167
Total	1,079	430
Affiliated companies		
Current account payables	10,795	8,590
Trade payables	41,152	24,575
Total	51,947	33,165

The amounts due to subsidiary companies represent the balances payable to minor companies valued at net equity or at cost.
The increase in the amounts owed to affiliated companies concerns essentially Società Europea di Edizioni S.p.A. for 2,421 million, Edizioni EL S.r.l. for 3,388 million, Harlequin Mondadori S.p.A. for 3,568 million and Grüner & Jahr Mondadori S.p.A. for 3,567 million.
Current accounts are regulated at market rates of interest.
Trade receivables are regulated at market values.

The ***amounts due to subsidiary companies*** regard amounts due to Fininvest S.p.A. for 170 million (486 million). Commercial dealings with the Fininvest Group are based on market conditions.

Income taxes payable of 40,742 million (42,847 million) include:

	31/12/1999	31/12/1998
Payables for:		
Income taxes for the year:		
IRPEG	13,800	20,248
IRAP	4,645	545
Substitutive tax	1,682	830
Withholding taxes on wages and salaries	16,848	17,272
Other taxes withheld	3,767	3,952
Total	40,742	42,847

The ***amounts due to pension funds and social security institutions*** of 30,338 million (29,532 million) refer to contributions in December payrolls and 13th-month wages and salaries paid in January 2000.

Other liabilities of 201,948 million (171,274 million) include:

	31/12/1999	31/12/1998
Authors and collaborators	72,523	65,926
Subscriber and instalment customers	21,667	19,105
Loans payable	8,348	2,434
Payroll and other amounts due to personnel	49,548	45,553
Agents	41,079	34,771
Dividends for shareholders	254	217
Other payables	8,529	3,268
Total	201,948	171,274

The 21,667 million (19,105 million) due to *subscribers and instalment customers* relates 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 are shown under advances.
Loans payables refer to current account transactions by correspondence with publishing companies whose products are sold and distributed by the Group.
Payables to agents concern the commissions due to them and the agents' indemnities accrued up to 31/12/1999.These indemnities amount to 2,649 million (2,452 million) and are entered in the financial statement under medium/long term payables.

Accrued liabilities and deferred income: 18,857 million (20,066 million).

These have been calculated on an accrual basis and are made up as follows:

	31/12/1999	31/12/1998
Deferred payroll expenses and related charges	3,850	4,618
Interest payable	1,256	1,461
Others	3,630	5,061
Total accrued liabilities	8,736	11,140
Interest receivable	2,609	2,552
Rent payable	3,592	3,909
Others	3,920	2,465
Total deferred income	10,121	8,926
Total accrued liabilities and deferred income	18,857	20,066

Memorandum account: 298,631 million (312,827 million)

Details are as follows:

	31/12/1999	31/12/1998
Guarantees, sureties and endorsements		
- in favour of subsidiary companies		
- in favour of affiliated companies	14,133	14,932
- in favour of other companies	49,776	68,452
Commitments	106,286	86,802
Others	128,436	142,641
Total	298,631	312,827

Guarantees, sureties and endorsements:

- ***in favour of subsidiary companies:*** 14,133 million (14,932 million) include:
- a binding letter of patronage issued for 12,290 million to Leasingindustria S.p.A. in the interests of S.I.E.S. S.p.A.;
- sureties given to various banking institutions for loans granted to S.I.E.S. S.p.A. for 1,280 million and to S.A.G.E. S.p.A. for 563 million;

- ***in favour of other companies:*** 49,776 million (68,452 million) refers to sureties, counter-guaranteed by the company, issued by banks to the VAT Offices in Milan, Turin, Bergamo, Venice and Perugia for 33,784 million, to the Tax Authorities for prize-giving operations and competitions for 10,267 million, and other companies for a total of 5,725 million.

Commitments: 106,286 million (86,802 million) fixed term contracts for sales of foreign currency for 53,131 million contracts for "commodity swap" for 52,875 million and revenue commitments in favour of third parties for 280 million to be allocated by 2001.

Others: 128,436 million (142,641 million).

These relate to:

Third-party goods: for a total of 128,436 million concerning works published by third parties and by other Group companies on deposit for distribution and sale, and third-party paper for processing.

Commitments and risk

For a correct valuation of the Group's Balance sheet and financial position, we would inform you that at 31 December 1999 the following other commitments were not included in the memorandum accounts of the Holding Company:

- 8.7 billion per year for the rent of the Head Office in Segrate under lease until 30 June 2002, with a possible extension until 30 June 2008, subject to contractual rent reviews.

Income statement

Production value

Sales of goods and services: 2,634,079 million (2,439,380 million).

Consolidated sales in 1999, after eliminating intercompany items, amount to 2,634,079 million.

Sales of "Books", "Periodicals " and "Direct Marketing" are shown net of VAT borne by the publisher for 15,081 million, 22,919 million and 1,350 million, respectively, while sales of books and magazines are shown net of distribution and sales commissions estimated at 239.7 billion.

Foreign sales revenues amount to 401,538 million (323,760 million).

Details of sales by geographical area are as follows:

	1999	1998
Italy	2,232,541	2,115,620
EC countries	300,759	243,208
USA	38,625	25,700
Scandinavian countries	1,020	2,466
Other countries	61,134	52,386
Total	2,634,079	2,439,380

Change in inventory of semi-finished and finished products: -11,262 million (42,117 million).

Change in work in progress to order: 1,704 million (-6,116 million).

See the Balance sheet note on inventory for comments on these items.

Capitalised costs: 432 million (332 million).

During 1999 the following costs were transferred from construction in progress to fixed assets:

	1999	1998
Labour costs	98	
Materials and overheads	334	332
Total	432	332

Other income and revenues: 76,863 million (72,738 million).

These relate to:

	1999	1998
Expenses recovered from third parties	53,652	53,463
Supplier bonuses and other third party contrib.	10,263	6,614
Commissions	53	6
Contributions in financial account	613	258
Capital gains	3,465	6,626
Others	8,817	5,771
Total	76,863	72,738

The more significant components of the item "expenses recovered from third parties" are the recovery of periodical development and distribution costs for 16,108 million, transport expenses for 14,208 million and marketing costs for 1,725 million.

Production costs

Raw, ancillary and consumable materials and goods: 830,364 million (815,791 million).

	1999	1998
Paper	372,372	393,287
Electricity, water, gas, fuel	19,746	20,633
Other production materials	50,298	51,489
Total purchase of production resources	442,416	465,409
Goods for sale	325,254	292,972
Consumption and maintenance materials	62,694	57,410
Total other purchases	387,948	350,382
Total	830,364	815,791

The increase in goods for sale in comparison with 1998 is linked to the increase in the volume of business.

Services: 999,620 million (898,574 million).

The costs are split as follows:

	1999	1998
Commissions	97,348	81,450
Rights and royalties	166,079	154,968
Third-party consultancy and collaboration	85,590	76,084
	349,017	312,502
Third-party processing	229,766	225,928
Purchase of advertising space	77,353	35,001
Transport and shipping	104,236	97,748
Advertising services	85,192	78,203
Other services	46,479	41,651
Post office and telephone	22,765	23,647
Travel and other expense reimbursements	22,079	20,544
Job order services	24,949	28,271
Maintenance	13,698	13,877
Canteen and cleaning	10,462	9,195
Insurance	4,177	3,868
Market research	4,580	5,103
Directors' and statutory auditors' fees	4,867	3,036
Total services	999,620	898,574

The increase in purchase of advertising space is linked to the sales of advertising in *Il Giornale* which began in 1999 and *Famiglia Cristiana*.
Third party processing, transport and shipping and advertising services are influenced by increased business in the magazine sector.
With regard to fees for the Board of Directors, the amount due to directors was 4,162 million, while the amount due to statutory auditors was 705 million. 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, and in particular the amount due for these activities carried out in 1999 was 109 million.

Use of third-party assets: 35,268 million (31,187 million).

This includes:

	1999	1998
Rent	25,611	23,004
Lease payments	7,727	6,868
EDP and other rentals	1,930	1,315
Total	35,268	31,187

Personnel costs: 456,725 million (448,814 million).

	1999	1998
Wages and salaries	328,829	322,425
Social security contributions	102,458	101,200
Severance indemnities and retirement benefits	25,438	25,189
Total	456,725	448,814

At 31 December 1999 the Group had 5,286 employees (5,132 as of 31 December 1998).
The average number of employees in 1999 was 5,214.

Average number of employees	1999	1998
Executives	175	168
Journalists	442	437
Office staff	2,716	2,628
Factory workers	1,881	1,972
Total	5,214	5,205

Depreciations and writedowns: 144,662 million (135,183 million).

Details are given in the Balance sheet note on non-current assets and working capital.

Changes in inventory of raw, ancillary and consumable materials and goods:
-1,805 million (5,234 million)

For details, see the Balance sheet note on *Inventory* (C/I).

Provision for risks: 17,012 million (12,424 million).

For details, see the Balance sheet note on *Reserves for risks and charges (B/3)*.

Other operating costs: 29,141 million (20,021 million).

These are made up as follows:

	1999	1998
Other expenses and losses		
Settlements and reimbursements	14,282	9,456
Bad debts	22,522	26,209
Contributions and grants	2,541	2,322
Capital losses and contingent liabilities	2,086	1,706
Information material, entertainment expenses and others	8,078	7,208
Total	49,509	46,901
Less utilisation of risk reserves (legal and other risks)	28,594	33,423
Total	20,915	13,478
Taxes and dues: Other taxes and dues	8,226	6,543
Total	8,226	6,543
Grand Total	29,141	20,021

Financial income and charges

Income from investments: 6,056 million (3,689 million).

This item includes dividends from Auguri di Mondadori S.r.l., disposed of in 1999.

Other financial income: 47,301 million (38,424 million).

This item includes:

	1999	1998
Financial income from:		
- long-term receivables	354	773
- capital gains	10,980	
- short-term securities	27,473	5,958
Interest on receivables from:		
- Subsidiary companies	43	29
- Affiliated companies	107	139
- Parent companies		750
- Banks	1,550	20,942
- Customers	722	529
- Exchange gains	4,172	6,241
- Others	1,900	3,063
Total	47,301	38,424

The financial income from long-term receivables relates to Cartiere di Ascoli-Marsoni S.p.A. and accrued on the highest-bearing guarantee deposit of 10 billion collected in the first half of 1999. The rates applied to receivables and payables versus affiliated companies are in line with the Group's average cost of money.

Interest and other financial charges: 36,774 million (38,341 million).

	1999	1998
Interest on payables to:		
- Subsidiary companies	7	3
- Affiliated companies	274	505
- Parent companies		3
Banks:		
- Current account overdrafts	14,295	20,228
- Short-term loans	496	1,526
- Medium/long-term loans	2,324	135
- Provisions for exchange losses	10,872	7,686
Interest payable on leasing and others	8,506	8,255
Total	36,774	38,341

Adjustments to the value of financial assets: 5,986 million (1,628 million). As follows:

	1999	1998
Profits from affiliated companies	8,405	4,891
Losses from affiliated companies	-2,201	-2,645
Losses to be covered	-214	
Writedown of investments	-4	-583
Writedown of shares		-35
Total	5,986	1,628

Extraordinary income and charges: 38,795 million (1,552 million).

These are made up as follows:

	1999	1998
Gains on disposals:		
- investments	6,589	2,025
Other income:		
- advance tax	37,016	
- income from insurance reimbursements	6,000	
- other extraordinary income	907	721
Total Income	50,512	2,746
Losses on disposals:		
-investments	5,316	1,158
Prior year taxes	34	20
Other charges		
- Contingent liabilities	6,111	
- other extraordinary income	256	16
Total charges	11,717	1,194
Total Income and (charges)	38,795	1,552

Entries include charges for deferred taxes and/or income from advance taxes amounting to 37,016 million, due to temporary differences taxable and/or deductible from prior years for each individual company in the consolidation area.

Minority interests profit (loss): -1,226 million (141 million).

Includes the share of the results for third parties for the year.

Income tax: 100,654 million (91,728 million).

This is shown in the following table:

	1999	1998
Current taxes	99,196	86,365
Deferred taxes	1,458	5,363
Total income taxes	100,654	91,728

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 Mondadori's financial statements at 31 December 1999 and those shown in the Consolidated financial statements is as follows:

	Shareholders' equity	Net profit for the year
Balances as per the Holding Company's financial statements	1,126,235	341,506
Share of net profit made by subsidiary and affiliated companies		58,383
Writedown of investments by the Holding Company		-1,391
Dividends received from subsidiary and affiliated companies		-23,646
Elimination of intercompany profits	-2,028	-1,394
Excess of the share of net equity over the book value of the investments in non-consolidated subsidiary and affiliated companies	12,364	
Excess of the share of net equity over the book value of investments in consolidated companies	136,510	
Other adjustments	-172,953	-220,693
Consolidated financial statement	1,100,128	152,765

Consolidated statement of changes in financial position

Consolidated statement of changes in financial position (in millions of lire)

	1999	1998
Sources of funds		
Net profits for the year	152,765	96,306
Profit (loss) minority interests	-1,226	141
Profit (loss) pre-acquisition		
Adjustments that do not cause changes in working capital		
Amortisation and depreciation	120,504	120,179
Severance indemnities	25,457	25,189
Valuation of affiliated companies	-6,204	-2,246
Net working capital generated by sales and other operations	291,296	239,569
Decrease in non-current receivables		
Increase in non-current payables		
Decrease in fixed assets	5,959	96
Decrease in long term investments	1,365	1,347
Disposal of investments		
Intangible assets		2,323
Net fixed assets		3,056
Reserve for staff severance indemnities		-274
Increase in share capital	1,388	780
New loans during the year	1,574	14,679
Transfer of investments from line-by-line to net equity consolidation		
Severance provisions relating to personnel transferred from Group companies	-1,221	-807
Total	300,361	260,769

Consolidated statement of changes in financial position (in millions of lire)

	1999	1998
Application of funds		
Contributions to purchase of companies		
Intangible assets	1,211	
Net fixed assets	10,023	
Reserve for staff severance indemnities	-1,756	
Third-party assets	628	
Other receivables (payables)		
Acquisition of assets		
Intangible assets	78,802	23,320
Fixed assets	80,389	42,324
Leased assets		1,217
Changes in work in progress	10,315	
Payment of staff severance indemnities	20,611	23,320
Impact on reserves of foreign exchange differences	-7,698	6,100
Transfer of current portions of medium/long term loans to current liabilities	12,018	14,841
Transfer of investments from line-by-line to net equity consolidation		
Increase in non-current payables	200	6,990
Increase in long-term investments		
Decrease in non-current receivables	21,823	20,653
Dividends paid by the Holding Company	65,653	158,652
Other movements in net equity	-16,789	523
Increase (decrease) in minority interests in net equity	-104	275
Total application of funds	275,326	298,215
Increase (decrease) in working capital	25,035	-37,446

Change in working capital (in millions of lire)

	1999	1998
Increase (decrease) in current assets		
Raw materials and goods	2,028	20,160
Other receivables	41,703	3,870
Fixed interest securities	357,253	70,447
Company shares	33,849	31,082
Banks	-74,487	-51,373
Cash on hand	1,282	-466
Accrued income and prepayments	4,947	-668
	366,575	73,052
Increase (decrease) in current liabilities		
Reserve for other risks and charges	9,454	-533
Current protion of medium/long term loans	247,178	5,216
Banks	-20,443	21,215
Suppliers	75,123	81,872
Other payables	31,437	-1,711
Accrued liabilities and deferred income	-1,209	4,439
	341,540	110,498
Increase (decrease) in working capital	25,035	-37,446

Consolidated statement of changes in shareholders' equity, 31 December

	Share capital				
		Share premium	Law no. 72	Law no. 413/91	Legal reserve
Balances at 1st January 1998	128,932	543,840	23,279	9,079	20,885
Movements:					
Changes to consolidation area					
Increase in paid-up capital at 23/11/1998	36	744			
Increase in bonus capital at 23/11/1998	129				
Transfer to legal reserve					4,192
Transfer to extraordianry reserve					
Transfer to other reserves					
Payment of dividends					
Distribution of reserves					
Reclassification		-31,082			1
Other movements					
Currency translation decreases					
Net profit for the year					
Balances at 31 December 1998	129,097	513,502	23,279	9,079	25,078
Movements:					
Changes to consolidation area					
Increase in paid-up capital at 17/9/1999	49	1,339			
Increase in bonus capital at 17/9/1999	205				
Transfer to legal reserve					741
Transfer to extraordinary reserve					
Transfer to other reserves					
Payment of dividends					
Reclassification		-31,089			
Other movements					
Currency translation increase					
Net profit for the year					
Balances at 31 December 1999	129,351	483,752	23,279	9,079	25,819

1999 and 31 December 1998 (in millions of lire)

Reserves							Net profit (loss)	Total
Treasury stock	Extra. reserve	Law n. 675	Law no. 124/93 art.13	Law no. 904	Govt. grants	Other reserves		
6,813	95,839	680	8	1,454	9,782	127,290	87,449	1,055,330
						-23		-23
								780
	-129						-	
							-4,192	-
	15,688						-15,688	-
			9			3,598	-3,607	-
							-63,962	-63,962
	-94,690							-94,690
31,082	-1							-
						-500		-500
						-6,100		-6,100
							96,306	96,306
37,895	16,707	680	17	1,454	9,782	124,265	96,306	987,141
						18,247		18,247
								1,388
							-205	-
							-741	-
	15,815						-15,815	-
			11			13,881	-13,892	-
							-65,653	-65,653
31,089								
						-1,458		-1,458
						7,698		7,698
							152,765	152,765
68,984	32,522	680	28	1,454	9,782	162,633	152,765	1,100,128

Consolidated Balance sheet and Income statement in Euro as of 31 December 1999

Balance sheet

Assets

(€m)		Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
A. Receivables from shareholders for unpaid share capital				0.00	0.00
B. Non- current assets					
I- Intangible assets					
1 set-up and expansion costs			0.87		1.78
2 research, development and advertising costs					
3 industrial patent rights and use of original works			0.12		0.88
4 concessions, licences and trade marks			164.76		160.51
5 goodwill			19.88		14.27
6 assets under construction and advances			0.50		0.25
7 others			7.31		8.87
8 consolidation differences			21.40		14.49
Total				214.83	201.05
II- Fixed assets					
1 land and buildings			87.73		77.77
2 plant and machinery			64.48		67.00
3 industrial and commercial equipment			1.29		1.16
4 other assets			16.95		15.61
5 assets under construction and advances			8.91		3.59
Total				179.37	165.12
III- Financial assets					
1 investments in:					
a) subsidiary companies			2.84		0.43
b) affiliated companies			12.15		11.98
c) other companies			0.41		1.54
Total			15.40		13.95
	within 12 months	*over 12 months*			
2 current receivables:					
a) from subsidiary companies					
b) from affiliated companies					
c) from parent companies					
d) from other companies	0.51	9.83	10.34		15.18
Total	0.51	9.83	10.34		15.18
3 other securities					0.11
4 treasury stock			37.05		19.57
Total				62.79	48.81
Total non-current assets B.				456.99	414.98

(€m)		Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
C. Current assets					
I- Inventories					
1 raw, ancillary and consumable materials			12.72		9.94
2 semifinished products, work in progress			23.65		26.76
3 work in progress to order			7.67		6.78
4 finished products and goods			79.88		79.39
5 advances					
Total				123.92	122.88
	within 12 months	*over 12 months*			
II- Receivables					
1 trade accounts	349.20	12.27	361.47		357.48
2 due from subsidiaries	4.13		4.13		0.38
3 due from affiliated companies	18.65		18.65		17.29
4 due from parent companies	0.12		0.12		0.67
5 due from third parties	99.04	0.82	99.86		81.81
Total	471.13	13.09		484.22	57.63
III- Financial assets (current)					
1 investments in subsidiaries					0.02
2 investments in affiliated companies					
3 other investments			1.07		
4 treasury stock					
5 other securities			240.24		55.74
Total				241.31	55.75
IV- Cash and equivalents					
1 cash at banks and PO			195.55		234.02
2 cheques			0.75		0.11
3 cash and commercial papers in hand			0.15		0.12
Total				196.45	234.26
Total current assets C.				1,045.91	870.52
D. Accrued income and prepayments					
1 accrued income			0.99		0.87
2 prepayments			10.60		8.03
3 premium on loans			0.39		0.52
Total accrued income and prepayments D.				11.98	9.42
Total assets				1,514.87	1,294.92

Balance sheet

Liabilities

(€m)		Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
A. Shareholders' equity					
I- Share capital				66.80	66.67
II- Share premium reserve				249.84	265.20
III- Revaluation reserve				16.71	16.71
IV- Legal reserve				13.33	12.95
V- Reserve for treasury stock				35.63	19.57
VI- Statutory reserve					
VII- Other reserves					
1) Extraordinary reserve			16.80		8.63
2) Reserve Law 675 of 12/8/1977			0.35		0.35
3) Conferral reserve Law 904 of 16/12/1977			0.75		0.75
4) Capital account contribution reserve			5.05		5.05
5) Reserve Law 124/93 art. 13			0.01		0.01
6) Other reserves			83.99		64.18
				106.96	78.97
VIII- Profit (loss) carried forward					
IX- Profit (loss) for the year					
1) Profit for the year				78.90	49.74
Consolidated Group Shareholders' equity				568.17	509.82
Minority interest				7.80	8.70
Total Shareholders' equity A.				575.97	518.52
B. Reserve for risks and charges					
1 retirement benefits			1.11		1.31
2 income taxes			24.12		28.92
3 other			27.37		22.49
Total reserve for risks and charges B.				52.60	52.72
C. Reserve for severance indemnities				94.65	91.67
	within 12 months	*over 12 months*			
D. Debts and other payables					
1 bonds					
2 convertible bonds					
3 due to banks	257.63	14.96	272.59		160.89
4 due to third parties					
5 advances	33.04		33.04		31.88
6 trade accounts	305.51	2.29	307.80		285.44
7 debts represented by credit instruments					
8 due to subsidiaries	0.56		0.56		0.22
9 due to affiliated companies	26.83		26.83		17.13
10 due to parent companies	0.09		0.09		0.25
11 income taxes payable	21.04		21.04		22.13
12 due to pension funds and social security entities	15.67		15.67		15.25
13 other liabilities	102.93	1.37	104.30		88.46
Total debts and other payables D.	763.29	18.62		781.92	621.64

(€m)	Year ended 31 December 1999 Sub Total 1	Sub Total 2	Total 3	Year ended 31 December 1998
E. Accrued liabilities and deferred income				
1 accrued liabilities		4.51		5.75
2 deferred income		5.23		4.61
3 discounts on loans				
Total accrued liabilities and deferred income E.			9.74	10.36
Total liabilities			1,514.87	1,294.92
Memorandum accounts				
1 Guarantees and sureties				
a) in favour of subsidiaries				
b) in favour of affiliated companies			7.30	7.71
c) in favour of third parties			25.71	35.35
2 Commitments			54.89	44.83
3 Risks				
4 Others			66.33	73.67
Total memorandum accounts			154.23	161.56

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

For the Board of Directors
Chairman
Leonardo Mondadori

Income statement

(€m)	Financial year 1999 Sub Total 1	Sub Total 2	Total 3	Financial year 1998
A. Production value				
1 Income from sales of goods and services		1,360.39		1,259.83
2 Changes in inventory of semifinished products		-5.82		21.75
3 Changes in WIP to order		0.88		-3.16
4 Increase in internal investments		0.22		0.17
5 Other income and revenues				
a) operating grants	0.32			0.13
b) other income and revenues	39.38			37.43
		39.70		
Total production value A.			1,395.37	1,316.17
B. Production costs				
6 Raw, ancillary and consumable materials and goods		428.85		421.32
7 Services		516.26		464.07
8 Use of third party assets		18.21		16.11
9 Personnel costs				
a) wages and salaries	164.41			160.80
b) social contributions	52.92			52.27
c) severance indemnities	13.10			12.99
d) retirement benefits	0.04			0.02
e) other costs	5.41			5.72
Total		235.88		231.79
10 Depreciation, amortisation and writedowns				
a) amortisation of intangible assets	27.06			29.63
b) depreciation of fixed assets	35.18			32.43
c) other writedowns of assets				
d) writedown of doubtful accounts	12.48			7.75
Total		74.71		69.82
11 Changes in inventory of raw, ancillary and consumable materials and goods		-0.93		2.70
12 Provisions for risks		8.79		6.42
13 Other provisions				
14 Other operating expenses		15.05		10.34
Total production costs B.			1,296.82	1,222.57
Difference between production value and production costs A.-B.			98.55	93.59

(€m)	Financial year 1999 Sub Total 1	Sub Total 2	Total 3	Financial year 1998
C. Financial income and charges				
15 Income from investments				
a) Subsidiaries	3.10			1.80
b) Affiliated companies				
c) Other investments	0.03			0.10
Total		3.13		1.91
16 Other financial income				
a) from long term receivables				
* Subsidiaries				
* Affiliated companies				
* Parent companies				
* Other companies	0.18			0.40
Total	0.18			0.40
b) from long term securities	5.67			
c) from short term securities	14.19			3.08
d) other income				
* Subsidiaries	0.02			0.01
* Affiliated companies	0.06			0.07
* Parent companies				0.39
* Other companies	4.31			15.89
	4.39			16.37
Total		24.43		19.84
17 Interest and other financial charges				
a) Subsidiaries				
b) Affiliated companies	0.14			0.26
c) Parent companies				
d) Other companies	18.85			19.54
Total		18.99		19.80
Total financial income and (charges) C.			8.56	1.95
D. Adjustments to the value of financial assets				
18 Revaluations				
a) investments	4.34			2.53
b) other long term financial assets				
c) securities				
Total		4.34		2.53
19 Writedowns				
a) investments	1.25			1.67
b) other long term financial assets				
c) securities				0.02
Total		1.25		1.69
Total adjustments to the value of financial assets D.			3.09	0.84

(follows)

Income statement

(€m)	Financial year 1999 Sub Total 1	Sub Total 2	Total 3	Financial year 1998
E. Extraordinary items				
20 Income				
a) Gains on disposals	3.40			1.05
b) Other	22.68			0.37
Total		26.09		1.42
21 Charges				
a) Losses on disposals	2.75			0.60
b) Taxation relative to prior years	0.02			0.01
c) Other	3.29			0.01
Total		6.05		0.62
Total extraordinary income and (charges) E.			20.04	0.80
Profite before tax			130.25	97.18
22 Income tax for the year			51.98	47.37
23 Results for the year			78.26	49.81
Net profit (loss) for the year pertaining to minority interest			-0.63	0.07
Net profit (loss) for the year			78.90	49.74

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
Leonardo Mondadori

Reclassified Balance sheet (bn lire)

	31/12/1999	31/12/1998
Balance sheet - assets		
Intangible assets	416.0	389.3
Fixed assets	347.3	319.7
Financial assets	121.6	84.5
Inventories	240.0	237.9
Receivables and other assets	956.9	896.4
Cash and banks	851.5	579.5
Total assets	**2,933.2**	**2,507.3**
Balance sheet - liabilities and shareholders' equity		
Shareholders' equity	1,100.1	987.1
Minority interests	15.1	16.9
Reserves for risks and charges	101.9	102.1
Reserve for severance indemnities	183.3	177.5
Other liabilities	981.8	899.3
Financial payables	551.1	324.4
Total liabilities and shareholders' equity	**2,933.2**	**2,507.3**

Income statement (bn lire)

	31/12/1999	31/12/1998
Income from sales	**2,634.1**	**2,439.4**
Personnel costs	456.7	448.8
Product and operating costs	1,854.2	1,694.1
Gross operating profit	**323.1**	**296.5**
Depreciation	68.1	62.8
Net operating profit	**255.0**	**233.7**
Amortisation of titles, series, goodwill and deferred charges	52.4	57.4
Net financial income (charges)	-0.5	0.1
Other income (charges), net	12.1	10.0
Extraordinary items	37.9	1.8
Profit before taxation and minority interests	**252.2**	**188.2**
Income taxes	-100.7	-91.7
Minority interests	-1.2	0.1
Net profit for the year	**152.8**	**96.3**

Companies of the Mondadori Group as of 31 December 1999

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/1999	% held as of 31/12/1998
Companies consolidated using the line-by-line method:						
Parent Company						
Arnoldo Mondadori Editore S.p.A.	Milan	Printing, publishing, paper	Lire	129,351,116,000		
Italian subsidiaries						
Armando Paoletti S.p.A.	Florence	Printing	Lire	900,000,000	95.56	
Athena Finanziaria S.r.l.	Florence	Financial	Lire	20,000,000	95.56	
Auguri di Mondadori S.r.l. (Disposed of)						100.00
Casa Editrice Felice Le Monnier S.p.A.	Florence	Publishing	Lire	25,000,000,000	95.56	
Casa Editrice Poseidonia S.r.l.	Bologna	Publishing	Lire	21,000,000	87.50	
Cemit Direct Media S.p.A.	S. Mauro Torinese	Trade	Lire	7,375,000,000	100.00	100.00
Club degli Editori S.p.A.	Milan	Publishing	Lire	2,000,000,000	100.00	100.00
Editoriale e Finanziaria Le Monnier S.p.A.	Florence	Publishing	Lire	5,400,000,000	95.56	
Editoriale Essekappa S.p.A.	Milan	Publishing	Lire	200,000,000	100.00	100.00
Edizioni Frassinelli S.r.l.	Milan	Publishing and trade	Lire	20,000,000	100.00	100.00
Elemond S.p.A.	Milan	Publishing	Lire	49,400,000,000	100.00	100.00
Electa Napoli S.r.l.	Naples	Publishing	Lire	300,000,000	60.00	60.00
Ellemme S.r.l.	Milan	Trade	Lire	150,000,000	100.00	100.00
Fied S.p.A.	Milan	Financial publishing	Lire	800,000,000	100.00	100.00
Giulio Einaudi Editore S.p.A.	Turin	Publishing	Lire	46,000,000,000	70.00	70.00
Leonardo Arte S.r.l.	Milan	Publishing	Lire	900,000,000	100.00	100.00
Libreria Le Monnier S.p.A.	Florence	Trade	Lire	1,078,920,000	95.56	
Mondadori Informatica S.p.A.	Milan	Publishing	Lire	500,000,000	100.00	100.00
Mondadori Printing S.p.A. (ex Gutenberg S.r.l.)	Milan	Printing	Lire	87,300,000,000	100.00	100.00
Mondadori Pubblicità S.p.A.	Milan	Advertising agent	Lire	6,000,000,000	100.00	100.00
Mondadori Franchising S.p.A.	Rimini	Trade	Lire	1,954,000,000	100.00	100.00
Programmi Editoriali S.p.A.	Milan	Publishing	Lire	6,000,000,000	100.00	100.00
Riccardo Ricciardi Editore S.p.A.	Milan	Publishing	Lire	3,510,000,000	100.00	100.00
Gutenberg S.p.A. (ex Mondadori Printing S.p.A.)	Milan	Printing	Lire	200,000,000	99.99	100.00
Sperling & Kupfer Editori S.p.A.	Milan	Publishing	Lire	648,000,000	100.00	100.00
Italian affiliated companies						
Heinemann Le Monnier S.r.l.	Grassina (FI)	Trade	Lire	20,000,000	47.78	

Companies of the Mondadori Group as of 31 December 1999

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/1999	% held as of 31/12/1998
Foreign subsidiaries						
Arnoweb S.A.	Luxembourg	Finance	Euro	25,000,000	99.99	
Artes Graficas Toledo S.A.	Toledo	Printing	Ptas	900,000,000	99.99	99.99
Digrisa S.A. de C.V.	Mexico	Publishing	Pesos	50,000	99.80	99.80
Distrib.Exclusiva Grijalbo S.A.	Bogotà (Colombia)	Trade	Pesos	1,400,000	100.00	100.00
Grijalbo Mondadori S.A.	Barcelona	Publishing	Ptas	996,000,000	100.00	100.00
Editorial Grijalbo S.A.	Mexico	Publishing	Pesos	50,000,000	100.00	100.00
Editorial Grijalbo S.A.	Santiago (Chile)	Publishing	Pesos	55,642,872	100.00	100.00
Editorial Grijalbo Ltda	Bogotà (Colombia)	Publishing	Pesos	10,000,000	99.00	99.00
Garrafon N.V.	Dutch Antilles	Finance	US $	6,000	100.00	100.00
Grijalbo Dargaud S.A. (Disposed of)					00.00	50.00
Grijalbo Editor S.A.	Montevideo (Uruguay)	Publishing	N. Pesos	500,000	100.00	100.00
Grijalbo S.A.	Caracas (Venezuela)	Publishing	Bolivares	150,000	100.00	100.00
Grijalbo S.A.	Buenos Aires (Argentina)	Publishing	Australes	6	100.00	100.00
Mondadori International S.A.	Luxembourg	Finance	Lire	50,000,000,000	99.99	99.99
Prisco International N.V.	Dutch Antilles	Finance	US $	6,000	100.00	100.00
Sociedad Editorial Electa España S.A.	Madrid	Trade	Ptas	100,000,000	100.00	100.00
Webmond S.A.	Luxembourg	Finance	Euro	25,000,100	99.99	
Companies valued using the proportional method:						
Mondolibri S.p.A.	Milan	Trade publishing	Lire	2,000,000,000	50.000	
Companies valued using the net equity method:						
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	Milan	Trade	Lire	800,000,000	50.00	50,00
Edizioni Electa Bruno Mondadori S.r.l.	Milan	Publishing	Lire	20,000,000	50.00	50,00
Edizioni EL S.r.l.	Trieste	Publishing	Lire	1,200,487,400	35.00	35,00
Grüner und Jahr / Mondadori S.p.A.	Milan	Magazine publishing	Lire	4,856,000,000	50.00	50,00
Harlequin Mondadori S.p.A.	Milan	Publishing	Lire	500,000,000	50.00	50,00
Librorama S.r.l. (In liquidation)	Milan	Publishing	Lire	150,000,000	50.00	50,00
Mach 2 Libri S.p.A.	Milan	Trade	Lire	1,250,000,000	24.00	24,00
Mondadori De Agostini S.p.A. (In liquidation)	Novara	Publishing	Lire	300,000,000	50.00	50,00
S.A.G.E. Seregni Azienda Grafica ed Editoriale S.p.A.	Milan	Printing	Lire	250,000,000	50.00	50,00
S.A.I.R.E. S.r.l.	Milan	Real estate	Lire	90,000,000	25.00	25,00
S.E.L. Società Editrice Lombarda S.p.A. (In liq.)	Milan	Printing	Lire	250,000,000	50.00	50,00
S.I.E.S. Società Italiana Editrice Stampatrice S.p.A.	Milan	Printing	Lire	1,000,000,000	50.00	50,00
S.T.S. Società Tipografica Siciliana S.p.A.	Catania	Printing	Lire	3,000,000,000	19.92	19,92
Società Europea di Edizioni S.p.A.	Milan	Newspaper publishing	Lire	4,872,000,000	29.67	29,67

Companies of the Mondadori Group as of 31 December 1999

Name	Legal office	Business	Currency	Share capital expressed in local currency	% held as of 31/12/1999	% held as of 31/12/1998
Companies valued at cost (1)						
AME Publishing Ltd.	New York	Services	US $	50,000	99.99	99.99
Arnoldo Mondadori Deutschland GmbH	Munich	Services	DM	50,000	99.99	99.99
Baldini & Castoldi S.r.l.	Milan	Publishing	Lire	150,000,000	49.00	49.00
Baldini & Castoldi International BV	Amsterdam	Finance	Nlg.	40,000	49.00	49.00
Consedit S.r.l.	Milan	Services	Lire	20,000,000	9.54	9.54
Consortium S.p.A. (Disposed of)						10.00
Consorzio Aeromobili Fininvest	Milan	Services	Lire	1,000,000,000	3.00	3.00
Editrice Portoria S.p.A.	Milan	Publishing	Lire	500,000,000	23.50	23.50
Editrice Storia Illustrata S.r.l. (In liquidation)	Milan	Publishing	Lire	20,000,000	11.75	11.75
Edizioni di Comunità S.r.l.	Milan	Publishing	Lire	50,000,000	70.00	70.00
Edizioni Venete S.r.l.	Venice	Publishing	Lire	20,000,000	75.00	75.00
Europrint S.r.l.	Milan	Publishing and printing	Lire	28,800,000	16.23	16.23
Giulio Einaudi Editore S.p.A. (In receveirship)	Turin		Lire	3,000,000,000	7.35	7.35
Fivefactor S.p.A.	Segrate - Milan	Finance	Lire	16,500,000,000	10,00	10.00
Immobiliare Editori Giornali S.r.l.	Rome	Real estate	Lire	1,608,000,000	7,88	7.88
Hearst Mondadori Editoriale S.r.l.	Milan	Publishing	Euro	99,600	50,00	
Istud - Istituto Studi Direzionali S.p.A.	Milan	Training courses	Lire	2,200,000,000	0,59	00.59
Miranda 2000 S.r.l. (merged in Elemond S.p.A.)						100.00
Mondadori.Com. Inc.	New York	Internet business	US $	2,500,000	99,99	
Morinvest S.r.l.	Milan	Publishing	Lire	199,000,000	89,95	89.95
News Alert Investors llc	New York	Internet business	US $	25,000,000	10.00	
Nuova Omicron S.r.l.	Milan	Publishing	Lire	20,000,000	19,60	19.60
Paperback GmbH (In liquidation)	Furth (Germany)		DM	50,000	95,56	
Parafernalia S.r.l. (In liquidation)	Florence		Lire	20,000,000	95,56	
Selcon S.r.l.	Milan	Services	Lire	40,000,000	14,40	14.40
Società Editrice Il Mulino S.p.A.	Bologna	Publishing	Lire	1,175,000,000	7,00	7.00
Zelig Editore S.r.l.	Milan	Publishing	Lire	190,000,000	19,60	19.60

(1) Companies of which the Group owns more than 20% have also been valued at cost, if insignificant.

Report of the Board of Statutory Auditors on the Consolidated financial statements of the Mondadori Group for the year ended 31 December 1999

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, in view of recent legislation concerning the role of Statutory Auditors (Legislative Decree 58/98) we have:

- taken part in all meetings of the Board of Directors, obtaining from Directors information concerning current activities and significant operations affecting the Company's financial position, ensuring that resolutions made are in line with current legislation and the Company's business and that there are no conflicts of interest or discrepancies with Shareholder resolutions;
- ascertained, within the limits of our responsibilities, that the Company structures and accounting procedures are adequate by direct observation, the examination of material supplied by the Company and by meetings with the External Auditors Deloitte & Touche S.p.A., for the exchange of relevant information and figures;
- examined and checked the internal mechanisms for internal control of accounting and the reliability of such mechanisms in providing accurate information on the management of the Company's activities as well as checks on the work carried out by the External Auditors. We have also had regular meetings with the Controller with whom we have verified checks made also for Subsidiary Companies;
- checked that the Annual report and Financial statements for 1999 have been presented according to current legislation through direct checks and discussions with the External Auditors. The final result for the year is positively influenced by the capital gains deriving from the contribution of the printing activities to the new subsidiary Mondadori Printing S.p.A., an operation that was described in the fullest detail by the Board of Directors;
- evaluated and controlled the reporting mechanisms applied to Subsidiary Companies which allow such Subsidiaries to provide prompt information to the Parent Company that is consequently able to respect communication obligations foreseen by current legislation.

The activities outlined above presented no significant anomalies or omissions.

Furthermore, in line with the recommendations of the Italian Stock Exchange Commission, we would underline that:

- information provided by the Board of Directors, also information concerning inter-group operations, is to be considered complete;
- inter-group operations carried out during the year are to be deemed relevant to the Group's business activities and were effected at market conditions. In this context, we did not find any conflict of interest or atypical operations able to have any impact on the Group's economic or financial position;
- regular meetings were held during the year to exchange information with representatives of the External Auditors and, while not yet having seen the External Auditors' Report, we have reason to believe that it does not contain any judgements worthy of concern;

- in 1999 there were 7 meetings of the Board of Directors, 1 meeting of the Executive Committee and 6 meetings of the Board of Statutory Auditors;
- during the year, in addition to the auditing of the Annual and interim reports, the Company engaged Deloitte & Touche S.p.A. for the following activities:

- due diligence for Le Monnier	272,0	millions of lire
- assets of the Printing Area as at 30 April 1999	21,0	“
- examination of Exol	12,0	“
- control of ADS circulation data	68,5	“
Total	373,5	millions of lire

- measures taken by management to guard against eventual damages resulting from the so-called Y2K problem were revealed to have been totally adequate. In fact, no operative problems of note emerged in the passage to 2000;
- we agree with the dividend proposal made by the Board of Directors also taking into account the available reserves.

In conclusion, given that no claims as per Art. 2408 of the Civil Code have been received, we endorse the approval of the Annual report and Financial statements as at 31 December 1999, with profit for the year of 341,506,454,591 lire and the division of such profit as indicated by the Board of Directors.

Milan, 5 April 2000

The Board of Statutory Auditors

(Franco Jorio, Chairman)
(Antonio Aiello)
(Achille Frattini)

Report of the External Auditors on the Consolidated financial statements of the Mondadori Group for the year ended 31 December 1999

Auditors' report in accordance with art. 156 of Legislative Decree no. 58 of 24 February 1998.

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

We have audited the Consolidated financial statements of the Arnoldo Mondadori Editore Group for the year ended 31 December 1999. The preparation of the Consolidated Annual Report is the responsibility of the management of Arnoldo Mondadori Editore S.p.A. Our responsibility is to express a professional opinion on the Report based on our audit of the Company accounts.

Our examination has been carried out in accordance with the auditing standards recommended by Consob, performing those controls that we considered necessary for the purposes of our engagement. The financial statements of certain associated companies that represent approximately 2.10% of consolidated assets and 1.5% of consolidated revenues have been examined by other auditors who have provided us with their reports. As regards the figures that refer to these consolidated companies, the opinion that we express in this report is also based on the work carried out by other auditors.

Reference should be made to our auditors' report dated 13 April 1999 for our opinion on the prior year's Consolidated financial statements, which are presented here for comparative purposes as required by law.

In our opinion the Consolidated financial statements, for the year ended 31/12/99, have been prepared in a clear manner and give a true and fair view of the assets and liabilities, financial position and results of the Group in compliance with the rules governing consolidated financial statements.

The companies iincluded in the consolidation area have adopted new accounting criteria concerning income taxes that foresee the registration in the relative annual reports of advance payments of tax and liabilities for deferred taxes. The effects of such changes have been adequately outlined in the notes commenting "Extraordinary income/charges" and "Income taxes for the year".

Deloitte & Touche S.p.A.

Patrizia Arienti
Partner

Milan, 11 April 2000

Arnoldo Mondadori Editore S.p.A.

Share capital 129,351,116,000
Head Office in Milan, Italy
Administrative Offices in Segrate (MI)

Graphic design: Bob Noorda