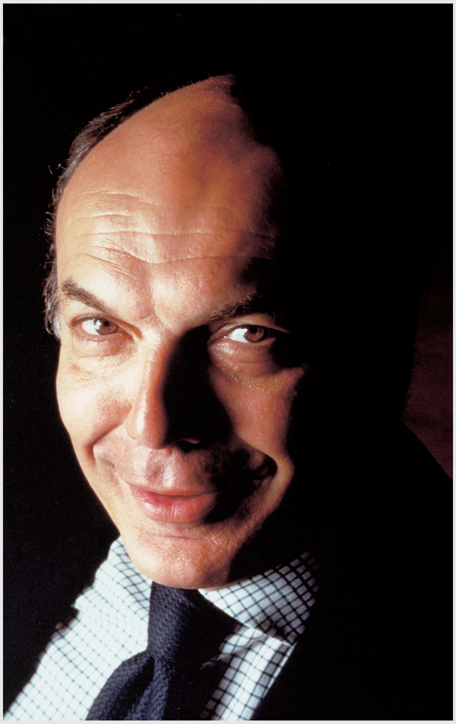
ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital € 67,451,756.32
Head Office in Milan, Italy
Administrative Offices in Segrate (Milan)

Annual report 2002

MONDADORI



In memory of Leonardo Mondadori who died on 13th December 2002

No one in the old days at Mondadori was ever known to address Arnoldo by his first name, either when speaking about him or to him. With Leonardo it was different, always and only Leonardo; almost as if everyone had adopted the same attitude towards him that his grandfather had had: familiar, affectionate, almost protective. A reflection of a simplicity and warmth that were not only immediately reciprocated, but actively sought and offered. The cardinal principle on which Mondadori was built was second nature to Leonardo: always present yourself at the same level as your interlocutor, be neither distant nor overbearing. But there was also a personal component in his disarming approach, a rejection of all haughtiness and the faint echo of distant suffering.

He came to see the world as a continuous discovery of new horizons, a daily opportunity for new ideas, projects, initiatives. And this was the measure – openness to the new and an ability to change and be changed – that he made of the people he came into contact with. Indulgent with those that lacked such qualities, he could be severe with those who demonstrated limited and narrow vision, meanness of spirit, a focus on purely personal interests or greed. In the 80s he radically changed the habits of Italian book publishing, indifferent to the scepticism and the sarcasm of those that ten years later followed in his footsteps. In the 90s, as Chairman, he felt that his role was to ensure that the company that was such an enormous part of his life did not fall into the trap of self-satisfaction. He continued to the end to identify what was new, encourage change, and never be content. He was convinced that publishing is not only the best job in the world, but a highly sensitive and strategic convergence of all the elements that design and delineate the future. This explains why he also passionately believed in the moral responsibility of the publisher.

On a number of occasions life presented Leonardo with sudden twists, and painful choices. He could have swum with the tide, allowed himself to be swept along in the current, consenting to what the world around him appeared to suggest. But he couldn’t do it. With stubbornness and obstinacy, he risked being misunderstood, but defended his independence and autonomous judgement. He never sang in any choir in which he didn’t have a say in the choice of music, indeed often making choices that were out of tune with current preferences. He believed in personal responsibility and consequently distrusted anyone who attempted to attribute their indolence or moral weakness to whatever form of conditioning.

Finally, he converted to Catholicism, not out of fear, but out of vitality. Not to give his death a meaning, but to give significance to his life. And he did it as a free man, which he remained until the end.

The Shareholders are hereby invited to the Ordinary and Extraordinary Meeting to be held on 28 April 2003 at 15.00 in Segrate (MI), Via Mondadori 1, at first calling and, if necessary, at second calling on 5 May 2003 at the same time and place, to pass resolution on the following:

Agenda

Ordinary General Meeting

1. Financial Statements as of 31 December 2002, reports of the Board of Directors and the report of the Board of Statutory Auditors; related resolutions, presentation of the Consolidated Financial Statements as of 31 December 2002 and related enclosures.
2. Nomination of the Board of Directors, after taking a decision on the number of members, the duration of the appointment and the members' fees. Nomination of the Chairman of the Board of Directors.
3. Nomination, after taking a decision on the members' fees, of the Board of Statutory Auditors and a Chairman for the current year and for the two subsequent years and therefore up to the approval of the financial statements as of 31 December 2005.
4. Proposal for the introduction of a stock option plan for the three-year period 2003-2005, and nomination of a Stock Option Committee.
5. Authorisation to effect a buy-back and to utilise Company shares, as per the combined dispositions of articles 2357 and 2357 paragraph 3 of the Civil Code.

Extraordinary part

1. Approval of the merger, on the basis of the respective financial statements as of 31 December 2002, of the subsidiary companies Mondadori Informatica S.p.A. and Mondadori.com S.p.A., by means of annulment without substitution of the shares that represent the companies' entire share capital which are wholly owned by the parent company, consequent deliberations and mandate.

The Shareholders' Meeting may be attended by Shareholders who own ordinary shares and who present the relevant certificates in accordance with art. 34 of CONSOB ruling no. 11768 of 23/12/1998, issued by an intermediary belonging to the Monte Titoli S.p.A. centralised management system. The reports of the Board of Directors on the subjects contained in the agenda, including point 1 of the extraordinary part and other relevant documents as described in art. 2501 sexies nos. 1) and 3) of the Civil Code, are deposited at the Company's administrative offices and at the offices of Borsa Italiana S.p.A., in accordance with Ministerial Decree no. 437 of 5 November 1998 and CONSOB ruling no. 11971/1999. Shareholders have the right to obtain copies of these reports.
With reference to point 3 of the ordinary part of the agenda it should be noted that, in accordance with article 17 of the Statutes, nomination will take place of the Board of Statutory Auditors consisting of three acting statutory auditors and two substitute statutory auditors, on the basis of nomination lists presented by Shareholders who, either individually or together with other Shareholders, represent at least 3% of the share capital and who must demonstrate their right to present a list by presenting a certificate issued by an intermediary belonging to the Monte Titoli S.p.A. centralised management system. Each individual shareholder may not present more than one nomination list.
Each nomination list must contain a number of candidates not greater than the total number of acting and substitute members to be elected, listed in numerical order.
The nomination lists, accompanied by a professional curriculum of the candidates and signed by the Shareholder or Shareholders who present them, must be deposited at the head offices of the company at least 5 days before the date of the first calling of the Shareholders' Meeting.
Each nomination list must be accompanied, within the time limit referred to above, by a declaration by each individual candidate accepting the nomination and declaring, under their own responsibility, that none of the legal reasons for ineligibility or incompatibility exist and that they possess the requisite reputation and professionality required by law and by article 17 of the Company Statutes for members of the Board of Statutory Auditors. It should be noted that in accordance with article 17 of the Company Statute of Arnoldo Mondadori Editore S.p.A., individuals who already hold the position of acting statutory auditors in more than seven Italian companies quoted on financial markets regulated in Italy cannot be elected as auditors.
In the absence of nomination lists, the Board of Statutory Auditors and its Chairman will be nominated by the Shareholders' Meeting by legal majority.

For the Board of Directors
Chairman
Marina Berlusconi

Board of Directors

Chairman
Marina Berlusconi (*)

Deputy Chairman and Chief Executive
Maurizio Costa (*)

Directors
Francesco Barbaro (**)
Pier Silvio Berlusconi
Fedele Confalonieri (*)
Martina Mondadori
Roberto Poli
Giovanni Puerari
Mario Resca
Claudio Sposito (*)

(*) Members of the Executive Committee
(**) Secretary

Board of Statutory Auditors

Chairman
Franco Iorio

Acting Statutory Auditors
Antonio Aiello
Achille Frattini

Substitute Statutory Auditors
Francesco A. Giampaolo
Gianfranco Polerani

Powers
Chairman: power of legal representation in dealing with third parties and legal proceedings.
Deputy Chairman and Chief Executive: routine powers and power of separate signature limited to actions prescribed by law.

Contents

Report of the Board of Directors on the results of the financial year 2002

Shareholders,

in 2002 Mondadori confirmed its position of market leader in the various sectors in which it operates and also showed its ability to react to the challenge presented by the slowdown in the economy. Even in such a difficult context the company was able to greatly increase its net profit and the Group's profitability, despite a decrease in sales.

Consolidated **net profit** amounted to 81.1 million euros, an increase of 9.7% compared with the figure of 73.9 million euros in 2001, after allocating depreciations for 59.2 million euros (56.1 million euros in 2001) and tax provisions for 52.1 million euros (74.2 million euros in the previous year).

The economic slowdown seen in the second half of 2001, both on an international and national level, continued in 2002 and was exacerbated by the introduction of the euro that initially created uncertainty in consumer spending and affected all the sectors where the Mondadori Group operates.

In this context, the company was able to exploit the quality of its products in order to obtain a share of the market, rely on its capacity for innovation to find new sources of revenue and introduce a decisive programme for containing costs in order to improve profitability.

Return on equity amounted to 14.1%, compared with 12.2% in 2001.

In 2002 **sales** amounted to 1,458.8 million euros, a 6.3% decrease compared with the figure of 1,557.6 million euros in 2001. However, if revenues deriving from the distribution of *L'Espresso* are eliminated from the total for 2001, the distribution contract for which ended in January 2002, the decrease in turnover was limited to 2.4%.

Gross operating profit amounted to 208.5 million euros, confirming the result of 209.5 million euros registered in 2001 (-0.5%), while operating profit expressed as a percentage of sales increased to 14.3% from 13.5% in 2001.

The **operating result** amounted to 172.4 million euros, representing a slight decrease of –2.3% from the figure of 176.5 million euros registered in 2001. As a percentage of sales this figure increased from 11.3% in 2001 to 11.8% in 2002.

The **Group's net financial position** amounted to 109.3 million euros, after the payment of ordinary and extraordinary dividends of 155.7 million euros.

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

In 2002 the **Book Division** registered an excellent performance with its main imprints, Mondadori and Einaudi, achieving notable increases in sales.

From the point of view of competition, the year was characterised by the launch on the market of books sold as supplements to the main daily newspapers, which offered classic titles on sale at newsstands. This initiative was very successful and served to enlarge the market without producing any negative effects on the sales of new titles in traditional channels.

In the **school textbook** sector the results registered in 2001 were confirmed in 2002. The year also saw the completion of the Group re-organisation project, with the unification of the various subsidiary companies in the sector in Edumond Le Monnier S.p.A.

2002 was a particularly demanding year for the **magazine market** in general. Circulation fell by 5.2% in terms of the number of copies sold, a situation that was exacerbated in the last part of the year by a series of strikes that blocked the publication of a number of issues of the main titles. The decrease in circulation reflected the generally weak sales figures for both weekly and monthly titles on all European markets, due to the uncertainty that affected consumer spending.

In this context, **Mondadori** was able to contain the drop in circulation in terms of the numbers of copies sold to 4.4%, while in terms of sales the Group did even better by closing the year with results that were substantially in line with the previous year (-0.8% on a comparable basis). This excellent result was achieved thanks to a policy of developing new products (for example, music CDs, videocassettes, DVDs and women's accessories) issued as supplements to established titles.

The continuing difficulties on the economic and consumer fronts dashed all hopes for a recovery in advertising investments in 2002. Consequently, for the second year running the **advertising market** decreased, this time by 3.5%[1] compared with the previous year. The magazine sector was one of the worst hit (-8.0%), while the newspaper sector registered a decrease of 6.9%.

In this context, **Mondadori Pubblicità** registered a 5.8% decrease in sales compared with 2001. Once again Mondadori's performance was better than their main competitors, thanks to the strength of its titles, which were the market leaders in their respective sectors, and to its imposing presence in the women's magazine market, which was characterised by less volatility in advertising spending.

The decrease in consumer spending and advertising investments was particularly felt in the **Printing Division,** which is by nature very competitive and has a high production capacity. The negative effects of the contraction of the advertising market were seen not just in the reduction of the number of magazine pages printed but also in a decrease in orders for promotional material and catalogues.
In an attempt to halt the fall in demand, **Mondadori Printing** internalised some production projects that previously had been contracted out, concentrating on the efficiency and competitiveness, in terms of cost, of the new rotogravure printing press that came into production the previous year. More than 50% of demand was concerned with printing Mondadori magazines and books, which demonstrated a much higher resistance to the crisis than the rest of the market.
The decrease in demand for printed products resulted in a significant drop in the cost of paper for the second year running.

In the **direct marketing** sector Mondolibri, the joint venture with the Bertelsmann Group that was formed after the merger of Club degli Editori and Euroclub, turned in a positive performance, confirming its position as market leader in the book-club sector and registering a slight increase in sales.
Cemit, the main Italian company in the direct marketing services sector, was able to limit the effects of the contraction in the communication market thanks to the excellent quality of its services.

In the **retail** sector, where Mondadori has 12 of its own shops and runs a franchising network, the biggest increase in sales was registered by Mondadori Franchising, which also increased the number of affiliated sales outlets to 117 (99 in 2001).

Mondadori Informatica saw the decrease in the reference markets where it operates (computer courses, manuals and professional textbooks in the sector) continue. Consequently, the Mondadori Group introduced a reorganisation programme aimed at improving profitability by containing structural costs and focusing on the development of activities with better future prospects.

In the **internet** sector Mondadori continued with its project of replacing the BOL Italia technological platform, the joint-venture set up with the Bertelsmann Group to sell books on-line, with the intention of significantly containing costs. In 2002 Mondadori.com continued with its traditional activity of managing and up-dating its numerous sites, while it also pursued its objective of developing new activities in line with its core business.
In the overall internet sector the Group registered sales of approximately 13 million euros.

From this introduction we now move on to commenting on the main results of the Consolidated Financial Statement for 2002.

[1] Source: Nielsen

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

Consolidated reclassified income statement

€ m	**31/12/2002**	**31/12/2001**	**% change**
Income from sales	1,458.8	1,557.6	(6.3%)
Personnel costs	240.7	238.8	0.8%
Product and management costs	1,009.6	1,109.3	(9.0%)
Gross operating profit	**208.5**	**209.5**	**(0.5%)**
MOL effect on income	*14.3%*	*13.5%*	
Depreciations of fixed assets	36.1	33.0	9.4%
Operating profit	**172.4**	**176.5**	**(2.3%)**
Operating result effect on income	*11.8%*	*11.3%*	
Depreciations of intangible assets	23.1	23.1	-
Net financial income (charges)	(4.5)	0.7	n.a.
Other income (charges), net	(3.9)	(10.0)	(61.0%)
Extraordinary income (charges), net	(0.3)	15.0	(102.0%)
Internet activities	(7.4)	(11.0)	(32.7%)
Profit before taxation	**133.2**	**148.1**	**(10.1%)**
Income taxes for the year	(52.1)	(74.2)	(29.8%)
Minority interests	0.0	0.0	-
Net profit for the year	**81.1**	**73.9**	**9.7%**
Net result effect on income	*5.6%*	*4.7%*	

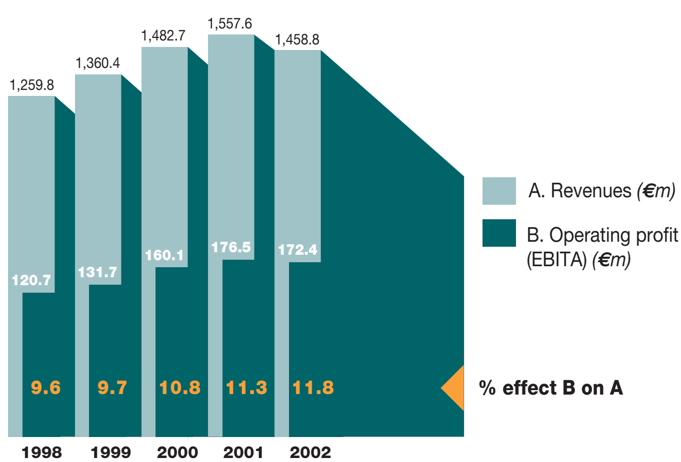
Consolidated revenues amounted to 1,458.8 million euros, a decrease of 6.3% (2.4% on a comparable basis).

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

Volume of business for each business activity

€ m	**2002**	**2001**	**% change**
Book Division	331.4	327.8	1.1%
Magazine Division (*)	782.5	870.3	(10.1%)
Printing Division	442.5	474.7	(6.8%)
Direct Division	140.7	143.8	(2.2%)
Computer publishing	17.3	22.9	(24.5%)
Others	21.7	21.3	1.9%
Total sales	**1,736.1**	**1,860.8**	**(6.7%)**
Intergroup sales	(277.3)	(303.2)	(8.5%)
Total consolidated sales	**1,458.8**	**1,557.6**	**(6.3%)**

(*) On a comparable basis (excluding from the data for 2001 the revenues from the distribution of *L'Espresso*, equal to 63 million euros), the variation in the Magazine Division amounted to -3.1%, while the variation in total consolidated sales amounted to -2.4%.



Mondadori Group: revenues and operating profit

Consolidated revenues are broken down into the following geographical areas:

Gross operating profit was substantially unchanged, falling from 209.5 million euros in 2001 to 208.5 million euros in 2002, a decrease of 0.5%. This represents a percentage of sales equal to 14.3% (13.5% in 2001).

Personnel costs were in line with the previous year.

Production and management costs decreased by 9% compared with 2001.

Operating profit fell by 2.3%, decreasing from 176.5 million euros to 172.4 million euros, mainly due to an increase in depreciations of tangible assets. As a percentage of sales this is equal to 11.8% (11.3%).

Depreciations of intangible and fixed assets registered an increase of 3.1 million euros, from 56.1 million euros to 59.2 million euros. Intangible assets were substantially unchanged while fixed assets increased by 9.4%, mainly due to the introduction of new printing presses.

Volume of business per geographical area

€ m	**2002**	**2001**	**% change**
Italy	1,335.3	1,415.4	(5.7%)
EEC countries	103.3	113.7	(9.1%)
USA	13.7	17.4	(21.3%)
South America	-	-	-
Other countries	6.5	11.1	(41.5%)
Total consolidated revenues	**1,458.8**	**1,557.6**	**(6.3%)**

Production and management costs

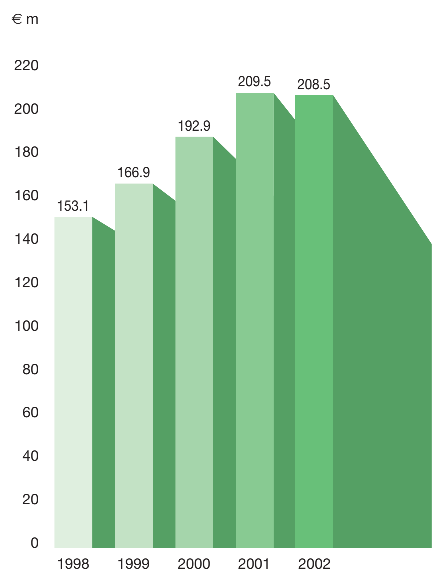
€ m	**2002**	**2001**	**% change**
Raw, ancillary and consumable materials and goods and stock variations	453.1	529.1	(14.4%)
Services and other costs	557.0	573.7	(2.9%)
Use of third-party assets	20.3	21.4	(5.1%)
Recovery third-party expenses and other sources	(20.8)	(14.9)	39.6%
Total production and management costs	**1,009.6**	**1,109.3**	**(9.0%)**

Income and financial charges registered a deficit of 4.5 million euros, a deterioration compared with 2001 that was caused by the performance of the financial markets in 2002.

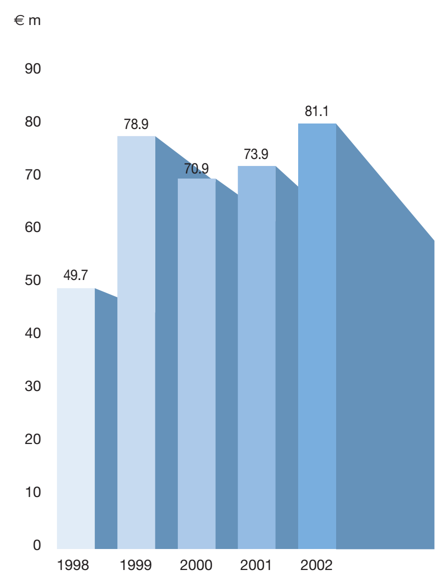
Pre-tax profits amounted to 133.2 million euros (148.1 million euros), a decrease of 10.1%. It should be noted that the results for 2001 benefited from extraordinary income of 12.9 million euros.

Net profit amounted to 81.1 million euros (73.9 million euros in 2001), an increase of 9.7% that was due to a reduction in taxes.

Cash flow (net profit + depreciations) amounted to 140.3 million euros, representing an increase of 10.3 million euros in absolute terms and 7.9 in percentage terms compared with 2001.



Mondadori Group: gross operating profit



Mondadori Group: net profit

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

The **net financial position** at 31 December 2002 showed a surplus of 109.3 million euros (188.5 million euros at 31 December 2001), after the distribution to Shareholders of dividends amounting to 155.7 million euros.

The Group's **capital investments** amounted to 36.9 million euros (70.6 million euros in 2001). Further details can be found in the section "Notes to the Consolidated financial Statements".

Consolidated reclassified balance sheet

€ m	**31/12/2002**	**31/12/2001**
Intangible assets	164.2	185.6
Fixed assets	202.7	210.9
Financial assets	126.3	138.1
Inventories	121.1	118.4
Receivables and other assets	491.1	472.3
Cash and banks	516.6	576.7
Total assets	**1,622.0**	**1,702.0**
Shareholders' equity	531.9	616.8
Minority interests	0.4	0.5
Reserve for risks and charges	52.0	57.3
Reserve for severance indemnities	101.8	99.6
Other liabilities	528.6	539.6
Financial payables	407.3	388.2
Total liabilities	**1,622.0**	**1,702.0**

Results of Arnoldo Mondadori Editore S.p.A.

Arnoldo Mondadori Editore S.p.A. closed financial year 2002 with a **net profit** of 71.7 million euros (compared with 83 million euros in 2001). The result was achieved after allowing for total depreciations of 17.1 million euros (17.6 million euros in 2001) and taxes of 55.8 million euros (53.4 million euros in 2001). Gross cash flow amounted to 88.8 million euros (100.6 million euros in 2001).

The Parent Company's **revenues** amounted to 896.4 million euros compared with 964.3 million euros in 2001, a decrease of 7.0%. When comparing the figures for the two years it should be noted that revenues for 2001 included income from the distribution of *L'Espresso,* the contract for which ended in January 2002. On a comparable basis the decrease in revenues amounted to 0.5%.

It should also be noted that the result of the Parent Company includes revenues from investments that were affected in terms of costs by writedowns and charges net of utilisations of the relative reserve for 57.7 million euros (17.4 million euros in 2001) and in terms of income by dividends, net of tax credits, for 51 million euros (38.9 million euros in 2001).

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.

During 2002 the Italian book market was characterised by a series of new initiatives that modified the typical dynamics of the sector. In the forefront of these was the decision by the main national daily newspapers to offer books as supplements, sold at newsstands, that was very successful and resulted in over 30 million books being sold.

In 2002, the method of ascertaining sales figures used by the Demoskopea panel was radically changed with the introduction of a computer-based system. While this initiative brought advantages such as a higher level of precision and detail, it also meant that there was a lack of comparability with data collected in previous years.

The figures shown in the table above – based on estimates made by Demoskopea[2] – have been drawn up in such a way as to make the data for 2002 as near as possible comparable with the data for 2001.

Given this premise, the data from Demoskopea shows that the Mondadori Group consolidated its share of the market (an increase of 0.8% to 31.5%).

Publisher	**Market share 2002**	**Market share 2001**	**% change**
Mondadori	20.6	20.4	0.2%
Einaudi	5.9	5.0	0.9%
Sperling & Kupfer	3.7	4.0	(0.3%)
Other companies of the Mondadori Group	1.3	1.3	-
Total for the Mondadori Group	**31.5**	**30.7**	**0.8%**
Rizzoli Group	16.7	18.3	(1.6%)
Longanesi Group	9.1	9.5	(0.4%)
Feltrinelli	5.8	5.3	0.5%

[2] Data in terms of value refers to January-December 2002, medium-large bookshops.

Total sales in the Book Division in 2002 amounted to 331.4 million euros compared with 327.8 million euros in the previous year and were made up as follows:

Book production in the division[3] totalled 1,981 new titles (compared with 2,033 in 2001) and 3,590 reprints (3,901 in 2001), for a total of 40.7 million copies compared with 42.6 million copies in 2001.

Books

€ m	**2002**	**2001**	**% change**
Edizioni Mondadori	108.2	99.5	8.7%
Einaudi	42.3	38.3	10.4%
Art books and exhibition organisation	39.8	48.2	(17.4%)
Sperling & Kupfer Group	23.9	23.5	1.7%
School textbook editions	77.1	77.9	(1.0%)
Riccardo Ricciardi Editore	-	0.2	n.a.
Book distribution	41.5	43.1	(3.7%)
Total sales	**332.8**	**330.7**	**0.6%**
Intercompany sales	(1.4)	(2.9)	(51.7%)
Total consolidated sales	**331.4**	**327.8**	**1.1%**

[3] Including Mondadori, Sperling & Kupfer, Frassinelli, Einaudi and Electa imprints (excluding school textbooks).

Edizioni Mondadori

During 2002 Mondadori registered an excellent increase in sales of 8.7%. This result is even more impressive when considered in the light of the current high level of competitiveness of the market. However, books issued as supplements to daily newspapers did not pose a threat to new titles, as can be seen from the sales of hardback books that represented 48% of the overall book production of Mondadori and registered an increase of 4% compared with the previous year.
In 2002 the law establishing a 15% maximum discount on books was confirmed. The effects of the law mean that there is less room to manoeuvre when promoting books and it has penalised sales in large bookshops without benefiting small bookshops.

In dividing sales figures into the different channels, while there was a decrease in the importance of large-scale retailing, compared with the previous year, there was an increase in the results for large bookshops/chains.
Once again among hardback books the main success was obtained in the non-fiction area, with the new book from Luciana Littizzetto, *La principessa sul pisello,* which dominated the Christmas period with sales of 370,000 copies[4]. Other successful authors were Flavio Oreglio, with almost 300,000 copies sold, Corrado Guzzanti with *Imbuti* (90,000 copies), Marco Della Noce with *Sochmacher* (more than 50,000 copies) and Raul Cremona (45,000 copies), all of whom testified to the magic moment for books written by comics. Another notable success was registered by Valerio Massimo Manfredi who, with *Ultima legione,* sold almost 110,000 copies, while excellent results were also achieved by Andrea Camilleri (*La paura di Montalbano,* with 305,000 copies), John Grisham (*La convocazione,* with just less than 220,000 copies and the Christmas title *Fuga dal Natale,* with 165,000 copies), Gabriel Garcìa Màrquez (the long-awaited *Vivere per raccontarla,* almost 200,000 copies), Patricia Cornwell (*Ritratto di un assassino,* with over 160,000 copies), Bruno Vespa (*La grande muraglia,* with 160,000 copies) and Andrea De Carlo (*I veri nomi,* sold together with a music CD of De Carlo, registered sales of more than 120,000 copies). Quality Italian fiction also enjoyed an extraordinary year with the above mentioned Camilleri and the amazing success of Mazzantini, the author who thanks to *Non ti muovere* (published in 2001) won the Premio Strega and has sold close to 325,000 copies. In a year which saw the death of the company's Chairman, Leonardo Mondadori, his book *Conversione* (written together with Vittorio Messori) registered a excellent result with sales of close to 100,000 copies.

Einaudi

Sales of Giulio Einaudi Editore titles at the end of December 2002 amounted to more than 42 million euros, representing an excellent increase of 10.4% compared with the previous year. The main reason for this success was the range of titles that were greatly appreciated by both critics and readers alike. The most significant of these titles during the year were *Espiazione* by Ian McEwan, *Le correzioni* by Jonathan Franzen, *La sposa liberata* by Abraham Yehoshua, *La globalizzazione e i suoi oppositori* by Joseph Stieglitz, *Educazione di una canaglia* by Edward Bunker and *La ragione dei sentimenti* by Paolo Crepet. Many titles benefited from strong marketing campaigns, while excellent results were also achieved for the launch of a new low-priced series, "Arcipelago", which had great success with one of its first books, *L'ultima partita a carte* by Mario Rigoni Stern.
Among the books published together with videocassettes, special mention should be made of *Gigi Proietti Show* and *Trovarti, amarti* by Roberto Vecchioni.

[4] Figures refer to delivered quantities net of returns.

These positive results were achieved thanks to a strong publishing programme and the particular attention paid to operational activities, while the sale of rights to national daily newspapers also produced significant revenues.

Art books and exhibition organisation

The sector in which the company operates inevitably suffered setbacks from the decrease in economic growth. On the one hand the large decrease in international tourism penalised the company's activities in the museum services sector, while on the other hand the organisation of temporary exhibitions and events registered a steep drop in the number of visitors, to add to the different programming of exhibitions compared with the previous year.
The most significant events in the different areas of the sector during 2002 were the following:

- in the book area a significant increase in the volume of sales was accompanied by an appreciable improvement in profit margins. Of particular note was the launch of the new "Dizionari dell'Arte" series with 11 editions in Italian for a total of 52,000 copies divided between the four titles published, and over 100,000 copies of the jointly-produced foreign editions. The launch of two new architectural series was also very positive, with a second edition of both series being prepared within two months of the launch. Despite the crisis in the tourist sector, Mondadori increased its sales of the Geo guidebook (+17.6% compared with 2001);
- in the exhibition catalogue area, the most important events were the publication in five different languages of the *Van Gogh and Gauguin* catalogue for the exhibition held in Amsterdam from January to June, together with the project organised in conjunction with the Phaidon publishing house involving the publication in English under the Electa imprint of an important series of architectural titles;
- in the exhibition organisation area, the main event was the launch of the Exhibition Organisation Services for the "Soprintendenza di Pompei." As for temporary events, the Group was jointly responsible with Palazzo Reale in Milan for the *New York Renaissance* exhibition and for the *Collezioni Thyssen-Bornemisza* and *I Borgia, l'arte del potere* exhibitions in Palazzo Ruspoli in Rome.

As mentioned above, the results of these events were substantially inferior to expectations even though they were appreciated by critics and the public alike.

Sperling & Kupfer Group

2002 was characterised by the disposal of the magazine sector (*Espansione, Giornale delle Assicurazioni* and *Giornale della Banca e della Finanza*). The operation, which produced a small profit, allowed the Group to concentrate on its core business of books for a large part of the year.
The Sperling & Kupfer Group registered a better result than that achieved the previous year with sales remaining substantially stable. The year also saw the reassertion of its consolidated authors (in particular Pansa, Bambarén and Sparks), balanced out by other authors who did not live up to expectations (Rosemary Altea above all), and the launch of some new authors (Lawson and Rice). The effort put into improving the supply of new products to bookshops produced decisively positive results, although the 6% increase was balanced out by a similar increase in returns, particularly of paperbacks.

Educational publishing

In 2002 the Educational Publishing sector registered sales of 77.15 million euros, substantially in line with 2001.
During the year the companies in the Le Monnier Group were merged with Edumond in a new company, Edumond

Le Monnier, which on 31 December took over Poseidonia. This reorganisation of the company completed the project, originally begun in 2001 to create an educational division inside the Mondadori Group.
This year the company found itself operating in a generally complex situation that was influenced both by the slow-down of economic growth and by widespread uncertainty linked to the outcome of the proposed scholastic reforms.

As with all Italian education book publishers, Edumond Le Monnier had to face a year that was not particularly dynamic from the point of view of sales and complex in terms of making decisions about investments in new projects. The company therefore concentrated its efforts on those segments of the market that were less exposed to the above-mentioned factors, focussing its investments mainly on lower-middle school texts.
As far as the lower-middle school and upper school sectors were concerned (where the Group operates with the Poseidonia and Le Monnier imprints), in 2002 there was an increase in the number of adopted texts that was translated into an excellent sales performance.
Unfortunately these positive results were not matched in the elementary and primary school textbook sector. The difficulties of the company that had conditioned results in 2001 were exacerbated in a sector where competition is very aggressive from a number of publishing houses that are very strong in this area. In order to overcome this difficult situation, the company introduced a project for the internal reorganisation of both production and resources in the elementary school area, which will be completed by the end of 2003.

As for the Le Monnier line of dictionaries, sales were substantially stable in comparison to 2001. It should also be noted that in this area a new agreement was reached with the Retail Division of the Mondadori Group for the sale of dictionaries in large bookshops.
One of the most significant events in the other production areas of Edumond Le Monnier was the publishing initiatives dedicated to markets that up to the present time have either not been fully exploited or have never been exploited at all. These initiatives include the development of products for universities (under the Mondadori Università and Le Monnier Università imprints), the new series dedicated to professional training and the first publications dedicated to the new market of nursery schools.
Other activities included the development of business relations with foreign publishers with whom there already exist promotion, distribution and sales contracts for the Italian market (Macmillan, Burlington Books, Max Hueber and Hatier Didier).

Distribution

The year closed with confirmation of the improvement in the efficiency of the distribution system, with an increase in business of 4.9% compared with the previous year and a 0.6% increase in the containment of costs.
In November a new returned goods warehouse equipped with a sorter came into operation, increasing the efficiency both of costs and services.
By the end of the first quarter of 2003 the "2003/2005 Distribution Project" will be presented, designed to rationalise and increase our distribution structure and produce a notable improvement in costs.
Since September 2002 all Feltrinelli bookshops have been linked up to Arianna, bringing the number of bookshops connected to the system to 313.

The Magazine Division registered consolidates sales of 782.5 million euros, a decrease of 10.1% compared with 2001 (-3.1% on a comparable basis).

In the following table revenues from the distribution of *L'Espresso* have been removed from the data for 2001 in order to make the figures for the two years comparable.

Magazines

€ m	**2002**	**2001**	**% change**
Circulation	443.7	447.5	(0.8%)
Advertising	338.8	359.8	(5.8%)
Total magazines	**782.5**	**807.3**	**(3.1%)**

Circulation

Circulation

€ m	**2002**	**2001**	**% change**
Mondadori titles	369.7	372.5	(0.8%)
Third-party titles	74.0	75.0	(1.3%)
Total circulation	**443.7**	**447.5**	**(0.8%)**

The above table gives an overall picture of the situation.

The magazine sector closed financial year 2002 in decline compared with the previous year (-5.2%) despite the good performance registered in the summer period and the new titles launched in the last part of the year.The negative result was partly due to the strike that took place at the end of the year which involved almost all the main Italian weekly titles and resulted in a loss of more than 4 million copies on the market.

The situation in Italy is similar to that in the other main European countries that have been hit by a decrease in circulation figures due to the following reasons:
a) the introduction of the euro,
b) the real level of inflation,
c) the economic-social uncertainty that has had a notable influence on consumer spending.

In this scenario Mondadori was able to limit the drop in circulation in terms of the number of copies to 4.4%, despite being penalised by the strikes that took place and by a programmed decrease in subscriptions aimed at improving profitability levels.

The Group was able to fight the decrease in the market thanks to its strong portfolio of titles, which are market leaders in many sectors, and to the success of marketing initiatives linked to optional sales.

The Group's ability to perform better than the market was even more evident in terms of net circulation sales where the decrease, minus revenues from the distribution of *L'Espresso,* the contract for which ended at the beginning of 2002, was limited to 0.8%.The data is notably better than the data in terms of volume thanks to the performance of special sales and a larger number of products issued as supplements (*Videoteca del Secolo*).

The main titles

Once again Mondadori's women's magazine sector confirmed it position as absolute leader in terms of both readership and advertising.

Mondadori's market share of women's magazines *(Donna Moderna, Grazia, Tu, Chi* and *Cosmopolitan)* continued to increase, even in a year when general sales figures were stagnant. Of particular importance were the results of *Cosmopolitan*, with an increase of 15%, and *Chi*, which for the fourth consecutive year improved its performance.

Panorama, with average circulation figures of over 555,000 copies, confirmed its position as market leader in the segment, increasing the gap between its nearest direct competitor. During 2002 new sales options were successfully introduced (books, maps, DVDs, etc.) that compensated for the maturity of the VHS and CD Rom option and also established new opportunities for the brand extension of titles.

The *TV Sorrisi e Canzoni* system also reinforced its position as an important title for launching multimedia products (VHS and music CDs) and special offers aimed at the family target.

Health system

Starbene consolidated its position as sector leader with average sales of over 400,000 copies.
The original formula, together with the market acquired with *Men's Health* ensured a further increase in advertising sales and helped to defend the company's competitive position in the circulation market.

Car system

During 2002 the editorial positioning of the ACI Mondadori car system was finalised. The first results were very encouraging thanks to good results achieved by *Cambio* which, in the second part of the year improved its sales figures on newsstands.

Launches

In the last part of 2002, Mondadori challenged the negative state of the market by proposing new publishing initiatives, some of which were launched in segments that were absolutely new for the company.

Controcampo is the most innovative of these titles both in terms of product formula and marketing strategy. This weekly football magazine, produced in co-operation with RTI (Mediaset's television production company), is linked to the television programme of the same name that also acts as a promotional vehicle. The editorial, technical, production and distribution characteristics are similar to those of a daily newspaper, and the magazine is published throughout the country on Mondays, the day after the weekend Football Championship matches, thanks to the use of 10 different printing centres.
Another original feature of this product is the fact that for the first time in Italy a magazine is published with different covers depending on the geographical area where it is sold. Sales results for the first 14 issues amounted to an average of approximately 250,000 copies.

Controcampo also represents the beginning of increased co-operation with Mediaset. With this aim Press TV, a jointly owned company, has been created to develop other publishing initiatives linked to successful television transmissions (for example, *Operazione Trionfo, Grande Fratello* and *Amici*).

Cucina no Problem, a new monthly cookery magazine, was launched half way through September and is characterised by its reduced format and competitive price. The title completes the already ample range of Mondadori titles aimed at the various segments of the women's magazine market.

In February 2003 *Flair*, a new high target monthly women's magazine, was launched. The first issues of the magazines were very successful both from the point of view of circulation and advertising, and the title looks set to become an important vehicle for "Made in Italy" fashion. The new project has attracted internationally famous experts in the field both from Italy and abroad.

March saw the launch of *Flair Living,* a new monthly interiors and lifestyle magazine aimed at a sophisticated readership that loves living and showing off their homes. The first issue of the new magazine was sold with *Flair*, but the second issue will be on sale on newsstands on its own.

In March Mondadori also launched *Evo*, a monthly magazine for lovers of luxury, high performance cars. The title is designed to complement Mondadori's already ample range of magazines in this sector, which includes *Auto oggi, Cambio, Automobile Club* and *HP Trasporti Club.* The new magazine is produced by ACI Mondadori, the joint venture set up in 2000 for handling all publishing activities in the car sector.

Supplementary products

2002 once again registered a notable success for the sale of optional products issued as supplements by Mondadori. In particular, apart from consolidating its leadership in the sector devoted to the sale of new film titles on VHS and DVD, 2002 also witnessed successful sales figures for optional products linked to women's magazines.

In September Mondadori launched *La videoteca del secolo,* an important marketing operation consisting in the issue of two films in VHS format every week sold as optional products linked to three of the publisher's most important weekly titles, *Panorama, Donna Moderna* and *TV Sorrisi e Canzoni,* and to *Ciak,* the cinema monthly.

It should be noted that in 2002 competition in this market was particularly fierce as a result of the decision taken by large national newspapers to launch an important sales initiative based on offering optional books and VHS films.

Advertising

2002 was a year characterised by the uncertainty that permeated the national and international economic situation, which had the effect of delaying the expected economic recovery.

The crisis in consumer spending, exacerbated by an increase in inflation following the introduction of the euro and a net decrease in investments, had a negative influence on all markets.

The advertising market, in particular, witnessed a decrease in investments for the second consecutive year.

The overall advertising market suffered a decrease of 3.5% [5] compared with 2001. While the television advertising market registered a result that was substantially in line with the previous year, the magazine and newspaper advertising market was one of these penalised the most, registering an overall decrease of -7.3%. The decrease was bigger in the magazine sector (-8.0%) than in the newspaper sector (-6.9%), although sales of national commercial advertising in newspapers, which is the most important segment, decreased by 11.3%.

The table in this page gives a detailed summary of the advertising market compared with the previous year:

Advertising market

€ m	**2002**	**2001**	**% change**
Television	3,951.5	3,932.1	0.5%
Magazines	1,153.3	1,254.2	(8.0%)
Newspapers	1,764.5	1,894.5	(6.9%)
Radio	283.9	312.4	(9.1%)
Outdoor	181.4	205.6	(11.8%)
Cinema	72.1	73.5	(1.8%)
Total advertising market	**7,406.7**	**7,672.3**	**(3.5%)**

[5] Source: Nielsen

In this macroeconomic context, Mondadori Pubblicità registered a 5.8% decrease in sales compared with 2001. Advertising sales were better in the magazine sector (-5.4%) than in the newspaper sector (-12.3%), where Mondadori Pubblicità only operates in the national commercial segment.

Mondadori Pubblicità therefore registered notably better results than those registered in the reference market, represented by magazines and national newspapers, which saw an overall decrease of 9.6%.

After seeing a progressive improvement in results for the first nine months of the year, the Mondadori Group then witnessed sales figures that were lower than expected for the last three months of the year due to a series of strikes and to the disposal of the specialised professional magazines owned by the subsidiary company Sperling & Kupfer.

As for advertising sales in magazines, the men's segment suffered more than the women's, television/family and specialist segments due to a persistent decrease in investments in telecommunications, finance and insurance and computer products.
One segment that did buck the trend was cosmetics, which was particularly important for Mondadori's portfolio of women's magazines.

In the women's sector, *Donna Moderna* registered a result that was substantially in line with the previous year while *Grazia* registered a slight decrease and *Chi* registered an excellent performance with an increase of 13% compared with 2001.

The titles in the car system, in the joint venture with ACI, and those in the health system, in the joint venture with Rodale, registered results that were in line with those of the previous year.

Advertising sales for the new weekly football magazine *Controcampo*, produced in partnership with Mediaset as an extension of the popular television programme of the same name, were excellent and outstripped all expectations.

2003 began in a very uncertain climate. The advertising market does not appear to have reversed the situation that permeated throughout 2002. For Mondadori the year will be characterised by changes in its portfolio of titles with the introduction of various new titles. It should be noted that *Flair*, the new women's monthly from Mondadori, has so far registered excellent results.

The worldwide economic situation that began to manifest itself in the second half of 2002 had heavy repercussions on the printing industry.

The general decrease in consumer spending that produced negative effects on the advertising market also influenced printing products, with a reduction in the number of pages and smaller print-runs in all segments, including magazines, mail-order catalogues and promotional material.

There was also a shake up among the potential large Third-Party Clients that saw mergers, take overs and other forms of concentration that served to reduce the number of this type of client in Europe, which in turn led to a reduction in the amount of products to be printed.

This decline was particularly felt in Germany, and the reduction in the demand for printing had repercussions in the rest of Europe as a consequence of the large production capacity of German companies. In the United States, however, there was a recovery in the sector in the second half of 2002.

The only sector which bucked this trend was the printing of monochrome hardback books, linked to the formula of books sold as optional add-ons with newspapers, which was introduced in Spain and soon began to expand throughout Europe.

The reduction in demand generated strong competition between printing companies and a consequent decrease in prices.

This tension in prices was also felt in the paper market where prices fell below forecasts, producing positive effects on Mondadori's magazine and book sectors.

In this context, Mondadori Printing felt the effects of the overall economic situation, although it was able to maintain a high utilisation level of its production capacity.

Compared with other printing companies, Mondadori Printing benefited from its consolidated relationship with the publishing companies in the Mondadori Group, ensuring that it produced results that were better than the average results in the market despite a reduction in the number of pages and print-runs.

As far as printing orders for third parties is concerned, Mondadori introduced a policy of maintaining its traditional clients and trying to develop new clients with high potential.

During 2002, Mondadori introduced operations designed to preserve its competitiveness by concentrating on production efficiency and exploiting the Group's strong points as represented by its image on the international market, the high level of innovative technology it possesses and the solidity of its financial position.

The year saw the introduction of the investments planned in 2001, concerning with large format machinery capable of guaranteeing high levels of production that enable Mondadori Printing to offer very competitive products and services in terms of quality and price.

The investment programmes (amounting to 25.4 million euros for 2002) continued, aimed at improving efficiency levels (at the Melzo printing) and increasing production capacity (the Cles printing plant), in accordance with market trends.

Sales to Third Parties amounted to 202.4 million euros (210.9 million euros in 2001), 118.6 million euros of which was accounted for by foreign sales (113 million euros in 2001). These results were influenced by the reduction in the cost of paper.

(follows)

Printing revenues net of paper costs

€ m	2002	2001	% change
Magazines	115.4	119.8	-3.7
Books	72.7	69.8	4.2
Catalogues and promotional material	31.8	38.9	-18.3
Directories	5.2	7.1	-26.8
Total printing revenues net of paper costs	**225.1**	**235.6**	**-4.5**

Printing: current machinery

	Verona	Melzo	Cles	Pomezia	Martellago	Toledo	Total
Rotogravure	7	4	-	-	-	-	11
Rotary offset	5	-	1	3	-	-	9
Flat offset	12	-	-	-	5	7	24
Cameron	-	-	3	-	-	-	3

A more significant summary of the business activities of the Printing Division can be seen in the table in this page showing printing revenues net of paper and transport costs. The performances are in line with the relative reference markets. In particular, sales of "Directories" were once again influenced by the marketing strategies employed by clients.

The quantity of paper processed in the various plants during 2002 amounted to 304,274 tons, compared with 316,070 tons in 2001. The volume of business developed guaranteed a normal level of use of the company's plant, while the need to use outside printers in order to satisfy periods of heavy demand was lower than in the previous year.

Printing machinery in use in the Division's various printing plants is shown in the above table.

The Mondadori Group operations in this sector include the following:
- Mondolibri S.p.A., a joint venture with the Bertelsmann Group, set up in 1999 after the merger of the business activities carried out by Club degli Editori and Euroclub;
- BOL Books On Line Italia S.r.l., a joint venture with the Bertelsmann Group, founded in 2000;
- Cemit Interactive Media S.p.A.
- Mondadori Retail S.r.l., set up at the beginning of 2001 (formerly Ellemme S.r.l.) to take over the bookshops belonging to Ellemme and the company division dealing with the Mondadori Informatica shops;
- Mondadori Franchising S.p.A.

This sector also includes the management of subscription sales both for Mondadori editions and for third-party titles.

In 2002 **Mondolibri** confirmed its position of company leader in the mail-order book sector.
In the context of a static market, the company was able to maintain a high level of sales with a slight increase compared with 2001 (despite customer-recruiting difficulties experienced in the first quarter of the year). During 2002 the company, which sells its products through catalogues, the internet and specialist sales outlets, intensified its multi-channel approach, thanks partly to the opening of a new sales outlet in Padua.

Internet sales continued to increase, representing 7.5% of total club sales in 2002, an increase of 44% compared with the previous year.

In 2002 the company concentrated on improving efficiency by paying particular attention to delivery times, stock levels and controlling recruitment costs.

During 2001 **BOL** introduced a re-structuring programme designed to change the dimension of the company in order to tackle the new market of on-line book sales, while in 2002 the company concentrated on the development of sales, expanding into new business areas (professional books and DVDs) in order to accelerate the time necessary to reach the break-even point in the income statement.

In 2002 **Cemit** once again maintained its position of market leader in the direct marketing services.

Even though the reduction in the communication market in 2002 also involved Cemit, the company was able to limit the negative effects better than its competitors thanks to it being a supplier of high-quality services. The company was also able to keep a tight rein on costs.

The combination of these two factors made it possible for the company to achieve its objective of achieving the results forecast for the year, even though the turnover was affected by the difficulties of the market.
When making a comparison with the previous year it is necessary to remember that in 2001 the company benefited from a high level of non-recurring income.

The Group's **Retail** activities are also centred in the Direct Marketing sector, through the two subsidiary companies Mondadori Retail and Mondadori Franchising.

In 2002 **Mondadori Retail** registered a decrease in sales, caused by the general difficulties of the sector. This reduction was only partly compensated for by the opening of new sales outlets in Vimercate, near Milan (in April) and Rome Trevi (in December).
The reduction in sales was reflected in the company's final results, forcing it to introduce a new organisational process and sustain the relative costs, both direct and indirect.

Once again **Mondadori Franchising** registered an increase both in sales (+ 21.2%)

and in the number of affiliates, with sales outlets increasing from 99 to 117.
During 2002 particular attention was given to credit control, with operations designed to revise the granting and subsequent management of credit granted to affiliates.

The following table gives a summary of the sales data for financial year 2002, compared with the previous year:

Direct Division

€ m	2002	2001	% change
Mondolibri S.p.A. (proportional)	41.5	40.7	2.0%
Cemit Interactive Media S.p.A.	23.8	28.7	(17.1%)
Total direct marketing	**65.3**	**69.4**	**(5.9%)**
Mondadori Franchising S.p.A.	18.9	15.6	21.2%
Mondadori Retail S.r.l. (formerly Ellemme S.r.l.)	56.5	58.8	(3.9%)
Total retail	**75.4**	**74.4**	**1.3%**
Total Direct	**140.7**	**143.8**	**(2.2%)**

In 2002 Mondadori Informatica S.p.A. was influenced by the general reduction in investments in communication and training that initially appeared in the second half of the previous year. The reduction in investments in the education and book sector of Mondadori Informatica was particularly severe, while the magazine sector was able to contain the reduction in turnover compared with the previous year.

Income from sales and services in 2002 amounted to 17.3 million euros compared with 22.9 million euros in the previous year.

After acknowledging the unsatisfactory results registered by Mondadori Informatica, the Mondadori Group introduced a plan to restructure the company in order to make better use of the available resources and improve profitability.

In this context, the Board of Directors will submit to the extraordinary Shareholders' Meeting a project to merge Mondadori Informatica S.p.A. into the parent company Arnoldo Mondadori Editore S.p.A. Meanwhile the Parent Company will continue its business activities in the specialist and educational publishing sector.

In 2002 Mondadori.com continued to run and constantly restructure its internet sites, while at the same time it carried out research into identifying new business opportunities such as direct marketing and the construction, development and maintenance of sites for other publishers.

During 2002 the sites linked to *Panorama* (www.panorama.it) and *Donna Moderna* (www.donnamoderna.com) were restructured. The guidelines for re-styling the sites were based on forging close, complementary links between the two magazines and their respective on-line versions. The key characteristics of the restructuring process were the utilisation of clear, immediate language, the range of information available with multiple thematic channels, new graphic designs, the development of new services and greater emphasis on the interactive area.

The results in terms of traffic were very convincing. Throughout 2002 Mondadori.com registered constant growth, with an average of over 20 million page views and more than 2 million unique visitors. The launch of *Panorama* (6 million page views and over 500,000 unique visitors) and *Donna Moderna* (over 2.5 million page views) enabled Mondadori to rise to 16th position in terms of unique visitors in the Nielsen/Netratings classification of company group internet sites (the classification also includes portals and sites of telecommunication companies that are not directly in competition with Mondadori).
During 2002 the other Group sites also contributed to these results. *MyTech*, the portal dedicated to technology, which includes *VolFtp* (one of the most visited download sites), constantly registered figures of over 1 million visitors and 11 million page views.

Unfortunately the high number of visitors to *VolFtp* did not correspond to an equally high level of revenue (it should be noted that unlike telephone companies, revenues generated by Mondadori.com come from advertising and sales of the content and not from telephone traffic).

As for sales, financial year 2002 saw a substantial confirmation of advertising revenues, with the total increasing from 691 thousand euros in 2001 to 693 thousand euros, while sales from content saw an increase of 15% for a total of 624 thousand euros (542 thousand euros in 2001). However, revenues from constructing sites for third parties registered a sharp fall of 50.6%, decreasing from 1.9 million euros in 2001 to 1 million euros in 2002.
In this context the operation to rationalise operational costs continued, with a specific communication campaign and the launch of a research project aimed at finding the right balance between the various cost components.

Within the context of the project to restructure the Internet activities of the Mondadori Group, aimed at containing costs and rationalising organisational procedures by, in particular, concentrating the main staff functions in the Parent Company, the Board of Directors will submit to the extraordinary Shareholders' Meeting a project to merge Mondadori Informatica S.p.A. into the parent company Arnoldo Mondadori Editore S.p.A.

The operation to develop and enhance the Mondadori.com name will continue within the structure of the Parent Company by means of exploiting the synergy derived from improved integration of the various activities.

The Mondadori Group's financial situation as of 31 December 2002 showed a surplus of 109.3 million euros, as illustrated in the following table:

Net financial position

€ m	**31/12/2002**	**31/12/2001**
Short term bank and P.O. deposits	85.5	184.8
Short term borrowing from banks	(21.3)	(50.0)
Financing (short and medium/long term)	(369.5)	(323.8)
	(305.3)	(189.0)
Fixed interest securities	407.3	364.5
Cash, post office accounts, net receivables from affiliates and third parties and accrued interest income	7.3	13.0
Net financial receivables (payables)	**109.3**	**188.5**
Leasing debts	-	-
Net financial position	**109.3**	**188.5**

Cash flow summary

€ m	**31/12/2002**	**31/12/2001**
Initial net financial position	**188.5**	**171.6**
Net result	81.1	73.9
Depreciations	60.3	57.2
Self-finance	**141.4**	**131.1**
Changes in working capital	(11.7)	65.7
Net investments	(16.6)	(114.8)
Severance indemnities	2.1	1.3
Buy-back of company shares, net of sales	(3.3)	6.0
Other assets/liabilities	(25.2)	(20.1)
Operating surplus (requirement)	**86.7**	**69.2**
Dividends	(155.7)	(51.7)
Other capital movement	(10.2)	(0.6)
Financial surplus (requirement)	**(79.2)**	**16.9**
Final net financial position	**109.3**	**188.5**

As already mentioned in the Report on the results for the year, the financial position at the end of the year did not include the extraordinary dividends distributed during 2002. Gross of that amount, equal to 100.4 million euros, the final balance would amount to 209.7 million euros, with an increase of 21.2 million euros.

Variations in interest rates and exchange rates

Throughout 2002 the worldwide economic situation continued to mirror the situation in 2001, when it was weak on all fronts. GDP in the main industrial countries increased very little, stock markets registered heavy losses (from -16% for New York to -43% for Frankfurt), interest rates fell (particularly in the second half of the year), the confidence of consumers and manufacturers reached an all-time low and prospects of a recovery continued to be postponed. Predictions of a slow, progressive recovery in 2003 seem to be somewhat fragile (forecasts speak of an overall GDP of just over 2%).

During the last quarter of 2002, in response to the economic stagnation, the Federal Reserve cut interest rates by 50bps (6 November), while the European Central Bank cut the minimum rate applied to the main refinancing operations of the Eurosystem to 2.75% (5 December).

In this macroeconomic context, during the last quarter of the year the dollar lost 7% against the euro (from 0.983 at the end of September to 1.05 at the end of December). During the year the dollar lost 16% against the euro, moving from 0.903 at the beginning of January to 1.05 at the end of December.

Sterling lost 4% during the last three months of the year (from 0.627 at the end of September to 0.651 at the end of December), losing a total of 4.5% against the euro since the beginning of the year.

During the year measures were taken to cover the fluctuation of both currencies, in which the Mondadori Group holds an exposure of a commercial type.

The three-month Euribor rate was reduced from 3.279% at the beginning of January 2002 to 2.865% at the end of December 2002 (with an average of 3.32%). During the same period the average cost of money for the Mondadori Group was 3.28%.

As of 31 December 2002, the Mondadori Group had unused lines of credit for a total of approximately one billion euros. 17.5% of the Group's short-term facilities, amounting to 605 million euros, were used as of the end of 2002 by means of self-liquidating lines of credit (such as discount bills) and stand-by credits with a duration of less than eighteen months minus a day.

The medium/long term lines of credit of 417.5 million euros were made up almost exclusively (400 million euros) of a revolving multi-currency credit facility with a duration of five years (2000-2005), together with medium/long term subsidised loans for publishers (law 416/81) for 17.5 million euros. As of 31 December 2002, approximately 69% of the loans had been used.

Mondadori International

Mondadori International, where the Group's financial activities are concentrated, generated net profits of 7.2 million euros (15.6 million euros in 2001). As of 31 December 2002, the company's financial activities amounted to 463.2 million euros (464 million euros at the end of 2001)

The policy of diversifying the portfolio enabled the company to register a positive result for 2002 despite the difficulties and the volatile nature of financial markets.

As of 31 December 2002 Group companies employed 4,792 people (4,853 at 31 December 2001), while the average number of personnel during 2002 amounted to 4,805 (4,909 in 2001). The numbers mentioned above also include temporary staff.

The reduction in the average number of staff refers to various Group companies.

The table on the right shows details of Group personnel as of 31 December 2002.

The cost of personnel amounted to 242.8 million euros, similar to the previous year (242 million euros).

Contracts expired as of 31 December 2002:
- the remuneration part of the National Contract for Industrial Managers;
- the remuneration part and the conditions of the National Contract for Commercial Managers;
- the remuneration part and the conditions of the National Commercial Contract.

The following contracts expire during 2003:
- the remuneration part of the National Contract for Journalists;
- the conditions of the National Contract for Industrial Managers;
- the remuneration part and the conditions of the National Contract for Publishing Designers.

Personnel

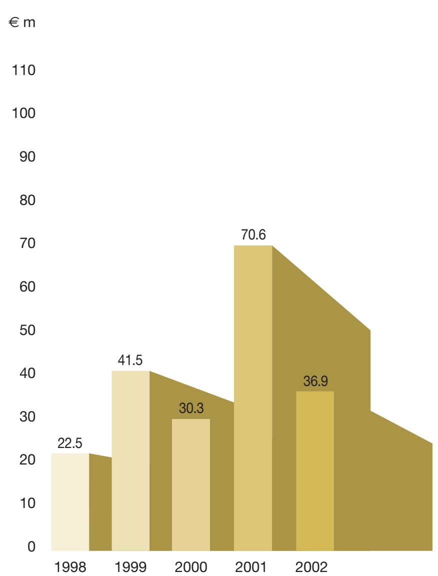
	31/12/2002	31/12/2001
Arnoldo Mondadori Editore S.p.A.		
Managers, journalists and office staff	1,459	1,454
Manual workers	165	176
	1,624	**1,630**
Italian subsidiaries		
Managers, journalists and office staff	1,701	1,712
Manual workers	1,307	1,341
	3,008	**3,053**
Foreign subsidiaries		
Managers, journalists and office staff	37	38
Manual workers	123	132
	160	**170**
Total	**4,792**	**4,853**

During 2002 the Group made investments of 36.9 million euros in technical assets, mainly for the printing sector, including 28.2 million euros in printing plant and machinery.

Compared with the previous year the amount of investments was very much lower, mainly because in 2001 Mondadori Printing S.p.A. invested in a new, revolutionary, large-format rotogravure rotary press for the Verona printing works.

Investments in industrial buildings amounted to 2.7 million euros, while other investments concerned the normal replacement of personal computers and office machines, as well as new furniture and fittings for those shops and bookshops that were outfitted during 2002.

Disinvestments during 2002 amounted to 19.1 million euros, with 13.8 million euros of this total concerning the printing division and the residue relating to the normal turnover of other assets.



Mondadori Group: capital expenditure

The following section deals with information about the specific subjects:

Relations with linked companies
We would inform you that with reference to CONSOB communication 97001574 of 20 February 1997 and 98015375 of 27 February 1998, no operations of an atypical or unusual nature were carried out.
The operations carried out between correlated parts of the Group are based on normal market conditions: those carried out with companies of the Mondadori Group are of a commercial or financial nature, being concerned with the intergroup bank account, managed by Arnoldo Mondadori Editore S.p.A., relating to the various debt and credit positions of the different subsidiary and affiliated companies.
All dealings of a commercial nature with the Fininvest Group are based on normal market conditions.

For more detailed information you are referred to the Notes to the financial statements of Arnoldo Mondadori Editore S.p.A. and the Group's consolidated financial statements.

Partial division of Elemond S.p.A. in favour of the beneficiary company Arnoldo Mondadori Editore S.p.A.. Transfer to Elemond S.p.A. of the company division concerned with the "Mondadori Illustrati" series.
In implementation of the division project approved on 16 January 2002 by the respective Extraordinary Shareholders' Meetings, on 1 April 2002 the partial division operation of the subsidiary company Elemond S.p.A. was put into practice, involving the transfer to Arnoldo Mondadori Editore S.p.A., the beneficiary company, of the Elemond business activities and imprints concerned with Specialist Magazines, with the consequent optimisation of the relative production and distribution processes, together with other assets (investments in Giulio Einaudi Editore S.p.A. and Mondadori Printing S.p.A.) that are not functional in respect of the operational role of Elemond outlined below.
The operation was particularly intended to create a more consistent definition of the diverse business activities previously carried out by Elemond S.p.A., with the company being assigned the exclusive role of acting as an operational holding company for the Group for activities related to the management of CDs, museum bookshops and the organisation of exhibitions (all of which require specific financial and professional contributions), and for the art and illustrated book publishing sector, with particular reference to the Electa imprint. Within the context of this rationalisation and redefinition of the business activities carried out by the Elemond Group, Arnoldo Mondadori Editore S.p.A. conferred those business activities concerned with the production and publication of the "Mondadori Illustrati" series to Elemond S.p.A., based on the value established by an expert nominated by the Chairman of the Milan Tribunal in accordance with article 2343 of the Civil Code, with effect from 1 January 2002.
With effect from the effective date of the division, Elemond S.p.A., in relation to the operational role described above, adopted the new company name of Mondadori Electa S.p.A.

Disposal of shares in Mondadori Sole 24 Ore S.p.A.
In May 2002 the 50% stake held in the share capital of Mondadori Sole 24 Ore S.p.A. was disposed of to Sole 24 Ore S.p.A. The company, which was jointly owned by Mondadori and Sole 24 Ore S.p.A., was set up in February 2000 for the production of the monthly magazine *Ventiquattro*, published as a paid supplement to the *Sole 24 Ore* newspaper, and for the production of an economic information and services insert, *Panorama Portfolio*, that was regularly published as part of the weekly magazine, *Panorama.*

The agreement for the disposal of the stake also called for the transfer from Mondadori Sole 24 Ore S.p.A. to Arnoldo Mondadori Editore S.p.A. of all the rights of production, publication and utilisation relating to *Portfolio* and of the full and exclusive ownership and title to relative products bearing the name of *Portfolio*.

Merger of Edizioni di Comunità S.r.l. and Riccardo Ricciardi Editore S.p.A. into Giulio Einaudi Editore S.p.A.
On 6 June 2002 the Extraordinary Shareholders' Meetings of the companies concerned in the operation approved the merger into Giulio Einaudi Editore S.p.A. of Edizioni di Comunità S.r.l. and Riccardo Ricciardi Editore S.p.A., both of which were entirely owned by, respectively, Giulio Einaudi Editore S.p.A. and Arnoldo Mondadori Editore S.p.A.
The merger, which came into legal effect on 1 November 2002, responded to the need to rationalise and simplify the managerial activities and structure of the company by, among other things, reducing administrative costs relative to the merged companies.
In actual fact, a number of the functions of the merged companies were already carried out for these companies, in particular in the administrative, logistic, productive and commercial areas, by the operational structure of Giulio Einaudi Editore S.p.A. in accordance with specific service contracts. The merger therefore had the sole purpose of simplifying the company structure by adjusting the said structure to the existing managerial and organisational structure, without having any impact on the publishing programme and utilisation of the imprints relative to Edizioni di Comunità and Riccardo Ricciardi Editore.

Increase in share capital of Grupo Editorial Random House Mondadori.
In June an increase in the share capital of the Grupo Editorial Random House Mondadori S.L. was carried out as a result of the transfer by the subsidiary company Prisco Spain S.A. of the 100% shares it held in Editorial Grijalbo S.A. de C.V. Messico.
As a result of the operation, the investment held by the Mondadori Group in Grupo Editorial Random House Mondadori increased from 44.45% to 50% and the investments held in the said company by Mondadori and the Bertelsmann Group are now equal, as stipulated in the relative contractual agreements.
It should be remembered that the objective of the joint venture, set up in 2001, was to acquire an important competitive position in the Spanish-language book market, which is one of the most interesting markets in the world and will, according to financial analysts, become the second most important market in the world after the English-language market, thanks in part to the enormous potential offered by the growth of the Spanish-language population of the United States.

Reorganisation of the school textbook publishing sector. Merger of the subsidiary companies Editoriale Le Monnier S.p.A., Casa Editrice Felice Le Monnier S.p.A. and Casa Editrice Poseidonia S.r.l. into Edumond S.p.A.
On 1 July 2002 the merger of the subsidiary companies Editoriale Le Monnier S.p.A. and Casa Editrice Felice Le Monnier S.p.A. into Edumond S.p.A. came into effect, and as a result of the merger Edumond S.p.A. changed its name to Edumond Le Monnier S.p.A.
The operation represents a significant phase in the larger project of reorganisation and managerial simplification that specifically concerns the business activities of the Group in the school textbook publishing sector. This project is intended to concentrate in one single operational company, Edumond Le Monnier S.p.A., 100% owned by Mondadori, the school textbook publishing activities that were previously controlled by the subsidiary companies Elemond S.p.A.

and Casa Editrice Felice Le Monnier S.p.A. with partly separate and distinct production, commercial and distribution structures.
The project included the division by transfer to Edumond S.p.A. (implemented in October 2001) of the business activities and investments of Elemond S.p.A. in the school textbook sector and the integration, by means of the merger operation described above, of the business activities of Edumond with the business activities of the operational companies of the Le Monnier Group.

The project for the concentration and rationalisation of the school textbook sector also includes the purchase (in June 2002) by Edumond Le Monnier S.p.A. of a 12.5% share in Casa Editrice Poseidonia S.r.l., a company operating in the school textbook sector concerned with lower-middle and upper schools.

As a result of this purchase, Edumond Le Monnier S.p.A. increased its share in Casa Editrice Poseidonia S.r.l. from 87.5% to 100%.
When the reorganisation process of the school textbook sector was completed in December 2002, Casa Editrice Poseidonia S.r.l. was incorporated into the parent company.

Merger of the subsidiary company Programmi Editoriali S.p.A. into Arnoldo Mondadori Editore S.p.A.
The merger into Arnoldo Mondadori Editore S.p.A. of the subsidiary company Programmi Editoriali S.p.A., whose only important asset was the 56.25% share it owned in Sperling & Kupfer Editori S.p.A. (with the residual 43.75% owned directly by Mondadori), came into effect on 1 August 2002.
The merger did not involve any exchange report since the incorporated company was wholly and directly owned by the incorporating company, Arnoldo Mondadori Editore S.p.A.

The objective of the operation was to rationalise and simplify company structures, since it was designed to cut the administrative and running costs of the incorporated company and to concentrate in Mondadori the total amount of the directly held share in Sperling & Kupfer Editori S.p.A., eliminating the need for intermediate levels for the payment of dividends from the operational company to the Parent Company.

Agreement with RTI S.p.A. for the setting up of Press TV S.p.A.
Arnoldo Mondadori Editore S.p.A. and RTI S.p.A. (Mediaset Group) signed an agreement for the setting up of a jointly-owned multimedia publishing company, with an initial capital of 1,500,000 euros, with the following objectives:
- to publish magazines closely linked to successful television programmes;
- to produce single editions or limited-period publications linked to successful television transmissions.

The first publishing initiative of the new company, which was set up in July with the name of Press TV S.p.A., was the publication of a magazine linked to the television sports programme *Controcampo*, produced by RTI S.p.A. and transmitted on *Italia 1*. The first issue of the new magazine was published in September to coincide with the beginning of the Italian football championship.

Share buy-back
The Ordinary Shareholders' Meeting of 22 April 2002 resolved, in accordance with article 2357 of the Civil Code, to authorise the purchase of a further 3,000,000 of the company's own ordinary and/or savings shares with a par value of € 0.26, to add to the 8,347,176 ordinary shares already held in the company's portfolio at the time of the resolution.

Following the resolution and up to 31 December 2002, 677,719 ordinary shares with a par value of € 0.26 were bought on the

market for a total of € 3,725,389.67. During the same period, 91,500 ordinary shares were sold for a total of € 556,952.69.
At 31 December 2002 the company owned a total of 8,933,395 ordinary shares with a par value of € 0.26 each (3.44% of the share capital), worth a total of € 59,472,211.50 for an average value of € 6.657 per share.

Information on stock option plans
The Shareholders' Meeting of 3 May 2000 decided on the creation of a Stock Option Plan regarding company shares, for the three-year period 2000/2001/2002, destined for managers of the company, its subsidiaries and the parent company whose activities have a determining impact on the attainment of the Group's strategic objectives. The Shareholders' Meeting of 24 April 2001 decided to extend the Plan to include the directors of subsidiary companies.
The Shareholders' Meeting entrusted the "Stock Option" Committee, nominated by the Meeting itself from among Directors not employed by the company, with the task of managing the plan, granting the Committee all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the plan itself in all its aspects. The Meeting also entrusted the Committee with the task of defining the Regulations for implementing the Stock Option Plan.

In particular, the regulations drawn up by the Committee provide, for every year the Plan is in force, for the allocation to the participants in the Plan of rights to options, which are personal and not transferable, for the purchase of ordinary Mondadori S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for Mondadori shares in the period from the date of the allocation of the options to the same day in the previous solar month.

The option can only be exercised, in a single action, during the period between 1 January and 30 June of the third year after each year of the allocation date.

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

The Regulations further specify that the Committee identifies the conditions for exercising the options allocated to the participants with reference to the performance parameters of an economic and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options will be checked by the Committee, for each year in which the Plan is in force, by the end of the first half of the year after the year the options are allocated.
The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2000-2002 as being the ROE and the Free-cash flow, since these indicators, also in the light of past experience, respond to market expectations and institutional investors who have shown their appreciation of them.
It should be noted that in accordance with art. 2358, paragraph 3 of the Civil Code, loans or other financial facilities cannot be granted for the purpose of buying shares.
The Shareholders' Meeting of 28 April 2003 will be presented with a proposal by the Stock Option Committee to implement a stock option plan substantially similar to the previous one, for the three-year period 2003-2005.

Shares held by Directors, Statutory Auditors and Chief Executive Officers

In accordance with art. 79 of CONSOB resolution 11971 of 14 May 1999, we wish to inform you of the following shares held with reference to financial year 2002 in Arnoldo Mondadori Editore S.p.A. and Subsidiary Companies by the Company's Directors and Statutory Auditors:

Name and surname	Company shares	Number of shares owned at end of previous financial year	Number of shares bought	Number of shares sold	Number of shares owned at end of the year in question
Mondadori Leonardo	A. Mondadori Editore	643,500	-	3,000	640,500
Costa Maurizio	A. Mondadori Editore	350,400	70,000	191,700	228,700
Barbaro Francesco	A. Mondadori Editore	68,800	31,050	42,050	57,800
Berlusconi Marina	-	-	-	-	-
Berlusconi Pier Silvio	A. Mondadori Editore	172,000	-	-	172,000
Confalonieri Fedele	-	-	-	-	-
Formenton Luca (*)	A. Mondadori Editore	5,620	-	-	5,620
Formenton Luca	Mondadori International S.A.	13	-	-	13
Poli Roberto	-	-	-	-	-
Puerari Giovanni	A. Mondadori Editore	83,800	-	-	83,800
Sposito Claudio	A. Mondadori Editore	40,500	-	-	40,500
Resca Mario	-	-	-	-	-
Iorio Franco	-	-	-	-	-
Aiello Antonio	-	-	-	-	-
Frattini Achille	-	-	-	-	-
Giampaolo Francesco	-	-	-	-	-
Polerani Gianfranco	-	-	-	-	-

(*) resigned 13 November 2002

Purchase of shares in Attica Publications by Mondadori

On 20 March 2003 Arnoldo Mondadori Editore S.p.A. signed an agreement to invest in the share capital of Attica Publications S.A., a Greek publishing house listed on the Athens stock exchange.

The terms of the agreement stipulate that Mondadori must purchase from the company's founders (who hold 80% of the capital, with the remaining 20% on the market) an initial 20% share, for a total investment of 18.2 million euros.

The agreement grants Mondadori a call option on a further 20% of Attica's share capital, which must be taken up within the next 18 months. In this way Mondadori will hold 40% of the total shares, an amount equal to the holding of the current controlling shareholder.

Mondadori will have the right to be represented on Attica's Board of Directors from the time of the next meeting. Should Mondadori decide to take up the call option, the number of Mondadori representatives on the Board of Directors will increase as a consequence.

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

The Attica Group, whose sales in 2002 amounted to over 72 million euros with an excellent level of profitability, is currently the market leader in advertising sales and is the second most important company in terms of circulation, with a well-balanced portfolio of products in the women's, men's, television and specialist sectors that include the company's own titles and other titles published under licence from prestigious international publishers such as Hearst and the Figaro Group.

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

Results of the first two months of 2003

In the first two months of the year advertising sales registered a decrease in comparison with the same period in the previous year, confirming the downturn in the sector that was seen during 2002.

Circulation sales and the other business areas have registered a performance in line with forecasts, showing slight improvements compared with the previous year.

The good results have been helped in particular by sales of DVDs, CD Roms and music CDs offered as supplements to established titles.

An important event that took place at the beginning of 2003 was the launch of a new title, *Flair*, a women's magazine aimed at a high-target readership that, after the departure of *Marie Claire* to Hachette-Rusconi, completes and enlarges the portfolio of products in the Mondadori fashion system.

Circulation figures and advertising sales for the first two issues of the magazine were far higher than initial expectations.

Resolution proposal

The Financial Statements as of 31 December 2002 closed with a net profit for the financial year of € 71,693,919.08.

We submit the following text to you for the motion:

"The Ordinary General Meeting of the Shareholders of Arnoldo Mondadori Editore S.p.A.,

having taken note of the matters contained in the Report of the Board of Statutory Auditors and the Consolidated Financial Statements of 31 December 2002

resolves

1. *to approve the Report of the Board of Directors on the Company's performance and to approve the Financial Statements as at 31 December 2002, together with the notes, in all their parts and findings;*
2. *to allocate the net profit for the financial year that closed on 31 December 2002 in the following way:*

The dividend will be paid, in accordance with the provisions of the "Regulations for markets organised and managed by Borsa Italiana S.p.A.", in the following way: detachment date 19 May 2003, for payment from 22 May 2003.

The allocation of the dividends ensures that Shareholders are allocated a full tax credit of 56.25%, as laid out in art. 105, paragraph 1, point a) of the T.U.I.R."

For the Board of Directors
Chairman
Marina Berlusconi

Net profit for the year:	€ 71,693,919.08
a) to the reserve fund ex law 124/93 art. 13	19,835.87
b) to the extraordinary reserve	9,263,621.87
c) to the Shareholders a total dividend of	62,410,461.34
taking account of the 9,791,136 shares held by the company, the division is proportional as per art. 2357 paragraph 3 of the Civil Code and is equivalent to a dividend, gross of taxes, of € 0.2552 to be allocated to each of the 151,412 savings shares in circulation and € 0.25 to each of the 249,487,284 ordinary shares in circulation.	
Total	€ 71,693,919.08

Nomination of Board of Directors, after taking a decision on the number of members, the duration of the appointment and the members' fees. Nomination of the Chairman of the Board of Directors.

We would remind you that with the convocation of the Shareholders' Meeting to approve the Financial Statements as of 31 December 2002, the mandate of the Board of Directors expires.

We therefore invite you to decide on the nomination of the Board of Directors, determining the number of members, the duration of the appointment and the members' fees, bearing in mind that in accordance with article 9 of the Company Statutes the Board of Directors must consist of a minimum of three and a maximum of fifteen members. You are also invited to decide on the nomination of the Chairman of the Board of Directors.

Nomination, after taking a decision on the fees of the members, of the Board of Statutory Auditors and a Chairman of the Board for the current year and the two subsequent years and therefore up to the approval of the Financial Statements as of 31 December 2005.

We would remind you that with the convocation of the Shareholders' Meeting to approve the Financial Statements as of 31 December 2002, the mandate of the Board of Statutory Auditors expires.

It is therefore necessary to proceed with the nomination of the Board of Statutory Auditors, consisting of three Acting Statutory Auditors and two Substitute Statutory Auditors, and a Chairman of the Board for the current year and for the two subsequent years, and to determine their relative fees.

We would point out that article 17 of the Company Statutes establishes, in accordance with article 148 of legislative decree no. 58 of 24 February 1998 concerned with the nomination of a member of the Board of Statutory Auditors by the Shareholders, that the nomination of the Board of Statutory Auditors will take place on the basis of nomination lists that may be presented by Shareholders who, either individually or together with other Shareholders, represent at least 3% of the share capital. Each individual Shareholder may not present more than one nomination list.

Each nomination list must contain a number of candidates not greater than the total number of Acting and Substitute members to be elected, listed in numerical order, and must be deposited at the head offices of the company at least 5 days before the date of the first calling of the Shareholders' Meeting.

Each nomination list must be accompanied, within the time limit referred to above, by a declaration by each individual candidate accepting the nomination and declaring, under their own responsibility, that none of the legal reasons for ineligibility or incompatibility exist.

In accordance with the said article 17 of the Company's Statutes, individuals who already hold the position of Acting Statutory Auditors in more than seven Italian companies quoted on financial markets regulated in Italy cannot be elected as Auditors.

In the absence of nomination lists, the Board of Statutory Auditors and its Chairman will be nominated by the Shareholders' Meeting by legal majority.

It should also be remembered that the Statutes, in accordance with the depositions of decree no. 162 of the Ministry of Justice of 30-3-2000 concerned with the reputation and professionalism required of members of the Board of Statutory Auditors of companies quoted on the stock exchange, require that at least two Acting Statutory Auditors and both Substitute Statutory Auditors must be enrolled in the register of Accounting Auditors and must have experience of controlling legal accounts for at least three years.

The eventual Acting Statutory Auditor who is not in possession of the above requisites must be chosen from among individuals who have at least three years experience in either a professional capacity or in the role of a university professor of legal, economic, financial or technical scientific subjects that are closely linked to the business activities of the company referred to in article 3 of the statutes.

Proposal for the creation of a Stock Option Plan for the three-year period 2003 - 2005.

Shareholders,
as a result of the expiry of the Stock Option Plan for the three-year period 2000/2001/2002, the Board of Directors, following a proposal by the Share Plan Committee, in order to provide the Company with a means of offering incentives to its personnel to achieve the strategic objectives and to enable the management and therefore the Company to enhance the value of the Company, deem it opportune to submit for the approval of the Meeting the creation of a Stock Option Plan for the Company's personnel for the three-year period 2003-2005.
The new three-year Plan will be substantially the same as the previous three-year plan.
In particular it involves the annual allocation of personal, non-transferable option rights for the purchase of ordinary Company shares, in accordance with specific regulations to be drawn up by the "Share Plan Committee".
The participants in the Plan are chosen, by the Committee, from among those managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives.
Purchase options can only be exercised if the performance objectives of an economic and/or financial nature established by the "Committee" have been met and if the individuals involved are permanent members of staff. These requisites are also specifically defined and checked by the "Committee" as part of the Plan Regulations.
The purchase price of the shares will be the same as their par value, in accordance with current legal requirements.
The "Committee" will consist of Directors who are not employed by the Company and it will be required to draw up the Regulations governing the Plan, which must be submitted to the Board of Directors for approval. The "Committee" will also be required to take charge of everything necessary for implementing and running the Plan.
The Share Plan Committee also recommends the Board to examine the possibility of implementing Plans, with the same characteristics of the Plan referred to above, whose objective is to grant shares in subsidiaries and companies where AME either directly or indirectly holds stock, if on the basis of the Company strategy and the Company's plans the introduction of such an incentive Plan would serve to enhance the value of the Company's shares.

Shareholders,
We therefore invite you to adopt the following resolutions:

"The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A.,

- *deems it opportune to implement a Stock Option Plan destined for managers of the Company and its Subsidiaries who are responsible for organisational units, managers of the Company and its Subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, directors of the Company and its Subsidiaries, journalists employed by the Company as editors or deputy editors and managers of the Parent Company who carry out the role of directors responsible for involving the participants in the Plan in the running and development of the Group;*
- *deem it opportune to entrust to the Committee consisting of members of the Board of Directors who are not employed by the Company the task of managing the Plan, granting the Committee all the powers*

necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the Plan itself in all its aspects;

resolves

to approve the introduction of a Stock Option Plan for the Company's shares, destined for managers of the Company and its Subsidiaries who are responsible for organisational units, managers of the Company and its Subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, directors of the Company and its Subsidiaries, journalist employed by the Company as editors or deputy editors and managers of the Parent Company who carry out the role of directors in favour of the Company, for a period of three years beginning in 2003, together with, if deemed opportune by the Board of Directors, the introduction of similar initiatives for shares in subsidiaries and companies where the Company either directly or indirectly holds stock;

to nominate, from among directors who are not employed by the Company and nominated by the Shareholders' Meeting, directors responsible for running the Stock Option Plan, granting them all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the Plan itself in all its aspects. These directors, constituted in a Committee, will establish the regulations for running the Committee itself and will define the Regulations for implementing the Stock Option Plan which will be submitted for approval to the Board of Directors. The directors of the Committee will work collectively and will be assisted by the Chairman of the Board of Statutory Auditors who will take part in the meetings but without the right to vote. This mandate will be effective until the expiry of the Board of Directors that will be nominated by the Shareholders' Meeting of 28 April 2003."

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

Shareholders,
the Shareholders' Meeting of 22 April 2002 authorised, up to the time of the approval of the Financial Statements as of 31 December 2002, the purchase of Company shares up to a maximum of a further 3,000,000 ordinary and/or savings shares with a par value of € 0.26 in addition to the 8,347,176 shares already held in the company's portfolio at the time of the resolution, for 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 Meeting of 22 April 2002 authorised the Board of Directors to sell company shares either bought or in the portfolio to the company at a price or unit value of the shares not less than 80% of the official trading price on the day preceding each single operation.
In line with the aforementioned resolution, the Company acquired 1,533,710 ordinary shares and sold 91,500 (details up-dated at the time of the present report – 13 March 2003).
Taking account of the shares that were already in the portfolio, the Company now holds a total of 9,789,386 shares, representing 3.77% of the ordinary share capital.
Given that the authorisation approved by the Meeting of 22 April 2002 is due to expire shortly, we would suggest to renew, up to the approval of the Financial Statements as of 31 December 2003 and in any case for a maximum period of 18 months from the date of the resolution, the authorisation to the Board of Directors to buy and use Company shares as per the following:

Reasons for the authorisation to buy and use Company shares.
The reasons for the request to buy and use

company shares are to enable the Board of Directors to:

contain anomalous movements resulting from market and share volatility and not attributable to real economic events, by acting to stabilise the share price;

to use Company shares as a possible exchange in the acquisition of stakes in the context of the Company's investment policy;

to use Company shares to be allocated to the participants in the Stock Option Plan for 2000 and subsequent years and in the Stock Option Plan for 2003-2005.

Information on the Stock Option Plan

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

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

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

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

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

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

Following a proposal from the Stock Option committee, the Board of Directors proposes to the Shareholders' Meeting of 28 April/5 May 2003, as an additional item on the agenda, to institute a Stock Option Plan, substantially in line with the previous plan, for the three-year 2003/2005.

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

Maximum number, type and nominal value of the shares covered by the authorisation.
The authorisation covers the purchase of a maximum number of ordinary and/or savings shares with a par value of € 0.26 up to a limit of 10% of the share capital, including those already in the Company's portfolio on the date of the resolution, in accordance with article 2357, paragraph 3 of the Civil Code.
In particular, taking into consideration the fact that 10% of the share capital amounts to 25,942,983 shares and that the Company already holds (at the time of the present report) 9,789,386 of its own shares, the maximum number of shares it can buy amounts to 16,153,597.
The number of its own shares that the Company, in keeping with the previous authorisation of 22 April 2002, must eventually purchase between the date of the present report and the date of the relative deliberation by the Shareholders' Meeting must be subtracted from the maximum number referred to above.
With the request for authorisation to purchase the Company's own shares up to a limit of 10% of the share capital, the Board of Directors also intends to give an important demonstration of its confidence in the potential of Mondadori shares.

Useful information to ensure conformity with the requirements laid down by art. 2357, paragraph 3 of the Civil Code.
The maximum number of shares, as at paragraph 2 above, to which the authorisation refers, will not exceed, in line with art. 2357, paragraph 3, of the Civil Code, a tenth of the Company's share capital, including the shares already in the Company's portfolio or, in any case, purchasable by the Company within the terms of the previous Shareholders' authorisation of 22 April 2002.
It is also noted that none of the subsidiaries of Arnoldo Mondadori Editore S.p.A. owns shares in the Parent Company, and that, in any case, 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.

Duration of the authorisation.
The duration of the authorisation is requested up to the approval of the Financial Statements as of 31 December 2003 or for a period not exceeding 18 months following the date of the resolution of the Ordinary Shareholders' Meeting, while the authorisation for the use of Company shares is requested without a time limit.

The corresponding minimum and maximum.
The corresponding minimum and maximum price for the acquisition of the shares will be determined at the same conditions foreseen by the previous authorisation and therefore at a unit price not more than 20% below and not more than 10% above the official trading price on the day preceding that of purchase.

Method of purchase.
The share purchases will be carried out on the market in line with the terms agreed with the Borsa Italiana S.p.A., that allow for equal treatment to that of the Shareholders, in accordance with art. 132 of Legislative Decree no. 58 of February 24, 1998.
The terms of use for Company shares bought may be enabled either by alienation 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. The method of disposing of Company shares from the Stock Option Plan is outlined in point 1.

Resolution proposals

Shareholders,
if you agree with our proposal we would invite you to pass the following resolutions:

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

resolves

1. *to authorise, as per article 2357 of the Civil Code, the purchase in one or more occasions, at a corresponding unit price of not more than 20% below and not more than 10% above the official trading price on the day preceding that of purchase, a maximum number of ordinary and/or savings shares with a par value of € 0.26 that will not exceed (taking into consideration the Company's own shares held in the portfolio and any Company shares that may eventually be held by subsidiary companies) a tenth of the Company's share capital in accordance with article 2357, paragraph 3, of the Civil Code.*

The present authorisation is valid up to the approval of the Financial Statements as of 31 December 2003 or up to a period not exceeding 18 months from the date of the present resolution;

2. *to mandate the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to proceed with the acquisition of Company shares at the aforementioned conditions, in the time frame considered to be in the best interests of the Company, in the manner laid out by current regulations and in this way on the market as agreed with Borsa Italiana S.p.A., that allows equal treatment to Shareholders, in accordance with art. 132 of Legislative Decree no. 58 of February 24, 1998;*
3. *to establish a "closed reserve of Company shares", in accordance with art. 2357, paragraph 3, final clause, of the Civil Code, equal to the number of Company shares listed as assets on the balance sheet, withdrawing the relative sum, in connection with the purchases effected, from the "overpricing reserve" and within the limits of the same;*
4. *to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, in accordance with art. 2357, paragraph 3, of the Civil Code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, use Company shares acquired on the basis of this authorisation or those already in the Company's portfolio, both through alienation or blocking and for the acquisition of equity stakes that 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;*
5. *to authorise the Board of Directors, and in the Board's name, the Chairman and the Chief Executive, separately and also through designated proxies, to ensure that, in accordance with art. 2357, paragraph 3, of the Civil Code, they may, at any time, in whole or in part, on one or more occasions, also before having exhausted the purchases, use Company shares acquired on the basis of this authorisation or those already in the Company's portfolio, to allocate options for the acquisition of the shares by participants in the Stock Option Plan for 2000 and subsequent years, in accordance with the resolution of the Shareholders' Meeting of 3 May 2000 and with the Stock Option Plan for 2003-2005 submitted for approval to the Shareholders' Meeting of 28 April 2003.*

This authorisation has been agreed without a time limit."

For the Board of Directors
Chairman
Marina Berlusconi