ARNOLDO MONDADORI EDITORE S.p.A.

Share capital €67,451,756.32
Registered office in Milan
Administrative offices in Segrate (MI)

MONDADORI

# Annual report 2005

# Notice of shareholders' meeting

Shareholders are hereby invited to the Ordinary Meeting to be held on 26 April 2006 at 11.00 in Via Mondadori 1, Segrate, Milan, in first call and, if necessary, in second call on 27 April 2006 at the same time and place, to pass resolutions on the following:

## Agenda

1. Financial Statements at 31 December 2005, reports of the Board of Directors, the Board of Statutory Auditors and the independent auditors, related resolutions, presentation of the Consolidated Financial Statements at 31 December 2005 and related enclosures.
2. Appointment of a Board of Directors, following the establishment of the number of members, the duration of the appointment and their remuneration. Appointment of the Chairman of the Board of Directors.
3. Appointment, following the establishment of their remuneration, of the Board of Statutory Auditors and its Chairman for the years 2006/2007/2008.
4. Proposal to establish a stock option plan for the three-year period 2006 / 2007 / 2008 and related resolutions.
5. Authorisation to effect a buy-back and utilise Company shares, as per the combined provisions of articles 2357 and 2357 ter of the Civil Code.

In accordance with the law and Company Statutes, Shareholders who have requested the relative communication from the intermediary where their shares are deposited at least two days before the date of the Shareholders' Meeting may attend the Meeting.

The reports of the Board of Directors on the subjects on the agenda will be deposited, for inspection by the public, at the company's head office and at Borsa Italiana S.p.A. in accordance with Ministerial Decree 437 of 5 November 1998 and CONSOB regulation 11971/1999 and subsequent modifications.

Shareholders have the right to obtain copies of these reports.

With reference to point 3 on the agenda, it should be noted that, in accordance with article 27 of the Statutes, the Meeting will proceed with the appointment of the Board of Statutory Auditors, composed of three standing auditors and two substitute auditors, on the basis of lists that can be presented by shareholders who, either individually or together with other shareholders, represent at least 3% of the share capital and who must be able to document their legitimacy by means of certificates issued by an intermediary belonging to the

Monte Titoli S.p.A. centralised management system.
Each shareholder may only present one list.

No list may contain a higher number of candidates than the number of standing and substitute auditors to be elected, and the candidates must be listed in descending order.

Each list, together with the professional curricula of each candidate counter-signed by the shareholder or shareholders who present it, must be deposited at the company's head office at least 5 days before the date of first call of the Shareholders' Meeting.

Each list must also be accompanied, within the terms outlined above, by a declaration by each candidate accepting the nomination and stating, under their own responsibility, that no instance of ineligibility or incompatibility exists, in accordance with the law, and that they have the necessary requisites established by the laws, regulations and the Statutes for members of boards of statutory auditors. It should be noted that on the basis of the above mentioned article 27 of the Statutes of Arnoldo Mondadori Editore S.p.A., all Statutory Auditors must be enrolled in the register of company auditors kept at the Ministry of Justice and have carried out the activity of legal control of financial accounts for a period of not less than three years and that individuals who currently hold the position of statutory auditor in more than seven Italian companies whose financial instruments are listed on markets regulated in Italy cannot be elected statutory auditors.

Should no lists be presented, the Board of Statutory Auditors and its Chairman will be appointed by the Shareholders' Meeting on the basis of legal majority.

On behalf of the Board of Directors
The Deputy Chairman
and Managing Director
Maurizio Costa

# Corporate Boards

**Board of Directors**

**Chairman**
Marina Berlusconi

**Deputy Chairman and Managing Director**
Maurizio Costa

**Directors**
Francesco Barbaro (*)
Pier Silvio Berlusconi
Pasquale Cannatelli
Fedele Confalonieri
Bruno Ermolli
Martina Forneron Mondadori
Roberto Poli
Giovanni Puerari
Mario Resca
Marco Spadacini

**Board of Statutory Auditors**

**Chairman**
Achille Frattini

**Standing Statutory Auditors**
Antonio Aiello
Ferdinando Superti Furga

**Substitute Statutory Auditors**
Francesco A. Giampaolo
Francesco Vittadini

**Independent Auditors**
Reconta Ernst & Young S.p.A.

(*) Secretary

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# Report of the Board of Directors

**Shareholders,**

the Italian economy in 2005, as that in the rest of the euro area, saw a continuation of the weakness of the previous year, with a further slowdown in the final quarter that coincided with a general increase in the cost of raw materials and energy.
In this context the Mondadori Group confirmed its leadership in the sectors of reference with **consolidated revenues** for 2005 of €1,657.3 million, an increase of 2.3% on the €1,619.7 million of 2004, with essentially similar levels of growth across all of the main divisions.

Consolidated **net profit** for the year 2005 came to €114.7 million, compared with €112 million in 2004, an increase of 2.4%.

The launch of new titles in the TV listings segment, the start-up costs for Radio R101 and changes related to the renewal of the national contract for journalists all had an impact on consolidated **gross operating profit**, which came to €223.6 million, compared with €239.6 million in 2004, 13.5% as a proportion of revenues, 14.8% in the previous year.

Consolidated **operating profit** amounted to €187.4 million, compared with €193.6 million for the previous year with lower amortisation and depreciation of around €10 million. As a proportion of revenues, the figure went from 11.9% for 2004 to 11.3% this year.

Consolidated **profit before taxation** came to €181.4 million, a slight increase on the €180.5 million of the previous year.

The overall **net financial position** went from a surplus of €63.2 million on 1 January 2005 to €32.2 million at year-end; this was largely due to the payment of dividends of €85.4 million, investment costs for the acquisition and development of Radio R101 and capital investments at Mondadori Printing for a total of €109 million.

The performance of the individual areas in which Mondadori operates is examined in more detail in the sections dedicated to the individual divisions of the Group. What follows is a brief outline of the highlights.

The **Book Division** ended the year with revenues of €425 million, a 2.5% increase on 2004.
Edizioni Mondadori remained the undisputed market leader, thanks to the success of the novels by Dan Brown, the reconfirmation and success of important authors in the portfolio and the addition of new, successful authors, resulting in an increase in revenues of 3.4%.
Revenues at Einaudi grew by 3.2%, also as a result of operations linked to the add-on sale of books with newspapers.
The positive trend of recent years in art books and the organisation of exhibitions continued, resulting in an increase of 6.2% compared with the previous twelve months.
Piemme continued its strong growth trend of recent years with an 18.2% increase in revenues compared with 2004; while Sperling & Kupfer saw a fall in sales, mainly due to a shortfall in the large-scale retail channel.
Revenues in the educational sector were in line with those of the previous year, despite a climate of uncertainty in the area due to the pending reforms of the second level of secondary schools.

The **Magazine Division** generated revenues of €778 million (+2.3% compared with 2004).
The Italian consumer magazine market was characterised by modest growth in circulation (increasing only as a result of new launches), and the reduction in cover prices introduced by a number of publishers.

Concerning add-on sales, overall the sector remained stable, despite the increase in the number of initiatives and the number of competitors. However, Mondadori was

able to increase its revenues in this area thanks to the selection of quality products that were consistent with the editorial line of each of the titles. Of particular note was the success of initiatives such as “Le Garzantine” encyclopaedia and the “Meridiani” classics series.
The strategy of internationalising the Mondadori Group magazine sector continued through licensing contracts: the weekly *Grazia*, launched at the beginning of 2005 in the United Kingdom, continued its expansion in Greece and the United Arab Emirates, creating the basis for further development of other titles.

The advertising market in 2005 grew by 2.8%, with slightly higher growth in the magazine sector, again due to the launch of new titles, while the radio sector remained essentially stable.
**Mondadori Pubblicità** saw a slight increase in revenues, above all thanks to investments from expanding segments (financial services, telecoms and media) that more than compensated for shortfalls in IT, cars and tourism; of particular note was the positive performance of traditional sectors such as fashion and FMCGs. Advertising sales for the Radio R101 were particularly positive and are managed by a dedicated network within the Group’s advertising sales company.

In 2005 **Mondadori Printing** saw an increase in revenues of 2.1%, ending the year at a total of €459.1 million, compared with €449.5 for the previous year.
Printing revenues, net of the cost of paper, grew by 1.6%, in particular in the captive sector, sustained by the Group’s participation in the add-on sales phenomenon.

The year also saw a range of restructuring actions, from staff functions to production activities, in particular in the illustrated books area, where the competitive scenario has been affected by aggressive competition from the Far East.

Investments were made in the rotary area to update plant aimed at achieving more competitive production costs and an improvement in the level of quality offered to the customer that will lead to the introduction of a new large-format rotary press.

The **Direct Marketing** sector recorded revenues of €26.4 million, a fall of 12.3% compared with 2004. The business has been negatively affected by the introduction of new privacy legislation.
The revenues of the joint venture with the Bertelsmann Group, Mondolibri S.p.A., are not included as they are now consolidated under the equity method in accordance with the new IAS-IFRS accounting standards.

In its **Retail** activities Mondadori generated revenues of €137.2 million, a marked increase on 2004 (+27.2%), the result sales by the directly-managed shops and the growth in the franchising network that has increased the number of outlets to 170. The experimental phase for the Edicolé project came to an end with 33 outlets by the end of 2005.

In January 2005 the Mondadori Group entered the radio sector. Over the year the new **Radio** R101 saw significant investments made in frequencies, to increase (both quantitative and qualitative) national coverage. There was also a complete redesign of the schedule (music, programmes and presenters) and important promotional activities were carried out to establish the new brand that have made it possible to reach excellent results in terms of appreciation of the proposed model and which has enabled the Group to exceed expectations also on the advertising side.

Under EU regulation No. 1606/2002 of 19 July 2002, all companies governed by the law of a member state whose shares are traded on a regulated market of an EU member state are required to prepare their consolidated financial statements for each year starting on or after 1 January 2005 in conformity with international accounting standards (IAS/IFRS).

Italian Law no. 306 of 31 October 2003 delegated to the government the implementation of the European regulation and under Legislative Decree no. 38 of 28 February 2005 the field of application of international accounting standards was extended by requiring that these standards be used in the preparation of the 2006 annual financial statements of companies issuing financial instruments tradable on regulated markets, with the option of beginning in 2005.
Arnoldo Mondadori Editore S.p.A. has availed itself of this option and has prepared its Annual Report for 2005 in accordance with international accounting standards.

What follows are comments on the highlights from the consolidated financial statements for 2005.

# Results for the year

**Consolidated income statement**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Revenues from sales and services | 1,657.3 | 1,619.7 | 2.3% |
| Personnel costs | 268.9 | 252.3 | 6.6% |
| Cost of sales and operating costs | 1,174.4 | 1,134.0 | 3.6% |
| Income (expense) from investments accounted for using the equity method | 9.6 | 6.2 | 54.8% |
| **Gross operating profit** | **223.6** | **239.6** | **(6.7%)** |
| *- as a proportion of revenues* | *13.5%* | *14.8%* | |
| | | | |
| Depreciation of property, plant and machinery | 32.8 | 34.7 | (5.5%) |
| Amortisation of intangible assets | 3.4 | 11.3 | (69.9%) |
| **Operating profit** | **187.4** | **193.6** | **(3.2%)** |
| *- as a proportion of revenues* | *11.3%* | *11.9%* | |
| | | | |
| Net financial income (expense) | (6.0) | (10.8) | (44.4)% |
| Other financial income (expense) | - | (2.4) | n.a. |
| **Profit for the year before taxation** | **181.4** | **180.4** | **0.6%** |
| Tax charge | 65.5 | 67.9 | (3.5%) |
| Minority interest | 1.2 | 0.5 | n.s. |
| **Net profit** | **114.7** | **112.0** | **2.4%** |

Consolidated revenues for 2005 reached €1,657.3 million, an increase of 2.3%. The following table presents a breakdown of revenues by business area.

**Revenue breakdown by business area**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Books | 425.0 | 414.6 | 2.5% |
| Magazines | 778.0 | 760.6 | 2.3% |
| Advertising services | 341.0 | 336.7 | 1.3% |
| Printing | 459.1 | 449.5 | 2.1% |
| Direct | 26.4 | 30.1 | (12.3%) |
| Retail | 137.2 | 107.9 | 27.2% |
| Radio | 4.3 | - | n.s. |
| Corporate and other business | 15.3 | 16.9 | (9.5%) |
| **Total revenues** | **2,186.3** | **2,116.3** | **3.3%** |
| Intragroup revenues | (529.0) | (496.6) | 6.5% |
| **Total consolidated revenues** | **1,657.3** | **1,619.7** | **2.3%** |

A breakdown of consolidated revenues by geographical area is as follows:

**Revenues by geographical area**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Italy | 1,546.2 | 1,515.0 | 2.1% |
| Other EU countries | 89.3 | 86.2 | 3.6% |
| USA | 8.4 | 10.9 | (22.9%) |
| Other countries | 13.4 | 7.6 | 76.3% |
| **Total consolidated revenues** | **1,657.3** | **1,619.7** | **2.3%** |

# Book Division

According to Demoskopea figures, during 2005 the book market recorded a slight increase in terms of value (+1%) and remained essentially stable in terms of volume (-0.2%) compared with the previous year.

| (€/m) | 2005 | 2004 |
|---|---|---|
| Book sales | 418.4 | 408.8 |
| Other revenues | 6.6 | 5.8 |
| | 425.0 | 414.6 |
| Operating costs | (352.4) | (357.5) |
| **Gross operating profit** | **72.6** | **57.1** |
| Amortisation and depreciation | (3.1) | (3.7) |
| **Operating profit** | **69.5** | **53.4** |

The Book Division of the Mondadori Group maintained its absolute leadership, with a market share of 27.8% in terms of value and 30% in terms of volume. The distance over the main competitors remained unchanged: RCS Group 12.7% and Longanesi Group 7.6%.

Edizioni Mondadori and Einaudi saw their respective market shares remain the same, with only a slight fall (-0.1%) for Edizioni Mondadori and a slight increase (+0.1%) for Einaudi. There was a slightly more marked fall for Sperling & Kupfer (-0.3%) and the other companies of the group, the overall share for which fell by 0.2%.

The total revenues of the Book Division in 2005 amounted to €425.0 million, compared with €414.6 million in the previous year. The following table gives a breakdown of revenues from the sale of books and rights.

The Division's book production was made up of 2,588 new titles (compared with 2,535 in 2004) and 4,405 reprints (4,440 in 2004); a total of 55.0 million copies, compared with 54.1 in 2004.

| Publisher | Volume market share 2005 | Volume market share 2004 | Change |
|---|---|---|---|
| Mondadori | 16.3 | 16.4 | (0.1) |
| Einaudi | 4.8 | 4.7 | 0.1 |
| Sperling & Kupfer | 2.3 | 2.6 | (0.3) |
| Piemme | 3.4 | 3.4 | - |
| Other Mondadori Group companies | 1.0 | 1.2 | (0.2) |
| **Total Mondadori Group** | **27.8** | **28.3** | **(0.5)** |
| RCS Group | 12.7 | 12.4 | 0.3 |
| Longanesi Group | 7.6 | 7.3 | 0.4 |
| Feltrinelli | 4.0 | 4.0 | - |
| Baldini Castoldi Dalai | 0.8 | 1.3 | (0.4) |

**Books**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Edizioni Mondadori | 142.2 | 137.5 | 3.4% |
| Einaudi | 45.5 | 44.1 | 3.2% |
| Mondadori Electa | 44.5 | 41.9 | 6.2% |
| Sperling & Kupfer | 25.2 | 27.8 | (9.3)% |
| Edumond Le Monnier | 83.8 | 83.6 | 0.2% |
| Piemme | 41.6 | 35.2 | 18.2% |
| Book distribution | 39.3 | 42.3 | (7.1)% |
| **Total revenues** | **422.1** | **412.4** | **2.3%** |
| Intragroup sales | (3.7) | (3.6) | - |
| **Total consolidated revenues** | **418.4** | **408.8** | **2.3%** |

## Edizioni Mondadori

In 2005 Edizioni Mondadori confirmed its undisputed market leadership, with the highest share in all segments and a marked advantage over its principal competitors. On its own, Edizioni Mondadori accounted for more than 16% of the market, with revenues of €142.2 million.

In foreign fiction, the success of the novels by Dan Brown continued. *La verità del ghiaccio*, the third novel to be published in Italy, in October, sold more than 700,000 copies in just 3 months. The hardcover edition of *Il Codice da Vinci*, which for more than two years has been among the top ten best-sellers and has sold more than 2,200,000 copies, while *Angeli e Demoni* has sold 1,100,000 copies. The hardcover editions of the three novels have had combined sales of more than 4 million copies. But also other editions in the Mondadori catalogue have recorded excellent sales: the paperback and illustrated editions of *il Codice da Vinci* and *Angeli e Demoni* have achieved combined sales of 700,000 copies, raising the entire 'Dan Brown phenomenon' to over 4,800,000 copies. But 2005 also saw the confirmation of a number of other big writers: John Grisham (*Il Broker*, 300,000 copies), Patricia Cornwell (*La traccia*, 170,000 copies, *Calliphora*, 210,000 copies in paperback), and Gabriel García Márquez (*Memoria delle mie puttane tristi*, 210,000 copies). There was also a reconfirmation of the success of Sophie Kinsella, with her new novel of 2005, *La regina della casa*, selling around 120,000 copies, while *I love shopping con mia sorella* and *Sai tenere un segreto?* in their paperback editions sold more than 150,000 copies in 2005.
The surprise of the year was without doubt Carlos Ruiz Zafón, whose *L'ombra del vento*, published quietly in 2004, in 2005 proved very successful with readers reaching combined sales, in the hardcover and illustrated editions, of 300,000 copies.

For Christmas 2005 a new edition of the seven novels of the series by C.S. Lewis, *Le Cronache di Narnia*, was prepared to coincide with the release of the Disney film based on the first novel of the series, *Il leone, la strega e l'armadio*.

In Italian fiction, in addition to the successes of Valerio Massimo Manfredi's *L'impero dei draghi* (115,000 copies) and Alberto Bevilacqua's *Tu che mi ascolti* (120,000 copies in the Miti series), 2005 saw the debut of Alessandro Piperno with the novel *Con le peggiori intenzioni* (150,000 copies), winner of the Premio Campiello 'first novel' and the book by Pietrangelo Buttafuoco, *Le uova del drago* (100,000 copies).

The non-fiction area provided a number of satisfactions from the excellent results for Bruno Vespa (*Vincitori e vinti*, more than 300,000 copies sold) to that of Corrado Augias, *I segreti di Roma* (200,000 copies) and Piero Angela, *Ti amerò per sempre* (110,000 copies); excellent results were also recorded by the books by Federico Rampini, *Il secolo cinese* (60,000 copies), Magdi Allam, *Vincere la paura* (50,000 copies) and Bart Ehrman, *La verità sul Codice da Vinci* (47,000 copies).

In the Paperback area 2005 saw the trial of a number of new editorial formulas. Alongside successful novels already published in hardcover editions by Mondadori, a number of titles were published from other publishers, such as Einaudi (*Io non ho paura*, by Ammaniti, 210,000 copies) or Feltrinelli (*Arrivederci piccole donne*, by Marcela Serrano, 120,000 copies) and completely new titles, such as *Il medaglione* by Andrea Camilleri (200,000 copies). Alongside fiction titles, a number of non-fiction titles were published in paperback fro the first time, including *Il santo Graal* (160,000 copies) by Baigent, Leigh and Lincoln, and *Ciascuno è perfetto* (85,000 copies) by Raffaele Morelli.

There were also positive results from the "Varia" line, with titles by Valentino Rossi

(*Pensa se non ci avessi provato*, 150,000 copies), Vasco Rossi (*Vasco*. *Le mie canzoni*, 130,000) and Eros Ramazzotti (*Eros*. *Lo giuro*, 90,000 copies). At Christmas, *Oggi cucini tu 2* (215,000 copies) by Antonella Clerici and Anna Moroni, saw a repeat of the success of the first volume, which in 2005 sold a total of more than 270,000 copies.
The high number of successful Italian authors has also generated an increase in the foreign sale of rights for Mondadori books.

## Giulio Einaudi Editore

2005 saw revenues of more than €45 million, a 3.2% increase compared with the previous year. This increase was essentially the result of revenues from operations in conjunction with newspapers, which amounted to €1.3 million.

The titles that proved most popular with readers during the year include: *Crimini* edited by Giancarlo De Cataldo (140,000 copies), *Romanzo criminale* by De Cataldo (published in 2001, 130,000 copies), *I figli non crescono più* by Paolo Crepet (130,000 copies), *Sabato* by Ian McEwan (70,000 copies), *Lo strano caso del cane ucciso a mezzanotte* by Mark Haddon (80,000 copies) and *Il petalo cremisi e il bianco* by Michel Faber (50,000 copies), both in paperback editions, *La ragazza del secolo scorso* by Rossana Rossanda (40,000 copies), *Sotto i venti di Nettuno* by Fred Vargas (40,000 copies), *Complotto contro l'America* by Philip Roth (30,000 copies). Among titles sold with a DVD: *Parole e canzoni* by Claudio Baglioni (60,000 copies) and *Gli Album* by Marco Paolini (25,000 copies).

## Art books and exhibition organisation

Mondadori Electa, the Mondadori Group's operating holding company for its activities in the art and illustrated books segment, as well as the supplier, at a number of Italian museums, of services under licence and the organisation of exhibitions and cultural events, confirmed the positive trend seen in recent years with revenue growth of around 6.2%.

In the Books area, in which the company operates with the Electa (art, architecture, catalogues, museum and sponsors guides) and Mondadori (miscellaneous illustrated books, Geo) imprints, 250 new titles (290 in 2004) and 305 reprints (the same as 2004) were published, in both Italian and other languages.

Production performance under the Electa imprint, in the medium-low price band, the success of a series, begun in 2004, of titles from the various series of Art Dictionaries continued.
In the mid-price range positive results were achieved by *Arte Contemporanea* by F. Poli (now on its third reprint) and *Storia dell'Arte* by Ernst H. Gombrich, while in the premium-price range of particular note were *Storia dell'Architettura Italiana – L'Ottocento* which sold 1,700 copies and *Pittura del paesaggio in Italia – Il Settecento* (more than 1,000 copies).
Among the titles under the Mondadori Illustrati imprint (revenues of €5.7 million, unchanged compared with 2004) of particular note were *Santi* by Rosa Giorgi (22,000 copies), *Oggi cucino io 2* by Miriam Ferrari (sold out on the launch, 25,000 copies), and *Militaria* by Giovanni Santi-Mazzini.

The use of editorial products as add-ons with newspapers and magazines has led to a marked increase in revenues. Mondadori Electa ha consolidated its association with a number of leading Italian publishers, developing a number of interesting initiatives that exploited the backlist and led to the creation of new works.

The second important area of activity for Mondadori Electa, the management of services under licence at museums and monuments, generated revenues in 2005 of €20,4 million, an 18.2% increase on the previous year, thanks to a significant increase in the number of visitors. The Coliseum in Rome, for example, saw 4.5 million visitors in 2005; an 8% increase compared with 2004 and was, by far, Italy's most visited monument.

In the exhibition organisation and catalogue publishing area, particular successes during the year included: *Magna Graecia* at Catanzaro, the catalogue for the Lucien Freud retrospective at the Correr Museum in Venice (over 10,000 copies), the catalogue for the *Biennale del Cinema* and that for the Delvaux exhibition at Palazzo Bricherasio (Turin).
During the year, Mondadori Electa also made a successful bid for publishing services for the Musei Capitolini in Rome.

## Sperling & Kupfer

In 2005 the Sperling & Kupfer Group saw a fall in sales largely attributable to a shortfall from the large-scale retail channel. There were positive results, meanwhile, in the sale of rights, particularly foreign rights, and in Italy, thanks to the add-on sales phenomenon.
During 2005 Sperling & Kupfer produced 285 new titles (28 more than in 2004) and 397 reprints (18 more than the previous year), containing average print runs. Important launches during the year included: Ron McLarty (*Sognavo di correre lontano*, 27,000 copies), Kevin Guilfoile (*Il creatore delle ombre*, 35,000 copies) and Matt Bondurant (*La terza traduzione*, 25,000 copies).
Among the successes of the year were the non-fiction author Giampaolo Pansa with *Sconosciuto 1945* (193,000 copies), the consolidation of established authors in the portfolio such as Danielle Steel (*Tramonto a Saint-Tropez*, 55,000 copies, *Il cottage* 40,000 copies), Sergio Bambarén (*La rosa di Gerico*, 80,000 copies) and the publication of Paolo Mosca's *Lettera al Papa* (25,000 copies).
Edizioni Frassinelli produced 48 new titles and 62 reprints (4 more than in 2004). The positive sales of the company's leading author, Nicholas Sparks, continued with *Il posto che cercavo* (145,000 copies).

## Edumond Le Monnier

In 2005 revenues were in line with the previous year at €83.8 million: a positive result given the climate of uncertainty in the sector deriving from the reform of second level secondary schools.

The company maintained its leadership in the market for first level secondary schools and consolidated its outsider role in that for second level secondary schools.

In the first level secondary school area (the former lower middle) the increase recorded in net sales (+1.6%) is absolutely positive in view of the policy of limiting the ceiling for expenditure being pursued by the Education Ministry.

Results were also positive in the second level secondary schools sector, the most important market segment, in terms of 4.6%.

In the primary school area Edumond Le Monnier in 2005 decided, in view of the very competitive commercial policies adopted by the competition, to emphasise profitability over an increase in sales, which fell by 13.1%.

In 2005 Edumond Le Monnier confirmed its position as a point of reference for teachers through its internet sites.

## Piemme

Edizioni Piemme closed 2005 having confirmed the growth trend that has characterised the company in recent years, with a marked increase in net revenues compared with 2004 (+18.2%), thanks above all to demand from the large-scale retail channel.

In the general books area (which includes fiction, non-fiction, paperbacks and religious titles) there was a marked increase (+5.9%) on the previous year. The fiction and non-fiction area followed the trend of the reference sector with an increase of 6.2% compared with 2004, a year characterised by the publication of a number of best sellers. The editorial production of 2005 managed to repeat the successes of the previous year with titles such as *Il codice del Labirinto* by Kate Mosse (47,000 copies), *Progetto Trinity* by Greg Iles (29,000 copies), *Murata viva* by Laila (30,000 copies) as well as *Utente sconosciuto* by Michael Connelly (95,000 copies). To the success of titles published in 2005 should be added the novel *Cacciatore di aquiloni* by Khaled Hosseini, published in 2004, which in 2005 sold 87,000 copies with a level of Christmas sales sufficient to put it at the top of the best sellers lists.

There was a slight downturn in the sales of the Pocket paperback series (-5.8%), for which a new strategy and new objectives will be drawn up in 2006.

The Religion series, meanwhile, saw a marked increase compared with the previous year (+29.4%) due to the production dedicated to Pope John Paul II and to a number of long sellers in the catalogue, including *Mistero Medjugorie* by Antonio Socci (50,000 copies).

On the licensing of rights for add-on sales with newspapers and magazines, of particular note was the sale of rights for the *Bibbia CEI* to *la Repubblica* and the rights for *Il codice del Quattro* also to the L'Espresso Group.

The Junior area, which includes "Il Battello a Vapore" and "Geronimo Stilton", confirmed its position as the sector of growth. Of particular note was the performance of "Il Battello a Vapore", which saw sales increase by 26.6% on the already excellent revenues of 2004.
This success is the result of an editorial project launched in 2004 with the diversification of editorial production (the offer of a number of titles in hardcover), the acquisition of licences for characters such as *Scooby Doo* and the launch of the new adventures of Ulysses Moore (*La Bottega delle mappe dimenticate* and *La casa degli specchi*) and the series Mylla & Sugar (*Strega più fata*). These first-time publications by "Il Battello a Vapore" have also been successfully traded on the international rights market. Of particular note was the contract signed with Scholastic USA for the Ulysses Moore series, launched in America at the beginning of 2006.

Following the excellent results of 2004, the success of the "Geronimo Stilton" line continued (+3.7%), as did the diversification of the editorial propositions.

Finally, of note, also for "Geronimo Stilton", was the success of the sale of rights for add-on sales with newspapers and magazines.

## Distribution and Logistics

The Distribution and Logistics area, which works for the Group's publishing imprints and for third-party publishers, saw 2005 revenues fall by 7.1%, mainly as a result of a shortfall from third party customers.

The increase in the number of copies in transit during 2005 was 3.4%, while the increase in deliveries was 15.9%, rising from 157,739 in 2004 to 182,775 in 2005.

The new sorter, introduced in 2004, has increased efficiency and flexibility across the entire cycle, and led to a reduction in average delivery times, from 2.6 days in 2004 to 2.3 days in 2005.

# Magazine Division

The Magazine Division generated revenues in 2005 of €778 million (+2.3% compared with 2004).
The 3.6% increase in circulation revenues was driven by the sale of add-ons, which amounted to €228.7 million (+23.6% compared with the already excellent results of the previous year).

| (€/m) | 2005 | 2004 |
|---|---|---|
| Magazine revenues | 767.4 | 748.3 |
| Other revenues | 10.6 | 12.3 |
| | 778.0 | 760.6 |
| Operating costs | (647.8) | (626.4) |
| **Gross operating profit** | **130.2** | **134.2** |
| Amortisation and depreciation | (3.0) | (11.3) |
| **Operating profit** | **127.2** | **122.9** |

## Circulation

There was a 4% increase in circulation in Italy during the year. This was exclusively the result of an intense period of new launches. Growth was concentrated in the TV segment, where, at the beginning of the year, four new titles were launched (two by Mondadori) with an estimated number of copies of 54 million, and an expansive effect on the segment (around +35 million copies).

This sort of growth related to new launches was also seen, albeit on a smaller scale, in the health/beauty, youth, news magazine, psychology and family segments. All other segments were stable or in decline.
The reference market, excluding new launches, lost around 4%, in line with the trend of recent years; this figure was significantly influenced by strikes in the second half of the year connected with the renewal of the national contract for jour-

nalists, which resulted in the loss of one or more issues of weekly titles.
In this context Mondadori maintained its absolute leadership in its reference market.

What follows is an overview of the performance of the main titles and the various segments.
In a context of general difficulty in the women's segment, Mondadori confirmed its leadership position; with good performances by *Donna Moderna* (+1.9%), *Flair* ( +1%), *Chi* (+2.7%) and, in particular, *Cosmopolitan* (+10.4%). At the beginning of 2005, *Vera*, a title of the joint venture Gruner&Jahr/ Mondadori, was sold.
*Panorama* confirmed both its leadership and its distance from its main competitor in terms of circulation, while seeing a significant increase in advertising revenues.
*Economy* continued its growth in both circulation and advertising revenues, substantially outperforming expectations.
*Mens' Health* achieved leadership in its segment, one in which there is a generalised and marked decline.
*Focus* remained Italy's biggest selling monthly in a segment that showed signs of weakness in Italy in 2005: there were also positive results for the brand extensions *Focus Extra*, *Focus Storia*, *Focus Domande e Risposte* and *Focus Junior*.

In the TV sector, 2005, was a year of lively competition. *TV Sorrisi e Canzoni*, the Group's historic weekly TV magazine, clearly maintained its leadership at around 1,250,000 copies, with a fall of 9.7% in average circulation. This was compensated, however, by the two new titles, *2TV* (an average of 90,000 copies) and *StarTV* (an average of 270,000 copies), that achieved their objectives.
Total circulation for Mondadori in the TV sector came to 112 million copies, unchanged from 2004.

During 2005 the internationalisation strategy for the magazine area of the Mondadori Group continued both through the consolidation of direct involvement with other publishers with high-growth potential (the Group's stake in Attica was increased from 40% to 41.66%), and through the international development of the brands. The weekly *Grazia*, launched in the UK in February 2005 under a licensing agreement with British publisher Emap, continued its expansion with a Bulgarian edition, followed shortly after by editions in Greece and the United Arab Emirates.
The end of 2005 saw the launch of *Geo*, a new human sciences monthly by the joint venture Gruner & Jahr / Mondadori with results that exceeded expectations.

## Add-on sales

In the add-on sales market, the sector remained stable overall, despite the increase in the number of initiatives and the number of competitors. However Mondadori was able to increase its revenues in this area thanks to the selection of quality products that were consistent with the editorial line of each of the titles.

The new strategy adopted, which is based on products with a higher added value, has altered the composition of revenues in the different categories of goods: with a big jump in editorial products (+250%) and DVDs (+15%), a fall in VHS (-50%), music CDs (-26%) and miscellaneous goods (-34%).

Of particular note was the success of initiatives such as:
- the *Le Garzantine* encyclopaedia series, with *TV Sorrisi e Canzoni*;
- the *Meridiani*, Mondadori's prestige classics series, with all the leading titles;
- the *Enciclopedia Dantesca* by Treccani, with *Panorama*.

# Advertising services

Thanks to an upturn in the recent period (+2.4% for the first nine months), the overall advertising market in 2005 grew by 2.8% on the previous year across all of the media, without any marked differences as there had been at the end of the previous year.

| (€/m) | 2005 | 2004 |
|---|---|---|
| Advertising revenues | 336.0 | 331.1 |
| Other revenues | 5.0 | 5.6 |
| | **341.0** | **336.7** |
| | | |
| Operating costs | (338.2) | (331.1) |
| **Gross operating profit** | **2.8** | **5.6** |
| | | |
| Amortisation and depreciation | (0.3) | (0.4) |
| **Operating profit** | **2.5** | **5.2** |

As the table showing the Nielsen figures indicates, television consolidated its growth with an increase of 2.7%, while print media grew overall by 3.5%. The newspaper segment grew by 2.7% while magazines were up 4.5%, again due to the effects of new launches.

Radio, which had seen double-digit growth in 2004, saw a gradual improvement, ending the year in line with the previous year (+0.3%) after a decidedly negative start.

In particular in magazines, there were considerable fluctuations in the market, both month to month and between the different sectors. The areas that were more dynamic were: clothing, food, telecoms and financial services.

At the end of a year characterised by increased competition, Mondadori Pubblicità achieved an increase of 1.3% on the previous year, despite a number of launches by competitors and the journalists' strikes which had an impact on the closing months.

These results were helped by the particularly positive performance by the "male" segment, with *Panorama* and *Economy*, and by the historic titles; *Tv Sorrisi e Canzoni* brilliantly defended its position in the entertainment segment and *Chi* grew by more than 15%. Of particular note among the titles produced by the joint ventures were *Cosmopolitan* and *Starbene*.

Advertising sales for R101 were decidedly positive and are managed by a dedicated network within the advertising company.

**Advertising market**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Television | 4,675.9 | 4,551.2 | 2.7% |
| Total print media | 2,992.3 | 2,891.8 | 3.5% |
| - Magazines | 1,224.8 | 1,171.5 | 4.5% |
| - Newspapers | 1,767.5 | 1,720.3 | 2.7% |
| of which: National sales | 951.7 | 912.3 | 4.3% |
| Radio | 401.2 | 400.2 | 0.3% |
| Outdoor | 198.7 | 192.1 | 3.4% |
| Cinema | 83.0 | 90.5 | (8.3%) |
| Total advertising market | 8,351.1 | 8,125.8 | 2.8% |

Source: Nielsen Media Research (Advertising Market AdEx – Estimate of net investments)

# Printing Division

In 2005 **Mondadori Printing** saw an increase in revenues of 2.1%, ending the year at a total of €459.1 million, compared with the €449.5 million of the previous year.

Printing revenues, net of the cost of paper, grew by 1.6%, in particular in the captive sector, sustained by the Group's participation in the add-on sales phenomenon.
Revenues from third party customers came to €193.6 million, a fall of 6.9%.

The positive results of the previous year were confirmed in both the hardcover and paperback book segments, with excellent results deriving from the sale of books in conjunction with newspapers and magazines.

The competitive scenario on foreign markets intensified for offset products, while volumes in the illustrated books segment were affected by strong competition from the Far East, both in terms of price and the unfavourable exchange rate between the dollar and the yuan.

2005 saw a continuation of initiatives to improve productive efficiencies, and a rationalisation of activities. Investments were made in the rotary area to update plant, thereby offering increasingly efficient serv-

| (€/m) | 2005 | 2004 |
|---|---|---|
| Printing revenues | 459.1 | 449.5 |
| Other revenues | - | - |
| | 459.1 | 449.5 |
| | | |
| Operating costs | (419.8) | (400.1) |
| **Gross operating profit** | **39.3** | **49.4** |
| | | |
| Amortisations and depreciation | (23.2) | (23.5) |
| **Operating profit** | **16.1** | **25.9** |

ices in terms of lead times (a reduction in the gap between the magazine being put to bed and appearing on the newsstands) and giving the Mondadori Group a competitive advantage in terms of time-to-market, more competitive production costs and an improvement in the level of quality offered to the customer.

In terms of rationalisation of activities, 2005 saw the launch of a two-year plan for the reorganisation of staff functions. A number of actions were identified during the year in the illustrated books production and printing areas in response to the new competitive climate.

Capacity absorption levels over the year were higher than the previous year and the plants saw a 4% increase in productivity in the number of pages produced during 2005 compared with 2004.

The Division also continued with the "Quality Vision 2000" certification programme for its plants, and has initiated procedures for ISO 14001 environmental certification.

Paper consumption in 2005 amounted to 337,729 tonnes, compared with 334,795 in 2004, an increase of 0.87%. After three years of stable low prices, there was a slight increase in the cost of paper.

**Printing revenues (net of the cost of paper)**

| (€/m) | 2005 | 2004 | Change% |
|---|---|---|---|
| Magazines | 131.1 | 129.6 | 1.1 |
| Books | 85.9 | 84.2 | 2.2 |
| Catalogues and promotional materials | 32.4 | 30.1 | 7.6 |
| Directories | 2.5 | 4.0 | -37.5 |
| **Total printing revenues (net of the cost of paper)** | **251.9** | **247.9** | **1.6** |

At the end of 2005 the sale was finalised of the Martellago plant (illustrated books) to the Olivotto Group.

# Direct Marketing

The **Direct Marketing** sector recorded revenues of €26.4 million, a fall of 12.3% compared with 2004.
The business of **Cemit Interactive Media** has been negatively affected by the introduction of new privacy legislation and, compared with the previous year, the lack of revenues from non-recurring customers. During 2005 the company began the development of new IT platforms that have made it possible to offer new tools to its customers and an improvement in marketing analysis for the development of customer loyalty. This change in strategy was accompanied by a change in the organisation.

The 2005 and 2004 revenues of the joint venture with the Bertelsmann Group, Mondolibri S.p.A., previously consolidated on a proportionate basis, are not included as they are now accounted for using the equity method in accordance with the new IAS-IFRS accounting standards.

| (€/m) | 2005 | 2004 |
|---|---|---|
| Revenues from sales | 26.4 | 30.1 |
| Other revenues | - | - |
| | 26.4 | 30.1 |
| Operating costs | (21.7) | (24.2) |
| **Gross operating profit** | **4.7** | **5.9** |
| Amortisations and depreciation | (0.4) | (0.7) |
| **Operating profit** | **4.3** | **5.2** |

# Retail

In its **Retail** activities Mondadori generated revenues of €137.2 million, a marked increase on 2004 (+27.2%).

The expansion of the chain of wholly-owned outlets continued with the opening of the new bookstore at the big shopping mall in Rome Fiumicino.

**Mondadori Franchising** saw revenues increase by 3.6%, the result of new affiliations and increased sales from existing outlets. The expansion of the franchising network increased the number of outlets to 170 at the end of the period, while, having concluded the experimental phase, the Edicolé project had led to the opening of 33 outlets by 31 December 2005.

The Edicolé project has met with a highly positive response from the market which has expressed appreciation for the new formula that makes it possible to integrate the offer of traditional newsstand products with those of bookstores. This has been made possible by an innovative design that facilitates the inclusion of a wider range of products having great appeal for customers.

| (€/m) | 2005 | 2004 |
|---|---|---|
| Revenues from sales | 137.2 | 107.9 |
| Other revenues | - | - |
| | 137.2 | 107.9 |
| | | |
| Operating costs | (134.6) | (105.3) |
| **Gross operating profit** | **2.6** | **2.6** |
| | | |
| Amortisation and depreciation | (2.2) | (2.4) |
| **Operating profit** | **0.4** | **0.2** |

# Radio Division

In January 2005 the Mondadori Group entered the radio business with the acquisition of Radio 101, a national broadcaster with a 30-year history of success (Radio 101 was in fact created from Italy's first commercial radio operator, Radio Milano International).

The aim is to create a radio broadcaster that is fully integrated with the Group's activities, developing from the outset synergies with the Magazine, Retail and Book Divisions and with different companies within the Group.

The year 2005 was characterised by intense activities aimed at the repositioning and relaunch of the radio station, exemplified by the name-change (from 101 to R101), the new logo and a complete redesign of the schedule (playlists, formats, programmes and presenters).

These efforts have made it possible to achieve results beyond expectations in terms of advertising sales; net advertising revenues for the company came to €4.3 million, from gross advertising revenues of €7.4 million.

The schedule has been built with an adult (25-45 year-old) audience in mind, exploiting in full the editorial and advertising

| (€/m) | 2005 | 2004 |
|---|---|---|
| Revenues from sales | 4.3 | - |
| Other revenues | - | - |
| | 4.3 | - |
| Operating costs | (16.1) | - |
| **Gross operating profit** | **(11.8)** | - |
| Amortisations and depreciation | (0.7) | - |
| **Operating profit** | **(12.5)** | - |

synergies with the other activities of the Mondadori Group. In terms of presenters, historic voices of Radio 101 have been supplemented with new presenters, leaders in the sector, and often also television personalities.

The relaunch of R101 has been accompanied by a massive communication campaign, which began in June and is still underway. In the first months of the year, the aim of the campaign was to communicate the schedule and build brand awareness. Attention then switched to the editorial product.
Advertising investments were initially planned in the Group's titles, before expanding to include other media (newspapers, TV, outdoor, cinema, etc.).

The development of advertising revenues depends on the signal distribution and territorial coverage as well as on the awareness of the brand. Consequently frequencies have been bought to build coverage, and national reach has increased from an initial 56% to 85% at the beginning of 2006.

Investments in frequencies in 2005, for a total of €70 million, has doubled the number of existing plants (from an initial 150 to more than 300). In particular transmission infrastructure and relative frequencies were acquired in the Basilicata, Lombardy, Veneto and Friuli regions in May. In July R101 reinforced its presence in the Emilia Romagna, Marche, Tuscany, Lombardy and Lazio regions.

Meanwhile further plant was acquired in Valle d'Aosta and in the main centres in Sicily in September and October.

# Corporate and other business

In addition to the structure that manages the Group's financial activities, the Corporate sector includes the functions of the Parent Company engaged in service activities for the companies of the Group and the Business Divisions.

Such services involve mainly ITC services, accounting, management control and planning, treasury and finance activities, human resources, legal and corporate affairs, and external communications.

Revenues derive essentially from charges made to subsidiaries, associated companies and other users of the aforementioned services.

# Financial situation

The Mondadori Group's financial situation as of 31 December 2005 showed a surplus of €32.2 million, as illustrated in the following table.

**Net financial position**

| (€/m) | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Cash and cash equivalents | 73.1 | 137.2 |
| Financial assets at fair value | 442.9 | 485.9 |
| Assets (liabilities) from derivative instruments | 2.0 | - |
| Other financial assets (liabilities) | (29.4) | (13.5) |
| Borrowings (short and medium/long-term) | (57.5) | (115.4) |
| Bonds | (295.3) | (295.7) |
| Convertible bonds | (103.6) | (109.5) |
| **Net financial position** | **32.2** | **89.0** |

Changes in the net financial position take account, amongst other things, of dividend payments of €85.4 million (€72.5 million in 2004), the investment of around €109 million for the acquisition and development of the radio station R101 and capital investments at Mondadori Printing.

## Trends in interest rates and exchange rates

As 2004, 2005 was characterised by significant economic growth at a global level (+3.2%), driven mainly by the USA (+3.5%) but above all by China (+9.9%) and India (+8.0%).
Bringing up the rear, like last year, was the Euro area where growth was a much more modest +1.4%.

Among the most significant elements in this context was an increase in the price of raw materials (excluding oil) of around 10.0% and oil in particular, more than 50.0% up, which in the final quarter appeared to stabilise at around $60 a barrel.

In the context of this macroeconomic situation, during 2005 the dollar increased in value by about 12% against the euro, going from 1.3507 to 1.1797. The British pound, meanwhile, went from 0.7073 to 0.6853 against the euro, an increase from the start of the year of around 3%.

Given that the Mondadori Group generates flows of a commercial nature in both of these currencies, hedging operations were conducted in 2005 as in previous years on exchange rates with a view to safeguarding the Group's operating profitability.

In terms of interest rates, during 2005 3-month Euribor (act/360) went from 2.155% at the beginning of the year to 2.488% at the end (an average of

2.184%). In the same period, the average cost of money for the Mondadori Group (including structures aimed at neutralising exchange rate risks and subsidised loans) was 2.470%.

The overall credit lines available to the Group at 31 December 2005 amounted to more than €1 billion.

The Group's short-term borrowing facilities of €562 million were not used at 31 December 2005. These facilities consist of self-liquidating credit lines (advances on invoices issued to customers) and stand-by loans with a duration of less than 18 months less one day.

Medium-long-term lines of €463.7 million are made up of €296.4 million from a private placement in dollars in the USA, over three tranches expiring in 2013/2015/2018, and €109.9 million in convertible bonds, guaranteed by Mondadori shares, expiring in 2008. Both of these are exclusively reserved for institutional investors. For the Private Placement, a Cross Currency Swap is in place to cover exchange and interest rate risks. The operation is underwritten by JP Morgan Chase Bank.

On 31 December there were also subsidised loans for publishing, mainly as per Law no. 62/01, for a total of €57.4 million. These increased by €43.9 million during 2005, as a result of the net balance of new loans taken out during the year for the investments made at the Mondadori Printing subsidiary (€44.6 million) and reimbursements made as per the amortisation plan for the loans themselves.

## Mondadori International

Mondadori International, that manages the Group's financial surplus, recorded a consolidated net profit in 2005 of €7.3 million (€11.7 million in 2004). This difference was above all due to the inclusion of figurative financial charges on the convertible bond loan 2003-2008 (as per the requirements of the new international accounting standards IAS/IFRS) and lower returns on capital under management (2.44% compared with 2.80% in the previous year). The net financial position went from a surplus of €410.3 million at the beginning of the year, to €327.3 million at year-end, and the company's gross financial surplus at 31 December 2005 amounted to €430 million (€514 million at the end of 2004). The reduction in the company's liquidity at the end of 2005 was used by the Mondadori Group and is largely related to investments in the radio and printing sectors.

At the end of the year the portfolio was made up as follows:

– cash products and bonds at variable rates: €352 million (the main managers are Lazard, BNP Paribas, HSBC, Barclays and Morgan Stanley);
– guaranteed return investments mainly with hedge funds: €78 million. Such funds are widely diversified in terms of manager and strategy.

During 2005 the average volatility of the portfolio was 0.7% (75% of that from short-term euro-zone government bonds).

Liquidity is mainly allocated to the ABS Finance Fund, the Luxemburg-based asset management firm with Banca Depositaria SEB (Banca Intesa Group), in which also Trefinance (Fininvest Group) and Mediaset are shareholders.

Eighty five per cent of the portfolio can be converted to cash in a few days, and is distributable within one month, the remaining 15% ranges from between one week to three months.

In addition to the liquidity managed by Mondadori International, the Group also holds, through the parent company Arnoldo Mondadori Editore S.p.A., a guaranteed capitalisation insurance policy for around €52 million, the net return on which, in 2005 amounted to 3.61% in 2005. The liquidity of this investment is daily.

The average overall return on the Group's liquidity in 2005 was 2.54%.

# Personnel

As of 31 December 2005 Group companies employed 4,450 people (4,492 at 31 December 2004), while the average number of personnel during the period amounted to 4,518 (4,496 in 2004).

These figures include personnel on fixed-term contracts, while the figures for the previous period have been reclassified in line with changes in the scope of consolidation (Mondolibri is accounted for using the equity method rather using the proportionate method) following the introduction of the new IAS/IFRS principles.

Changes in staff are essentially the result of the start up of the activities of Monradio (28) in January and the sale of the Martellago printing plant at the end of the year.

The following table shows details of Group personnel as of 31 December 2005.

| Personnel | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Arnoldo Mondadori Editore S.p.A.: | | |
| - Managers, journalists and office staff | 1,488 | 1,491 |
| - Blue-collar workers | 107 | 109 |
| | **1,595** | **1,600** |
| Italian subsidiaries: | | |
| - Managers, journalists and office staff | 1,576 | 1,559 |
| - Blue-collar workers | 1,134 | 1,187 |
| | **2,710** | **2,746** |
| Foreign subsidiaries: | | |
| - Managers, journalists and office staff | 42 | 42 |
| - Blue-collar workers | 103 | 104 |
| | **145** | **146** |
| **Total** | **4,450** | **4,492** |

The cost of personnel amounted to €268.9 million, an increase of 6.0% compared with 2004 (€252.3 million). The increase in costs was affected by extraordinary charges for severance payments and the charges related to the application of the new international accounting standards concerning the employees' leaving entitlement in Italy (TFR) and severance indemnities.

The following contracts had expired by 31 December 2005:
– the remuneration component of the National Contract for Editorial Graphic Artists
– the remuneration component of the National Contract for Journalists.

# Capital investments

During 2005 the Group made investments in capital for a total of €47.9 million, of which €25.2 million are already operational.

The area that was most involved in terms of value was, as usual, the printing plants of Mondadori Printing S.p.A. and Artes Graficas Toledo S.A. with total expenditure of €33.9 million, of which €11.5 million is already operational, for investments in plant and machinery for printing and industrial infrastructure.

Disinvestments during 2005, which amounted to €9.8 million, concerned, for €7.1 million, industrial property considered non-strategic, while the remainder was made up of other assets divested in the normal order of business.

# Results of Arnoldo Mondadori Editore S.p.A.

On 31 December 2005, the balance sheet of the parent company, Arnoldo Mondadori Editore S.p.A., prepared in line with IAS/IFRS standards, showed a net profit of €101.3 million, an increase on the same period of the previous year (€93.0 million).

The balance sheets at 1 January 2004 and 31 December 2004 and the income statement for 2004 have been adjusted and reclassified for comparative purposes following the introduction of the new international accounting standards.

There was an overall increase in revenues of 1.6%, to which different areas of the Group's business contributed, leading to an increase in net profit of 8.9%, thanks to the lower impact during the year of amortisation and depreciation.

# Forecast for the current year

In the first few months of the year the performance of all the business areas was in line with expectations. Consequently, for the current year, barring unexpected changes in the market, the Group expects to be able to match the results obtained in the previous year.

# Significant events after the end of the year

## Development of Radio R101

During the first quarter of 2006 the acquisition of frequencies by Radio R101continued: in February an agreement was reached with Radio Arcobaleno for the purchase of 20 new plants and their relative frequencies. This operation has enabled Radio R101 to reach the entire population of Sicily and raise its overall national coverage to 85%, an optimal level of national reach.

## Grazia International Network: new licences

In the first months of the year the development of the international network based around *Grazia* continued with the publication, in January, of the Mondadori weekly in Portugal, following an agreement with Media Capital Edições LDA, the country's leading media player, and the publisher of *Lux*, *LuxWoman*, *Maxmen*, *Casas de Portugal*, *Journal Briefing* and *Revista de Vinhos*.
The Portuguese edition was followed by that of an Arabic language edition in the United Arab Emirates, joining an already existing English language edition of *Grazia* first published in the country last November. Both editions are published by ITP Consumer Publishing Ltd., the leading publisher in the Middle East, whose titles include: *L'Officiel*, *Viva*, *Car*, *Emirates Home*, *Masala* and *Ahlan*.
February saw the launch of *Grazia* in Croatia, where the weekly is published under license by Europapress Holding d.o.o., the country's leading newspaper publisher and the publisher of the weeklies *Globus*, *Arena*, *Gloria* and the monthlies *Cosmopolitan*, *OK*, *Vita* and *Teen*.

## New deal for Grazia Italia

In Italy, March 8 saw the launch of a completely re-designed and reconceived *Grazia* in which the entire approach of the title has been reconfigured: with a wide-ranging news section in the first half of the magazine and fashion, beauty and living sections in the second; a third section is dedicated to arts, culture and events, while a final section, a highly innovative development for the Italian market, is addressed to men.

With the new *Grazia* Mondadori aims to mark an innovative turnaround in the women's magazine market. In line with this objective, the marketing activities in support of the new *Grazia* have adopted and will continue to adopt non-conventional criteria for the Italian market based on a long-term strategy aimed at capturing the reference target.

# Other information

The following section deals with information about the specific items indicated.

## Related party transactions

Information is hereby given, as per Consob communications 97001574 of 20 February 1997 and 98015375 of 27 February 1998, that no operations of an atypical or unusual nature were carried out during the year.
The operations carried out between related parties of the Group are based on normal market conditions: those carried out with companies of the Mondadori Group are of a commercial or financial nature and are accounted for through the intragroup current account managed by Arnoldo Mondadori Editore S.p.A., in which the various subsidiaries and associated companies take part, leading to a series of intercompany receivable and payable balances.

For more detailed information reference should be made to the notes to the Group's consolidated financial statements.

## Tax consolidation

As a consequence of the introduction of new legislation - pursuant to articles 117 and following of DPR no. 917/1986 - Arnoldo Mondadori Editore S.p.A. has elected to take part in the tax consolidation of Fininvest S.p.A. in view of its position as a jointly consolidated entity with that company.

The election of the companies of the Mondadori Group to participate in the "tax consolidation of Fininvest" was subordinate, in the consolidation agreement, to a clause safeguarding the Mondadori Group from being obliged to pay income taxes for amounts greater than that which the Group would have made if Arnoldo Mondadori Editore S.p.A. had opened its own tax consolidation position.
Moreover, on the basis of the transferred taxable income of all of the companies of the Fininvest Group included in the fiscal consolidation, the contract recognises that a part of the fiscal advantage pertaining to Fininvest S.p.A. is due to Arnoldo Mondadori Editore S.p.A. in view of the Mondadori Group's participation in the consolidation.

Payables and receivables deriving from the consolidation are recognised as payables to and receivables from parent companies.

## Fiscal transparency

Arnoldo Mondadori Editore S.p.A. and the following companies have jointly adopted the "fiscal transparency option" pursuant to article 115 of DPR no. 917/1986:

Gruner & Jahr Mondadori S.p.A.
Harlequin Mondadori S.p.A.
Bol-Books On Line Italia S.p.A.
Press TV S.p.A.

As a result of this, the taxable income and tax losses of these companies are included on a pro-rata basis in the taxable income of Arnoldo Mondadori Editore S.p.A.

## Management and coordination (article 2497 and following of the Civil Code)

In line with legal requirements and given that the Board of Directors of Arnoldo Mondadori Editore S.p.A. determines, in general terms, the strategic and organisational guidelines also for subsidiary companies, the Board has confirmed that the company carries out management and coordination activities, as per articles 2497 and following of the Civil Code, for the following companies, as per article 2359 of the Civil Code:

Cemit Interactive Media S.p.A.
Edizioni Frassinelli S.r.l.
Edizioni Piemme S.p.A.
Edumond Le Monnier S.p.A.
Fied S.p.A.
Giulio Einaudi Editore S.p.A.
Mondadori Electa S.p.A.
Mondadori Franchising S.p.A.

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

These companies have consequently implemented the necessary disclosure requirements envisaged by article 2497 bis of the Civil Code.

## Acquisition of the business activities relating to Radio 101 One-O-One (now known as R 101)

The acquisition of the following business activities was finalised in January:

– the radio broadcasting activities of **Radio 101 One-O-One** resulting from the commercial radio national broadcasting licence;
– radio broadcasting activities relating to foreign signal repetition.

This acquisition was carried out through the subsidiary Monradio S.r.l.

The operation, which obtained legal authorisation from the Italian monopolies commission and other competent authorities, is part of a previously announced Group strategy to move into an area that is consistent with Mondadori's development and diversification strategies.

The final price – established after the satisfactory conclusion of technical, legal, accounting and fiscal *due diligence* carried out prior to the acquisition - was €39.6 million.

## The development and relaunch of R 101.

In the first half of 2005 and in the subsequent months, a number of initiatives have been launched aimed at the development and relaunch of Radio 101, which, since June, has had a new name, R101.

The relaunch process for R101 also includes a programme of frequency acquisitions, aimed at extending national coverage and, consequently, the number of listeners reached.

The most significant elements of the plan were as follows:

– the acquisition, in May, at an overall cost of €7.5 million, of 17 transmission stations and the relative frequencies, previously belonging to Radio '80, a radio broadcaster held by Beta S.r.l., with extensive coverage of the Veneto region and the main urban centres of Friuli Venezia Giulia, and reaching a combined population of more than 5 million;
– the acquisition, in July, from Tecninvest S.r.l., Lattemiele Lombardia S.r.l., Lattemiele Toscana S.r.l., Lattemiele S.r.l., Lattemiele Sardegna S.r.l. and Idee Vincenti 2 S.r.l., of 62 transmission stations and the relative frequencies, at an overall cost of €20.4 million, strengthening the reach of R 101 mainly in Emilia Romagna, Marche, Tuscany, Lombardy and Lazio.

## Increase in the investment in Attica Publications S.A.

During the year the Group acquired a further 1.66% stake in Attica Publications S.A., the Greek publishing company listed on the Athens stock exchange.
Following this operation, which was finalised on 5 December on the Athens stock market at a price of €812,768, which corresponds to a unit price of €3.20 per share, the Mondadori Group has increased its overall stake in Attica Publications S.A. from 40% to 41.66%.

In line with the Group's international strategy in the magazines sector, Mondadori recalls that it acquired its first 20% stake in Attica in March 2003, increasing its interest to 40% in October 2004, through the exercise of a call option defined in the initial acquisition contract.

The Attica Group, that has been operating since 1994 in the magazines sector and was listed on the Athens stock exchange in 1999, has in recent years adopted a process of diversification that has led to the company becoming one of Greece's leading media players.
Leader in consumer magazines, Attica also has a significant presence in East European markets, particularly in Bulgaria, Serbia, Romania and Hungary, where - in line with the Group's expansion policy - it has also recently launched new titles.

In 2005, the Attica Group achieved a consolidated turnover of €69.8 million (+11.9% compared with the previous year).

## Security Procedural Document (privacy)

In regard to Legislative Decree no. 196/2003, the holder, Arnoldo Mondadori Editore S.p.A., being obliged, declares and guarantees that it has prepared a Security Procedural Document as required by rule no. 19 of the norm regarding minimum security measures (enclosure B, Legislative Decree no. 196/2003), as per the terms and according to the procedures laid out in the norm.

## Share buy-backs

On 20 April 2005, shareholders in general meeting passed a resolution, following the expiry of the previous authorisation granted by shareholders in general meeting on 26 April 2004 and in accordance with article 2357 of the Civil Code, to renew the authorisation to purchase the company's own shares up to the limit of 10% of the share capital allowed by law (taking into account the number of company shares already held in the portfolio and any shares held by subsidiary companies).

Given that 10% of the share capital amounts to 25,942,983 ordinary shares and that at the date of the shareholders' resolution the company held 18,695,445 ordinary shares, the new authorisation gave the Board of Directors the authority to purchase on the market a maximum of a further 7,247,538 ordinary shares.

The corresponding minimum and maximum purchase prices were established as being the same as those contained in the previous shareholders' authorisation and in particular at an individual price not less than the official stock exchange price quoted on the day before the purchase operations, minus 20%, and not more than the official stock exchange price quoted on the day before the purchase operations, plus 10%.

The buy-back plan authorised by shareholders is intended to provide the market with an important demonstration of the company's confidence in the potential of Mondadori shares.

Shareholders also authorised the Board of Directors to use the company's own shares purchased or those already held in portfolio, either for sale, by using them to purchase shares as part of the company's investment policy or for the purposes of the three-year stock option plan for 2003/2004/2005 that was explained in detail in the report on operations for 2004.

During the first half of 2005 Arnoldo Mondadori Editore S.p.A. acquired on the market 113,461 company shares, and a further 1,618,067 Mondadori shares were bought on the market by the subsidiary Mondadori International S.A.

In the same period Arnoldo Mondadori Editore S.p.A. sold, within the context and under the conditions established by the 2003/2005 stock option plan, 990,794 shares at a unit price of €6.85 and 45,000 shares at a unit price of €6.56.

As of 31 December 2005, the number of company shares in the portfolio amounted to 20,002,273 (or 7.71% of the share capital) of which 15,484,687 are directly held in the portfolio of Arnoldo Mondadori Editore S.p.A. and 4,517,486 are held by the subsidiary Mondadori International S.A.

## Shares held by Directors, Statutory Auditors and General Managers

In accordance with article 79 of CONSOB resolution 11971 of 14 May 1999, and with reference to the year 2005, we disclose the following shares held in Arnoldo Mondadori Editore S.p.A. and subsidiary companies by the company's Directors and Statutory Auditors:

| Name and surname | Company shares | Number of shares owned at end of previous year | Number of shares bought | Number of shares sold | Number of shares owned at end of current year |
|---|---|---|---|---|---|
| Berlusconi Marina | Arnoldo Mondadori Editore | - | - | - | - |
| Costa Maurizio | Arnoldo Mondadori Editore | 228,700 | 96,000 (1) | - | 324,700 |
| Barbaro Francesco | Arnoldo Mondadori Editore | 57,800 | 60,000 (1) | 60,000 (1) | 57,800 |
| Berlusconi Pier Silvio | Arnoldo Mondadori Editore | 172,000 | - | - | 172,000 |
| Cannatelli Pasquale | Arnoldo Mondadori Editore | - | 50,000 | 50,000 | - |
| Confalonieri Fedele | Arnoldo Mondadori Editore | - | - | - | - |
| Ermolli Bruno (2) | Arnoldo Mondadori Editore | 2,400 | - | 2,400 | - |
| Forneron Mondadori Martina | Arnoldo Mondadori Editore | 167,127 | - | - | 167,127 |
| Poli Roberto | Arnoldo Mondadori Editore | - | - | - | - |
| Puerari Giovanni | Arnoldo Mondadori Editore | 59,100 | - | - | 59,100 |
| Resca Mario | Arnoldo Mondadori Editore | - | - | - | - |
| Spadacini Marco (2) | Arnoldo Mondadori Editore | 4,000 | - | - | 4,000 |
| | | | | | |
| Frattini Achille | Arnoldo Mondadori Editore | - | - | - | - |
| Superti Furga Ferdinando | Arnoldo Mondadori Editore | - | - | - | - |
| Aiello Antonio | Arnoldo Mondadori Editore | - | - | - | - |
| Giampaolo Francesco | Arnoldo Mondadori Editore | - | - | - | - |
| Vittadini Francesco | Arnoldo Mondadori Editore | - | - | - | - |

(1) shares from exercising stock-option bought and sold on the same date
(2) shares held by spouse

# Proposals of the Board of Directors

## Resolution proposal

The financial statements at 31 December 2005 closed with a net profit for the year of €101,290,134.64.

We submit the following text to you for the motion:

*"The ordinary Shareholders' General Meeting of Arnoldo Mondadori Editore S.p.A., having taken note of the Report of the Board of Statutory Auditors and the Report of the Independent Auditors,*

**resolves**

1. *to approve the Report of the Board of Directors on the company's performance and the financial statements at 31 December 2005, together with the notes, in all their parts and findings;*

2. *to allocate net profit for the year ended 31 December 2005 as follows:*

| | |
|---|---|
| – Net profit for the year | €101,290,134.64 |
| – to the reserve ex law no. 124/93 art. 13 | €33,753.30 |
| Residual profit | €101,256,381.34 |

3. *to distribute to shareholders a dividend of €0.35, stated gross of taxes, for each ordinary share (excluding treasury shares) in circulation at the date of coupon detachment, using the residual profit;*

4. *to distribute to shareholders an extraordinary dividend of €0.25, stated gross of taxes, for each ordinary share (excluding treasury shares) in circulation at the date of coupon detachment, using:*
   - *the residual profit, net of the distribution of the ordinary dividend at 3 above;*
   - *a part, as necessary, of the extraordinary reserve (included in the item "Other reserves").*

5. *to distribute in total, with reference to 3 and 4 above, a dividend of €0.60 for each ordinary share, gross of taxes (excluding treasury shares) in circulation at the date of coupon detachment.*
   *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 a single sum as follows: detachment date 22 May 2006, with payment from 25 May 2006.*

6. *to reclassify an amount of €39,130.42 from the reserve for exchange gains to the extraordinary reserve (article 2426 no. 8 bis of the Civil Code); the reserve for exchange gains is consequently reduced from €52,936.70 to €13,806.28.*

On behalf of the Board of Directors
Chairman
Marina Berlusconi

# Financial Statements of Arnoldo Mondadori Editore S.p.A. at 31 December 2005

# Balance sheet and Income statement of Arnoldo Mondadori Editore S.p.A. at 31 December 2005

# Balance Sheet

| Assets<br>(in Euros) | Note | 31 December 2005 | 31 December 2004 |
|---|---|---|---|
| INTANGIBLE ASSETS | 1 | 92,793,201 | 94,473,054 |
| INVESTMENT PROPERTY | 2 | 1,891,672 | 8,231,102 |
| Land and buildings | | 17,254,750 | 17,926,576 |
| Plant and machinery | | 5,688,699 | 5,563,562 |
| Other tangible fixed assets | | 5,664,390 | 6,421,323 |
| Property, plant and equipment | 3 | 28,607,839 | 29,911,461 |
| INVESTMENTS | 4 | 712,580,941 | 751,564,997 |
| NON-CURRENT FINANCIAL ASSETS | 5 | 0 | 108,171,751 |
| DEFERRED TAX ASSETS | 6 | 16,023,118 | 19,969,258 |
| OTHER NON-CURRENT ASSETS | 7 | 1,686,193 | 3,237,149 |
| **TOTAL NON-CURRENT ASSETS** | | **853,582,964** | **1,015,558,772** |
| TAX RECEIVABLES | 8 | 23,005,445 | 3,454,241 |
| OTHER CURRENT ASSETS | 9 | 41,891,692 | 41,584,110 |
| INVENTORIES | 10 | 42,183,781 | 36,072,389 |
| TRADE RECEIVABLES | 11 | 232,238,022 | 227,609,769 |
| OTHER CURRENT FINANCIAL ASSETS | 12 | 100,921,560 | 83,703,907 |
| CASH AND CASH EQUIVALENTS | 13 | 43,444,028 | 46,439,552 |
| **TOTAL CURRENT ASSETS** | | **483,684,528** | **438,863,968** |
| ASSETS HELD FOR SALE | | 0 | 0 |
| **TOTAL ASSETS** | | **1,337,267,492** | **1,454,422,740** |

| Liabilities and shareholders' equity<br>(in Euros) | Note | 31 December 2005 | 31 December 2004 |
|---|---|---|---|
| Share capital | | 67,451,756 | 67,451,756 |
| Share premium reserve | | 283,746,863 | 175,575,112 |
| Treasury shares | | (102,823,631) | 0 |
| Other reserves and retained earnings | | 128,292,181 | 250,947,028 |
| Profit (loss) for the year | | 101,290,135 | 93,040,366 |
| TOTAL SHAREHOLDERS' EQUITY | 14 | 477,957,304 | 587,014,262 |
| PROVISIONS | 15 | 10,740,110 | 11,866,386 |
| EMPLOYEES' LEAVING ENTITLEMENT AND TERMINATION INDEMNITIES | 16 | 43,802,801 | 41,188,665 |
| NON-CURRENT FINANCIAL LIABILITIES | 17 | 296,045,710 | 296,384,114 |
| DEFERRED TAX LIABILITIES | 6 | 11,708,483 | 9,533,338 |
| OTHER NON-CURRENT LIABILITIES | | 0 | 0 |
| TOTAL NON-CURRENT LIABILITIES | | 362,297,104 | 358,972,503 |
| INCOME TAXES PAYABLE | 18 | 18,357,383 | 15,216,108 |
| OTHER CURRENT LIABILITIES | 19 | 103,570,753 | 104,053,065 |
| TRADE PAYABLES | 20 | 204,952,637 | 214,201,754 |
| PAYABLES TO BANKS<br>AND OTHER FINANCIAL LIABILITIES | 17 | 170,132,311 | 174,965,048 |
| TOTAL CURRENT LIABILITIES | | 497,013,084 | 508,435,975 |
| LIABILITIES HELD FOR SALE | | 0 | 0 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 1,337,267,492 | 1,454,422,740 |

# Income statement

| (in Euros) | Note | 2005 | 2004 |
|---|---|---|---|
| **REVENUES FROM SALES AND SERVICES** | **21** | **1,047,179,331** | **1,030,852,216** |
| DECREASE (INCREASE) IN INVENTORIES | 10 | (6,111,392) | 4,139,612 |
| COST OF RAW MATERIALS AND CONSUMABLES AND GOODS FOR RESALE | 22 | 227,787,296 | 237,006,146 |
| COST OF SERVICES | 23 | 575,543,240 | 534,169,182 |
| PERSONNEL COSTS | 24 | 131,455,616 | 123,183,135 |
| OTHER INCOME (EXPENSE) | 25 | (25,841,798) | (12,614,828) |
| **GROSS OPERATING PROFIT** | | **144,346,369** | **144,968,969** |
| DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT | 2/3 | 5,420,720 | 6,929,266 |
| AMORTISATION AND WRITEDOWNS OF INTANGIBLE ASSETS | 1 | 2,028,336 | 9,834,059 |
| **OPERATING PROFIT** | | **136,897,313** | **128,205,644** |
| FINANCIAL INCOME (EXPENSE) | 26 | (12,589,892) | (21,660,571) |
| INCOME (EXPENSE) FROM INVESTMENTS | 27 | 25,011,670 | 32,193,997 |
| **PROFIT BEFORE INCOME TAXES** | | **149,319,091** | **138,739,070** |
| INCOME TAXES | 28 | 48,028,956 | 45,698,704 |
| **NET PROFIT** | | **101,290,135** | **93,040,366** |

*On behalf of the Board of Directors*
*Chairman*
*Marina Berlusconi*

# Changes in shareholders' equity

| (in thousands of Euros) | Share capital | Share premium reserve | Treasury share reserve | Treasury share | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 1/1/2004** | **67,452** | **170,380** | **116,885** | **0** | **804** | **0** | **134,955** | **74,461** | **564,937** |
| Changes: | | | | | | | | | |
| - Allocation of net profit | | | | | | | 1,928 | (1,928) | |
| - Dividends paid | | | | | | | | (72,533) | (72,533) |
| - Treasury share operations | | 5,195 | (8,713) | | | | 3,518 | | |
| - Stock options | | | | | 1,570 | | | | 1,570 |
| - Net profit for the year | | | | | | | | 93,040 | 93,040 |
| **At 31/12/2004** | **67,452** | **175,575** | **108,172** | **0** | **2,374** | **0** | **140,401** | **93,040** | **587,014** |

| (in thousands of Euros) | Share capital | Share premium reserve | Treasury share reserve | Treasury share | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 31/12/2004** | **67,452** | **175,575** | **108,172** | **0** | **2,374** | **0** | **140,401** | **93,040** | **587,014** |
| Changes: | | | | | | | | | |
| - Adoption of IAS 32 and IAS 39 | | 108,172(*) | (108,172) | (108,172) | | (12) | (25,335) | | (133,519) |
| - Allocation of net profit | | | | | | | 7,659 | (7,659) | |
| - Dividends paid | | | | | | | | (85,381) | (85,381) |
| - Treasury share operations | | | | 5,348 | | | 852 | | 6,200 |
| - Stock options | | | | | 2,341 | | | | 2,341 |
| - Other | | | | | | 12 | | | 12 |
| - Net profit for the year | | | | | | | | 101,290 | 101,290 |
| **At 31/12/2005** | **67,452** | **283,747** | **0** | **(102,824)** | **4,715** | **0** | **123,577** | **101,290** | **477,957** |

(*) formerly Treasury Share Reserve, originally made up of transfers from the Share Premium Reserve

# Cash flow statement

| Cash flow statement (in thousands of Euros) | 2005 | 2004 |
|---|---|---|
| Net profit for the year | 101,290 | 93,040 |
| *Adjustments* | | |
| Depreciation, amortisation and writedowns | 18,956 | 19,608 |
| Stock options | 1,615 | 1,020 |
| Charges to provisions and leaving entitlements | 5,527 | 10,678 |
| Capital gains (losses) on disposal of intangible assets, property, plant and equipment | (631) | 96 |
| Income from investments – dividends | (24,936) | (35,512) |
| Adjusted net profit from operating activities | 101,821 | 88,930 |
| (Increase) decrease in trade receivables | (977) | (20,566) |
| (Increase) decrease in inventories | (6,112) | 5,140 |
| Increase (decrease) in trade payables | (9,249) | (1,542) |
| Net changes in income tax receivables/payables | (16,410) | 21,304 |
| Net changes in other current assets/liabilities | (790) | (224) |
| Increase in current assets/decrease in current liabilities | 68,283 | 93,042 |
| Net changes in deferred tax assets/liabilities | 6,121 | (1,282) |
| Increase (decrease) in leaving entitlements and provisions | (7,090) | (9,647) |
| Net changes in other non-current assets/liabilities | 951 | (4,158) |
| Cash flows from (used in) operating activities | 68,265 | 77,955 |
| (Investments in) disposals of intangible assets | (348) | (1,281) |
| (Investments in) disposals of property, plant and equipment | 2,852 | (4,471) |
| (Investments in) disposals of equity investments | 15,970 | (8,661) |
| Income from investments – dividends | 36,443 | 38,357 |
| Purchase (sale) of treasury stock | 6,200 | 8,713 |
| (Investments in) disposals of securities and other non-current financial assets | (17,217) | (4,893) |
| Cash flows from (used in) investing activities | 43,900 | 27,764 |
| Increase (decrease) in payables to banks | (4,833) | (2,550) |
| Net changes in other non-current financial assets/liabilities | (24,947) | (44) |
| Dividends paid | (85,381) | (72,533) |
| Cash flows from (used in) financing activities | (115,161) | (75,127) |
| Increase (decrease) in cash and cash equivalents | (2,996) | 30,592 |
| Cash and cash equivalents at beginning of year | 46,440 | 15,848 |
| Cash and cash equivalents at end of year | 43,444 | 46,440 |
| Composition of cash and cash equivalents | | |
| Cash, cheques and valuables in hand | 12 | 15 |
| Bank and post office deposits | 43,432 | 46,425 |
| | 43,444 | 46,440 |

## Report on performance for the year

The "Report of the Board of Directors on 2005" contains details of the business activities and the results of Arnoldo Mondadori Editore S.p.A., information on the workforce, a forecast of business activities for the current year and details of the significant events that occurred after the end of the year.

## Accounting principles and notes to the financial statements

### 1. General information

The main corporate purpose of Arnoldo Mondadori Editore S.p.A. is to carry out business activities connected with the book and magazine publishing sectors and the sale of advertising.

Arnoldo Mondadori Editore S.p.A. has its registered office in via Bianca di Savoia 12, in Milan, Italy, while the main administrative offices are in Segrate, Milan, in Strada privata Mondadori.

Arnoldo Mondadori Editore S.p.A., is listed on the MTA (automated stock market) of Borsa Italiana S.p.A.

The values shown in the tables and in the notes are expressed in thousands of euros unless otherwise indicated.

The publication of the financial statements of Arnoldo Mondadori Editore S.p.A. for the year ended 31 December 2005 was authorised by a resolution of the shareholders' meeting of 26 April 2006.

### 2. Form and content

The financial statements as of 31 December 2005 have been drawn up in conformity with the IAS/IFRS accounting standards effective on 31 December 2005.

European regulation 1606/2002 of 19 July 2002 obliges all companies whose shares are traded on a regulated market and required to publish consolidated financial statements to apply International Accounting Standards (IAS/IFRS) as from the year ended 31 December 2005 or from the year in progress at that date. Italian law no. 306 of 31 October 2003 delegated the government to implement this European regulation, while Legislative Decree no. 38 of 28 February 2005 extended the application of International Accounting Standards, requiring companies with financial instruments traded on regulated markets to prepare their separate annual financial statements in accordance with those Standards as from 2006, with the option to begin in 2005. Arnoldo Mondadori Editore S.p.A. elected for the option and has prepared its financial statements for 2005 in accordance with International Accounting Standards. The following report is presented separately for IAS/IFRS and is presented together with the Group's consolidated annual report.

In the document "Arnoldo Mondadori Editore S.p.A. – Transition to IAS/IFRS" attached to these financial statements, the figures for net equity as of 1 January 2004 and 31 December 2004 and the income statement for 2004 are presented as required by IFRS 1. The data relating to the effects on shareholders' equity and on the net financial position of the application by the company of IAS 32 and 39 from 1 January 2005 are also attached.
The financial statements have been prepared in the following way:

- current and non-current assets and current and non-current liabilities are shown separately in the balance sheet;
- in the income statement, the analysis of costs is carried out on the basis of the nature of the costs, since the Group has decided that this method is more representative than an analysis by function;
- the cash flow statement has been prepared using the indirect method.

The amounts shown in the tables and in the notes are expressed in thousands of euros unless specifically indicated.

## 3. Accounting principles and policies

The following is a description of the principles and policies adopted by the company in preparing its IAS/IFRS consolidated financial statements as of 31 December 2005.

### 3.1 Intangible assets

When it is probable that costs will generate future economic benefits, intangible assets include the cost, including accessory charges, of the purchase of assets or resources, without any physical form, used in the production of goods or in the supply of services, to rent to third parties or for administrative purposes, on condition that the cost is quantifiable in a reliable manner and that the goods are clearly identifiable and controlled by the company that owns them.

Any costs incurred after the initial purchase are included in the increase of the cost of intangible assets in direct relation to the extent to which those costs are able to generate future economic benefits.
Internal costs for producing mastheads and for the launch of newspapers, magazines or other journals are recognised in the income statement for the year in question.
Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses.

Intangible assets purchased separately and those purchased as part of business combinations that took place before the adoption of IAS/IFRS are initially booked at cost, while those purchased as part of business combination operations that took place after the adoption of IAS/IFRS are initially recognised at their fair value.

*Intangible assets with a finite useful life*
The cost of intangible assets with a finite useful life is systematically amortised over the useful life of the asset from the moment the asset is available for use. The amortisation criteria depend on how the company will receive the relative future economic benefits.

The amortisation rates that generally reflect the useful lives attributed to intangible assets with a finite life are as follows:

| Intangible assets with a finite useful life | Amortisation period |
|---|---|
| Goods under concession or licence | Term of franchise or licence |
| Software | Straight-line over 3 years |
| Patents and rights | Straight line over 3 – 5 years |
| Other intangible assets | Straight line over 3 – 5 years |

Intangible assets with a finite useful life are subject to an *impairment* test every time there is an indication of a possible loss of value. The period and method of amortisation applied is reviewed at the end of each year or more frequently if necessary.

Variations in the expected useful life or in the way future economic benefits linked to intangible assets are expected to be earned by the company are recognised by modifying the period or method of amortisation, and are treated as changes in accounting estimate.

*Intangible assets with an indefinite useful life*
Intangible assets are considered to have an indefinite useful life when, on the basis of a thorough analysis of the relevant factors, there is no foreseeable limit to the length of time the assets may generate income for the company.

The intangible assets identified by the company as having an indefinite useful life are shown in the following table:

| Intangible assets with an indefinite useful life |
|---|
| Titles |
| Trade marks |
| Goodwill |

Goodwill represents the excess of the cost of a business combination over the share purchased by the Group of the *fair value* of the assets, liabilities and contingent liabilities acquired, identifiable at the time of purchase. Goodwill and the other intangible assets with an indefinite useful life are not subject to amortisation but to an impairment test of their carrying value. This test concerns the value of the individual assets or of the business unit that generates the financial income (*the cash generating unit*) and is carried out whenever it is believed that the value has decreased, and in any case at least once a year.

In cases where goodwill is attributed to a cash generating unit (or to a group of units) whose assets are partially disposed of, the goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or capital losses resulting from the operation. In these circumstances the goodwill disposed of is measured on the basis of the value of the assets disposed of compared with the asset still included in the cash generating unit in question.

### 3.2 Investment property
A property investment is considered an asset when it is held in order to earn income from its rental or in order for the invested capital to increase, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the company.

Real estate investments are stated at cost, which includes the purchase cost and all accessory charges directly connected to the purchase.

Costs which arise after the initial purchase are included in the increase of the cost of the property investment in direct relation to how much those costs are able to generate future economic benefits higher than those originally assessed.

The cost of real estate investments, except for that part pertaining to the cost of the land, is systematically amortised during the useful life of the asset. The depreciation criteria depend on the how the relative future economic benefits arrive at the company.

The depreciation rates that reflect the useful life attributed to the company's investments are as follows:

| Investment property | Depreciation rate |
|---|---|
| Buildings not used in business activities | 3% |

Both the useful life and the depreciation criteria are constantly reviewed and if any significant changes are found in the assumptions previously adopted, the depreciation rate for the period in question and for successive periods is adjusted.

Gains and losses deriving from the disposal of real estate investments are recognised in the income statement in the year the operation takes place.

Investment property is reclassified when there is a change of use highlighted by specific events.

### 3.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognised as assets, on condition that the cost of the asset can be reliably calculated and any related future economic benefits will flow to the company.

Assets booked to property, plant and equipment are valued at cost, including any accessory charges, and are stated net of accumulated depreciation and any loss in value.

Costs which arise after the initial purchase are recognised as an increase in cost in direct relation to the extent that these costs are able to improve the performance of the asset.

Assets booked to property, plant and equipment purchased as part of acquisitions and business combinations are initially recognised at their *fair value* at the time of their purchase and subsequently at cost.

Assets recognised as property, plant and equipment, with the exception of land, are depreciated during the useful life of the asset from the moment the assets are available for use.

If the assets include more than one significant component and the components have different useful lives, each individual component is depreciated separately.

The depreciation rates that generally reflect the useful lives attributed to the company's property, plant and equipment are as follows:

| Property, plant and equipment | Depreciation rate |
|---|---|
| Buildings used in business activities | 3% |
| Plant | 10% - 25% |
| Equipment | 15.5% |
| Machinery | 25% |
| Electronic office equipment | 30% |
| Furniture and fixtures | 12% |
| Motor vehicles and transport vehicles | 20% - 30% |
| Other assets | 20% |

The residual value of assets, useful lives and the depreciation criteria applied, are reviewed on an annual basis and adjusted, if necessary, at the end of every year.

Leasehold improvements are booked to fixed assets and depreciated over the lower of the residual useful life of the fixed asset and the residual term of the lease contract.

### 3.4 Assets acquired under finance leases

Assets acquired under finance *leases*, which transfer all the risks and benefits connected with the asset to the company, are booked at their market value or, if lower, at the present value of the minimum *lease payments*, including the amount to be paid for exercising any purchase option.

Liabilities arising from leasing contracts are recognised as financial liabilities.

These assets are booked under their respective categories in the item property, plant and equipment and depreciated over the lower of the contract term and the useful life of the asset in question.

A lease where the lessor retains substantially all the risks and benefits linked to the property is classified as an operating lease and the relative costs are recognised in the income statement over the contract term.

### 3.5 Borrowing costs

The company does not capitalise any financial charges connected with the purchase, construction or production of assets that can be capitalised. These charges are booked to the income statement in the year in which they are incurred.

### 3.6 Loss in value of assets (*impairment*)

The carrying value of intangible assets, investment property and property, plant and machinery is subject to an impairment test whenever it is believed that it may have decreased.

Impairment tests are carried out at least once a year on goodwill, other intangible assets with an indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is higher between the *fair value* less the sales cost and the value in use of the asset.

If no binding sales agreement or an active market for an asset exist, the *fair value* is calculated on the basis of the best information available concerning the amount the Group could obtain, at the balance sheet date, from the disposal of an asset in a free transaction between informed and willing parties, after the costs of disposal have been deducted.

The value in use of an asset is determined by calculating the amount of income expected from the use of the asset, basing the forecasts of financial income on reasonable, plausible assumptions that represent the best estimates carried out by management of a series of economic conditions that exist for the remainder of the life of the asset, giving more importance to external indicators.

The pre-tax discount rate used reflects the current market value of money and the specific risks connected to the asset.

The valuation is carried out either for each individual asset or for the smallest cash generating unit of assets that generate income from the use of the assets in question.

If the value calculated by the *impairment test* is lower than cost, the loss is recognised as a reduction of the asset and as a cost in the income statement.

If during the subsequent financial years, when the *impairment test* is repeated, the reasons for the writedown no longer exist, the value of the asset, with the exception of the goodwill, is reinstated to take into account the new recoverable value which does not, however, exceed the value that would have been calculated had no loss in value been recognised.

### 3.7 Investments in subsidiaries, joint-ventures and associated companies

Subsidiary companies are companies where the company has the power to determine, either directly or indirectly, administrative and management decisions and obtains the relative benefits. Generally it is presumed that a company has control of another when the company holds, either directly or indirectly, more than half of the voting rights at ordinary shareholders' meetings, including potential voting rights deriving from convertible shares.

Joint ventures are companies where the company has joint control, with one or more parties, of the economic activities. Joint control presupposes that strategic, financial and management decisions are taken with the unanimous consent of the parties who exercise control.

Associated companies are companies where the company has a significant influence in determining administrative and management decisions, even though it does not have control. Generally significant influence is presumed to mean that the company holds, either directly or indirectly, at least 20% of the voting rights at ordinary shareholders' meetings.

Investments in subsidiary companies, joint ventures and associated companies are valued at cost and subsequently adjusted as a consequence of changes in the value if, after a suitable impairment test, it is found that the conditions for adjusting the carrying value to the effective economic value of the investment exist. The original cost is restored in subsequent years if the reasons for carrying out the adjustments no longer exist. Adjustments and any reinstatements of value are booked to the income statement.

The risk deriving from any losses that exceed cost are booked to liabilities, for the amount that the company is legally or constructively liable for.

### 3.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory cost includes the purchase cost, the transformation cost and the other costs involved in bringing an item to the location and condition necessary without taking into consideration financial charges.

The calculation of cost is based on the weighted average cost of raw and consumable materials and of finished products purchased for resale, while the FIFO method is used for finished products.

The valuation of goods under construction and semi-finished products and work in progress to order is based on the cost of the materials and other costs incurred, taking into account the progress of the production process.

The presumed net value for raw, subsidiary and consumer materials is represented by replacement cost while for semi-finished and finished products by the normal estimated sales price net of, respectively, the estimated cost to completion and the sales cost.

### 3.9 Financial assets

Financial assets are initially measured at cost, plus the accessory purchase charges that represent the fair value of the amount paid. The purchase and sale of financial assets are valued as of the trading date, which is the date the company agreed to purchase the asset in question. After initial measurement, financial assets are valued according to their classification as outlined below:

Financial assets at *fair value* with changes recognised in the income statement ("at *fair value* through profit and loss")

This category includes financial assets held for trading that have been acquired with the intention of selling them in the short term. Derivatives are classified as financial instruments held for trading, with the exception of effective hedge derivatives.

Profits and losses deriving from measuring assets held for trading at fair value are recognised in the income statement.

Held-to-maturity investments
When the Group intends to hold financial assets in its portfolio to maturity, it classifies these assets, which have fixed or determinable payments with fixed maturity, as "held-to-maturity investments".

Long-term financial investments that are held to their maturity, such as bonds, are valued after the initial valuation using the amortised cost method based on the effective interest rates, which represent the rates that will apply to the future payments or returns estimated for the entire life of the financial instrument.
The amortised cost is calculated taking into consideration any eventual discounts or premiums that will be applied during the entire period of time up to maturity.

Those financial assets that the Group decides to keep in its portfolio for an indefinite period do not come into this category.

Loans and receivables
This item includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

These assets are valued at amortised cost method using the effective discount rate method. Profits and losses are recognised in the income statement when the loans and receivables are eliminated or when a loss of value occurs, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets consist of all of those assets that do not fall into any of the categories mentioned above.

After being initially measured at cost, available-for-sale financial assets are measured at *fair value*. The profits and losses resulting from valuations are recognised in a separate item in shareholders' equity for as long as the assets are held in the portfolio and for as long as there is no loss of value.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the value established at the close of trading on the balance sheet date.

For investments where an active market does not exist, fair value is determined by valuations based on recent trading prices between independent parties, on the basis of the current market value of a financial instrument that is substantially similar or from an analysis of up-to-date cash flows or of option pricing models.

Available-for-sale financial assets also include shares in other companies.

### 3.10 Trade receivables and other receivables
Trade receivables and other receivables are initially measured at cost, or at the fair value of the amount received during the transaction. Receivables are measured at their present values when the financial effect linked to the collection date forecast is significant and the collection date can be reliably estimated.

Receivables are subsequently recognised in the financial statements at their estimated realisable value.

### 3.11 Treasury shares

Treasury shares are booked in shareholders' equity in the relative reserve.
No profit or loss is recognised in the income statement on the purchase, sale, issue, cancellation or any other operation concerned with treasury shares.

### 3.12 Cash and cash equivalents

The item cash and cash equivalents includes liquid financial assets and financial investments with due date falling within three months and which are subject to a minimal risk of variation in their face value.

### 3.13 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables linked to financial leasing contracts and trade payables. All financial liabilities, unlike derivative financial instruments, are initially valued at fair value as increased by any cost of the related transaction and are subsequently valued at amortised cost using the effective interest rate method.
Financial liabilities hedged by derivative instruments against the risk of changes in value (*fair value hedges*) are measured at fair value in accordance with the methodology outlined in IAS 39 for hedge accounting. Profits and losses resulting from subsequent variations in fair value are recognised in the income statement. The portions of these changes linked to the efficient portion of the hedge are compensated for by changes in value of derivative instruments.
Financial liabilities hedged by derivative instruments against the risk of changes in the cash flow (*cash flow hedges*), are measured at amortised cost in accordance with the methodology outlined in IAS 39 for hedge accounting.

### 3.14 Derecognition of financial assets and liabilities

A financial asset or, where applicable, a part of a financial asset or parts of a group of similar financial assets, is derecognised when:

- the right to receive cash flows from the asset has been extinguished;
- the company still has the right to receive cash flows from the asset but has taken on a contractual obligation to transfer the entire cash flow immediately to a third party;
- the company has transferred the right to receive cash flows from an asset and has transferred substantially all the risks and benefits deriving from the ownership of the financial asset or has transferred control of the financial asset.

A financial asset is derecognised from the balance sheet when the obligation relating to the asset is discharged, is cancelled or expires.

### 3.15 Loss in value of financial assets (impairment)

The company performs a review to determine whether a financial asset or group of financial assets has undergone a loss of value every time the financial statements are prepared.

<u>Financial assets measured at amortised cost</u>
If there is objective evidence that there is a reduction in the value of loans and receivables,

the amount of the loss is booked to the income statement and is calculated as the difference between the asset's carrying value and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.
If, in a subsequent period, the amount of the loss of value decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised loss of value is reversed up to the amount the asset would have had, taking into account the amortisation, at the date of the reversal.

Available-for-sale financial assets
If an available-for-sale financial asset suffers an effective reduction in value, the accumulated loss is recognised in the income statement. The reversal of values relative to equity instruments classified as available-for-sale are not recognised in the income statement. The reversal of values relative to debt instruments are recognised in the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the loss was recognised in the income statement.

Financial assets measured at cost
If there is objective evidence that a loss of value has been incurred on an unquoted equity instrument that is not booked at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and settled by delivery of that unquoted equity instrument, the amount of the loss of value is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### 3.16 Derivative financial instruments
Derivative financial instruments are initially recognised at *fair value* at the date they are stipulated. When a hedge operation is entered into, the company designs and formally documents the hedge relationship to which it intends to apply the *hedge accounting*, its objectives in managing the risk and the strategy carried out. The documentation includes the identification of the hedging instrument, element or operation that is being hedged, the nature of the risk and the way the company intends to evaluate the effectiveness of the hedge in compensating the exposure to the variations of the fair value of the element hedged or of the cash flows linked to the risk hedged.
It is expected that this hedge is sufficiently effective to compensate for the exposure of the element hedged to variations in *fair value* or in cash flows attributable to the risk hedged. The evaluation of whether or not this hedge is in reality sufficiently effective is carried out on a continuous basis during the year.
Operations that satisfy the criteria of *hedge accounting* are accounted for as follows:

*Fair value hedge*
If a derivative financial instrument is designated as a hedge for the exposure to variations in the fair value of an asset or liability attributable to a particular risk, the profit or loss deriving from subsequent variations in the *fair value* of the hedge instrument is recognised in the income statement. The profit or loss deriving from the adjustment of the *fair value* of the item hedged, for the part attributable to the risk hedged, modifies the carrying value of the item and is recognised in the income statement.

*Cash flow hedge*
If a derivative financial instrument is designated as an instrument for hedging the expo-

sure to variations in cash flows of an asset or of a liability included in the financial statement or of a highly probable forecast transaction, the effective portion of the assets or of the losses deriving from the adjustment of the *fair value* of the derivative instrument is recognised in a special reserve in equity. The accumulated profit and loss is transferred from the equity reserve and recognised in the income statement when the results of the hedge operation are recognised in the income statement. The profit or loss associated with the ineffective part of a hedge is recognised in the income statement. If a hedging instrument is terminated but the hedging operation has not yet been carried out, the accumulated profits and losses remain in the reserve in the equity and are reclassified to the income statement when the relative operation is carried out. If the hedging operation is no longer considered probable, the profits and losses not yet realised and recognised in equity are recognised in the income statement.

If *hedge accounting* cannot be applied, profits and losses resulting from the valuation at fair value of the derivative financial instrument are recognised in the income statement.

### 3.17 Provisions

Provisions against significant losses or liabilities that are certain or probable but whose amount or date of occurrence is impossible to establish when the financial statements are prepared, are recognised when it becomes probable that a present, legal or constructive obligation exists as the result of events that happened in the past, when the obligation in question is onerous and when the amount can be reliably estimated.

Provisions are valued at *fair value* for each obligation. When the time value of money linked to a forecast of when the payment will be made is significant and the payment date can be reliably estimated, the provision includes the financial component which is recognised in the income statement under financial income (expense).

### 3.18 Employees' leaving entitlement

Benefits due to employees on leaving a company may be separated into defined contribution plans and defined benefit plans. In defined contribution plans, the legal or constructive obligation of a company is limited to the amount of the contributions it has paid to the plan, and as a result the actuarial risk and the investment risks fall on the employee. In defined benefit plans, the obligation of a company consists in granting and guaranteeing agreed benefits to employees, therefore the actuarial and investment risks fall on the company itself. In accordance with IAS 19, the Italian employees' leaving entitlement (the "Trattamento di Fine Rapporto" or "TFR") is classified as a defined benefit plan.

The TFR obligation is determined using an actuarial method, based on demographic assumptions taking into account mortality rates and the turnover of the workforce, and on financial assumptions, taking into account the discount rate that reflects the time value of money, the inflation rate and future salary and wage levels.
The amount recognised as a liability for defined benefit plans is represented by the present value of the obligation at the balance sheet date, net of the present value of any plan assets. The amount that is recognised as costs in the income statement also includes the following:
– social security costs relative to the current work;
– interest costs;

– actuarial gains or losses;
– the return expected from any plan assets.

The company does not apply the corridor method and therefore recognises all actuarial gains and losses directly in the income statement.

The charge for the amount accruing to employees during the year and the actuarial gains or losses are booked under personnel costs, while the financial component, which represents the cost the company would have to incur if it were to seek a loan on the market for the amount of the obligation, is booked under financial income (expense).

The termination indemnity for agents is also determined on an actuarial basis. The charge for the estimated amount accruing to agents during the year, which becomes payable only under certain conditions if the agency relationship is terminated, is booked under other income (expense).

### 3.19 Stock options

The company grants additional benefits to certain directors and managers who carry out functions that are relevant for the attainment of the company's strategic results, through equity-settled stock option plans. In accordance with IFRS 2, these stock options are measured at their fair value at the time they are granted. Fair value is determined on the basis of a binomial model, taking into consideration the regulations of the individual plans.

The company applies the provisions of IFRS 2 for all stock option plans granted after 7 November 2002.

The cost of these benefits is booked during the period of service to personnel costs and is recognised over the vesting period from the date the options are granted, with an equal amount being recognised in the "Reserve for stock options" in shareholders' equity.

After the grant date, any variation in the number of options results in an adjustment to the overall cost of the plan, which is then made in accordance with the method referred to above. At the end of every year, the previously calculated fair value of every option is neither reviewed nor updated, but remains unchanged in shareholders' equity, although the estimate of the number of options that mature up to the expiry date (and therefore the number of employees who have the right to exercise these options) is updated at that time. Any change in this estimate is recognised in the "Reserve for stock options" and in personnel costs in the income statement.

When the option expires, the amount booked under "Reserve for stock options" is reclassified in the following way: the part of shareholders' equity that refers to options that have been exercised is reclassified to the "Share premium reserve", while the part that refers to options that have not been exercised is reclassified to retained earnings.

Benefits which are directly granted by the parent company Arnoldo Mondadori Editore S.p.A. to the employees or directors of subsidiary companies, are recognised as an increase in the cost of the relative investment, with an equal amount recognised in the "Reserve for stock options".

### 3.20 Recognition of revenues and costs

Revenues earned from the sale of goods are recognised net of discounts, allowances and returns when it is probable that the economic benefits arising from the sale will flow to the company and when the amount of the revenues can be reliably determined.

Revenues earned from the sale of magazines and the relative advertising space are recognised on the basis of the date of publication of the magazines.

Revenues deriving from services are recognised on the basis of the time the services are completed, when it is probable that the economic benefits arising from the sale will flow to the company and when the amount of the revenues can be reliably calculated.

Revenues from interest are recognised on a temporal basis using the method of effective interest; royalties are recognised on an accrual basis and on the basis of the details of the respective agreements; dividends are recognised when the shareholder's right to receive payment has been established.

Costs are recognised in the same way as income and on an accrual basis.

### 3.21 Current and deferred taxation

Current taxes are calculated on the basis of an estimate of taxable income and in accordance with the laws prevailing in the country in which the company is resident.

Deferred tax assets and liabilities are calculated on all the temporary differences between the tax base of assets and liabilities and their relative carrying values in the financial statements, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary taxable or deductible differences resulting from the initial recognition of an asset or a liability in an operation that is not a business combination and which does not influence either the result or the taxable income at the time of the operation in question;
- for investments in subsidiary, associated and jointly-controlled companies when:
  - the company is able to control the timing of the reversal of temporary taxable differences and it is probable that these differences will not reverse in the foreseeable future;
  - it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of every period and is reduced if it is no longer probable that sufficient taxable profit will be available in the future for realising all or part of the assets.
Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply to the period when the assets are realised or the liabilities settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Taxation relating to items recognised directly in equity is recognised directly in equity and not in the income statement.

### 3.22 Operations in foreign currencies

Revenues and costs relating to operations in foreign currencies are expressed in the money of account using the exchange rates ruling on the day the operation was carried out. Monetary assets and liabilities in foreign currencies are converted at the exchange rate ruling at the balance sheet date and any exchange differences are recognised in the income statement, with the exception of those deriving from loans in foreign currencies that are hedged by a net investment in a foreign company, which are recognised directly in equity until the net investment is disposed of.
Non-monetary items valued at historical cost in foreign currencies are converted using the exchange rates ruling at the time the transaction was carried out. Non-monetary items booked at *fair value* in foreign currencies are converted using the exchange rates ruling at the time that fair value was calculated.

### 3.23 Grants and contributions

Grants and contributions are recognised if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When the grants are linked to cost items, they are recognised as income and recognised on a systematic basis so that they are in proportion to the costs they are intended to set off or partially set off. In the cases where a grant is linked to an asset, the relative fair value is deferred in long-term liabilities and is recognised in the income statement at a constant rate over the useful life of the asset in question.

### 3.24 Assets and liabilities held for sale (*discontinued operations*)

Non-current assets and groups of assets and liabilities whose carrying value will be mainly recovered through disposal instead of continuous use, are presented separately from other assets and liabilities in the balance sheet. These assets and liabilities are classified as "assets and liabilities held for sale" and are measured at the lower of their carrying value and their fair value less probable disposable costs. Gains and losses, net of their relative fiscal effects, resulting from the valuation or disposal of the assets or liabilities in question are recognised in a specific item in the income statement.

### 3.25 New standards and interpretations adopted by the European Union but not yet effective

As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the possible impact of new standards or interpretations on the financial statements in their first year of application are listed below.
Those standards and interpretations which came into effect after 31 December 2005 are indicated and briefly illustrated.

*Amendment to IAS 19 Employee Benefits*

This amendment, adopted by the European Union in November 2005 (EC Regulation 1910-2005), provides the option to immediately recognise actuarial gains and losses in the financial year they arise, not in the income statement but directly in a specific item in equity. This amendment became effective on 1 January 2006.

*IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease*
This interpretation, adopted by the European Union in November 2005 (EC Regulation 1910-2005), states that agreements that do not take the legal form of a lease but contain the right to use an asset must be classified as a finance lease or an operating lease as per IAS 17. This interpretation became effective on 1 January 2006.

*IFRS 7 Financial Instruments: Disclosures*
This principle, adopted by the European Union in January 2006 (EC Regulation 108/2006) assimilates the disclosures section contained in IAS 32 Financial Instruments: Disclosure and Presentation with modifications and integrations. As a consequence, the title of IAS 32 was changed to "Financial Instruments: Presentation".

*Amendment to IAS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
This amendment, adopted by the European Union in December 2005 (EC Regulation 2006-2005), permits the application of hedge accounting in consolidated financial statements to forecast intragroup operations that are highly probable and denominated in a foreign currency, and which are arranged for hedging purposes, on the condition that the transaction is denominated in a currency that is different from the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement.

The Group is evaluating the impact of the standards and interpretations referred to above, which all came into effect on 1 January 2006.

## 4. Use of estimates

In preparing the attached tables and the relative notes, it has been necessary to use estimates and assumptions in order to calculate, in particular, the provision for returns for published products, provisions for the writedowns of assets and for risks, employee benefits and taxation.

These estimates are constantly reviewed and any effects are recognised in the income statement.

## 5. Business combinations

On the first-time adoption of IFRS, the Group elected the exemption permitted under IFRS 1 not to apply IFRS 3 retrospectively to business combinations that took place before 1 January 2004.

Business combinations are recognised using the purchase method envisaged by IFRS 3. Under the purchase method, cost is determined as the sum of the fair values of the assets and liabilities acquired, including any contingent liabilities assumed and equity instruments issued at the date of the operation, plus any costs directly attributable to the purchase.

Any excess of purchase cost over the Group's share of the fair value of the assets, liabilities and contingent liabilities acquired and identifiable at the time of purchase is booked as goodwill under assets. If this difference is negative it is recognised directly in the income statement.

### 6. Risk management

The company is responsible for managing the financial risks of all the Italian subsidiaries in the Mondadori Group. A more detailed analysis of the Group's financial risks is contained in the relevant section of the consolidated financial statements.

## Details of the items in the financial statements

In the part of the notes that follows all amounts are expressed in thousands of euros, with the exception of certain amounts expressed in millions of euros. Amounts in brackets refer to the corresponding amounts for 2004.

Balance sheet
Assets

## 1. Intangible assets

Intangible assets and their changes are described and commented on below:

| **Intangible assets** (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Intangible assets with a finite useful life | 540 | 1,096 |
| Intangible assets with an indefinite useful life | 92,253 | 93,377 |
| **Total intangible assets** | **92,793** | **94,473** |

The following two tables show the changes in intangible assets in 2005 and 2004.

Investments relate mainly to the purchase of software.
On the basis of the results of impairment tests, no writedowns were necessary during the current year or the previous year.

There is no restriction on the availability or use of intangible assets.

| **Intangible assets with finite useful lives** | **Software** | **Selling rights** | **Total** |
|---|---|---|---|
| Cost at 1 January 2004 | 7,144 | 650 | 7,794 |
| Investments | 668 | 0 | 668 |
| Disposals | (15) | 0 | (15) |
| Other changes | (2,304) | 0 | (2,304) |
| Cost at 31 December 2004 | 5,493 | 650 | 6,143 |
| Accumulated amortisation and impairment losses at 1 January 2004 | 5,418 | 459 | 5,877 |
| Amortisation | 1,352 | 130 | 1,482 |
| Writedowns/reinstatement of value | 0 | 0 | 0 |
| Disposals | (7) | 0 | (7) |
| Other changes | (2,304) | 0 | (2,304) |
| Accumulated amortisation and impairment losses at 31 December 2004 | 4,459 | 589 | 5,048 |
| Net book value at 1 January 2004 | 1,726 | 192 | 1,918 |
| **Net book value at 31 December 2004** | **1,034** | **61** | **1,095** |

| Intangible assets with finite useful lives | Software | Selling rights | Total |
|---|---|---|---|
| Cost at 31 December 2004 | 5,493 | 650 | 6,143 |
| Investments | 348 | 0 | 348 |
| Disposals | (33) | 0 | (33) |
| Other variations | 0 | 0 | 0 |
| Cost at 31 December 2005 | 5,808 | 650 | 6,458 |
| Accumulated amortisation and impairment losses at 1 January 2005 | 4,459 | 589 | 5,048 |
| Amortisation | 859 | 31 | 890 |
| Writedowns/reinstatement of value | 0 | 0 | 0 |
| Disposals | (20) | 0 | (20) |
| Other changes | 0 | 0 | 0 |
| Accumulated amortisation and impairment losses at 31 December 2005 | 5,298 | 620 | 5,918 |
| Net book value at 31 December 2004 | 1,034 | 62 | 1,096 |
| **Net book value at 31 December 2005** | **510** | **30** | **540** |

Assets that were completely amortised have been eliminated (these are included in the line "other changes").

Costs capitalised during the year of €348 thousand, €18 thousand of which were already in progress at 31 December 2004, mainly refer to the purchase of software.

The following two tables present the changes in intangible assets with indefinite useful lives in 2004 and 2005.

As can be seen from the tables, the year was characterised by the writedown of certain magazine titles following an *impairment* test, the values of which were not reinstated in 2005 as further writedowns were carried out.

| Intangible assets with indefinite useful lives | Titles | Imprints Publishing | Goodwill | Total |
|---|---|---|---|---|
| Cost at 1 January 2004 | 93,031 | 7,046 | 731 | 100,808 |
| Investments | 0 | 920 | 0 | 920 |
| Disposals | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 |
| Cost at 31 December 2004 | 93,031 | 7,966 | 731 | 101,728 |
| Impairment at 1 January 2004 | 0 | 0 | 0 | 0 |
| Writedowns/reinstatement of value | (8,331) | (20) | 0 | (8,351) |
| Impairment at 31 December 2004 | (8,331) | (20) | 0 | (8,351) |
| Net book value at 1 January 2004 | 93,031 | 7,046 | 731 | 100,808 |
| **Net book value at 31 December 2004** | **84,700** | **7,946** | **731** | **93,377** |

| Intangible assets with indefinite useful lives | Titles | Imprints | Goodwill | Total |
|---|---|---|---|---|
| Cost at 31 December 2004 | 84,700 | 7,946 | 731 | 93,377 |
| Investments | 0 | 14 | 0 | 14 |
| Disposals | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 |
| Cost at 31 December 2005 | 84,700 | 7,960 | 731 | 93,391 |
| Impairment at 31 December 2004 | 0 | 0 | 0 | 0 |
| Writedowns/reinstatement of value | (1,123) | (15) | 0 | (1,138) |
| Impairment at 31 December 2005 | (1,123) | (15) | 0 | (1,138) |
| Net book value at 31 December 2004 | 84,700 | 7,946 | 731 | 93,377 |
| **Net book value at 31 December 2005** | **83,577** | **7,945** | **731** | **92,253** |

Intangible assets with indefinite useful lives relate mainly to magazines (including, in particular, *TV Sorrisi e Canzoni* and *Chi*) included in the purchase of the SBE business in 1994.

*Amortisation, impairment and reinstatement of value of intangible assets*
The following table summaries the amounts charged to the income statement, under the item "Amortisation and impairment of intangible assets", for the amortisation of intangible assets with definite useful lives and the writedown and restoration of value of intangible assets with indefinite lives.

| Amortisation and impairment of intangible assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Software | 859 | 1,352 |
| Selling rights | 31 | 130 |
| **Total amortisation and impairment of intangible assets** | **890** | **1,482** |
| Writedowns of intangible assets | 1,138 | 8,351 |
| Reinstatement in value of intangible assets | 0 | 0 |
| **Total writedowns (reinstatement) of intangible assets** | **1,138** | **8,351** |
| **Total amortisation and impairment of intangible assets** | **2,028** | **9,833** |

When carrying out the annual *impairment* test for magazine titles, imprints and goodwill, use was made of the forecast data included in the 2006-2008 three-year-plan approved by management.

When determining the recoverable amount stated in the financial statements, the value in use was used.

A pre-tax discount rate of 10.75% was used in the model for calculating the value in use, which corresponds to the weighted average cost of the company's capital. This rate has two components: the cost of debt and the cost of capital.

The cost of debt is equal to the cost of borrowing money net of the income generated from financial resources; since the Mondadori Group's net financial position is positive, its average cost is considered to be zero.

The cost of capital is defined by adjusting the pre-tax return from twenty-year BTPs (Long-Term Treasury Bonds) (3.8%) for the current market valuation of the present value of money and for the premium requested by the stock market over the income offered by treasury bonds for the company's systematic risk.

The beta used for adjusting the discount rate of future cash flows has been calculated from the weighted average beta of the last 12 months.

The *market premium risk* was assumed to be 4%, also in view of the most recent valuations of the Mondadori Group carried out by and published by financial analysts.

The future growth rate was maintained at zero.

For the purposes of the impairment test, every title and every imprint represents a cash generating unit.

## 2. Investment property

The composition of and changes in investment property are described and commented on below.

| Investment property (€/000) | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 1 January 2004 | 2,128 | 8,179 | 10,307 |
| Investments | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 |
| Cost at 31 December 2004 | 2,128 | 8,179 | 10,307 |
| Accumulated depreciation and impairment losses at 1 January 2004 | 0 | 1,830 | 1,830 |
| Depreciation | 0 | 246 | 246 |
| Writedowns/reinstatement of value | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 2,076 | 2,076 |
| Net book value at 1 January 2004 | 2,128 | 6,349 | 8,477 |
| **Net book value at 31 December 2004** | **2,128** | **6,103** | **8,231** |

| Investment property (€/000) | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 31 December 2004 | 2,128 | 8,179 | 10,307 |
| Investments | 0 | 267 | 267 |
| Disposals | (1,670) | (5,939) | (7,069) |
| Other changes | 0 | 0 | 0 |
| Cost at 31 December 2005 | 458 | 2,507 | 2,965 |
| | | | |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 2,076 | 2,076 |
| Depreciation | 0 | 142 | 142 |
| Writedowns/reinstatement of value | 0 | 0 | 0 |
| Disposals | 0 | (1,144) | (1,144) |
| Other changes | 0 | 0 | 0 |
| Accumulated depreciation and impairment losses at 31 December 2005 | 0 | 1,074 | 1,074 |
| | | | |
| Net book value at 31 December 2004 | 2,128 | 6,103 | 8,231 |
| **Net book value at 31 December 2005** | **458** | **1,433** | **1,891** |

The decrease compared with 31 December 2004 is due to the disposal of a property in Sommacampagna (VR) that was previously leased to a third party, an operation that resulted in a capital gain of €603 thousand. The *fair value* of investment property is approximately €7 million.

*Depreciation of investment property*

The depreciation charge for the year amounted to €142 thousand, classified under the item "Depreciation of property, plant and equipment", compared to €246 thousand in 2004.

There are no restrictions on the use of assets classified as investment property.
Land is not depreciated.

## 3. Property, plant and equipment

The composition of and changes in property, plant and equipment are described and commented on below:

| Property, plant and equipment (€/000) | Land | Business buildings | Plant and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2004 | 1,114 | 27,548 | 15,444 | 0 | 44,106 |
| Investments | 0 | 136 | 2,313 | 0 | 2,449 |
| Disposals | 0 | 0 | (1,225) | 0 | (1,225) |
| Other changes | 0 | 0 | 0 | 0 | 0 |
| Cost at 31 December 2004 | 1,114 | 27,684 | 16,532 | 0 | 45,330 |
| | | | | | |
| Accumulated depreciation and impairment losses at 1 January 2004 | 0 | 10,017 | 10,686 | 0 | 20,703 |
| Depreciation | 0 | 830 | 1,130 | 0 | 1,960 |
| Writedowns/reinstatement of value | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | (916) | 0 | (916) |
| Other changes | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 10,847 | 10,900 | 0 | 21,747 |
| | | | | | |
| Net book value at 1 January 2004 | 1,114 | 17,531 | 4,758 | 0 | 23,403 |
| **Net book value at 31 December 2004** | **1,114** | **16,837** | **5,632** | **0** | **23,583** |

| Property, plant and equipment (€/000) | Land | Business buildings | Plant and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| Cost at 31 December 2004 | 1,114 | 27,684 | 16,532 | 0 | 45,330 |
| Investments | 0 | 136 | 1,234 | 0 | 1,370 |
| Disposals | 0 | 0 | (87) | 0 | (87) |
| Other changes | 0 | 0 | 0 | 0 | 0 |
| Cost at 31 December 2005 | 1,114 | 27,820 | 17,679 | 0 | 46,613 |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 10,847 | 10,900 | 0 | 21,747 |
| Depreciation | 0 | 832 | 1,134 | 0 | 1,966 |
| Writedowns/reinstatement of value | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | (44) | 0 | (44) |
| Other changes | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation and impairment losses at 31 December 2005 | 0 | 11,679 | 11,990 | 0 | 23,669 |
| Net book value at 31 December 2004 | 1,114 | 16,837 | 5,632 | 0 | 23,583 |
| **Net book value at 31 December 2005** | **1,114** | **16,141** | **5,689** | **0** | **22,944** |

Other tangible fixed assets consist of the following:

| Other tangible fixed assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Industrial and commercial equipment | 614 | 503 |
| Electronic office machines | 3,047 | 3,785 |
| Furniture and fixtures | 1,034 | 1,048 |
| Motor vehicles and transport vehicles | 837 | 606 |
| Leasehold improvements | 132 | 385 |
| Other assets | 0 | 0 |
| Assets under construction and advances | 0 | 0 |
| **Total other tangible fixed assets** | **5,664** | **6,327** |

*Investments* during the year refer to:
- the updating of technology in the book and magazine offices;
- the updating of data processing systems (personal computers and local networks) and the purchase of transportation vehicles.

Investments during the year, including other tangible fixed assets, of €4,153 thousand (€1,212 thousand of which was for assets that had not entered into use at 31 December 2005) refer to:
- the Verona factory (Publishing Warehouse plant/ Magazine Distribution and buildings) €1,097 thousand
- the Milan head office (office automation, furniture/fixtures and vehicles) €3,056 thousand

*Disposals*, including those relating to other tangible fixed assets, for a total of €1,479 thousand, mainly relate to the disposal of office equipment (furniture, fixtures, electronic office machinery) and vehicles.

*Depreciation of property, plant and equipment*

The depreciation charge for the year, classified as "Depreciation and impairment of property, plant and equipment", amounted to €5,421 thousand, and was made up as follows:

| Depreciation of property, plant and equipment (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Business buildings | 974 | 1,076 |
| Plant and machinery | 1,135 | 1,130 |
| Equipment | 197 | 188 |
| Electronic office machines | 2,268 | 3,411 |
| Furniture and fixtures | 206 | 190 |
| Motor vehicles and transport vehicles | 395 | 413 |
| Leasehold improvements | 246 | 521 |
| Other fixed assets | 0 | 0 |
| **Total depreciation of property, plant and equipment** | **5,421** | **6,929** |

No impairment losses or reinstatements of value were recognised in 2005 as a result of impairment tests.

*Leased assets*

The following table shows the value of leased assets at 31 December 2005 and booked under fixed assets.

| | 12/31/2005 | | | 12/31/2004 | | |
|---|---|---|---|---|---|---|
| (€/000) | Gross value | Accumulated depreciation | Net book | Gross value | Accumulated depreciation | Net book |
| Business buildings | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-business buildings | 2,148 | 741 | 1,407 | 2,148 | 677 | 1,471 |
| Plant and machinery | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total leased assets** | **2,148** | **741** | **1,407** | **2,148** | **677** | **1,471** |

The above amounts relate to assets acquired in previous years under bargain purchase options for which the lease agreements had terminated by the balance sheet date.

## 4. Investments

The composition of and changes in investments amounting to €712,581 thousand (€751,565 thousand) are described and commented on below.

Total investments, net of accumulated depreciation and impairment losses of €18,005 thousand, consist of shares and quotas in *limited liability* companies for an amount of €698,849 thousand and capital contributions of €12,217 thousand.

Investments also include the effect of €1,515 thousand resulting from the application of IFRS 2 to the Stock Options granted by Arnoldo Mondadori Editore S.p.A. to managers and directors of subsidiary companies who carry out functions that are important for the attainment of the Group's results. The details of each subsidiary and associated company are included in attachments A and B, which also contain a comparison between the amounts stated in the financial statements and the relative share of net equity.

*Shares and joint ventures in companies*

The most important operations that took place during the year are outlined below:

| | |
|---|---|
| **Balance at 31 December 2004** | **669,572** |
| Increases: | |
| – Purchases, establishment of companies and capital increases | 40,784 |
| – Payments for cover for losses | 0 |
| Decreases: | |
| – Writedowns | 0 |
| – Cover for losses | 0 |
| **Value of shares and joint ventures** | **710,356** |
| Loss/writedown provision: | |
| – provisions | (11,507) |
| – utilisations/reclassifications | 0 |
| **Net value of shares and joint ventures at 31 December 2005** | **698,849** |

*Increases* refer to:

- the purchase of shares in Monradio S.r.l., as to €30,754 thousand for those held by Radio Milano International S.p.A. and as to €7,510 thousand for those held by Beta S.r.l.;
- €2,500 thousand for the payment and subscription of an increase in the capital of Monradio S.r.l. resolved on 21 January 2005;
- €20 thousand for the purchase of the stake held by One O One Radio Service S.r.l. in Rock FM S.r.l.

In accordance with IAS/IFRS, if there are indications of a potential loss of value the carrying amount of investments is reviewed. Their carrying value was compared with either the relative *fair value* or the reinstated value represented by the estimated future cash flows for each individual subsidiary and associated company with reference to company plans. This examination resulted in writedowns for a total of €11,507 thousand (mostly relating to investments in Monradio S.r.l. and Mondadori Retail S.p.A.).

A comment on the main differences that emerged between the carrying values of the investments and the Group's share of net equity is given below.

The excess of the carrying values of the investments in Cemit Interactive Media S.p.A., Edumond Le Monnier S.p.A., Mondadori Printing S.p.A. and Sperling & Kupfer S.p.A., compared with a corresponding valuation based on the net equity of these companies, represents the value of their production and commercial potential as supported by the three-year plans for 2006-2008.

For Fied S.p.A., the carrying value of €4,447 thousand was maintained unchanged, confirming the increased value of the investment in the capital of Società Europea di Edizioni S.p.A., publishers of the newspaper *Il Giornale*. In determining the valuation of that investment using the equity method, the higher value attributed to that newspaper was taken into consideration.

The higher carrying value of Grupo Editorial Random House Mondadori S.L. compared with the Group's share of its net equity is attributable to the publishing potential and income prospects of the "Random House Mondadori Group" in the Spanish language book market, as supported by the three-year plan for 2006-2008.

For Arnoweb S.A. and Prisco Spain S.A., the higher carrying value compared with a valuation using the equity method represents the value of the investment in Grupo Editorial Random House Mondadori S.L.

For Edizioni Piemme, the higher carrying value of the investment is due to both the higher value of property, supported by an appraisal, and to the income generating capacity of publishing production supported by the company's three-year plan for 2006-2008.

*Capital contributions*
The balance of €12,217 thousand at 31 December 2005 (€81,205 thousand), refers to Monradio S.r.l. for €8,500 thousand, Mondadori Retail S.p.A. for €1,339 thousand, Mondadori Franchising S.p.A. for €2,001 thousand, Hearst Mondadori Editoriale S.r.l. for €49 thousand and Press TV S.p.A. for €328 thousand.
The change is essentially due to the restitution of the capital contribution of €77,468 thousand by Mondadori International S.A. and to a payment of €8,500 thousand made by Monradio S.r.l.

## 5. Non-current financial assets

The composition of and changes in non-current financial assets, which at 31 December 2005 showed a nil balance (€108,721 thousand), are described and commented on below.

| Non-current financial assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Derivative instruments | 0 | 0 |
| Treasury shares, shares and other financial investments | 0 | 108,172 |
| **Total non-current financial assets** | **0** | **108,172** |

The Mondadori Group adopted IAS 32 and IAS 39 on 1 January 2005; as a result treasury shares, recognised as assets in the consolidated financial statements at 31 December 2004, were classified at 31 December 2005 as a direct reduction of equity.

There are no receivables with a due date of more than 5 years.

### 6. Deferred tax assets and liabilities

Deferred tax assets of €16,023 thousand (€19,970 thousand) and deferred tax liabilities of €11,708 thousand (€9,534 thousand) are calculated on the basis of the temporary differences between the book values and tax bases of assets and liabilities as shown in the table below:

| (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Deferred tax assets - IRES | 14,856 | 18,891 |
| Deferred tax assets - IRAP | 1,167 | 1,079 |
| **Total deferred tax assets** | **16,023** | **19,970** |
| Deferred tax liabilities - IRES | 10,618 | 7,523 |
| Deferred tax liabilities - IRAP | 1,090 | 2,011 |
| **Total deferred tax liabilities** | **11,708** | **9,534** |

Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to apply when the temporary differences reverse (currently 33% for IRES and 4.25% for IRAP).

The following tables set out the temporary differences between the book values and tax bases of assets and liabilities that generated deferred tax assets and liabilities.

*Description of temporary differences that led to the recognition of deferred tax assets*

| | 12/31/2005 | | | 12/31/2004 | | |
|---|---|---|---|---|---|---|
| (€/000) | Amount of temporary difference | Tax rate | Deferred tax assets | Amount of temporary difference | Tax rate | Deferred tax assets |
| Difference between book value and tax basis of intangible assets | 9,583 | 33% | 3,162 | 8,686 | 33% | 2,866 |
| Provision for bad debts | 5,821 | 33% | 1,921 | 9,439 | 33% | 3,115 |
| Inventory provision | 3,573 | 33% | 1,179 | 3,573 | 33% | 1,179 |
| Other provisions | 22,890 | 33% | 7,554 | 24,753 | 33% | 8,168 |
| Other temporary differences | 3,150 | 33% | 1,040 | 10,794 | 33% | 3,563 |
| **Total for IRES purposes** | **45,017** | | **14,856** | **57,245** | | **18,891** |
| Difference between book value and tax basis of intangible assets | 9,324 | 4.25% | 396 | 8,686 | 4.25% | 369 |
| Inventory provision | 3,573 | 4.25% | 152 | 3,573 | 4.25% | 152 |
| Other provisions | 13,151 | 4.25% | 559 | 11,482 | 4.25% | 488 |
| Other temporary differences | 1,414 | 4.25% | 60 | 1,647 | 4.25% | 70 |
| **Total for IRAP purposes** | **27,462** | | **1,167** | **25,388** | | **1,079** |

*Description of temporary differences that led to the recognition of deferred tax liabilities*

| | 12/31/2005 | | | 12/31/2004 | | |
|---|---|---|---|---|---|---|
| (€/000) | Amount of temporary difference | Tax rate | Deferred tax liabilities | Amount of temporary difference | Tax rate | Deferred tax liabilities |
| Difference between book value and tax basis of intangible assets | 17,184 | 33% | 5,671 | 8,510 | 33% | 2,809 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 7,833 | 33% | 2,585 | 7,716 | 33% | 2,546 |
| Employees' leaving entitlement | 3,552 | 33% | 1,172 | 5,661 | 33% | 1,868 |
| Agents' severance indemnity | 871 | 33% | 287 | 905 | 33% | 299 |
| Capital gains deferred for tax purposes | 0 | 33% | 0 | 4 | 33% | 1 |
| Other temporary differences | 2,735 | 33% | 903 | 0 | 33% | 0 |
| **Total for IRES purposes** | **32,175** | | **10,618** | **22,796** | | **7,523** |
| Difference between book value and tax basis of intangible assets | 17,184 | 4.25% | 730 | 8,510 | 4.25% | 362 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 7,833 | 4.25% | 333 | 7,716 | 4.25% | 328 |
| Agents' severance indemnity | 871 | 4.25% | 37 | 905 | 4.25% | 38 |
| Capital gains deferred for tax purposes | 0 | 4.25% | 0 | 4 | 4.25% | 0 |
| Other temporary differences | (232) | 4.25% | (10) | 30,183 | 4.25% | 1,283 |
| **Total for IRAP purposes** | **25,656** | | **1,090** | **47,318** | | **2,011** |

Net changes in deferred tax assets and liabilities resulted in a charge of €17,218 thousand for the year, as described in note 28.

Other changes during the year that did not have any effect on the income statement mainly relate to adjustments made on the adoption of IAS 32 and IAS 39 on 1 January 2005.

Deferred tax liabilities have not been recognised for temporary differences arising from investments in joint ventures, subsidiaries and associated companies as the company is able to control the timing of the reversal of such differences and it is not probable that those differences will reverse in the foreseeable future.

## 7. Other non-current assets

The composition of and changes in other non-current assets, which amounted to €1,686 thousand at 31 December 2005 (€3,237 thousand), are described and commented on below.

| Other non-current assets<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Guarantee deposits | 155 | 135 |
| Earnest money | 0 | 207 |
| Advance IRE withholding tax on the employees' leaving entitlement | 1,160 | 1,728 |
| Trade receivables | 147 | 924 |
| Others | 224 | 243 |
| **Total other non-current assets** | **1,686** | **3,237** |

Trade receivables of €147 thousand (€924 thousand) refer to bookshop customers.

The balance of €1,160 thousand (€1,728 thousand) refers to advance withholding tax on the employees' leaving entitlement pursuant to Law no. 140 of 28 May 1997 and the relative index linking; this advance will be recovered when the withholding tax on the employees' leaving entitlement becomes due.

## 8. Tax receivables

The composition of and changes in tax receivables which amounted to €23,005 thousand at 31 December 2005 (€3,454 thousand) are described and commented on below.

Receivables from tax authorities for VAT include VAT of €1,295 thousand (€2,090 thousand) which include accrued interest, requests for reimbursements relating to prior years and €10,214 thousand (€1,187 thousand at 31/12/2004) for VAT credits relating to 2005 to carry forward.
During the year €795 thousand was reimbursed for capital and interest relating to 1983.

| Tax receivables<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Receivables from tax authorities for IRES | 9 | 9 |
| Receivables from tax authorities for VAT to be recovered | 11,509 | 3,277 |
| Receivables from tax authorities for tax reimbursements | 205 | 168 |
| Tax credits for the purchase of paper | 11,282 | 0 |
| **Total tax receivables** | **23,005** | **3,454** |

At 31 December 2004, tax credits of €5,027 thousand for the purchase of paper, which at 31 December 2005 amount to €11,282 thousand, were classified as Liabilities for Income Taxes – payables to Fininvest, as they were transferred to the Fininvest Group's tax consolidation.

## 9. Other current assets

The composition of and changes in other current assets which amount to €41,892 thousand at 31 December 2005 (€41,584 thousand) are described and commented on below.

| Other current assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Advances to agents | 267 | 227 |
| Advances to authors | 29,589 | 24,346 |
| Advance to suppliers | 1,347 | 2,446 |
| Advances to personnel | 593 | 469 |
| Receivable for deposits | 0 | 1,460 |
| Earnest money | 413 | 206 |
| Prepayments | 7,458 | 9,744 |
| Other | 2,225 | 2,686 |
| **Total other current assets** | **41,892** | **41,584** |

Receivables for deposits of €1,460 thousand at 31 December 2004 consist of performance bonds in respect of the agreement to purchase the radio business of the subsidiary Monradio S.r.l., which were recovered during 2005 in accordance with that agreement.

Prepayments of €7,458 thousand (€9,744 thousand) refer to:

| (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Third-party editions for issues sold in 2006 | 7,421 | 9,496 |
| Rental agreements | 4 | 22 |
| Other prepayments (rents, subscriptions) | 33 | 226 |
| **Total prepayments** | **7,458** | **9,744** |

## 10. Inventories

The composition of and changes in inventories which amounted to €42,184 thousand at 31 December 2005 (€36,072 thousand) are described and commented on below.

| Inventories (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Raw materials and consumables | 113 | 116 |
| Provision for raw materials and consumables | 0 | 0 |
| **Total raw materials and consumables** | **113** | **116** |
| Work in progress and semi-finished goods | 27,314 | 21,799 |
| Provision for work in progress and semi-finished goods | 0 | 0 |
| **Total work in progress and semi-finished goods** | **27,314** | **21,799** |
| Finished products and goods for resale | 18,942 | 18,342 |
| Provisions for finished products and goods for resale | (4,185) | (4,185) |
| **Total finished products and goods for resale** | **14,757** | **14,157** |
| **Total inventories** | **42,184** | **36,072** |

The increase of €6,112 thousand is essentially due to publishing products not yet finished, which refer to initiatives in the newspaper sector connected to add-on sales of publishing and/or other products. Publishing products with third parties, included under finished products and goods for resale, amounted to €6.7 million.

| **Inventories – Provisions** (€/000) | Raw materials | Work in progress and semi-finished goods | Finished products and goods for resale |
|---|---|---|---|
| Balance at 1 January 2004 | 0 | 0 | 5,185 |
| Movements during period: | | | |
| - provisions | 0 | 0 | 0 |
| - utilisations | 0 | 0 | (1,000) |
| - other movements | 0 | 0 | 0 |
| **Balance at 31 December 2004** | **0** | **0** | **4,185** |

| **Inventories – Provisions** (€/000) | Raw materials | Work in progress and semi-finished goods | Finished products and goods for resale |
|---|---|---|---|
| Balance at 31 December 2004 | 0 | 0 | 4,185 |
| Movements during period: | | | |
| - provisions | 0 | 0 | 0 |
| - utilisations | 0 | 0 | 0 |
| - other movements | 0 | 0 | 0 |
| Balance at 31 December 2005 | 0 | 0 | 4,185 |

*Decrease (increase) in inventories*

The following table summaries the changes in inventories recognised in the income statement for the year.

| **Decrease (increase) in inventories** (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Changes in finished products | (600) | 1,826 |
| Charge to finished products provision | 0 | 0 |
| Utilisation of finished products provision | 0 | (1,000) |
| | **(600)** | **826** |
| Changes in semi-finished products | (5,515) | 3,312 |
| Charge to finished products provision | 0 | 0 |
| Utilisation of finished products provision | 0 | 0 |
| | **(5,515)** | **3,312** |
| Changes in raw material and goods | 3 | 2 |
| Charge to finished products provision | 0 | 0 |
| Utilisation of finished products provision | 0 | 0 |
| | 3 | 2 |
| **Total decrease (increase) in inventories** | **(6,112)** | **4,140** |

There are no inventories used to secure liabilities.

## 11. Trade receivables

The composition of and change in trade receivables which amounted to €232,238 thousand at 31 December 2005 (€227,610 thousand) are described and commented on below. These receivables increased by €4,628 thousand and consist of:

| Trade receivables<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Receivables from customers | 84,022 | 85,539 |
| Receivables from associated companies | 27,597 | 23,894 |
| Receivables from subsidiaries | 120,619 | 118,177 |
| **Total trade receivables** | **232,238** | **227,610** |

There are no trade receivables with a due date over five years; the average collection period during 2005 was 68.20 days (68.72 days in 2004).

Details by geographical area are contained in the supplementary schedules.

Receivables from subsidiaries of €120,619 thousand (€118,177 thousand) and receivables from associated companies of €27,597 thousand (€23,894 thousand) refer to commercial transactions carried out at market prices. The details of each company and the variations compared with 2004 are contained in appendix C1.

Receivables from customers include receivables from Fininvest Group companies for €168 thousand (€962 thousand) and mainly refer to Publitalia 80 S.p.A., for €144 thousand (€159 thousand), RTI S.p.A., for €11 thousand (€738 thousand) and other companies for a total of €13 thousand. Trading relations with the Fininvest Group are carried out under normal market conditions.

Trade receivables, amounting to €84,022 thousand (€85,539 thousand), decreased by €1,517 thousand and are made up as follows:

| Trade receivables - Receivables from customers<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Receivables from customers | 211,407 | 205,331 |
| Customers - returns to be received | (114,716) | (103,458) |
| Provision for bad debts | (7,668) | (11,319) |
| Contract risk provision | (5,001) | (5,015) |
| **Total receivables from customers** | **84,022** | **85,539** |

Movements in the provision for bad debts for the year, which amounted to €7,668 thousand at 31 December 2005 (€11,319 thousand), were as follows:

| Trade receivables - Receivables from customers – Provision (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Balance at beginning of year | 11,319 | 9,626 |
| Movements during period: | | |
| - provisions | 2,308 | 4,944 |
| - utilisations | (5,959) | (3,251) |
| - other movements | 0 | 0 |
| **Total receivables from customers** | **7,668** | **11,319** |

The provision is considered adequate to cover any expected risk of insolvency and is determined by analysing doubtful receivables and, for other receivables, by assessing the likelihood of non-recovery.

## 12. Other current financial assets

The composition of and changes in other current financial assets which amounted to €100,922 thousand at 31 December 2005 (€83,704 thousand), are described and commented on below.

| Other current financial assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| - Financial receivables from subsidiaries | 42,659 | 32,198 |
| - Financial receivables from associated companies | 3,215 | 1,053 |
| - Other financial receivables | 333 | 454 |
| **Total financial receivables** | **46,207** | **33,705** |
| Financial assets at fair value with changes through the income statement | 2,780 | 0 |
| Securities and financial investments | 51,935 | 49,999 |
| **Total current financial assets** | **100,922** | **83,704** |

Securities and financial investments of €51,935 thousand (€49,999 thousand) consist of temporary investments of liquidity in a "single premium performance-based capitalisation insurance policy" issued and guaranteed by Deutsche Bank. The liquidity of the investment is daily and the return will be that of the separately administered Deutsche Bank 2005 "Future System". The principle feature of this type of investment is that it guarantees a minimum return of 2.50%.

Financial receivables from subsidiaries of €42,659 thousand (€32,198 thousand) and those from associated companies of €3,215 thousand (€1,053 thousand) mainly refer to current accounts bearing interest in line with market rates.

The details for each company and the changes with 2004 are provided in appendix C1.

Other financial receivables include:
- accrued income/prepaid expenses of €200 thousand (€128 thousand) regarding financial items referring to 2006;
- other financial receivables of €133 thousand (€326 thousand) mainly referring to current accounts with third party companies at market conditions.

*Assets and liabilities resulting from derivative instruments*
The following table illustrates the assets and liabilities resulting from derivative instruments held at 31 December 2005.

| Assets and liabilities resulting from derivative instruments – Details (€/000) | Type of derivative | *Fair value* at 12/31/2005 |
|---|---|---|
| Non-current financial assets | | - |
| Current financial assets | | |
| - Options purchased for 2003 *stock option* plan | *Trading* | 2,780 |
| Non-current financial liabilities | | |
| - Cross *currency swap* | *Fair value hedge* | (766) |
| Current financial liabilities | | |
| - Options sold for 2003 *stock option* plan | *Trading* | (4) |

As discussed previously, the company elected to apply IAS 32 and IAS 39 from 1 January 2005.

*Trading derivatives* refer to instruments that, even though they were set up as hedge operations, do not fully satisfy all the requisites of international accounting standards to qualify for *hedge accounting*.

The company has adopted a Policy on the Management of Financial Risks. The utilisation of derivative instruments is in line with the guidelines contained in that document.

An analysis of the financial risk management policy can be found in the appropriate section of the Notes on the consolidated balance sheet.

Loan derivatives
Loan derivatives refer exclusively to a Cross Currency Swap operation set up in 2003 to cover exchange and interest rate risks linked to the US Private Placement debenture loans. The loan of $350 million is made up of three tranches of $215 million, $40 million and $95 million with fixed rates of, respectively, 5.42%, 5.57% and 5.85% and expiry dates of 2012, 2015 and 2018. The Cross Currency Swap derivative made it possible to transform the notional into euro and the interest rates from fixed to variable. The variable interest rates obtained for the three tranches are equal to the three-month Euribor rate plus, respectively, 0.66%, 0.59% and 0.60%.
As per international accounting standards, the profit (loss) from the variations in value of

this derivative instrument are recognised in the income statement in line with the variation of an equal amount recognised together with the debt.

Stock option plan derivatives

In 2003 1,960,000 call options were bought on the options assigned to employees. The purchase of these purchase options was financed by the sale of put options with the same expiry date. The derivatives in question were underwritten in order to neutralise the risk deriving from fluctuations in the price of Mondadori shares to be bought as part of the stock option plan. At 31 December 2005 the fair value of the call option and the put option amounted, respectively, to a positive total of €2,780 and a negative total of €4 thousand. The options in question, with an expiry date of January 2006, were extinguished with a net profit slightly in excess of the net fair value as of 31 December 2005.

## 13. Cash and cash equivalents

The composition of and changes in cash and cash equivalents, amounting to €43,444 thousand at 31 December 2005 (€46,440 thousand), are described and commented on below.

The balance consist of money held in post office accounts for €770 thousand (€1,309 thousand) and in bank accounts for €42,662 thousand (€45,116 thousand), together with €12 thousand (€15 thousand) in cheques and petty cash.

| Cash and cash equivalents (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Cash and cheques | 12 | 15 |
| Bank deposits | 42,662 | 45,116 |
| Post office deposits | 770 | 1,309 |
| Total cash and cash equivalents | 43,444 | 46,440 |

Short-term deposits mainly have expiry dates of between one week and three months, in keeping with the financial needs of the company, and mature interest at the respective short-term rates. The *fair value* of cash and cash equivalents at 31 December 2005 is equal to their carrying value at that date.

There are no restrictions on the use of cash and cash equivalents.

## 14. Shareholders' equity

Share capital of €67,452 thousand, fully subscribed and paid up, is represented by 259,429,832 ordinary shares each with a par value of €0.26.
Changes over the last two years in shareholders' equity are set out below:

| (€/000) | Share capital | Share premium reserve | Treasury shares reserve | Treasury shares | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2004** | **67,452** | **170,380** | **116,885** | **0** | **804** | **0** | **134,955** | **74,461** | **564,937** |
| Changes: | | | | | | | | | |
| - Allocation of net profit | | | | | | | 1,928 | (1,928) | |
| - Dividend payment | | | | | | | | (72,533) | (72,533) |
| - Operations in treasury shares | | 5,195 | (8,713) | | | | 3,518 | | |
| - Stock options | | | | | 1,570 | | | | 1,570 |
| - Net profit for the year | | | | | | | | 93,040 | 93,040 |
| **At 31 December 2004** | **67,452** | **175,575** | **108,172** | **0** | **2,374** | **0** | **140,401** | **93,040** | **587,014** |

| (€/000) | Share capital | Share premium reserve | Treasury shares reserve | Treasury shares | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2004** | **67,452** | **175,575** | **108,172** | **0** | **2,374** | **0** | **140,401** | **93,040** | **587,014** |
| Changes: | | | | | | | | | |
| - Adoption of IAS 32 and IAS 39 | | 108,172 (*) | (108,172) | (108,172) | | (12) | (25,335) | | (133,519) |
| - Allocation of net profit | | | | | | | 7,659 | (7,659) | |
| - Dividend payment | | | | | | | | (85,381) | (85,381) |
| - Operations in treasury shares | | | | 5,348 | | | 852 | | 6,200 |
| - Stock options | | | | | 2,341 | | | | 2,341 |
| - Other | | | | | | 12 | | | 12 |
| - Net profit for the year | | | | | | | | 101,290 | 101,290 |
| **At 31 December 2005** | **67,452** | **283,747** | **0** | **(102,824)** | **4,715** | **0** | **123,577** | **101,290** | **477,957** |

(*) formerly Treasury Shares Reserve, originally formed with transfers from the Share Premium Reserve

Following the adoption of IAS 32 and IAS 39 on 1 January 2005, *treasury shares* held in portfolio are recognised as a deduction from shareholders' equity. This portfolio, equal to 5.97% of the share capital, consists of:

- 1,957,332 ordinary shares (1,221,726 of which came from the conversion of savings shares resolved by shareholders on 29 April 1999) with a par value of €0.26 each for a total of €3,519 thousand, resulting from buy-backs exercised by shareholders of the former AMEF following the change in corporate purpose as a result of the merger with the former AME;

- 13,527,455 ordinary shares with a par value of €0.26 each purchased for €99,305 thousand in accordance with the resolutions of various shareholders' meetings, the last of which took place on 26 April 2004. During the year, 113,461 ordinary shares were purchased and 1,035,794 treasury shares were disposed of in operations connected with the exercising of options by beneficiaries of the stock-option plan.

The average carrying value is equivalent to €6.64 per share compared with the current stock market quotation (at 27 March 2006 ) of €8.185 per share.

The following table provides an analysis of shareholders' equity, showing the origin, availability and distribution of each item.

| | | | | Summary of utilisations carried out in past years | |
|---|---|---|---|---|---|
| Nature/description | Amount | Possibility of utilisation | Portion available | for distribution of profits | for other reasons |
| **Share capital** | **67,452** | -- | | | |
| **Capital reserves:** | | | | | |
| - from share premium | 256,769 | A,B,C | 153,945 | | |
| - from conversion of saving shares | 26,978 | A,B,C | 26,978 | | |
| - capital grants reserve | 5,335 | B | | | |
| **Revenue reserves:** | | | | | |
| - revaluation reserves | | | | | |
| • law no. 72 of 19/3/1983 | 12,022 | A,B | | | |
| • law no. 413 of 30/12/1991 | 4,689 | A,B | | | |
| - legal reserve | 13,490 | B | | | |
| - extraordinary reserve | 101,900 | A,B,C | 71,495 | 149,336 | 784 |
| - reserve law no. 675 of 12/8/1977 | 351 | A,B | | | |
| - reserve law no. 904 of 16/12/1977 | 751 | A,B | | | 3,329 |
| - reserve article 13 of law no. 124/93 | 126 | A,B | | | |
| - merger reserve | 478 | A,B,C | 478 | | |
| - reserve law no. 576 of 2/12/1975 | -- | -- | | | 3,128 |
| - reserve for unrealised exchange gains | 53 | -- | | | |
| **IAS/IFRS transactions:** | | | | | |
| - positive reclassifications | 19,502 | -- | 2,156 | | |
| - negative reclassifications | (30,405) | -- | | | |
| Treasury shares | (102,824) | -- | | | |
| **Total** | **376,667** | | **255,052** | **149,336** | **7,241** |
| **Non-distributable portion (1)** | | | **8,977** | | |
| **Distributable portion** | | | **246,075** | | |

*Key: A: for increases in capital - B: for covering losses - C: for distribution to shareholders*

(1) Represents the non-distributable portion determined in accordance with Legislative Decree no. 38/2005.

Details of the changes in the individual components of *shareholders' equity* are shown in the statement of changes in shareholders' equity, which shows in particular:

The ***share premium reserve and the reserve for the and conversion of savings shares reserve*** of €283,747 thousand (€175,575 thousand) includes:

- €15,289 thousand, of which €13,278 thousand resulting from the conversion into shares of the debenture loan 6.5% 1987/1991 of the former AMEF and €2,011 thousand from the merger of the former AME on 29 November 1991;
- €238,603 thousand resulting from the €17,043 thousand increase in capital completed on 27 June 1994 in conformity with a resolution of the extraordinary shareholders' meeting of 30 May 1994 that provided for the issue of 33,000,000 ordinary shares with a par value of €0.52 (1,000 lire) at a price of €7.75 (15,000 lire) per share, €7.23 (14,000 lire) of which was share premium;
- €384 thousand resulting from the increase in capital completed on 23 November 1998;
- €692 thousand resulting from the increase in capital completed on 17 September 1999;
- €1,801 thousand resulting from the increase in capital completed on 18 July 2000;
- €26,978 thousand generated from the conversion into ordinary shares of 13,929,942 savings shares, in conformity with a resolution of the shareholders' meeting of 30 May 1994 that enabled holders of savings shares to convert these into ordinary shares in the ratio of one to one with a par value of €0.52 (1,000 lire), to be exercised during the period 16 June to 31 July 1994 with payment of a balance of €1.94 (3,750 lire) for every share converted.

At 31 December 2004, the share premium reserve was stated net of €108,172 thousand reclassified to the treasury shares reserve.

The ***capital grants reserve*** of €5,335 thousand (€5,335 thousand) includes €1,148 thousand for amounts paid out by the Agenzia per la Promozione dello Sviluppo del Mezzogiorno (Ministerial Decrees of 28 June 1979 and 3 May 1989) for the purposes of industrial investments carried out at the plant in Pomezia and, for a total amount of €4,187 thousand (including €283 thousand conferred by Mondadori Electa S.p.A. following the separation of the "magazines" division), the amounts for grants paid out by the State in previous years pursuant to Publishing Law no. 416 of 5 August 1981. The accounting treatment of these latter two items follows the requirements of ministerial provisions which recognise these as capital grants. Under this treatment, tax is not payable on these grants unless they are used for purposes other than for covering losses.

***Reserves*** are classified as follows for tax purposes:

| (€/000) | | a | b | c | Total |
|---|---|---|---|---|---|
| Share | - Premium reserve | - | - | 256,769 | 256,769 |
| | - Conversion of savings shares | - | - | 26,978 | 26,978 |
| | | | | | 283,747 |
| Legal reserve no. 72 of 19 March 1983 | | - | 12,022 | - | 12,022 |
| Legal reserve no. 413 of 30 December 1991 | | - | 4,689 | - | 4,689 |
| | | | | | 16,711 |
| Legal reserve | | 13,490 | - | - | 13,490 |
| Treasury shares reserve | | - | - | - | - |
| Extraordinary reserve | | 101,900 | - | - | 101,900 |
| Reserve law no. 675 of 12 August 1977 | | - | 351 | - | 351 |
| Reserve law no. 904 of 16 December 1977 | | - | 751 | - | 751 |
| Capital grants reserve | | - | 5,335 | - | 5,335 |
| Reserve law no. 124/93 article 13 | | | 126 | - | 126 |
| Merger reserve | | 478 | - | - | 478 |
| Reserve for unrealised exchange gains | | 53 | | | 53 |
| | | | | | 108,994 |
| **Total reserves** | | **115,921** | **23,274** | **283,747** | **422,942** |
| **Total bonus increases in capital from the utilisation of reserves** | | **784** | **6,457** | **-** | **7,241** |

*a. Reserves that, if distributed, do not form part of shareholders' taxable income for 95% of the total (art.89 D.P.R. no. 917/86 as modified by Legislative Decree no. 344/2003 which established IRES – corporate income tax).*

*b. Reserves that, if distributed, form part of the company's taxable income.*

*c. Reserves that, if distributed, do not form part of shareholders' taxable income.*

Details of the reserves utilised for bonus increases in share capital in previous years are as follows:

| Reserves utilised (*euros*) | Date of shareholders' resolution | Amount transferred to capital |
|---|---|---|
| Legal reserve no. 576 of 2 December 1975 | 30 April 1980 | 1,292,433 |
| Legal reserve no. 576 of 2 December 1975 | 25 May 1981 | 1,291,142 |
| Legal reserve no. 576 of 2 December 1975 | 30 April 1982 | 543,943 |
| Legal reserve no. 904 of 16 December 1977 | 30 April 1982 | 3,329,483 |
| | | 6,457,001 |
| Reserve for stock options | 25 Sept. 1998 | 66,365 |
| Reserve for stock options | 7 July 1999 | 105,873 |
| Reserve for stock options | 12 May 2000 | 152,045 |
| Extraordinary reserve (conversion of share capital into euros) | 24 April 2001 | 459,593 |
| | | 783,876 |

## 15. Provisions

The composition of and changes in provisions, amounting to €10,740 thousand at 31 December 2005 (€11,866 thousand), are described and commented on below:

| Provisions (€/000) | 12/31/2004 | Charge | Utilisations | Other movements | 12/31/2005 |
|---|---|---|---|---|---|
| Various collection risks | 1,652 | 227 | (522) | 0 | 1,357 |
| Litigation | 6,057 | 2,087 | (1,587) | (1) | 6,556 |
| Dispute over INPGI contributions | 2,253 | 0 | (1,253) | 0 | 1,000 |
| Tax disputes | 1,827 | 0 | 0 | 0 | 1,827 |
| Returns provision and other provisions | 77 | 0 | (77) | 0 | 0 |
| **Total provisions** | **11,866** | **2,314** | **(3,439)** | **(1)** | **10,740** |

The purpose of these balances is to provide against probable liabilities resulting from litigation, various collection risks, contract commitments and commitments and disputes over social security payables.

The long-term portion of provisions, whose payment date can be reliably estimated, has been discounted to take account of implicit interest.

## 16. Employees' leaving entitlement and termination indemnities

The composition of and changes in of the employees' leaving entitlement and termination indemnities are described and commented on below:

| Leaving entitlements and termination indemnities (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Employees' leaving entitlement (TFR) | 42,025 | 39,391 |
| Agents' termination indemnity (FISC) | 1,057 | 977 |
| Termination indemnity for journalists (IFGP) | 721 | 821 |
| **Total leaving entitlements and termination indemnities** | **43,803** | **41,189** |

Changes in the two years are due to the following:

| Employees' leaving entitlement – Details (€/000) | TFR | FISC | IFGP | Total |
|---|---|---|---|---|
| **Balance at 31 December 2004** | **39,391** | **977** | **821** | **41,189** |
| Changes during 2005: | | | | |
| - provisions | 7,478 | 149 | 14 | 7,641 |
| - utilisations | (7,003) | (35) | (94) | (7,132) |
| - reversals | 0 | 0 | 0 | 0 |
| - discounting | 2,110 | (34) | 0 | 2,076 |
| - others | 49 | 0 | (20) | 29 |
| **Balance at 31 December 2005** | **42,025** | **1,057** | **721** | **43,803** |

The employees' leaving entitlement and the agents' termination indemnity are determined, in accordance with IAS 19 and IAS 37, by applying an actuarial method.

The following assumptions were used when determining the actuarial value of the employees' leaving entitlement:

| Actuarial assumptions used for the employees' leaving entitlement | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Economic assumptions: | | |
| - increase in cost of living | 1.5% | 2.0% |
| - discount rate | 4.0% | 4.5% |
| - salary increases | 3.0%-4.0% | 3.0%-4.0% |
| Demographic assumptions: | | |
| - probability of death | IPS 55 tables | RG 48 tables |
| - probability of disability | INPS 2000 tables | INPS 2000 tables |
| - probability of leaving for other reasons | From 0.50% to 7.20% | From 0.50% to 9.00% |
| - pensionable age | Current regulations | Current regulations |

The following assumptions were used when determining the agents' termination indemnity:

| Assumptions for actuarial calculation of supplementary indemnities for agents reserve (FISC) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Economic assumptions: | | |
| - discount rate | 4.0% | 4.5% |
| Demographic assumptions: | | |
| - probability of death/disability | 1.0% | 1.0% |
| - probability of leaving service | 0.5% | 0.5% |
| - probability of voluntary resignation | 1.5% | 1.5% |
| - average age of terminating the agency agreement | 65 | 65 |

The other termination liabilities were not discounted as the effects would not be significant.

Charges to the income statement for the employees' leaving entitlement were as follows:

| Cost of employees' leaving entitlement (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Current cost of employees' the leaving entitlement | 5,964 | 5,553 |
| Actuarial (gains) losses | 2,110 | (53) |
| | 8,074 | 5,500 |
| Interest charge | 1,528 | 1,658 |
| **Total cost of employees' leaving entitlement** | **9,602** | **7,158** |

The "current cost of the employees' leaving entitlement" together with the "actuarial (gain)/loss" are booked in the income statement under "personnel costs" while the financial component is booked under financial expense for the year.

### 17. Financial liabilities

The composition of and changes in financial liabilities, amounting to €296,046 thousand at 31 December 2005 (€296,384 thousand), are described and commented on below.

| Non-current financial liabilities (€/000) | Effective interest rate | Due after 5 years | 12/31/2005 | 12/31/2004 |
|---|---|---|---|---|
| Bonds | Eur3M+0.667% | x | 295,280 | 296,384 |
| Liabilities from derivative instruments | - | x | 766 | 0 |
| Other financial liabilities | - | - | 0 | 0 |
| | - | - | | |
| **Total non-current financial liabilities** | - | - | **296,046** | **296,384** |

The carrying value of €295,280 thousand of the non-convertible bonds of US$350 million, whose issue on 23 June 2004 was resolved by shareholders on 16 June 2004, was determined using the amortised cost method in accordance with IAS/IFRS.

The valuation of the bonds was made in line with the cross currency swap taken out to hedge foreign exchange and interest rate risks. The average spread paid on three-month EURIBOR was 0.636%, which corresponds to an effective three-month EURIBOR spread of 0.667%.

The features of the bonds are as follows:

- the bonds were offered to and reserved for the subsidiary Mondadori International S.A.;
- the loan consists of 3,500 bonds having a total nominal value of US$100,000, each issued at par;
- repayment at par on consignment of bonds on the following due dates :
  – "tranche A", US$ 215 million on 18 December 2013
  – "tranche B", US$ 40 million on 18 December 2015
  – "tranche C", US$ 95 million on 18 December 2018
- annual fixed gross interest, calculated on the par value of the bonds, payable on 18 June and 18 December of every year of the loan:
  – 5.42 % per year up to due date of "tranche A"
  – 5.57 % per year up to due date of "tranche B"
  – 5.82% per year up to due date of "tranche C"

The fair value of the *cross currency swap* derivative acquired as a hedge on the debt is €766 thousand.

Amounts due to banks and other financial payables amount to €170,132 thousand (€174,965 thousand) and include:

| Amounts due to banks and other financial payables (€/000) | Effective interest rate | 12/31/2005 | 12/31/2004 |
|---|---|---|---|
| Amounts due to banks | - | 2 | 100,612 |
| Amounts due to associated companies | - | 16,948 | 14,820 |
| Amounts due to subsidiaries | - | 118,527 | 53,788 |
| Liabilities resulting from derivative instruments | - | 4 | 0 |
| Other financial payables | - | 34,451 | 137 |
| Accrued expenses and deferred income | - | 200 | 5,608 |
| **Total amounts due to banks and other financial payables** | - | **170,132** | **174,965** |

Amounts due to banks of €2 thousand (€100,612 thousand) consist of current account overdrafts. The loans of €100,000 thousand at 31 December 2004 were extinguished in 2005; the stand-by credit lines granted to the company were not in use at the balance sheet date.

Amounts due to subsidiary companies of €118,527 thousand (€53,788 thousand) and those due to associated companies of €16,948 thousand (€14,820 thousand) mainly refer to current accounts bearing interest in line with market rates.
Details by company and the changes compared with 31 December 2004 are contained in appendix “D1”.

Other financial payables of €34,451 thousand (€137 thousand) refer to a loan of €34,369 thousand due in the first months of 2006 and obtained for the purchase of shares in Monradio S.r.l. from Radio Milano International S.p.A., from Beta S.r.l. and from One O One Radio Service S.r.l. (discounted to present value), and for €82 thousand to current accounts with third party companies regulated at market rates.

Accrued liabilities and deferred income of €200 thousand (€5,608 thousand) refer to interest on overdrawn current accounts.

Liabilities resulting from derivative instruments refer to the fair value at 31 December 2005 of the options sold in the stock option plan (the fair value of the derivatives in question amounts to €4 thousand). Further details can be found under the item “Inventories and other current financial assets” in the assets section of balance sheet.

The company's overall financial situation at 31 December 2005, as set out in the table below, shows net debt of €321,812 thousand (€341,205 thousand), a decrease during the year of €19,393 thousand.

| (€/000) | | 12/31/2005 | | 12/31/2004 |
|---|---|---|---|---|
| Short-term bank receivables | + | 42,662 | + | 45,116 |
| Short-term bank payables | | 2 | | 100,612 |
| Bank loans | | 42,660 | | 55,496 |
| Investments of funds | + | 51,935 | + | 49,999 |
| Cash and post office accounts | + | 782 | + | 1,324 |
| Receivables from (+)/ payables to (-) third parties | | 34,318 | | 190 |
| Bond | | 295,280 | | 296,384 |
| Net receivables (+)/payables (-) with Group companies | | 89,601 | | 35,358 |
| Accrued interest | | - | | 5,480 |
| Derivative instruments | + | 2,010 | | - |
| **Net debt** | | **321,812** | | **341,205** |

An analysis of the net financial position of the company and of the relative movements is given in the cash flow statement included in the financial statements for the year and in the comment on the Group's financial position, which is included in the Report of the Board of Directors.
At Group level the net financial surplus of €32.2 million, adequately outlined in the appropriate section of the Board of Director's report on the year.

## 18. Income taxes payables

The composition of and changes in income tax payables, amounting to €18,357 thousand at 31 December 2005 (€15,216 thousand), is described and commented on below.

| Income tax payables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Payables due to tax authorities for IRAP | 296 | 1,382 |
| Payables due to Fininvest for IRES | 18,061 | 13,834 |
| **Total income tax payables** | **18,357** | **15,216** |

Payables to Fininvest S.p.A. represent the amounts due from Mondadori for IRES as a result of the tax consolidation introduced by Legislative Decree no. 344/2003 as a modification of the regulations concerning income taxes, in which the company has elected to participate.
The tax consolidation provides the parent company and its subsidiary companies with the option of choosing a consolidated tax system headed by the parent company. The system has a single taxable base as far as IRES is concerned, that is calculated as the sum of the taxable income and the tax losses of the Group companies that take part in the consolidation. The parent/consolidating company therefore presents, on the basis of the returns supplied by the individual companies taking part in the consolidation, a consolidated income tax return and is responsible for the payment of the total amount of tax due. The individual companies involved in the consolidation then pay the amount of IRES due, where

applicable, to the parent company, and not to the tax authorities as in the past, which subsequently is responsible for paying the total amount of consolidated tax due.
The company's taxable income has been finalised, and all taxes paid, up to 2000, with the exception of the following:

– 1979: the case before the Central Tax Commission is pending after the Second Grade Tax Commission accepted the Company's defence and declared the additional taxable income deemed by the tax authorities to be illegitimate;
– 1991: the position taken by the authorities that the company should have paid tax on the difference that arose on the merger of Arnoldo Mondadori Editore S.p.A. into AME Finanziaria (AMEF), that was used to re-value a number of shares held by the merged company, is challenged.
  The Regional Tax Commission has concluded that the company acted correctly, but the tax authorities have appealed against this decision to the High Court.
– 1996-1997-1998-1999: following an inspection by the National Journalists' Social Security Association, the company has been notified that it is being investigated and that it may be sanctioned for failure to apply withholding tax. The company has appealed to the Provincial Tax Commission. This investigation is part of a wider investigation being carried out by the Financial Police dealing with:
  • withholding taxes for the years 1995 to 1999. At the present date a decision has been reached in the company's favour regarding the investigation concerning 1995, but decisions on the years from 1996 to 1998 are still pending; for 1999 the Judicial Commission has cancelled the investigation.
  • VAT for the years 1997 to 1999 (the company was notified of an investigation into 1997 which was subsequently closed following a settlement through the payment of reduced fines).

For those years still open for fiscal purposes, taxes have been accrued and paid on the basis of the taxable income and the tax regulations prevailing at the time the provisions were made.

### 19. Other current liabilities

The composition of and changes in other current liabilities, amounting to €103,571 thousand at 31 December 2005 (€104,053 thousand), are described and commented on below.

| Other current liabilities (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Customer advances | 26,456 | 26,533 |
| Income tax payables | 5,267 | 5,333 |
| Amounts due to pension funds and social security institutions | 10,181 | 9,678 |
| Other payables | 56,360 | 56,937 |
| Accrued expenses and deferred income | 5,307 | 5,572 |
| **Total other current liabilities** | **103,571** | **104,053** |

Customer advances of €26,456 thousand (€26,533 thousand) include subscriptions of €25,443 thousand (€24,929 thousand), advance shipping expenses from foreign subscribers of €102 thousand (€103 thousand) and advance payments from various customers on account of future supplies for €911 thousand (€1,501 thousand).

Income tax payables of €5,267 thousand (€5,333 thousand) refer to withholding tax on employee wages and salaries and on consultant's fees which were paid in January 2006.

Amounts due to pension funds and social security institutions of €10,181 thousand (€9,678 thousand) refer for €5,373 thousand (€5,433 thousand) to social contributions relating to wages and salaries for December and for the thirteenth month's salary, paid in January 2006, and for €4,808 thousand (€4,245 thousand) to accruals for contributions relating to deferred remuneration.

Other payables of €56,360 thousand (€56,937 thousand) refer to:

| Other current liabilities - Other payables<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Payroll and other amounts due to employees | 17,461 | 15,170 |
| Due to authors and collaborators | 25,838 | 25,570 |
| Due to agents | 1,371 | 1,399 |
| Due to subscription and instalment customers | 10,240 | 11,517 |
| Due to shareholders for dividends | 168 | 132 |
| Due to directors and statutory auditors | 754 | 2,712 |
| Due to others | 528 | 437 |
| **Total other payables** | **56,360** | **56,937** |

Payables to subscription customers of €10,240 thousand (€11,517 thousand) relate to subscriptions taken out but not yet collected at the balance sheet date. Subscriptions that have been taken out and paid, amounting to €25,443 thousand (€24,929 thousand), are shown under customer advances.

Accrued expenses and deferred income, amounting to €5,307 thousand (€5,572 thousand), are made up as follows:

| (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Deferred remuneration and relative charges | 1,722 | 1,684 |
| Insurance, association fees and other fees | 531 | 506 |
| Total accrued expenses | 2,253 | 2,190 |
| Magazine advertising revenues relating to 2006 editions | 1,928 | 2,099 |
| Rent payable | 818 | 981 |
| Other | 308 | 302 |
| Total deferred income | 3,054 | 3,382 |
| **Total accrued expense and deferred income** | **5,307** | **5,572** |

## 20. Trade payables

The composition of and changes in trade payables is described and commented on below:

| Trade payables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Suppliers | 102,247 | 110,615 |
| Associated companies | 90,554 | 92,454 |
| Parent companies | 12,110 | 11,133 |
| Affiliated companies | 42 | 0 |
| **Total trade payables** | **204,953** | **214,202** |

Trade payables amounted to €102,247 thousand (€110,615 thousand) and include amounts for the purchase of assets for €1,996 thousand (€2,388 thousand).

This item includes:

- trade payables due to various affiliated companies for €228 thousand (€448 thousand), Editrice Portoria S.p.A. for €120 thousand and Istud S.p.A. for €108 thousand (€74 thousand).
- trade payables due to Fininvest Group companies for a total of €1,831 thousand (€5,255 thousand), the most significant of which concern Publitalia '80 S.p.A. for €1,275 thousand (€3,115 thousand), Medusa Video S.r.l. for €407 thousand (€1,217 thousand), Radio e Reti S.r.l. for €51 thousand (€366 thousand) and R.T.I. S.p.A. for €39 thousand (€378 thousand) and other minor payables for a total of €59 thousand.

Trade payables to associated companies for €90,554 thousand (€92,454 thousand) and those payable to parent companies of €12,110 thousand (€11,133 thousand) refer to commercial transactions carried out at market rates.
Details for each company and the variations compared with 2004 are contained in appendix “D1”, while information by geographical area is contained in the supplementary tables in the appendix.

Payables to affiliated companies of €42 thousand refer to commercial transactions carried out at market prices with Fininvest S.p.A.

There are no trade payables with a due date of more than 5 years and the average payment period in 2005 was 105.37 days (101.78 days in 2004).

*(Details of intragroup transactions with related parties in 2005 are provided in appendices "C2" and "D2").*

## 21. Revenues from sales and services

Details of sales in the individual sectors are given in the report on operations.

An analysis of revenues is set out in the following table:

| **Revenues from sales and services**<br>(€/000) | 2005 | 2004 | Change % |
|---|---|---|---|
| Revenues from the sale of goods: | | | |
| - books | 241,709 | 239,305 | 1.00% |
| - magazines/publications | 500,290 | 480,785 | 4.06% |
| - magazines/subscriptions | 48,255 | 48,787 | (1.09%) |
| - corporate and other business | | | |
| Reproduction rights | 8,095 | 11,838 | (31.62%) |
| Commercial articles and special initiatives | 2,526 | 2,780 | (9.14%) |
| By-products and recovered products | 1,767 | 2,317 | (23.74%) |
| Warehouse materials and various others | 111 | 86 | 29.07% |
| Revenues from services: | | | |
| - advertising services | 216,694 | 215,954 | 0.34% |
| - corporate and other business: | | | |
| On-line income, content deals, management of websites | 1,133 | 1,848 | (38.69%) |
| Various services, consultation and assistance | 26,516 | 24,472 | 8.35% |
| Courses and conventions | 83 | 2,680 | (96.90%) |
| **Total revenues** | **1,047,179** | **1,030,852** | **1.58%** |

Revenues by geographical area are set out as follows:

| Geographic area | Books | Magazines | Rights | Advertising and other | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Italy | 239,542 | 540,618 | 7,179 | 247,666 | 1,035,005 | 1,019,982 |
| Other EU countries | 752 | 4,168 | 635 | 967 | 6,522 | 5,244 |
| U S A | 52 | 269 | 8 | 85 | 414 | 340 |
| Switzerland | 1,109 | 2,970 | - | 42 | 4,121 | 4,204 |
| Other countries | 254 | 520 | 273 | 70 | 1,117 | 1,082 |
| **Total** | **241,709** | **548,545** | **8,095** | **248,830** | **1,047,179** | **1,030,852** |

## 22. Cost of raw materials and consumables and goods for resale

The composition of this item is illustrated in the following table:

| Cost of raw materials and consumables and goods for resale (€/000) | 2005 | 2004 |
|---|---|---|
| Paper for special initiatives | 65 | 45 |
| Electricity, water, gas, fuel | 1,610 | 1,525 |
| **Total cost of raw materials** | **1,675** | **1,571** |
| Goods for resale | 201,744 | 207,808 |
| Consumption and maintenance materials | 24,368 | 27,627 |
| **Total cost of consumables and goods for resale** | **226,112** | **235,435** |
| **Total cost of raw materials and consumables and goods for resale** | **227,787** | **237,006** |

## 23. Cost of services

The composition of this item is illustrated in the following table:

| | 2005 | 2004 |
|---|---|---|
| Rights and royalties | 112,786 | 104,666 |
| Third party collaboration | 25,703 | 24,650 |
| Consultancy | 10,791 | 11,616 |
| Commissions | 8,424 | 8,366 |
| Contracted-out printing: | | |
| - printing, packaging and other | 159,212 | 145,593 |
| - paper | 114,805 | 103,329 |
| Transport and shipping | 42,991 | 39,987 |
| Advertising services | 60,435 | 53,804 |
| Other services | 13,660 | 12,763 |
| Travel and other expense reimbursements | 5,371 | 6,305 |
| Maintenance | 2,571 | 2,835 |
| Postal and telephone | 3,681 | 3,409 |
| Canteen and cleaning services | 3,347 | 3,177 |
| Market research | 4,843 | 5,124 |
| Insurance | 2,235 | 1,982 |
| Subscription management | 1,950 | 2,104 |
| Information agency | 770 | 734 |
| Expenses for company boards: | | |
| - Chairman and Board of Directors (*) | 1,859 | 3,620 |
| - Board of Statutory Auditors (*) | 109 | 105 |
| **Total cost of services** | **575,543** | **534,169** |

(*)Details on an individual basis of remuneration for the year is given in appendix H (CONSOB decree 11971 of 14 May 1999).

The more significant increases in "cost of services" refer to:

- rights and royalties for authors (in the book division) and to record and film companies (in the magazine division) for the sale of DVDs and CDs offered as add-on sales with magazines belonging to the company ;
- contracted out printing, as a result of the increased volume of business in the book and magazine divisions;
- advertising, which also includes the costs involved in launching new publishing initiatives.

## 24. Personnel costs

The composition of this item is described and commented on below:

| Personnel costs (€/000) | 2005 | 2004 |
|---|---|---|
| Salaries and wages | 94,872 | 90,909 |
| Stock options | 1,615 | 1,020 |
| Social charges | 26,895 | 25,754 |
| Leaving entitlements, termination indemnities and pensions | 7,492 | 7,212 |
| Discounting (excluding interest costs) | 582 | (1,712) |
| **Total personnel costs** | **131,456** | **123,183** |

Cost per category may be analysed as follows:

| | 2005 | 2004 |
|---|---|---|
| Managers | 25,209 | 21,419 |
| White-collars | 45,175 | 44,198 |
| Journalists | 57,163 | 53,582 |
| Blue-collars | 3,909 | 3,984 |
| **Total** | **131,456** | **123,183** |

The company employed 1,595 people at 31 December 2005, a decrease of 5 compared with 31 December 2004, as illustrated in the table below.

| Personnel | 12/31/2005 | 12/31/2004 | Average 2005 | Average 2004 |
|---|---|---|---|---|
| Managers | 88 | 84 | 87 | 85 |
| Journalists | 454 | 449 | 455 | 458 |
| White-collars and intermediates | 946 | 958 | 947 | 964 |
| Blue-collars | 107 | 109 | 109 | 110 |
| **Total** | **1,595** | **1,600** | **1,598** | **1,617** |

The average number of employees for the year was 1,598 (1,617 in 2004).

*Information about stock option plans*

Following the expiry on 28 April 2003 of the previous stock option plan for the period 2000/2001/2002, shareholders resolved in general meeting to renew the Stock Option Plan regarding the company's shares for the three-year period 2003-2004-2005.

The Plan is directed at managers of the company, its subsidiaries and the parent company whose activities have a determining impact on the attainment of the Group's strategic objectives, together with directors of the company and of associated companies.

Shareholders 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. Shareholders also entrusted the Committee with the task of defining the Regulations for implementing the Stock Option Plan, to be presented to the Board of Directors for approval.

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

The option can only be exercised, in a single act, during the period between 1 January of the third year and 31 December of the fourth year after the year of each grant date. The options allocated in 2005 can be exercised between the 1 January of the third year and the 31 December of the fifth year after the year of being granted.

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 who are responsible for running an organisational unit; 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 directors of the company's subsidiaries; journalists employed by the company or its subsidiaries who are editors or deputy-editors of titles; and managers with the title of "direttore" who work for the parent company and who carry out activities in favour of the company.

The Regulations further specify that the Committee should identify the conditions for exercising the options granted to the participants with reference to the performance parameters of an economic and/or financial nature determined on an annual basis; for each year in which the Plan is in force, the Committee reviews whether the conditions for exercising the options have been satisfied by the end of the first half of the year following the year in which the options are granted.

The Committee determined that the performance parameters of an economic and/or financial nature for the Stock Option Plan 2003-2005 were the ROE and Free-cash flow since, in the light of past experience, these indicators also respond to market expectations and those of institutional investors, who have shown their appreciation of them.

The following table illustrates the situation at 31 December 2005 regarding the total number of options that have been granted and can still be exercised, the price and the exercise term:

| Stock options | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| In circulation at 1/1/2005 | 779,000 | 1,524,000 | 1,945,000 | 2,170,000 | - |
| - granted during year | - | - | - | - | 2,625,000 |
| - cancelled during year | (734,000) | - | - | - | (30,000) |
| - exercised during year | (45,000) | (990,794) | - | - | - |
| - expired during year | - | - | - | - | - |
| In circulation at 31/12/2005 | - | 533,206 | 1,945,000 | 2,170,000 | 2,595,000 |
| Exercise term | 1/1/2004-31/12/2005 | 1/1/2005-31/12/2006 | 1/1/2006-31/12/2007 | 1/1/2007-31/12/2008 | 1/1/2008-31/12/2010 |
| Exercise price in euros | | 6.85 | 6.471 | 7.749 | 7.87 |
| Exercisable at 31/12/2005 | | 533,206 | - | - | - |

The weighted average price of the shares at the exercise date for the options exercised during the period was €8.16.

Those options assigned after 7 November 2002 have been measured at their fair value on the basis of a numerical calculation using binomial trees based on the following parameters:

| Parameters for option measuring model | 2003 | 2004 | 2005 |
|---|---|---|---|
| Exercise price of the option | 6.471 | 7.749 | 7.87 |
| Option term (residual period) | 2 | 3 | 5 |
| Market price of the underlying shares at the grant date in euros | 6.234 | 7.793 | 7.865 |
| Expected volatility of share price | 30.00% | 20.00% | 18.45% |
| Dividend yield | 4.00% | 4.00% | 4.45% |
| Risk free interest rate for the option term | 2.80% | 3.50% | 2.65% |

It should also be noted that the cost included in the income statement for the year, under the item "Personnel costs", deriving from operations based on share swaps amounted to €2,342 thousand.

## 25. Other (income) expense

This item is made up as follows:

| Other (income) expense (€/000) | 2005 | 2004 |
|---|---|---|
| Other revenues and income | (55,252) | (41,118) |
| Cost of use of third party assets | 11,990 | 12,614 |
| Various operating costs | 17,420 | 15,889 |
| **Total other (income) expense** | **(25,842)** | **(12,615)** |

"Other revenues and income", amounting to €55,252 thousand (€41,118 thousand), refers to:

| Other (income) expense<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Grants for paper consumption | 16,310 | 5,027 |
| Capital gains and prior year items | 2,696 | 328 |
| Supplier rebates and other third party contributions | 356 | 428 |
| Recovery of expenses from third parties: | | |
| - development and distribution expenses | 8,499 | 7,285 |
| - expenses for producing advertising | 5,571 | 5,798 |
| - cost of work for personnel loans | 3,981 | 3,258 |
| - other costs and expenses | 13,167 | 15,775 |
| Company rent | 35 | 35 |
| Others (promotional sales, publishing subsidies) | 4,637 | 3,184 |
| **Total other revenues and income** | **(55,252)** | **(41,118)** |

The item Grants for paper consumption includes €11,283 thousand (€5,027 thousand) that represents the request made by the company for access to tax credits for the consumption of paper for 2005, in accordance with article 1, paragraph 484, of Law no. 311 of 30 December 2004, while the remaining amount of €5,027 thousand refers to the balance of the contribution for 2004.

The cost of third party assets, amounting to €11,990 thousand (€12,614 thousand), consists of:

| Other (income) expense - Cost of third party assets<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Rental expense | 8,454 | 8,186 |
| Hire of vehicles and other hire | 2,644 | 2,863 |
| Printing machinery rental and other rentals | 892 | 1,565 |
| **Total cost of third party assets** | **11,990** | **12,614** |

Other charges, amounting to €17,420 thousand (€15,889 thousand), include:

| | 2005 | 2004 |
|---|---|---|
| Compensation, settlements and discounts | 5,757 | 7,249 |
| Bad debts | 6,842 | 3,549 |
| Contributions and grants | 2,083 | 1,582 |
| Personnel on loan | 487 | 354 |
| Information material | 1,195 | 1,202 |
| Entertainment expenses | 1,545 | 1,504 |
| Others and various | 476 | 231 |
| Capital losses/prior year costs | 2,231 | 170 |
| Charge to/utilisation of bad debt provisions | (3,651) | 1,693 |
| Charge to/utilisation of provisions for legal risks | 500 | (1,208) |
| Charge to/utilisation of provisions for other risks | (903) | (1,198) |
| Council property tax | 148 | 165 |
| Taxes and dues | 710 | 596 |
| **Total** | **17,420** | **15,889** |

## 26. Financial income (expense)

This item, amounting to net expense of €12,590 thousand (net expense of €21,661 thousand) consists of the following:

| Financial income (expense)<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Interest from banks and post offices | 358 | 121 |
| Interest from associated companies | 59 | 39 |
| Interest from subsidiaries | 1,742 | 2,438 |
| Financial income from derivative instrument operations | 9,948 | 7,055 |
| Other interest and financial income | 1,911 | 270 |
| **Total interest and other financial income** | **14,018** | **9,923** |
| Interest to banks | (2,575) | (2,403) |
| Interest to associated companies | (251) | (317) |
| Interest to subsidiaries | (17,578) | (16,871) |
| Financial expense from derivative instrument operations | (2,935) | (9,558) |
| Financial expense from discounting assets/liabilities | (2,651) | (1,658) |
| Other interest paid and financial expense | (429) | (320) |
| **Total interest paid and other financial expense** | **(26,419)** | **(31,127)** |
| Realised foreign exchange differences | (202) | (26) |
| Unrealised foreign exchange differences | 13 | 53 |
| **Total gains (losses) on foreign exchange operations** | **(189)** | **27** |
| Income from securities included in current assets | 0 | (484) |
| **Total financial income (expense) resulting from the management of securities** | **0** | **(484)** |
| **Total financial income (expense)** | **(12,590)** | **(21,661)** |

Financial income from investments in other companies included in non-current assets concerns the revaluation of withholding tax advances on the employees' leaving entitlement (law no. 140 of 28/5/1997).

Net income from derivatives mainly refers to *cross currency swap operations* for the purpose of hedging exchange and interest rate risks on the company's bond. The relative financial expense is included as "Interest to subsidiaries".

The rates applied to receivables from and payables to subsidiary and associated companies are in line with Mondadori's average borrowing cost.

Financial charges represented 1.2% of turnover in 2005, as illustrated in the following table:

| (€/000) | | 2005 | 2004 |
|---|---|---|---|
| Interest and financial expense on short-term loans | | 20,581 | 19,729 |
| Other financial expense (commission/bank charges, cover for exchange/interest rate risks, discounting expense) | | 5,838 | 11,398 |
| | | 26,419 | 31,127 |
| Interest on loans | | +2,217 | +2,801 |
| Other financial income (receivables/securities as non-current assets, hedging of exchange/interest rate risks) | | +11,801 | +7,122 |
| Total | (A) | 12,401 | 21,204 |
| Revenues from sales | (B) | 1,047,179 | 1,030,852 |
| Percentage | (A/B) | 1.2% | 2.1% |

## 27. Income (expense) from investments

The details of this item are illustrated in the following table:

| Income (expense) from investments (€/000) | 2005 | 2004 |
|---|---|---|
| Dividends | 36,443 | 38,357 |
| Writedowns | (11,507) | (5,962) |
| Capital losses/gains on corporate operations | 77 | (201) |
| Total income (expense) from investments | 25,012 | 32,194 |

Dividends received during the year were as follows:

| (€/000) | 2005 | 2004 |
|---|---|---|
| Subsidiary companies: | | |
| Mondadori International S.A. | 12,885 | 10,000 |
| Mondadori Pubblicità S.p.A. | 2,460 | 3,600 |
| Giulio Einaudi Editore S.p.A. | 4,600 | 5,980 |
| Sperling & Kupfer S.p.A. | 2,255 | 4,501 |
| Edumond Le Monnier S.p.A. | 2,448 | 2,856 |
| Cemit Interactive Media S.p.A. | 3,540 | 3,687 |
| Fied S.p.A. | 0 | 128 |
| Edizioni Piemme S.p.A. | 996 | 1,299 |
| Mondadori Franchising S.p.A. | 1,505 | 762 |
| **Total** | **30,689** | **32,813** |
| Associated companies: | | |
| Gruner und Jahr/Mondadori S.p.A. | 2,536 | 3,188 |
| Mondolibri S.p.A. | 750 | 600 |
| Società Europea di Edizioni S.p.A. | - | 551 |
| Mondadori Rodale S.r.l. | 469 | 550 |
| Harlequin Mondadori S.p.A. | 268 | 350 |
| Mach 2 Libri S.p.A. | 260 | 240 |
| Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l. | 180 | 65 |
| Hearst Mondadori S.r.l. | 670 | 0 |
| Bol Books On Line Italia S.p.A. | 621 | 0 |
| **Total** | **5,754** | **5,544** |
| **Total dividends** | **36,443** | **38,357** |

Writedowns of €11,526 thousand (€5,962 thousand) refer to the *impairment test* carried out to adjust the cost of investments to their recoverable value.

Details are given in the balance sheet item "Investments", while the table below sets out the nature of the writedowns.

| (€/000) | 2005 | 2004 |
|---|---|---|
| Cover for losses | 19 | 3,159 |
| Reduction of capital and reserves | 0 | 3,427 |
| | 19 | 6,586 |
| Provisions for losses/write-downs | | |
| – provisions | 11,507 | 2,678 |
| – utilisations | 0 | (3,302) |
| | 11,507 | (624) |
| Other | | - |
| **Total** | **11,526** | **5,962** |

Capital gains on company operations refer to the disposal to third-parties of the "Publishing Services Centre" and "Education" divisions.

## 28. Income taxes

"Income taxes" amounted to €48,029 thousand (€45,699 thousand). The main components of income taxes for the years ended 31 December 2005 and 2004 were as follows:

| Income taxes (€/000) | 2005 | 2004 |
|---|---|---|
| IRES tax on income for the year | 19,320 | 35,689 |
| IRAP tax for the year | 11,491 | 11,304 |
| **Total current taxes** | **30,811** | **46,993** |
| Deferred tax (income) expense - IRES | 18,218 | (1,331) |
| Deferred tax (income) expense - IRAP | (1,000) | 37 |
| **Total deferred tax (income) expense** | **17,218** | **(1,294)** |
| Other tax expense (income) | 0 | 0 |
| **Total income taxes** | **48,029** | **45,699** |

*Reconciliation between the tax charge in the financial statements and the theoretical tax charge*

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| (€/000) | Profit before taxes | Taxes | Current tax rate | Profit before taxes | Taxes | Current tax rate |
| Theoretical IRES tax charge | 149,319 | 49,275 | 33.00% | 138,739 | 45,784 | 33.00% |
| Theoretical IRAP tax charge | | 6,346 | 4.25% | | 5,896 | 4.25% |
| **Total theoretical tax charge /rate** | **149,319** | **55,621** | **37.25%** | | **51,680** | |
| Actual IRES tax charge | 149,319 | 37,538 | 25.14% | 138,739 | 34,395 | 24.79% |
| Actual IRAP tax charge | | 10,491 | 7.03% | | 11,304 | 8.15% |
| **Actual tax charge/effective tax rate** | **149,319** | **48,029** | **32.17%** | **138,739** | **45,699** | **32.94%** |
| **Theoretical tax charge/rate** | **149,319** | **55,621** | **37.25%** | **138,739** | **51,680** | **37.25%** |
| Dividend effect | (37,133) | (12,254) | (8.21%) | (36,439) | (12,025) | (8.67%) |
| Tax credits on paper consumption | (16,310) | (5,382) | (3.60%) | (5,029) | (1,660) | (1.19%) |
| Effect of provisions for investment losses | 11,526 | 3,803 | 2.55% | 6,412 | 2,116 | 1.52% |
| Effect of tax for transparency | (974) | (321) | (0.21%) | (877) | (289) | (0.21%) |
| Net effect of other permanent IRES differences | 7,333 | 2,555 | 1.71% | 1,421 | 648 | 0.47% |
| Effect of different IRAP tax base (cost of labour, collaboration, financial and extraordinary income/expense, losses on receivables) | 124,471 | 5,290 | 3.54% | 123,032 | 5,229 | 3.77% |
| Other | (30,183) | (1,283) | (0.86%) | 0 | 0 | 0 |
| **Actual tax charge/effective tax rate** | | **48,029** | **32.17%** | | **45,699** | **32.94%** |

## Commitments and contingent liabilities

The composition of commitments and contingent liabilities is described and commented on below.

**Commitments** are made up as follows:

| (€/000) | Sureties | Other guarantees | Total 12/31/2005 | Total 12/31/2004 |
|---|---|---|---|---|
| Guarantees, sureties and endorsements | | | | |
| - in favour of subsidiaries | 0 | 75,203 | 75,203 | 72,843 |
| - in favour of associated companies | 1,005 | 1,575 | 2,580 | 2,580 |
| - in favour of other companies | 48,822 | 0 | 48,822 | 10,769 |
| | 49,827 | 76,778 | 126,605 | 86,192 |
| Other commitments | | | 11,344 | 9,460 |
| **Total** | | | **137,949** | **95,652** |

## Guarantees, sureties and endorsements

– ***in favour of subsidiaries:*** €75,203 thousand (€72,843 thousand) refers to undertakings given to the Milan VAT office on behalf of subsidiary companies, in respect of their VAT credits offset in the Group settlement;.

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

– ***in favour of other companies:*** €48,822 thousand (€10,769 thousand) refers to counter-guarantees given by the company for sureties issued by banks:

- to the Lombardy Region Tax Authorities and the Ministry of Industry for competitions in magazines for €7,768 thousand;
- to authorised competition procedures for €34,000 thousand;
- to Radio Milano International S.p.A. for €3,510 thousand;
- to One O One Radio Service S.r.l. for €2,633 and other authorities and companies for a total of €911 thousand.

### Supplementary tables

A supplementary table containing a geographical analysis of the company's receivables and payables is contained in appendix I.

### Consolidated Financial Statements

The appendices also include the Group's consolidated financial statements at 31 December 2005.

*On behalf of the Board of Directors*
*Chairman*
*Marina Berlusconi*

## Effects of the adoption of IAS 32 and IAS 39 on shareholders' equity and on the balance sheet at 1 January 2005

Mondadori elected to apply IAS 32 and IAS 39 with effect from 1 January 2005 on the basis of the options available. As permitted by IFRS 1, the comparative figures at 31 December 2004 do not comply with those two statements. The following tables and notes present the effects of IAS 32 and IAS 39 on shareholders' equity at 1 January 2005, net of the tax effect. These figures are unaudited.

(€/000)

| | | |
|---|---|---|
| | **Shareholders' equity at 31 December 2004** | **587,014** |
| 1. | Treasury shares | (108,172) |
| 2. | Valuation of financial instruments and derivatives | (25,347) |
| | **Shareholders' equity at 1 January 2005** | **453,495** |

1. Treasury shares of €108,172 thousand previously booked as assets in the balance sheet have been reclassified as a direct reduction of equity under IAS/IFRS.

2. The item includes the combined effect of a valuation under IAS 32 and IAS 39 of loan operations and derivatives.
   Under IAS/IFRS, the bond is measured at amortised cost, being its initial value (fair value) adjusted by the amortised issue costs and taking into account the effect resulting from the euro/dollar exchange rate.
   In compliance with IAS/IFRS, derivatives are valued at fair value. On transition to IAS/IFRS, the following operations were outstanding: derivatives relating to the risk of fluctuations in interest rates and derivatives connected with stock option plans.
   The effect of the above matters led to a decrease in shareholders' equity of 25,347 thousand euros.

The following tables present the reconciling items between the balance sheet prepared as of 1 January 2005 in accordance with IAS/IFRS and including IAS 32 and IAS 39, and the balance sheet prepared as of 31 December 2004 in accordance with IAS/IFRS but excluding IAS 32 and IAS 39.

## Balance sheet at 1 January 2005

| Assets<br>(€/000) | In accordance with IAS/IFRS 31 December 2004 | Reclassifications IAS 32 IAS 39 | Reclassifications IAS 32 IAS 39 | In accordance with IAS/IFRS 1 January 2005 |
|---|---|---|---|---|
| Intangible assets | 94,473 | - | - | 94,473 |
| Investment property | 8,231 | - | 0 | 8,231 |
| Land and buildings | 17,926 | - | - | 17,926 |
| Plant and machinery | 5,564 | - | - | 5,564 |
| Other tangible fixed assets | 6,421 | - | | 6,421 |
| Property, plant and equipment | 29,911 | 0 | 0 | 29,911 |
| Investments | 751,565 | - | - | 751,565 |
| Non-current financial assets | 108,172 | (108,172) | - | 0 |
| Deferred tax assets | 19,970 | - | 13,941 | 33,911 |
| Other non-current assets | 3,237 | - | - | 3,237 |
| **Total non-current assets** | **1,015,559** | **(108,172)** | **13,941** | **921,328** |
| Tax receivables | 3,455 | - | - | 3,455 |
| Other current assets | 41,584 | - | - | 41,584 |
| Inventories | 36,072 | - | - | 36,072 |
| Trade receivables | 227,610 | - | - | 227,610 |
| Securities and other current financial assets | 83,704 | - | 3,887 | 87,591 |
| Cash and cash equivalents | 46,439 | - | - | 46,439 |
| **Total current assets** | **438,864** | **0** | **3,887** | **442,751** |
| Assets held for sale | - | - | - | - |
| **Total assets** | **1,454,423** | **(108,172)** | **17,828** | **1,364,079** |

## Balance sheet at 1 January 2005

| Liabilities and shareholders' equity<br>In accordance with IAS/IFRS<br>(€/000) | In accordance<br>with IAS/IFRS<br>31 December 2004 | Reclassifications<br>IAS 32<br>IAS 39 | Reclassifications<br>IAS 32<br>IAS 39 | In accordance<br>with IAS/IFRS<br>1 January 2005 |
|---|---|---|---|---|
| Share capital | 67,452 | - | - | 67,452 |
| Share premium reserve | 175,575 | 108,172 | - | 283,747 |
| Treasury shares | 0 | (108,172) | - | (108,172) |
| Other reserves and retained earnings | 250,947 | (108,172) | (25,347) | 117,428 |
| Profit (loss) for the year | 93,040 | - | - | 93,040 |
| **Total shareholders' equity** | **587,014** | **(108,172)** | **(25,347)** | **453,495** |
| Provisions | 11,866 | | | 11,866 |
| Employees' leaving entitlement and termination indemnities | 41,189 | | | 41,189 |
| Non-current financial liabilities | 296,384 | | 42,010 | 338,394 |
| Deferred tax liabilities | 9,534 | | 1,165 | 10,699 |
| Other non-current liabilities | - | - | - | 0 |
| **Total non-current liabilities** | **358,973** | **0** | **43,175** | **402,148** |
| Income tax payables | 15,216 | - | - | 15,216 |
| Other current liabilities | 104,053 | - | - | 104,053 |
| Trade payables | 214,202 | - | - | 214,202 |
| Payables to banks and other financial liabilities | 174,965 | - | 0 | 174,965 |
| **Total current liabilities** | **508,436** | **0** | **0** | **508,436** |
| Liabilities held for sale | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,454,423** | **(108,172)** | **17,828** | **1,364,079** |

### Effects of the adoption of IAS 32 and IAS 39 on the net financial position at 1 January 2005.

The application of IAS 32 and IAS 39 on the net financial position at 1 January 2005 resulted in an increase in debt of €38.1 million.

| | |
|---|---|
| **IAS/IFRS net financial position (debt) at 31 December 2004** | **(341,206)** |
| IAS/IFRS adjustments | (38,123) |
| **IAS/IFRS net financial position (debt) at 1 January 2005** | **(379,329)** |

# Appendices

# Appendix A: Table of investments

| | Head office | | Share capital | Shareholders' equity | Profit (loss) for 2005 |
|---|---|---|---|---|---|
| *Subsidiary companies* | | | | | |
| Arnoweb S.A. | Luxembourg | Euro | 36,256,900 | 32,797,559 | -54,254 |
| Cemit Interactive Media S.p.A. | S.Mauro Torinese (TO) | | 3,835,000 | 8,014,099 | 1,630,762 |
| Edizioni Piemme S.p.A. | Milan | | 566,661 | 8,032,660 | 3,851,301 |
| Edumond Le Monnier S.p.A. | Milan | | 10,608,000 | 42,484,132 | 7,846,156 |
| Fied S.p.A. | Milan | | 416,000 | 949,304 | -10,080 |
| Giulio Einaudi Editore S.p.A. | Turin | | 23,920,000 | 29,505,647 | 6,213,167 |
| Mondadori Electa S.p.A. | Milan | | 1,593,735 | 6,067,230 | 1,146,829 |
| Mondadori Franchising S.p.A. | Rimini | | 1,954,000 | 4,840,746 | 2,603,425 |
| Mondadori International S.A. | Luxembourg | | 393,625,900 | 443,763,263 | 3,262,847 |
| Mondadori Printing S.p.A. | Milan | | 45,396,000 | 119,514,749 | 476,737 |
| Mondadori Pubblicità S.p.A. | Milan | | 3,120,000 | 5,800,021 | 656,047 |
| Mondadori Retail S.p.A. | Milan | | 2,700,000 | 3,621,825 | -2,034,249 |
| Mondadori Sistemi di Comunicazione S.r.l. | Milan | | 95,000 | 555,635 | -39,138 |
| Monradio S.r.l. | Milan | | 3,020,000 | 51,612,033 | -13,212,407 |
| Prisco Spain S.A. | Barcelona | | 60,101 | 59,884 | -3,772 |
| Sperling & Kupfer Editori S.p.A. | Milan | | 388,800 | 895,613 | 2,032,136 |
| **Total** | | | | | |
| *Associated companies* | | | | | |
| ACI-Mondadori S.p.A. | Milan | Euro | 590,290 | 590,290 | 989,507 |
| Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l. | Milan | | 400,000 | 498,300 | 135,676 |
| BOL Books On Line Italia S.p.A. | Milano Oltre-Segrate | | 1,000,000 | 189,319 | 2,161,072 |
| Gruner und Jahr/Mondadori S.p.A. | Milan | | 2,600,000 | 4,465,629 | 5,050,114 |
| Grupo Editorial Random House Mondadori S.L. | Barcelona | | 10,002,000 | 19,191,903 | 4,908,983 |
| Harlequin Mondadori S.p.A. | Milan | | 258,250 | 319,354 | 442,501 |
| Hearst Mondadori Editoriale S.r.l. | Milan | | 99,600 | 249,035 | 582,225 |
| Mach 2 Libri S.p.A. | Peschiera Borromeo (MI) | | 646,250 | 9,987,316 | 1,541,623 |
| Mondadori Rodale S.r.l. | Milan | | 90,000 | 670,493 | 1,278,734 |
| Mondolibri S.p.A. | Milan | | 1,040,000 | 26,057,455 | 1,158,780 |
| Press TV S.p.A. | Milan | | 1,500,000 | 2,157,016 | -1,520,595 |
| Rock Fm S.r.l. | Milan | | 200,000 | 200,000 | -129,219 |
| Società Europea di Edizioni S.p.A. | Milan | | 2,775,602 | 8,651,651 | -1,984,722 |
| **Total** | | | | | |
| *Other companies* | | | | | |
| Consorzio Sistemi Informativi Editoriali Distributivi-C.S.I.E.D. | Milan | Euro | 103,291 | 135,850 | 7,873 |
| Consuledit S.r.l. | Milan | | 20,000 | 32,385 | 2,304 |
| Editrice Portoria S.p.A. (bankruptcy) | Milan | | 364,000 | 299,567 | |
| Immobiliare Editori Giornali S.r.l. | Rome | | 830,462 | 654,227 | 5,364 |
| ISTUD S.p.A. | Milan | | 985,094 | 985,085 | -603,756 |
| Soc. Editrice Il Mulino S.p.A. | Bologna | | 1,175,000 | 1,508,179 | |
| **Total** | | | | | |
| **Total direct investments** | | | | | |
| **General total** | | | | | |

(a) Shareholders' equity at 31 December 1999 - (b) Associated as to 50% through Arnoweb S.A. and Prisco Spain S.A. - (c) Shareholders' equity at 31 December 2004
(d) Consolidated financial statements - (e) Associated as to 47.49% through the Attica Group

| | | | | | Carrying value | | | |
|---|---|---|---|---|---|---|---|---|
| Total Shareholders' equity | | Share held | | Attributable Shareholders' equity | Purchased/ Estabilished | Capital contributions | Reserve for losses/ depreciations | Total |
| 32,743,305 | | 99.99% | | 32,740,031 | 36,253,178 | | (3,441,919) | 32,811,259 |
| 9,644,861 | | 100.00% | | 9,644,861 | 15,463,824 | | | 15,463,824 |
| 11,883,961 | | 70.00% | | 8,318,773 | 14,107,099 | | | 14,107,099 |
| 50,330,288 | | 100.00% | | 50,330,288 | 56,086,576 | | | 56,086,576 |
| 939,224 | | 100.00% | | 939,224 | 4,446,769 | | | 4,446,769 |
| 35,718,814 | | 100.00% | | 35,718,814 | 28,255,546 | | | 28,255,546 |
| 7,214,059 | | 100.00% | | 7,214,059 | 6,209,227 | | (2,188,000) | 4,021,227 |
| 7,444,171 | | 100.00% | | 7,444,171 | 1,882,212 | 2,001,058 | | 3,883,270 |
| 447,026,110 | | 99.99% | | 446,981,408 | 392,758,674 | | | 392,758,674 |
| 119,991,486 | | 57.04% | | 68,443,144 | 69,227,171 | | | 69,227,171 |
| 6,456,068 | | 100.00% | | 6,456,068 | 3,524,692 | | | 3,524,692 |
| 1,587,576 | | 100.00% | | 1,587,576 | 2,807,609 | 1,339,275 | (1,800,000) | 2,346,884 |
| 516,497 | | 100.00% | | 516,497 | 95,000 | | | 95,000 |
| 38,399,626 | | 100.00% | | 38,399,626 | 41,263,552 | 8,500,000 | (8,500,000) | 41,263,552 |
| 56,112 | | 100.00% | | 56,112 | 7,856,441 | | | 7,856,441 |
| 2,927,749 | | 100.00% | | 2,927,749 | 9,181,127 | | | 9,181,127 |
| | | | | **717,718,399** | **689,418,697** | **11,840,333** | **(15,929,919)** | **685,329,111** |
| 1,579,797 | | 50.00% | | 789,898 | 540,000 | | (402,754) | 137,246 |
| 633,976 | | 50.00% | | 316,988 | 206,583 | | | 206,583 |
| 2,350,391 | | 50.00% | | 1,175,196 | 500,000 | | (405,000) | 95,000 |
| 9,515,743 | | 50.00% | | 4,757,871 | 1,203,313 | | | 1,203,313 |
| 24,100,886 | (d) | 6.01% | (b) | 1,448,463 | 13,841,696 | | | 13,841,696 |
| 761,855 | | 50.00% | | 380,928 | 402,000 | | | 402,000 |
| 831,260 | | 50.00% | | 415,630 | 49,800 | 48,728 | | 98,528 |
| 11,528,939 | | 20.00% | | 2,305,788 | 129,114 | | | 129,114 |
| 1,949,227 | | 50.00% | | 974,614 | 45,000 | | | 45,000 |
| 27,216,235 | | 50.00% | | 13,608,118 | 3,010,217 | | | 3,010,217 |
| 636,421 | | 50.00% | | 318,211 | 750,000 | 328,500 | (760,000) | 318,500 |
| 70,781 | | 10.00% | (e) | 7,078 | 20,000 | | | 20,000 |
| 6,666,929 | | 31.28% | | 2,085,415 | 8,020,314 | | (447,000) | 7,573,314 |
| | | | | **28,584,196** | **28,718,037** | **377,228** | **(2,014,754)** | **27,080,511** |
| 143,723 | | 10.00% | | 14,372 | 10,329 | | | 10,329 |
| 34,689 | | 9.54% | | 3,309 | 985 | | | 985 |
| 299,567 | (a) | 16.78% | | 50,267 | 60,684 | | (60,683) | 1 |
| 659,591 | | 7.88% | | 51,976 | 52,132 | | | 52,132 |
| 381,329 | | 0.59% | | 2,250 | 6,714 | | | 6,714 |
| 1,508,179 | (c) | 7.05% | | 106,327 | 101,158 | | | 101,158 |
| | | | | **228,501** | **232,002** | **0** | **(60,683)** | **171,319** |
| | | | | **746,531,097** | **718,368,736** | **12,217,561** | **(18,005,356)** | **712,580,941** |

# Appendix B/1: Main indirect subsidiary and associated companies at 12/31/2005

| Name | | Head office | | Share capital | Shareholders' equity |
|---|---|---|---|---|---|
| *Subsidiary companies:* | | | | | |
| ABS Finance Fund SICAV | | Luxemburg | Euro | 438,756,307 | 438,756,307 |
| AME France S.a.r.l. | | Paris | Euro | 20,000 | 28,391 |
| AME Publishing Ltd. | | New York | US$ | 50,000 | 201,929 |
| Arnoldo Mondadori Deutschland GmbH | | Munich | Euro | 25,565 | 70,157 |
| Artes Graficas Toledo S.A. | | Toledo | | 5,409,000 | 7,723,000 |
| Edizioni Frassinelli S.r.l. | | Milan | | 10,400 | 223,274 |
| Electa Napoli S.p.A. | | Naples | | 155,000 | 1,155,777 |
| Mondadori.com Inc. (U.S.A.) | | New York | US$ | 1,000 | 4,230,611 |
| MISA Finance Fund P.l.c. | | Dublin | Euro | 73,562,752 | 73,562,752 |
| Total | | | | | |
| *Associated companies:* | | | | | |
| *companies belonging to the Group* | | | | | |
| *Random House Mondadori:* | (a) | | | | |
| Random House Mondadori S.A. (Colombia) | | Bogotà | Pesos colom. | 2,960,900 | |
| Random House Mondadori S.A. de C.V. (Mexico) | | Mexico D.F. | Pesos | 230,618,774 | |
| Editorial Random House Mondadori Ltda (Colombia) | | Bogotà | Pesos colom. | 779,596,000 | |
| Editorial Lumen S.A. | | Barcelona | Euro | 66,000 | |
| Editorial Sudamericana Argentina S.A. (Argentina) | | Buenos Aires | Australes | 8,366,513 | |
| Random House Mondadori S.A. (Chile) | | Santiago | Pesos | 4,184,124,231 | |
| Editorial Sudamericana Uruguaya S.A. | | Montevideo | Pesos | 9,892,775 | |
| Grijalbo Editor S.A. (Uruguay) | | Montevideo | Pesos | 500,000 | |
| Random House Mondadori S.A. (Venezuela) | | Caracas | Bolivares | 670,686,000 | |
| Market Self S.A. | | Buenos Aires | Australes | 30,200 | |
| Random House Mondadori S.A. | | Barcelona | Euro | 6,824,606 | |
| (Data from Consolidated Financial Statement of Random House Mondadori Group) | | | Euro | 10,002,000 | 19,191,903 |

| Profit (loss) for 2005 | Total shareholders' equity | Share held by group | Attributable shareholders' equity in currency | Attributable shareholders' equity in euros (b) |
|---|---|---|---|---|
| | | | | |
| | 438,756,307 | 61.21% | 268,579,644 | 268,579,644 |
| 2,307 | 30,698 | 99.99% | 30,695 | 30,695 |
| -12,500 | 189,429 | 99.99% | 189,410 | 160,558 |
| 3,212 | 73,369 | 99.99% | 73,362 | 73,362 |
| -596,000 | 7,127,000 | 100.00% | 7,127,000 | 7,127,000 |
| 416,012 | 639,286 | 100.00% | 639,286 | 639,286 |
| 191,124 | 1,346,901 | 60.00% | 808,141 | 808,141 |
| -3,988,845 | 241,766 | 99.99% | 241,742 | 204,918 |
| | 73,562,752 | 99.99% | 73,555,396 | 73,555,396 |
| | | | | **351,178,999** |
| | | | | |
| | | 49.99% | | |
| | | 50.00% | | |
| | | 50.00% | | |
| | | 50.00% | | |
| | | 50.00% | | |
| | | 50.00% | | |
| | | 49.95% | | |
| | | 50.00% | | |
| | | 50.00% | | |
| | | 25.00% | | |
| | | 50.00% | | |
| | | | | |
| 4,908,983 | 24,100,886 | 50.00% | 12,050,442 | 12,050,442 |

*(follows)*

# Appendix B/1: Main indirect subsidiary and associated companies at 31/12/2005

*(follow)*

| Name | Head office | | Share capital | Shareholders' equity |
|---|---|---|---|---|
| *Companies belonging to the Attica Group:* | | | | |
| Argos S.A. | Athens | Euro | 2,203,327 | |
| Attica Pubblications S.A. | Athens | Euro | 4,590,000 | |
| Alpha Records S.A. | Athens | | 390,000 | |
| Attica Media Bulgaria Ltd | Sophia | Lev | 155,000 | |
| Attica Media Serbia Ltd | Belgrado | Euro | 208,000 | |
| Balcan Publications Ltd | Cyprus | Cyprus Pounds | 1,000 | |
| City Serves S.A. | Athens | Euro | 4,337,500 | |
| Civico Ltd | Cyprus | US$ | 1,734 | |
| E-One S.A. | Athens | Euro | 2,054,292 | |
| Emphasis S.A. | Athens | | 798,239 | |
| Enallaktikes S.A. | Athens | | 410,858 | |
| G. Dragounis S.A. | Athens | | 311,346 | |
| International Radio Networks Holdings S.A. | Luxemburg | | 750,000 | |
| International Radio Networks S.A. | Athens | | 380,000 | |
| Ionikes Publishing S.A. | Athens | | 780,000 | |
| Map Media S.A. | Budapest | Huf | 60,000,000 | |
| PBR Publication Ltd | Bucharest | Rol | 2,000,000 | |
| Tilerama S.A. | Athens | Euro | 1,467,351 | |
| Tiletheatis S.A. | Athens | | 2,641,500 | |
| (Data from consolidated financial statements of Attica) | | Euro | 4,590,000 | 8,584,499 |
| Consorzio Covar | Rome | Euro | 15,494 | 15,494 |
| Consorzio Forma | Pisa | Euro | 3,615 | 6,293 |
| Edizioni EL S.r.l. | Trieste | Euro | 620,000 | 3,739,541 |
| Edizioni Electa Bruno Mondadori S.r.l. | Milan | | 10,400 | 238,443 |
| Euromedia Luxemburg Two S.A. (in liquidation) | Luxemburg | US$ | 42,500,000 | 29,783,376 |
| Novamusa Gelmar Biblioteca Nazionale Soc. Cons. a r.l. | Rome | Euro | 10,200 | 10,200 |
| Novamusa Val di Mazara Soc. Cons. a r.l. | Messina | | 90,000 | 90,000 |
| Novamusa Val di Noto Soc. Cons. a r.l. | Messina | | 90,000 | 90,000 |
| Novamusa Valdemone Soc. Cons. a r.l. | Messina | | 90,000 | 90,000 |
| Roccella Soc. Cons. a r.l. | Naples | | 100,000 | 100,000 |
| Selcon S.r.l. | Milan | | 20,800 | 327,044 |
| Venezia Accademia S.c. a r.l. | Mestre (VE) | | 15,000 | 26,081 |
| Venezia Musei società per i servizi museali S.c. a r.l. | Venice | | 10,000 | 14,593 |
| Venezia Musei S.c. a r.l. (in liquidation) | Venice | | 10,000 | 20,284 |
| **Total** | | | | |

(a) see also appendix A: Table of investments
(b) exchange rate
US$ Euro 1.1797

| Profit (loss) for 2005 | Total Shareholders' equity | Share held by group | Attributable Shareholders' equity in currency | Attributable shareholders' equity in euros (b) |
|---|---|---|---|---|
| | | 41.66% | | |
| | | 20.00% | | |
| | | 20.00% | | |
| | | 20.00% | | |
| | | 9.00% | | |
| | | 10.00% | | |
| | | 32.80% | | |
| | | 19.60% | | |
| | | 20.00% | | |
| | | 40.00% | | |
| | | 39.88% | | |
| | | 26.60% | | |
| | | 20.00% | | |
| | | 20.00% | | |
| | | 20.00% | | |
| | | 28.68% | | |
| 5,489,233 | 14,073,732 | 40.00% | 5,629,493 | 5,629,493 |
| -17,748 | -2,254 | 25.00% | | |
| -3,879 | 2,414 | 25.00% | | |
| 617,590 | 4,357,131 | 50.00% | 2,178,566 | 2,178,566 |
| 419,879 | 658,322 | 50.00% | 329,161 | 329,161 |
| | 29,783,376 | 11.76% | 3,502,525 | 2,968,996 |
| | 10,200 | 12.00% | 1,224 | 1,224 |
| | 18,000 | 12.00% | 2,160 | 2,160 |
| | 90,000 | 12.00% | 10,800 | 10,800 |
| | 90,000 | 12.00% | 10,800 | 10,800 |
| | 10,000 | 29.70% | 2,970 | 2,970 |
| | 327,044 | 17.60% | 57,560 | 57,560 |
| -95,319 | -69,238 | 26.00% | -18,002 | -18,002 |
| 1,349 | 15,942 | 34.00% | 5,420 | 5,420 |
| | 20,284 | 34.00% | 6,897 | 6,897 |
| | | | | **23,236,488** |

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

Arnoldo Mondadori Editore S.p.A.
The following information refers to significant investments as referred to in article 120 of Legislative Decree no. 58/1998, pursuant to article 126 of CONSOB regulation 11971 of 14/05/1999

| Name | | Share capital | Total share % held | Direct/ indirect holding |
|---|---|---|---|---|
| ACI-Mondadori S.p.A. (Italy) | EUR | 590,290 | 50% | direct |
| Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l. (Italy) | EUR | 400,000 | 50% | direct |
| BOL Books on Line Italia S.p.A. (Italy) | EUR | 1,000,000 | 50% | direct |
| Cemit Interactive Media S.p.A. (Italy) | EUR | 3,835,000 | 100% | direct |
| Editrice Portoria S.p.A. in bankruptcy (Italy) | EUR | 364,000 | 16.785% | direct |
| Edizioni EL S.r.l. (Italy) | EUR | 620,000 | 50% | indirect |
| Edizioni Electa Bruno Mondadori S.r.l. (Italy) | EUR | 10,400 | 50% | indirect |
| Edizioni Frassinelli S.r.l. (Italy) | EUR | 10,400 | 100% | indirect |
| Edizioni Piemme S.p.A. (Italy) | EUR | 566,661 | 70% | direct |
| Edumond Le Monnier S.p.A. (Italy) | EUR | 10,608,000 | 100% | direct |
| Electa Napoli S.p.A. (Italy) | EUR | 155,000 | 60% | indirect |
| Fied S.p.A. (Italy) | EUR | 416,000 | 100% | direct |
| Giulio Einaudi Editore S.p.A. (Italy) | EUR | 23,920,000 | 100% | direct |
| Gruner & Jahr/Mondadori S.p.A. (Italy) | EUR | 2,600,000 | 50% | direct |
| Harlequin Mondadori S.p.A. (Italy) | EUR | 258,250 | 50% | direct |
| Hearst Mondadori Editoriale S.r.l. (Italy) | EUR | 99,600 | 50% | direct |
| Mach 2 Libri S.p.A. (Italy) | EUR | 646,250 | 24% | direct<br>indirect |
| Mondadori Electa S.p.A. (Italy) | EUR | 1,593,735 | 100% | direct |
| Mondadori Franchising S.p.A. (Italy) | EUR | 1,954,000 | 100% | direct |
| Mondadori Printing S.p.A. (Italy) | EUR | 45,396,000 | 100% | direct<br>indirect |
| Mondadori Pubblicità S.p.A. (Italy) | EUR | 3,120,000 | 100% | direct |
| Mondadori Retail S.p.A. (Italy) | EUR | 2,700,000 | 100% | direct |
| Mondadori Sistemi di Comunicazione S.r.l. (Italy) | EUR | 95,000 | 100% | direct |
| Mondadori-Rodale S.r.l. (Italy) | EUR | 90,000 | 50% | direct |
| Mondolibri S.p.A. (Italy) | EUR | 1,040,000 | 50% | direct |
| Monradio S.r.l. (Italy) | EUR | 3,020,000 | 100% | direct |
| Novamusa Gelmar Biblioteca Nazionale S.c. a r.l. (Italy) | EUR | 10,200 | 20% | indirect |
| Novamusa Val di Mazara S.c. a r.l. (Italy) | EUR | 90,000 | 20% | indirect |
| Novamusa Valdemone S.c. a r.l. (Italy) | EUR | 90,000 | 20% | indirect |
| Novamusa Valdinoto S.c. a r.l. (Italy) | EUR | 90,000 | 20% | indirect |
| Press TV S.p.A. (Italy) | EUR | 1,500,000 | 50% | direct |
| Roccella S.c. a r.l. (Italy) | EUR | 100,000 | 49,5% | indirect |
| Società Europea di Edizioni S.p.A. (Italy) | EUR | 2,775,601.92 | 39.27% | direct<br>indirect |
| Sperling & Kupfer Editori S.p.A. (Italy) | EUR | 388,800 | 100% | direct |
| Venezia Accademia Società Consortile a r.l. (Italy) | EUR | 15,000 | 26% | indirect |
| Venezia Musei Società Consortile a r.l. in liquidation (Italy) | EUR | 10,000 | 34% | indirect |
| Venezia Musei Società per i servizi museali S.c. a r.l. (Italy) | EUR | 10,000 | 34% | indirect |
| ABS Finance Fund Sicav (Luxemburg) | EUR | 438,763,904.25 | 61.35% | indirect |
| Ame France S.a.r.l. (France) | EUR | 20,000 | 100% | indirect |
| Ame Publishing Ltd. (USA) | USD | 50,000 | 100% | indirect |
| Arnoldo Mondadori Deutschland GmbH (Germany) | EUR | 25,564.59 | 100% | indirect |
| Arnoweb S.A. (Luxembourg) | EUR | 36,256,900 | 99.9998% | direct |
| Artes Graficas Toledo S.A. (Spain) | EUR | 5,409,000 | 100% | indirect |

| | | | | 12/31/2005 |
|---|---|---|---|---|
| Shareholder | % held | Head office | Tax code | Establishment date |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Bianca di Savoia 12 | 13277400159 | 17/11/2000 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Senato 18 | 10463540152 | 02/10/1991 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Lampedusa 13 | 13074160154 | 22/02/2000 |
| Arnoldo Mondadori Editore S.p.A. | 100% | San Mauro Torinese (TO) - via Toscana 9 | 04742700018 | 13/12/1984 |
| Arnoldo Mondadori Editore S.p.A. | 16.785% | Milan - via Chiossetto 1 | 02305160158 | 26/03/1975 |
| Giulio Einaudi Editore S.p.A. | 50% | Trieste - San Dorligo della Valle - via J. Ressel 5 | 00627340326 | 07/05/1984 |
| Edumond Le Monnier S.p.A. | 50% | Milan - via Trentacoste 7 | 06976090156 | 05/05/1983 |
| Sperling & Kupfer Editori S.p.A. | 100% | Milan - via Durazzo 4 | 07254880151 | 12/01/1984 |
| Arnoldo Mondadori Editore S.p.A. | 70% | Milan - viale Bianca Maria 25 | 00798930053 | 29/09/1982 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 03261490969 | 1/10/2001 |
| Mondadori Electa S.p.A. | 60% | Naples - via Giovanni Capurro 1 | 04230890636 | 27/09/1983 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 04591640158 | 26/10/1979 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Turin - via U. Biancamano 2 | 08367150151 | 03/06/1986 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - corso Monforte 54 | 09440000157 | 10/09/1988 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - corso Concordia 7 | 05946780151 | 15/10/1980 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Bianca di Savoia 12 | 12980290154 | 17/12/1999 |
| Arnoldo Mondadori Editore S.p.A. | 20% | Peschiera Borromeo (MI) - via Galileo Galilei 1 | 03782990158 | 06/05/1983 |
| Sperling & Kupfer Ed. S.p.A. | 4% | | | |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Trentacoste 7 | 01829090123 | 23/02/1989 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Verucchio (RN) - Fraz. di Villa Verucchio via Statale Marecchia n. 51-51/a | 08853520156 | 28/05/1987 |
| Arnoldo Mondadori Editore S.p.A. | 57.05% | Milan - via Bianca di Savoia 12 | 12319410150 | 28/11/1997 |
| Mondadori International S.A. | 42.95% | | | |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 08696660151 | 12/02/1987 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 00212560239 | 19/11/1946 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 03864370964 | 19/02/2003 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Bianca di Savoia 12 | 13066890156 | 25/02/2000 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Lampedusa 13 | 12853650153 | 25/06/1999 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Bianca di Savoia 12 | 04571350968 | 15/10/2004 |
| Electa Napoli S.p.A. | 20% | Rome - via Ennio Quirino Visconti 8 | 06573391007 | 9/04/2001 |
| Electa Napoli S.p.A. | 20% | Messina - via Acireale Z.I.R. | 06727470632 | 19/04/2005 |
| Electa Napoli S.p.A. | 20% | Messina - via Acireale Z.I.R. | 02704670831 | 16/04/2003 |
| Electa Napoli S.p.A. | 20% | Messina - via Acireale Z.I.R. | 02704680830 | 16/04/2003 |
| Arnoldo Mondadori Editore S.p.A. | 50% | Milan - via Bianca di Savoia 12 | 03619240967 | 08/07/2002 |
| Electa Napoli S.p.A. | 49.5% | Naples - via Giovanni Capurro 1 | 05053571211 | 21/03/2005 |
| Arnoldo Mondadori Editore S.p.A. | 31.28% | Milan - via G. Negri 4 | 01790590150 | 27/02/1974 |
| Fied S.p.A. | 7.99% | | | |
| Arnoldo Mondadori Editore S.p.A. | 100% | Milan - via Durazzo 4 | 00802780155 | 03/11/1927 |
| Mondadori Electa S.p.A. | 26% | Venice Mestre - via Manin 51 | 03377400274 | 21/03/2002 |
| Mondadori Electa S.p.A. | 34% | Venice Mestre - via Manin 51 | 03233710270 | 9/05/2000 |
| Mondadori Electa S.p.A. | 34% | Venice Mestre - via Manin 51 | 03534350271 | 22/04/2004 |
| Mondadori International S.A. | 61.35% | Luxemburg - 19-21 Boulevard du Prince Henri | | 03/02/1999 |
| Mondadori International S.A. | 100% | France - Paris - 9-11, avenue Franklin D. Roosevelt | | 23/06/2004 |
| Mondadori International S.A. | 100% | U.S.A. - New York N.Y. - 740 Broadway | | 1/02/1982 |
| Mondadori International S.A. | 100% | Germany - Munich - Tal 21 | | 14/05/1970 |
| Arnoldo Mondadori Editore S.p.A. | 99.9998% | Luxemburg - 33, rue Notre Dame | | 16/12/1999 |
| Mondadori Printing S.p.A. | 100% | Spain - Toledo - C/Jarama S/N - Poligono Industrial | | 03/10/1974 |

*(follows)*

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

*(follow)*

| Name | | Share capital | Total share % held | Direct/ indirect holding |
|---|---|---|---|---|
| Attica Publications S.A. (Greece) | EUR | 4,590,000 | 41.66% | indirect |
| Euromedia Luxembourg Two S.A. in liquidation (Luxemburg) | USD | 36,337,500 | 11.765% | indirect |
| Grupo Editorial Random House Mondadori S.L. (Spain) | EUR | 10,002,000 | 50% | indirect |
| | | | | direct |
| | | | | indirect |
| Misa Finance Fund PLC (Ireland) | EUR | 73,578,286 | 99.9998% | indirect |
| Mondadori Belgium S.A. in liquidation (Belgium) | EUR | 62,000 | 99.984% | direct |
| Mondadori International S.A. (Luxemburg) | EUR | 393,625,900 | 99.99% | direct |
| Mondadori.com USA Inc. (USA) | USD | 1,000 | 100% | indirect |
| Prisco Spain S.A. (Spain) | EUR | 60,101.30 | 100% | direct |

| Shareholder | % held | Head office | Tax code | Establishment date |
|---|---|---|---|---|
| Mondadori International S.A. | 41.66% | Greece - Athens - Maroussi. 40 Kifissias Avenue | | 01/08/1994 |
| Arnoweb S.A. | 11.765% | Luxembourg - 33, rue Notre Dame | | 13/03/2000 |
| Arnoweb S.A. | 33.99% | Spain - Barcelona. Calle Travessera de Gracia 47/49 | | 07/03/1991 |
| Arnoldo Mondadori Editore S.p.A. | 6.01% | | | |
| Prisco Spain S.A. | 10% | | | |
| Mondadori International S.A. | 99.9998% | Ireland - Dublin - I.F.S.C. - 2, Harbourmaster Place | | 12/06/2003 |
| Arnoldo Mondadori Editore S.p.A. | 99.984% | Belgium - Brussels - Avenue Louise 109 | | 22/03/2001 |
| Arnoldo Mondadori Editore S.p.A. | 99.99% | Luxembourg - 33, rue Notre Dame | | 18/09/1970 |
| Arnoweb S.A. | 100% | USA - Delaware - 1013 Centre Rd Wilmington 19805, New Castle Country | | 16/09/1999 |
| Arnoldo Mondadori Editore S.p.A. | 100% | Spain - Barcelona, Calle Travessera de Gracia 47/49 | | 06/12/1988 |

# Appendix C1: Receivables from subsidiary and associated companies at 12/31/2005 (€/000)

| | 12/31/2005 | | 12/31/2004 | | |
|---|---|---|---|---|---|
| | Subsidiary | Associated | Subsidiary | Associated | Changes |
| Current accounts and financial receivables: | | | | | |
| Arnoweb S.A. | 5,937 | | 8,955 | - | -3,018 |
| Edizioni Frassinelli S.r.l. | 854 | | 1,085 | - | -231 |
| Edizioni Piemme S.p.A. | 8,381 | | 13,153 | - | -4,772 |
| Mondadori Electa S.p.A. | - | | 263 | - | -263 |
| Mondadori Franchising S.p.A. | 2,391 | | 1,607 | | 784 |
| Mondadori Printing S.p.A. | - | | 83 | - | -83 |
| Monradio S.r.l. | 25,091 | | 142 | | 24,949 |
| Sperling & Kupfer Editori S.p.A. | | | 6,910 | - | -6,910 |
| Gruner und Jahr/Mondadori S.p.A. | | 1,165 | | - | 0 |
| Harlequin Mondadori S.p.A. | | 74 | | - | 0 |
| Press TV S.p.A. | | 1,976 | | 1,053 | 923 |
| Other companies for amounts lower than €52 thousand (*) | 5 | - | - | - | 5 |
| **Total** | **42,659** | **3,215** | **32,198** | **1,053** | **11,384** |

(*) Amounts for the previous year also include receivables from companies who left the Group during 2005

| | 12/31/2005 | | 12/31/2004 | | |
|---|---|---|---|---|---|
| | Subsidiary | Associated | Subsidiary | Associated | Changes |
| Trade relations: | | | | | |
| AME France S.a.r.l. | - | | 54 | - | -54 |
| Cemit Interactive Media S.p.A. | 785 | | 1,307 | - | -522 |
| Edizioni Frassinelli S.r.l. | 132 | | 104 | | 28 |
| Edizioni Piemme S.p.A. | 126 | | 92 | | 34 |
| Edumond Le Monnier S.p.A. | 586 | | 620 | - | -34 |
| Giulio Einaudi Editore S.p.A. | 2,400 | | 2,541 | - | -141 |
| Mondadori Electa S.p.A. | 847 | | 858 | - | -11 |
| Mondadori Franchising S.p.A. | 5,405 | | 4,326 | | 1,079 |
| Mondadori International S.A. | 177 | | - | | 177 |
| Mondadori Printing S.p.A. | 1,055 | | 1,106 | - | -51 |
| Mondadori Pubblicità S.p.A. | 103,579 | | 103,569 | | 10 |
| Mondadori Retail S.p.A. | 3,000 | | 2,549 | | 451 |
| Mondadori Sistemi di Comunicazione S.r.l. | 28 | | 85 | - | -57 |
| Monradio S.r.l. | 1,383 | | - | | 1,383 |
| Sperling & Kupfer Editori S.p.A. | 1,109 | | 958 | | 151 |
| ACI-Mondadori S.p.A. | | 823 | | 1,055 | -232 |
| Agenzia Lombarda Distrib. Giornali e Riviste S.r.l. | | 452 | | 189 | 263 |
| Attica Media Bulgaria Ltd | | 32 | | - | 32 |
| BOL - Books On Line Italia S.p.A. | | 5 | | 442 | -437 |
| Dragounis Publications | | 81 | | - | 81 |
| Edizioni EL S.r.l. | | 236 | | 203 | 33 |
| Grüner und Jahr/Mondadori S.p.A. | | 1,576 | | 1,554 | 22 |
| Grupo Editorial Random House Mondadori S.L. | | 65 | | 95 | -30 |
| Harlequin Mondadori S.p.A. | | 3,396 | | 2,159 | 1,237 |
| Hearst Mondadori Editoriale S.r.l. | | 644 | | 620 | 24 |
| Mach 2 Libri S.p.A. | | 15,882 | | 14,030 | 1,852 |
| Mondadori Rodale S.r.l. | | 1,744 | | 1,439 | 305 |
| Mondolibri S.p.A. | | 1,895 | | 1,508 | 387 |
| Press TV S.p.A. | | 482 | | 462 | 20 |
| Random House Mondadori | | 55 | | - | 55 |
| Società Europea di Edizioni S.p.A. | | 210 | | 138 | 72 |
| Other companies for amounts lower than €52 thousand (*) | 7 | 19 | 8 | - | 18 |
| **Total** | **120,619** | **27,597** | **118,177** | **23,894** | **6,145** |
| **Grand total** | **163,278** | **30,812** | **150,375** | **24,947** | **17,529** |

# Appendix C2: Intragroup economic relations in 2005 (€/000)

| Related parties | Revenues from sales and services | Other income | Income from investment | Investments income | Total |
|---|---|---|---|---|---|
| *Parent companies* | | | | | |
| Fininvest S.p.A. | 1 | 0 | 0 | 0 | 1 |
| *Subsidiary companies* | | | | | |
| Arnoweb S.A. | | | 237 | | 237 |
| Cemit Interactive Media S.p.A. | 1,841 | 474 | | 3,540 | 5,855 |
| Edizioni Frassinelli S.r.l. | 259 | 20 | 22 | | 301 |
| Edizioni Piemme S.p.A. | 18 | 189 | 285 | 996 | 1,488 |
| Edumond Le Monnier S.p.A. | 1,396 | 469 | 175 | 2,448 | 4,488 |
| Electa Napoli S.p.A. | 31 | | | | 31 |
| FIED S.p.A. | | | | | 0 |
| Giulio Einaudi Editore S.p.A. | 4,834 | 137 | | 4,600 | 9,571 |
| Mondadori Electa S.p.A. | 1,774 | 663 | 11 | | 2,448 |
| Mondadori Franchising S.p.A. | 11,598 | 247 | 15 | 1,505 | 13,365 |
| Mondadori International S.p.A. | | | 178 | 12,885 | 13,063 |
| Mondadori Printing S.p.A. | 2,556 | 469 | 591 | | 3,616 |
| Mondadori Pubblicità S.p.A. | 217,359 | 9,063 | 162 | 2,460 | 229,044 |
| Mondadori Retail S.p.A. | 8,647 | 242 | 162 | | 9,051 |
| Mondadori Sistemi di Comunicazione S.r.l. | 4 | 198 | | | 202 |
| Monradio S.r.l. | 121 | 1,594 | 318 | | 2,033 |
| Sperling & Kupfer Editori S.p.A. | 2,087 | 877 | 134 | 2,255 | 5,353 |
| Texto S.p.A. | 13 | | | | 13 |
| **Total** | **252,538** | **14,642** | **2,290** | **30,689** | **300,159** |
| *Associated companies* | | | | | |
| ACI-Mondadori S.p.A. | 1,109 | 1,540 | | | 2,649 |
| Agenzia Lombarda Distrib.Giornali e Riviste S.r.l. | 18,915 | 3 | | 180 | 19,098 |
| Attica Media Bulgaria Ltd | 17 | | | | 17 |
| Bol Books on Line Italia S.p.A. | 617 | 6 | | 621 | 1,244 |
| Edizioni EL S.r.l. | 408 | 3 | | | 411 |
| Gr. Edit. Random House Mondadori S.L. | 79 | | | | 79 |
| Gruner und Jahr/Mondadori S.p.A. | 874 | 3,220 | | 3,985 | 8,079 |
| Georgios Dragounis Publications S.A. | 8 | | | | 8 |
| Harlequin Mondadori S.p.A. | 33 | 491 | | 427 | 951 |
| Hearst Mondadori Editore S.r.l. | 738 | 1,044 | 3 | 670 | 2,455 |
| Mach 2 Libri S.p.A. | 29,360 | 4 | | 260 | 29,624 |
| Mondadori Rodale S.r.l. | 2,165 | 2,904 | | 469 | 5,538 |
| Mondolibri S.p.A. | 4,793 | 517 | | 750 | 6,060 |
| Press TV S.p.A. | 488 | 539 | 56 | | 1,083 |
| Rock Fm S.r.l. | 12 | 3 | | | 15 |
| Random House Mondadori S.A. | 25 | | | | 25 |
| Società Europea di Edizioni S.p.A. | 355 | 7 | | | 362 |
| Venezia Accademia Sc. a r.l. | 4 | | | | 4 |
| **Total** | **60,000** | **10,281** | **59** | **7,362** | **77,702** |

| Related parties | Revenues from sales and services | Other income | Income from investment | Investments income | Total |
|---|---|---|---|---|---|
| *Fininvest Group Companies* | | | | | |
| Alba Servizi Aerotrasporti S.p.A. | | | | | 0 |
| Banca Mediolanum S.p.A. | | | | | 0 |
| Elettronica industriale S.p.A. | | | | | 0 |
| Finedim Italia S.p.A. | 4 | | | | 4 |
| Il Teatro Manzoni | 2 | | | | 2 |
| Milan A.C. S.p.A. | 1 | | | | 1 |
| Mediaset S.p.A. | 1 | | | | 1 |
| Mediolanum S.p.A. | | 31 | | | 31 |
| Medusa Film S.r.l. | 2 | | | | 2 |
| Medusa Video S.p.A. | 4 | | | | 4 |
| Pagine Italia S.p.A. | | | | | 0 |
| Publitalia 80 S.p.A. | 241 | | | | 241 |
| RTI Reti Televisive Italiane S.p.A. | 6 | 1 | | | 7 |
| Video Time S.p.A. | | 3 | | | 3 |
| Total | 261 | 35 | 0 | 0 | 292 |
| Grand total | 312,800 | 24,958 | 2,349 | 38,051 | 378,154 |

# Appendix D1: Payables to subsidary and associated companies at 12/31/2005 (€/000)

| | 12/31/2005 | | 12/31/2004 | | |
|---|---|---|---|---|---|
| | Subsidary companies | Associated companies | Subsidary companies | Associated companies | Changes |
| Current accounts and financial payables: | | | | | |
| Cemit Interactive Media S.p.A. | 8,642 | | 9,438 | | -796 |
| Edumond Le Monnier S.p.A. | 26,102 | | 12,248 | | 13,854 |
| Electa Napoli S.p.A. | 237 | | 205 | | 32 |
| FIED S.p.A. | 544 | | 536 | | 8 |
| Giulio Einaudi Editore S.p.A. | 11,374 | | 7,967 | | 3,407 |
| Mondadori Electa S.p.A. | 1,596 | | - | | 1,596 |
| Mondadori International S.A. | 7 | | 9,040 | | -9,033 |
| Mondadori Pubblicità S.p.A. | 7,786 | | 9,464 | | -1,678 |
| Mondadori Printing S.p.A. | 60,177 | | - | | 60,177 |
| Mondadori Retail S.p.A. | 1,518 | | 4,755 | | -3,237 |
| Mondadori Sistemi di comunicazione S.r.l. | 309 | | 91 | | 218 |
| Sperling & Kupfer Editore S.p.A. | 235 | | - | | 235 |
| ACI Mondadori S.p.A. | | 2,928 | | 1,974 | 954 |
| Grüner und Jahr/Mondadori S.p.A. | | 2,065 | | 6,304 | -4,239 |
| Harlequin Mondadori S.p.A. | | 6,450 | | 4,983 | 1,467 |
| Hearst Mondadori Editoriale S.r.l. | | 1,508 | | 846 | 662 |
| Mondadori Rodale S.r.l. | | 3,991 | | 712 | 3,279 |
| Other companies for amounts lower than €52 thousand | | 6 | 44 | 1 | -39 |
| **Total** | **118,527** | **16,948** | **53,788** | **14,820** | **66,867** |

(*) Amounts for the previous year also include payables to companies who left the Group during 2005

| | 12/31/2005 | | 12/31/2004 | | |
|---|---|---|---|---|---|
| | Subsidary companies | Associated companies | Subsidary companies | Associated companies | Changes |
| Trade relations: | | | | | |
| AME France S.a.r.l. | 24 | | 98 | | -74 |
| Ame Publishing Ltd | 287 | | 432 | | -145 |
| Artes Graficas Toledo S.A. | 1,195 | | 1,457 | | -262 |
| Cemit Interactive Media S.p.A. | 291 | | 743 | | -452 |
| Edizioni Frassinelli S.r.l. | 1,616 | | 1,904 | | -288 |
| Edizioni Piemme S.p.A. | 55 | | - | | 55 |
| Edumond Le Monnier S.p.A. | 77 | | 83 | | -6 |
| Electa Napoli S.p.A. | 122 | | 158 | | -36 |
| Giulio Einaudi Editore S.p.A. | 13,756 | | 10,757 | | 2,999 |
| Mondadori Electa S.p.A. | 4,934 | | 6,132 | | -1,198 |
| Mondadori International S.A. | 185 | | - | | 185 |
| Mondadori Printing S.p.A. | 60,786 | | 57,058 | | 3,728 |
| Mondadori Pubblicità S.p.A. | 2,075 | | 2,558 | | -483 |
| Mondadori Retail S.p.A. | 224 | | 182 | | 42 |
| Sperling & Kupfer Editori S.p.A. | 4,916 | | 10,884 | | -5,968 |
| ACI-Mondadori S.p.A. | | 467 | | 828 | -361 |
| Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l. | | | | 202 | -202 |
| Edizioni EL S.r.l. | | 2,716 | | 2,680 | 36 |
| Grüner und Jahr/Mondadori S.p.A. | | 7,725 | | 3,890 | 3,835 |
| Grupo Editorial Random House Mondadori S.L. | | 89 | | - | 89 |
| Hearst Mondadori Editoriale S.r.l. | | 7 | | 436 | -429 |
| Mach 2 Libri S.p.A. | | 311 | | 305 | 6 |
| Mondadori Rodale S.r.l. | | - | | 1,366 | -1,366 |
| Mondolibri S.p.A. | | 731 | | 826 | -95 |
| Press TV S.p.A. | | 63 | | 589 | -526 |
| Società Europea di Edizioni S.p.A. | | 1 | | - | 1 |
| Other companies for amounts lower than €52 thousand | 11 | - | 8 | 11 | -8 |
| Total | 90,554 | 12,110 | 92,454 | 11,133 | -923 |
| Grand total | 209,081 | 29,058 | 146,242 | 25,953 | 65,944 |

# Appendix D2: Intragroup economic relations in 2005 (€/000)

| Related parties | Raw materials and consumable | Services | Other expense | Financial expense | Expense from investments | Total |
|---|---|---|---|---|---|---|
| *Parent companies* | | | | | | |
| Fininvest S.p.A. | | | 37 | | | 37 |
| | | | | | | |
| *Subsidiary companies* | | | | | | |
| AME France S.a.r.l. | | 341 | 12 | | | 353 |
| AME Publishing Ltd. | 192 | 2,370 | 302 | | | 2,864 |
| Arnoldo Mondadori Deutschland GmbH | | 6 | | | | 6 |
| Artes Graficas Toledo S.A. | | 2,027 | | | | 2,027 |
| Cemit Interactive Media S.p.A. | | 1,164 | | 135 | | 1,299 |
| Edizioni Frassinelli S.r.l. | 3,452 | 3 | | | | 3,455 |
| Edizioni Piemme S.p.A. | | 217 | | | | 217 |
| Edumond Le Monnier S.p.A. | 5 | 56 | 51 | 103 | | 215 |
| Electa Napoli S.p.A. | 266 | | | 1 | | 267 |
| Fied S.p.A. | | | | 8 | | 8 |
| Giulio Einaudi Editore S.p.A. | 31,101 | 118 | 95 | 124 | | 31,438 |
| Mondadori Electa S.p.A. | 12,520 | 955 | 101 | 21 | | 13,597 |
| Mondadori Franchinsing S.p.A. | | 2 | | 8 | | 10 |
| Mondadori International S.A. | | 185 | | 17,030 | | 17,215 |
| Mondadori Printing S.p.A. | 366 | 239,825 | 114 | 163 | | 240,468 |
| Mondadori Pubblicità S.p.A. | 2,179 | 2,690 | 1,364 | 35 | | 6,268 |
| Mondadori Retail S.p.A. | 7 | 284 | 344 | 6 | | 641 |
| Mondadori Sistemi di Comunicazione S.r.l. | | | | 7 | | 7 |
| Monradio S.r.l. | | | 100 | 7 | | 107 |
| Sperling & Kupfer Editori S.p.A. | 20,332 | 315 | 13 | 2 | | 20,662 |
| Total | 70,420 | 250,558 | 2,496 | 17,650 | 0 | 341,124 |
| | | | | | | |
| *Associated companies* | | | | | | |
| ACI-Mondadori S.p.A. | 5,752 | 259 | | 25 | | 6,036 |
| Agenzia Lombarda Distrtib. Giornali e Riviste S.r.l. | | 2,142 | 15 | | | 2,157 |
| BOL Books on Line Italia S.p.A. | | 5 | | | | 5 |
| Edizioni EL S.r.l. | 4,243 | | | | | 4,243 |
| Gruner und Jahr/Mondadori S.p.A. | 36,626 | 4 | 2 | 100 | | 36,732 |
| Grupo Editorial Random House Mondadori S.A. | | 106 | | | | 106 |
| Harlequin Mondadori S.p.A. | 11,315 | | | 65 | | 11,380 |
| Hearst Mondadori Editoriale S.r.l. | 3,822 | 30 | 1 | 19 | | 3,872 |
| Mach 2 Libri S.p.A. | | 1,858 | | | | 1,858 |
| Mondadori-Rodale S.r.l. | 11,535 | 39 | 1 | 39 | | 11,614 |
| Mondolibri S.p.A. | | 2,023 | 56 | | | 2,079 |
| Press TV S.p.A. | 1,911 | 57 | 1 | 3 | | 1,972 |
| Società Europea di Edizioni S.p.A. | | | 5 | | | 5 |
| Total | 75,204 | 6,523 | 81 | 251 | 0 | 82,059 |

| Related parties | Raw materials and consumable | Services | Other expense | Financial expense | Expense from investments | Total |
|---|---|---|---|---|---|---|
| *Other companies* | | | | | | |
| Consorzio Sistemi Inf.vi Editoriali Distributivi | | 50 | | | | 50 |
| Consuledit S.r.l. | | 584 | | | | 584 |
| Istud S.p.A. | | 192 | 5 | | | 197 |
| Selcon S.r.l. | | 2 | | | | 2 |
| Total | 0 | 828 | 5 | 0 | 0 | 833 |
| *Fininvest Group companies* | | | | | | |
| Alba Servizi Aerotrasporti S.p.A. | | | 52 | | | 52 |
| Consorzio Campus Multimedia | | 45 | | | | 45 |
| Il Teatro Manzoni | | 26 | 7 | | | 33 |
| Finedim Italia S.p.A. | | | 18 | | | 18 |
| Mediaset S.p.A. | | | | | | 0 |
| Mediolanum Vita S.p.A. | | | | | | 0 |
| Medusa Film S.p.A. | | | | | | 0 |
| Medusa Video S.r.l. | 8 | 1,005 | | | | 1,013 |
| Milan A.C. S.p.A. | | | 10 | | | 10 |
| Promoservice Italia S.r.l. | | 3 | | | | 3 |
| Publitalia 80 S.p.A. | | 25,098 | | | | 25,098 |
| Radio e Reti S.r.l. | | 138 | | | | 138 |
| R.T.I. Reti Televisive Italiane S.p.A. | | 204 | | | | 204 |
| Total | 8 | 26,519 | 87 | 0 | 0 | 26,614 |
| Grand total | 145,632 | 284,428 | 2,706 | 17,901 | 0 | 450,667 |

# Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with Italian accounting principles (€/000)

| | Arnoweb | Fied | Mondadori International | Monradio |
|---|---|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| Balance Sheet | | | | |
| Assets | | | | |
| Intangible assets | | | 833 | 71,098 |
| Tangible fixed assets | | | 82 | 4,147 |
| Financial assets | 32,347 | 367 | 392,268 | 12 |
| Total assets | 32,347 | 367 | 393,183 | 75,257 |
| Inventories | | | | |
| Receivables from customers | | | | 2,442 |
| Receivables from Group companies | | 544 | 297,388 | 12 |
| Receivables from others | | 6 | 6,384 | 8,682 |
| Financial activities (not non-current) | 5,939 | | 148,542 | 0 |
| Cash and cash equivalents | 1,804 | 28 | 11,591 | 585 |
| Total current assets | 7,743 | 578 | 463,905 | 11,721 |
| Prepayments and accrued income | | | 60 | 23 |
| **Total assets** | **40,090** | **945** | **857,148** | **87,001** |
| Liabilities and shareholders' equity | | | | |
| Share capital | 36,257 | 416 | 393,626 | 3,020 |
| Reserves | (3,460) | 533 | 50,137 | 40,092 |
| Shareholder contributions | | | | 8,500 |
| Profit (loss) for the year | (54) | (10) | 3,263 | (13,212) |
| Total shareholders' equity | 32,743 | 939 | 447,026 | 38,400 |
| Provisions for risks and charges | 140 | | 905 | 494 |
| Employees' leaving entitlement | | | | 169 |
| Payables due to banks | | | 406,284 | 0 |
| Trade payables | | 6 | | 7,287 |
| Payables due to Group companies | 5,937 | | | 26,474 |
| Other payables | 1,270 | | 1,996 | 14,172 |
| Accrued liabilities and deferred income | | | 937 | 5 |
| **Total liabilities and shareholders' equity** | **40,090** | **945** | **857,148** | **87,001** |

| Year ended | Arnoweb 12/31/2005 | Fied 12/31/2005 | Mondadori International 12/31/2005 | Monradio 12/31/2005 |
|---|---|---|---|---|
| Income statement | | | | |
| Revenues from sales | | | | 4,340 |
| Changes in finished goods inventories | | | | |
| Other revenues | | | | 294 |
| Total value of production | 0 | 0 | 0 | 4,634 |
| Purchases and services | 47 | 17 | 999 | 13,546 |
| Personnel | | | | 1,721 |
| Depreciation, amortisation and writedowns | 0 | | 100 | 8,012 |
| Changes in inventory of raw materials and consumables and goods for resale | | | | |
| Accruals and charges to provisions | | | | 397 |
| Other operating expense | | 1 | 158 | 643 |
| Total cost of production | 47 | 18 | 1,257 | 24,319 |
| Income from investments | | | 398 | |
| Financial income (expense) | 123 | 8 | 4,978 | (304) |
| Total financial income (expense) | 123 | 8 | 5,376 | (304) |
| Revaluations (writedowns) | (130) | | (32) | |
| Extraordinary income (expense) | | | | |
| Profit before tax | (54) | (10) | 4,087 | (19,989) |
| Income tax | | | 824 | (6,777) |
| **Profit (loss) for the year** | **(54)** | **(10)** | **3,263** | **(13,212)** |

# Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with IAS/IFRS (€/000)

| | Cemit Interactive Media | Edizioni Piemme | Edumond Le Monnier | Giulio Einaudi Editore | Mondadori Electa |
|---|---|---|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| Balance sheet | | | | | |
| Assets | | | | | |
| Intangible assets | 0 | 566 | 23,311 | 17 | 21 |
| Investment property | 3,336 | 0 | 0 | 0 | 0 |
| Property, plant and equipment | 207 | 1,930 | 9,880 | 432 | 539 |
| Investments | 0 | 0 | 329 | 2,034 | 402 |
| Non-current financial assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | 282 | 1,018 | 1,020 | 3,945 | 1,297 |
| Other non-current assets | 45 | 19 | 49 | 0 | 94 |
| Total non-current assets | 3,870 | 3,533 | 34,589 | 6,428 | 2,353 |
| Tax receivables | 40 | 2,919 | 400 | 362 | 334 |
| Other current assets | 90 | 5,114 | 807 | 5,967 | 1,415 |
| Inventories | 1,229 | 4,421 | 13,553 | 4,603 | 9,876 |
| Trade receivables | 9,023 | 21,961 | 10,124 | 30,532 | 12,228 |
| Securities and other current financial assets | 8,642 | 0 | 26,639 | 11,389 | 1,620 |
| Cash and cash equivalents | 67 | 4,237 | 147 | 55 | 59 |
| Total current assets | 19,091 | 38,652 | 51,670 | 52,908 | 25,532 |
| Assets held for sale | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **22,961** | **42,185** | **86,259** | **59,336** | **27,885** |
| Liabilities and shareholders' equity | | | | | |
| Share capital | 3,835 | 567 | 10,608 | 23,920 | 1,594 |
| Reserves | 4,179 | 7,466 | 31,876 | 5,586 | 4,473 |
| Profit (loss) for the year | 1,631 | 3,851 | 7,846 | 6,213 | 1,147 |
| Total shareholders' equity | 9,645 | 11,884 | 50,330 | 35,719 | 7,214 |
| Provisions | 324 | 250 | 524 | 562 | 1,577 |
| Employees' leaving entitlement | 2,022 | 853 | 6,015 | 3,925 | 1,314 |
| Non-current financial liabilities | 0 | 167 | 0 | 0 | 754 |
| Deferred tax liabilities | 375 | 327 | 2,429 | 112 | 146 |
| Other non-current liabilities | 0 | 0 | 0 | 0 | 0 |
| Total non-current liabilities | 2,721 | 1,597 | 8,968 | 4,599 | 3,791 |
| Income tax payables | 1,181 | 1,013 | 3,075 | 3,329 | 692 |
| Other current liabilities | 2,340 | 9,546 | 16,989 | 10,359 | 3,218 |
| Trade payables | 7,073 | 8,303 | 6,723 | 5,317 | 12,420 |
| Debts due to banks and other financial liabilities | 1 | 9,842 | 174 | 13 | 550 |
| Total current liabilities | 10,595 | 28,704 | 26,961 | 19,018 | 16,880 |
| Liabilities held for sale | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities and shareholders' equity** | **22,961** | **42,185** | **86,259** | **59,336** | **27,885** |

| Mondadori Franchising 12/31/2005 | Mondadori Printing 12/31/2005 | Mondadori Pubblicità 12/31/2005 | Mondadori Sistemi di Comunicazione 12/31/2005 | Mondadori Retail 12/31/2005 | Prisco Spain 12/31/2005 | Sperling & Kupfer Editori 12/31/2005 |
|---:|---:|---:|---:|---:|---:|---:|
| 43 | 474 | 0 | 0 | 1,598 | 0 | 2 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,432 | 155,753 | 488 | 1 | 4,483 | 0 | 53 |
| 0 | 7,128 | 0 | 0 | 0 | 18 | 208 |
| 0 | 0 | 0 | 0 | 0 | | 0 |
| 797 | 4,995 | 448 | 0 | 563 | | 508 |
| 15 | 636 | 202 | 0 | 409 | | 13 |
| 2,287 | 168,986 | 1,138 | 1 | 7,053 | 18 | 784 |
| 0 | 936 | 69 | 93 | 591 | 1 | 238 |
| 94 | 1,226 | 573 | 0 | 1,126 | 0 | 3,085 |
| 16,211 | 21,285 | 0 | 0 | 18,170 | 0 | 2,477 |
| 8,584 | 141,090 | 151,629 | 133 | 3,508 | 0 | 5,096 |
| 0 | 60,281 | 7,644 | 309 | 1,519 | 0 | 235 |
| 3,033 | 3,615 | 27 | 61 | 578 | 39 | 20 |
| 27,922 | 228,433 | 159,942 | 596 | 25,492 | 40 | 11,151 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **30,209** | **397,419** | **161,080** | **597** | **32,545** | **58** | **11,935** |
| 1,954 | 45,396 | 3,120 | 95 | 2,700 | 60 | 389 |
| 2,887 | 74,119 | 2,680 | 461 | 922 | 0 | 507 |
| 2,603 | 477 | 656 | -39 | -2,034 | -4 | 2,032 |
| 7,444 | 119,992 | 6,456 | 517 | 1,588 | 56 | 2,928 |
| 33 | 258 | 575 | 0 | 263 | 0 | 0 |
| 418 | 32,755 | 5,231 | 0 | 1,857 | 0 | 587 |
| 0 | 51,129 | 0 | 0 | 0 | 0 | 0 |
| 131 | 8,699 | 310 | 0 | 927 | 0 | 43 |
| 0 | | | | | | 0 |
| 582 | 92,841 | 6,116 | 0 | 3,047 | 0 | 630 |
| 391 | 0 | 684 | 0 | 88 | 0 | 625 |
| 558 | 15,672 | 10,383 | 2 | 2,478 | 0 | 3,489 |
| 18,850 | 162,912 | 137,441 | 78 | 25,344 | 2 | 4,262 |
| 2,384 | 6,002 | 0 | 0 | 0 | 0 | 1 |
| 22,183 | 184,586 | 148,508 | 80 | 27,910 | 2 | 8,377 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **30,209** | **397,419** | **161,080** | **597** | **32,545** | **58** | **11,935** |

*(follows)*

# Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with IAS/IFRS (€/000)

*(follow)*

| | Cemit Interactive Media | Edizioni Piemme | Edumond Le Monnier | Giulio Einaudi Editore | Mondadori Electa |
|---|---|---|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| Income statement | | | | | |
| Revenues from sales and services | 26,377 | 41,700 | 84,907 | 45,460 | 42,955 |
| Decrease (increase) in inventories | 1,274 | 1,312 | 2,777 | (80) | (496) |
| Purchase of raw materials and consumables and goods for resale | 6,922 | 5,598 | 9,128 | 2,260 | 3,305 |
| Purchase of services | 10,561 | 24,909 | 50,066 | 27,598 | 32,005 |
| Personnel costs | 6,365 | 3,743 | 10,779 | 6,340 | 3,987 |
| Other (income) expense | (2,376) | (977) | (1,363) | 246 | 1,505 |
| Result of investments using the equity method | | | | (488) | |
| Gross operating profit | 3,631 | 7,115 | 13,520 | 9,584 | 2,649 |
| Depreciation of property, plant and equipment | 441 | 255 | 651 | 250 | 325 |
| Amortisation of intangible assets | 0 | 16 | 80 | 30 | 13 |
| Operating result | 3,190 | 6,844 | 12,789 | 9,304 | 2,311 |
| Financial income (expense) | 63 | (354) | (174) | 914 | (66) |
| Income (expense) from investments | 0 | 0 | 210 | 0 | (22) |
| Result before tax | 3,253 | 6,490 | 12,825 | 10,218 | 2,223 |
| Income tax | 1,622 | 2,639 | 4,979 | 4,005 | 1,076 |
| **Net result** | **1,631** | **3,851** | **7,846** | **6,213** | **1,147** |

| | Mondadori Franchising | Mondadori Printing | Mondadori Pubblicità | Mondadori Sistemi di Comunicazione | Mondadori Retail | Prisco Spain | Sperling & Kupfer Editori |
|---|---|---|---|---|---|---|---|
| | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| | 39,191 | 445,680 | 341,057 | 457 | 99,118 | 0 | 21,336 |
| | (3,546) | (3,130) | 0 | 0 | (211) | 0 | (243) |
| | 33,061 | 244,228 | 0 | 7 | 79,282 | 0 | 352 |
| | 3,353 | 107,660 | 322,062 | 502 | 6,100 | 0 | 16,741 |
| | 1,893 | 72,283 | 12,762 | 0 | 8,878 | 0 | 2,315 |
| | (258) | (11,988) | 3,437 | (5) | 5,062 | 4 | (235) |
| | 4,688 | 36,627 | 2,796 | (47) | 7 | (4) | 2,406 |
| | 290 | 28,763 | 254 | 1 | 1,363 | | 58 |
| | 23 | 389 | 0 | | 563 | | 9 |
| | 4,375 | 7,475 | 2,542 | (48) | (1,919) | (4) | 2,339 |
| | (3) | (1,635) | (246) | 9 | (272) | | (156) |
| | | 488 | | | | | 722 |
| | 4,372 | 6,328 | 2,296 | (39) | (2,191) | (4) | 2,905 |
| | 1,769 | 5,851 | 1,640 | 0 | (157) | | 873 |
| | **2,603** | **477** | **656** | **(39)** | **(2,034)** | **(4)** | **2,032** |

# Appendix F: Significant details from the financial statements of the most significant indirect subsidiary companies (€/000)

| | Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.) | Edizioni Frassinelli (100% owned by Sperling & Kupfer Editori S.p.A.) |
|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 |
| Balance sheet | | |
| Assets | | |
| Intangible assets | | |
| Investment property | | |
| Property, plant and equipment | 5,575 | 1 |
| Investments | | |
| Non-current financial assets | | |
| Deferred tax assets | | 62 |
| Other non-current assets | 2 | |
| Total non-current assets | 5,577 | 63 |
| Tax receivables | 125 | 45 |
| Other current assets | 7 | 833 |
| Inventories | 1,481 | 524 |
| Trade receivables | 7,574 | 1,692 |
| Securities and other current financial assets | | |
| Cash and cash equivalents | 443 | 3 |
| Total current assets | 9,630 | 3,097 |
| Assets held for sale | | |
| **Total assets** | **15,207** | **3,160** |
| Liabilities and shareholders' equity | | |
| Share capital | 5,409 | 10 |
| Reserves | 2,314 | 213 |
| Profit (loss) for the year | (596) | 416 |
| Total shareholders' equity | 7,127 | 639 |
| Provisions | | |
| Employees' leaving entitlement | | 30 |
| Non-current financial liabilities | | |
| Deferred tax liabilities | | 3 |
| Other non-current liabilities | | |
| Total non-current liabilities | | 33 |
| Income tax payables | | 159 |
| Other current liabilities | 1,019 | 733 |
| Trade payables | 6,152 | 742 |
| Payable to banks and other financial liabilities | 909 | 854 |
| Total current liabilities | 8,080 | 2,488 |
| Liabilities held for sale | | 0 |
| **Total liabilities and shareholders' equity** | **15,207** | **3,160** |

| | Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.) | Edizioni Frassinelli (100% owned by Sperling & Kupfer Editori S.p.A.) |
|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 |
| Income statement | | |
| Revenues from sales and services | 19,501 | 3,929 |
| Decrease (increase) in inventories | (125) | (87) |
| Purchase of raw materials and consumables and goods for resale | 7,713 | 12 |
| Purchase of services | 6,472 | 3,114 |
| Personnel costs | 4,735 | 226 |
| Other (income) expense | (228) | (11) |
| Gross operating profit | 934 | 675 |
| Depreciation of property, plant and equipment | 1,442 | |
| Amortisation of intangible assets | | |
| Operating result | (508) | 675 |
| Financial income (expense) | (88) | (22) |
| Income (expense) from investments | | |
| Result before tax | (596) | 653 |
| Income tax | 0 | 237 |
| **Net result** | (596) | 416 |

# Appendix G: Significant details from the financial statements of associated companies (€/000)

| | ACI Mondadori | Ag. Lomb. Distr. Giorn. e Riviste | BOL Books On Line Italia | Edizioni Electa Bruno Mondadori | Gruner und Jahr/Mondadori |
|---|---|---|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| Balance sheet | | | | | |
| Assets | | | | | |
| Receivable from shareholders | | | | | |
| Intangible assets | 15 | 12 | 0 | 0 | 268 |
| Tangible fixed assets | 55 | 57 | 0 | 0 | 411 |
| Financial assets | 11 | | | | 219 |
| Total assets | 81 | 69 | 0 | 0 | 898 |
| Inventories | 414 | 2,421 | 0 | 454 | 1,772 |
| Receivable from customers | 1,180 | 975 | 314 | 0 | 14,266 |
| Receivable from Group companies | 4,321 | 0 | | 0 | |
| Receivable from others | 405 | 532 | | 996 | 11,221 |
| Financial assets (not non-current assets) | | | | 0 | 109 |
| Cash and cash equivalents | 426 | 2,100 | 2,099 | 0 | 111 |
| Total current assets | 6,746 | 6,028 | 2,413 | 1,450 | 27,479 |
| Prepayments and accrued income | 28 | 1,847 | 0 | 0 | 168 |
| **Total assets** | **6,855** | **7,944** | **2,413** | **1,450** | **28,545** |
| Liabilities and shareholders' equity | | | | | |
| Share capital | 590 | 400 | 1,000 | 10 | 2,600 |
| Reserves | 0 | 98 | (811) | 228 | 1,866 |
| Shareholders' contributions | | | | | |
| Profit (loss) for the year | 990 | 136 | 2,161 | 420 | 5,050 |
| Total shareholders' equity | 1,580 | 634 | 2,350 | 658 | 9,516 |
| Provisions for risks and charges | 285 | | | | 512 |
| Employees' leaving entitlement | 686 | 223 | 0 | | 2,744 |
| Payables due to banks | 0 | | | 5 | |
| Trade payables | 2,668 | 824 | | 4 | 11,530 |
| Payables due to Group companies | 823 | 500 | | | |
| Other payables | 789 | 118 | 63 | 783 | 3,740 |
| Accrued liabilities and deferred income | 24 | 5,645 | | | 503 |
| **Total liabilities and shareholders' equity** | **6,855** | **7,944** | **2,413** | **1,450** | **28,545** |

*Prepared in accordance with IAS/IFRS.

| Grupo Editorial Random House Md (consolidated financial statements)* 12/31/2005 | Harlequin Mondadori 12/31/2005 | Hearst Mondadori 12/31/2005 | Mach 2 Libri 12/31/2005 | Mondadori Rodale 12/31/2005 | Mondolibri 12/31/2005 | Press TV 12/31/2005 | Rock FM 12/31/2005 | Società Europea di Edizioni 12/31/2005 |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| 4,867 | 99 | 3 | 749 | 8 | 3,530 | 53 | 2,378 | 16,156 |
| 3,712 | 89 | 22 | 892 | 67 | 1,484 | | 141 | 5,533 |
| 497 | 52 | | 291 | 0 | 286 | | 1 | 669 |
| 9,076 | 240 | 25 | 1,932 | 75 | 5,300 | 53 | 2,520 | 22,358 |
| 20,659 | 436 | 230 | 20,762 | 696 | 7,557 | 140 | 0 | 2,121 |
| 60,497 | 1,710 | 2,343 | 38,104 | 3,269 | 11,272 | 2,566 | 126 | 33,991 |
| 1,935 | 0 | 1,515 | 436 | 3,876 | 671 | 124 | | 1,851 |
| 6,032 | 490 | 215 | 5,207 | 670 | 9,660 | 3,231 | | 4,772 |
| 129 | 424 | | | | | | | 10,457 |
| 8,762 | 601 | 116 | 3,409 | 356 | 21,406 | 467 | 172 | 346 |
| 98,014 | 3,661 | 4,419 | 67,918 | 8,867 | 50,566 | 6,528 | 298 | 53,538 |
| 89 | 448 | 3 | 205 | 41 | 326 | 20 | 0 | 1,797 |
| **107,179** | **4,349** | **4,447** | **70,055** | **8,983** | **56,192** | **6,601** | **2,818** | **77,693** |
| 10,002 | 258 | 100 | 646 | 90 | 1,040 | 1,500 | 200 | 2,776 |
| 9,190 | 61 | 52 | 9,341 | 356 | 21,402 | 657 | | 5,876 |
| | | 97 | | 224 | 3,615 | | | |
| 4,909 | 443 | 582 | 1,542 | 1,279 | 1,159 | (1,521) | (129) | (1,985) |
| 24,101 | 762 | 831 | 11,529 | 1,949 | 27,216 | 636 | 71 | 6,667 |
| | | 149 | 1,377 | 240 | 117 | 95 | | 2,850 |
| | 542 | 380 | 1,625 | 689 | 4,811 | | 21 | 8,280 |
| 24,888 | | | | | | | | 23,755 |
| 40,334 | 2,654 | 1,628 | 22,589 | 3,193 | 18,545 | 3,193 | | 31,031 |
| 12,218 | | 798 | 30,703 | 1,854 | 1,814 | 2,528 | | 146 |
| 5,638 | 347 | 449 | 2,228 | 672 | 3,327 | 129 | 2,725 | 4,827 |
| | 44 | 212 | 4 | 386 | 362 | 20 | 1 | 137 |
| **107,179** | **4,349** | **4,447** | **70,055** | **8,983** | **56,192** | **6,601** | **2,818** | **77,693** |

*(follows)*

# Appendix G: Significant details from the financial statements of associated companies (€/000)

*(follow)*

| | ACI Mondadori | Ag. Lomb. Distr. Giorn. e Riviste | BOL Books On Line Italia | Edizioni Electa Bruno Mondadori | Gruner und Jahr/Mondadori |
|---|---|---|---|---|---|
| Year ended | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| Income statement | | | | | |
| Revenues from sales | 15,287 | 4,947 | 3,457 | 1,502 | 53,427 |
| Changes in product inventories | 82 | | 22 | (41) | (192) |
| Other revenues | 667 | 203 | 1 | 3 | 2,951 |
| Total value of production | 16,036 | 5,150 | 3,480 | 1,464 | 56,186 |
| Purchases and services | 12,499 | 3,981 | 3,552 | 758 | 36,768 |
| Personnel | 2,134 | 690 | 352 | | 10,829 |
| Depreciation, amortisation and write-downs | 62 | 30 | 31 | 6 | 402 |
| Changes in inventory of raw materials and consumables and goods for resale | | | | | (18) |
| Accruals and charges to provisions | 16 | 9 | | | 108 |
| Other expense | 206 | 193 | 4 | 1 | 528 |
| Total cost of production | 14,917 | 4,903 | 3,939 | 765 | 48,617 |
| Income from investments | | | | | |
| Financial income (expense) | 15 | 16 | 16 | (28) | 199 |
| Total financial income (expense) | 15 | 16 | 16 | (28) | 199 |
| Revaluations (writedowns) | | | | | |
| Extraordinary income (expense) | | 7 | 2,604 | | 370 |
| Result before tax | 1,134 | 270 | 2,161 | 671 | 8,138 |
| Income tax | 144 | 134 | | 251 | 3,088 |
| **Profit (loss) for the year** | **990** | **136** | **2,161** | **420** | **5,050** |

*Prepared in accordance with IAS/IFRS.

| Grupo Editorial Random House Md (consolidated financial statements)* | Harlequin Mondadori | Hearst Mondadori | Mach 2 Libri | Mondadori Rodale | Mondolibri | Press TV | Rock FM | Società Europea di Edizioni |
|---|---|---|---|---|---|---|---|---|
| 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 | 12/31/2005 |
| 103,879 | 10,647 | 10,222 | 168,032 | 21,111 | 87,537 | 9,263 | 98 | 102,798 |
| 1,305 | (30) | (300) | | (443) | (1,906) | (47) | | |
| 230 | 639 | 591 | 1,134 | 939 | 1,734 | 539 | | 6,357 |
| 105,414 | 11,256 | 10,513 | 169,166 | 21,607 | 87,365 | 9,755 | 98 | 109,155 |
| 29,495 | 9,055 | 7,760 | 161,952 | 17,142 | 68,240 | 10,953 | 384 | 82,649 |
| 23,048 | 1,554 | 1,698 | 5,436 | 2,422 | 10,574 | 166 | 73 | 22,097 |
| 1,423 | 110 | 17 | 1,329 | 27 | 6,051 | 9 | 174 | 3,139 |
| | | | (3,061) | | | | 5 | (461) |
| 6,555 | | 59 | 282 | 89 | | 3 | 0 | 880 |
| 40,763 | 18 | 72 | 206 | 79 | 392 | 100 | 0 | 1,904 |
| 101,284 | 10,737 | 9,606 | 166,144 | 19,759 | 85,257 | 11,231 | 636 | 110,208 |
| | | | | | | | | 6 |
| 189 | 84 | 17 | 148 | 46 | 276 | (45) | 1 | (209) |
| 189 | 84 | 17 | 148 | 46 | 276 | (45) | 1 | (203) |
| | | | | | | | | 0 |
| 330 | 13 | 0 | (231) | 0 | 750 | 0 | 408 | 9 |
| 4,649 | 616 | 924 | 2,939 | 1,894 | 3,134 | (1,521) | (129) | (1,247) |
| (260) | 173 | 342 | 1,397 | 615 | 1,975 | 0 | 0 | 738 |
| **4,909** | **443** | **582** | **1,542** | **1,279** | **1,159** | **(1,521)** | **(129)** | **(1,985)** |

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

| | Description | | | Fee (€/000) | | | |
|---|---|---|---|---|---|---|---|
| Surname and first name | Position held | Term for which the position is held | Expiry date of position held | Emoluments/ fees for position | Non-monetary benefits | Bonuses and other incentives | Other fees |
| Berlusconi Marina | Chairman | 1/1 - 31/12/2005 | Approval of 2005 financial statments | 318.3 | - | - | - |
| Costa Maurizio | Deputy Chairman and Managing Director | 1/1 - 31/12/2005 | " | 824.5 | 12.5 | 500.0 | 710.4 (1) |
| Barbaro Francesco | Director | 1/1 - 31/12/2005 | " | 10.0 | 7.9 | 200.0 | 263.9 (1) |
| Berlusconi Pier Silvio | Director | 1/1 - 31/12/2005 | " | 10.0 | - | - | - |
| Cannatelli Pasquale | Director | 1/1 - 31/12/2005 | " | 10.0 | - | - | - |
| Confalonieri Fedele | Director | 1/1 - 31/12/2005 | " | 10.0 | - | - | - |
| Ermolli Bruno | Director | 1/1 - 31/12/2005 | " | 10.0 | - | - | - |
| Forneron Mondadori Martina | Director | 1/1 - 31/12/2005 | " | 10.0 | - | - | - |
| Poli Roberto | Director | 1/1 - 31/12/2005 | " | 25.0 | - | - | - |
| Puerari Giovanni | Director | 1/1 - 31/12/2005 | " | 60.0 | 7.2 | 200.0 | 230.6 (1) |
| Resca Mario | Director | 1/1 - 31/12/2005 | " | 25.0 | - | - | - |
| Spadacini Marco | Director | 1/1 - 31/12/2005 | " | 25.0 | - | - | - |
| Frattini Achille | Chairman of Board of Statutory Auditors of Mondadori | 1/1 - 31/12/2005 | Approval of 2005 financial statments | 45.0 | - | - | - |
| Frattini Achille | Standing Statutory Auditor Subsidiary companies | 1/1 - 31/12/2005 | Approval of 2007 financial statments | 46.4 | - | - | - |
| Aiello Antonio | Standing Statutory Auditor Mondadori | 1/1 - 31/12/2005 | Approval of 2005 financial statments | 30.0 | - | - | - |
| Superti Furga Ferdinando | Standing Statutory Auditor Mondadori | 1/1 - 31/12/2005 | " | 30.0 | - | - | - |

(1) Remuneration

# Appendix H: Stock options granted to directors and general managers

| | | Options held at beginning of year | | | Options granted during the year | | | Options exercise during year | | | Options expired during year | Options held at end of year | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (A) | (B) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11)=1+4-7-10 | (12) | (13) |
| Name and surname | Position held | Number of options | Average exercice price | Average expiry date | Number of options | Average exercice price | Average expiry date | Number of options | Average exercice price | Average market price at exercice date | Number of options | Number of options | Average exercice price | Average expiry date |
| Marina Berlusconi | Chairman | 150,000**** | 7.749 | 12/31/2008 | | | | | | | | 150,000 | 7.749 | 12/31/2008 |
| | | | | | 300,000 | 7.87 | 12/31/2010 | | | | | 300,000 | 7.87 | 12/31/2010 |
| | | | | | | | | | | | Tot. | 450,000 | | |
| Maurizio Costa | Deputy | 40,000* | 10.67 | 06/30/2005 | | | | | | | 40,000 | | | |
| | Chairman | 96,000** | 6.85 | 06/30/2006 | | | | 96,000 | 6.85 | 8.342 (°) | | | | |
| | and Managing | 110,000*** | 6.471 | 12/31/2007 | | | | | | | | 110,000 | 6.471 | 12/31/2007 |
| | Director | 110,000**** | 7.749 | 12/31/2008 | | | | | | | | 110,000 | 7.749 | 12/31/2008 |
| | | | | | 330,000 | 7.87 | 12/31/2010 | | | | | 330,000 | 7.87 | 12/31/2010 |
| | | | | | | | | | | | Tot. | 550,000 | | |
| Francesco Barbaro | Director | 25,000* | 10.67 | 06/30/2005 | | | | | | | 25,000 | | | |
| | | 60,000** | 6.85 | 06/30/2006 | | | | 60,000 | 6.85 | 8.80 | | | | |
| | | 70,000*** | 6.471 | 12/31/2007 | | | | | | | | 70,000 | 6.471 | 12/31/2007 |
| | | 70,000**** | 7.749 | 12/31/2008 | | | | | | | | 70,000 | 7.749 | 12/31/2008 |
| | | | | | 70,000 | 7.87 | 12/31/2010 | | | | | 70,000 | 7.87 | 12/31/2010 |
| | | | | | | | | | | | Tot. | 210,000 | | |
| Giovanni Puerari | Director | 19,000* | 10.67 | 06/30/2005 | | | | | | | 19,000 | | | |
| | | 45,000** | 6.85 | 06/30/2006 | | | | | | | | 45,000 | 6.85 | 06/30/2006 |
| | | 50,000*** | 6.471 | 12/31/2007 | | | | | | | | 50,000 | 6.471 | 12/31/2007 |
| | | 50,000**** | 7.749 | 12/31/2008 | | | | | | | | 50,000 | 7.749 | 12/31/2008 |
| | | | | | 50,000 | 7.87 | 12/31/2010 | | | | | 50,000 | 7.87 | 12/31/2010 |
| | | | | | | | | | | | Tot. | 195,000 | | |

(*) options granted during 2001
(**) options granted during 2002
(***) options granted during 2003
(****) options granted during 2004

(°) the shares resulting from the exercise of the 96,000 options were not sold

A description of the main terms of the stock option plan is provided in the notes to the consolidated financial statements.

# Appendix I: Distribution of receivables and payables by geographical area (€/000)

| | Italy | Other EU countries | USA | Switzerland | Canada | Other countries | Total |
|---|---|---|---|---|---|---|---|
| Receivables: | | | | | | | |
| Non-current assets | | | | | | | 0 |
| Non-current financial assets | | | | | | | 0 |
| Deferred tax assets | 16,023 | | | | | | 16,023 |
| Other non-current assets | 1,686 | | | | | | 1,686 |
| Current assets: | | | | | | | 0 |
| Tax receivables | 23,005 | | | | | | 23,005 |
| Other current assets | 21,588 | 6,799 | 12,277 | 237 | 96 | 895 | 41,892 |
| Trade receivables | 228,165 | 2,559 | 237 | 921 | 75 | 281 | 232,238 |
| Securities and other current financial assets | 100,921 | | | | | | 100,921 |
| **Total receivables** | **391,388** | **9,358** | **12,514** | **1,158** | **171** | **1,176** | **415,765** |
| Payables | | | | | | | |
| Non-current payables: | | | | | | | 0 |
| Non-current financial liabilities | 766 | 295,280 | | | | | 296,046 |
| Deferred tax liabilities | 11,708 | | | | | | 11,708 |
| Other non-current liabilities | | | | | | | 0 |
| Current payables: | | | | | | | 0 |
| Income tax payables | 18,357 | | | | | | 18,357 |
| Other non-current liabilities | 93,361 | 2,820 | 5,923 | 475 | 3 | 989 | 103,571 |
| Trade payables | 201,610 | 2,390 | 855 | 10 | 88 | | 204,953 |
| Payables to banks and other financial liabilities | 170,132 | | | | | | 170,132 |
| **Total payables** | **495,934** | **300,490** | **6,778** | **485** | **91** | **989** | **804,767** |

# Transition to IAS/IFRS

# Arnoldo Mondadori Editore S.p.A.
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# Transition to IAS/IFRS

As a consequence of the introduction of European Regulation no. 1606/2002 passed by the European Parliament and the Council of Europe in July 2002, companies governed by a law of a member state whose securities are admitted to trading on a regulated market of any member state of the European Union must prepare their consolidated financial statements for each financial year starting on or after 1 January 2005 in conformity with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

In line with the provisions of legislative decree n° 38 of 28/02/2005, Mondadori has opted to publish separate financial statements in conformity with international accounting principles and starting with the Annual Report for the year 31 December 2005.

In compliance with IFRS 1, information on the quantitative and qualitative effects of the transition to IAS/IFRS is provided below.

In particular, the attachments to the notes contain reconciliations between consolidated net equity prepared in accordance with the accounting principles previously used and those prepared in accordance with IAS/IFRS at 1 January 2004, the date of transition, together with reconciliations of net equity and of consolidated net profit prepared in accordance with Italian accounting principles with those prepared in accordance with IAS/IFRS for the year ended 31 December 2004.

The IAS/IFRS balance sheets and the IAS/IFRS income statements have been prepared by making adjustments and reclassifications to the financial statements prepared in accordance with Italian legal requirements, with the purpose of arriving at financial statements in which the presentation, recognition and measurement criteria of the new standards are respected.

The statements and reconciliations have been prepared solely for the purpose of preparing the first set of complete consolidated financial statements prepared in accordance with IAS/IFRS for the year ended 31 December 2005, and accordingly do not include the comparative data or notes that would normally be required in order to present the Mondadori Group's financial position and results in accordance with IAS/IFRS.

The adjustments have been made on the basis of the IAS/IFRS standards currently effective.

## First-time Adoption of International Financial Reporting Standards (IFRS 1)

As required by IFRS 1, as from 1 January 2004, the date of transition to IFRS/IAS, consolidated financial statements are prepared in which:

- assets and liabilities whose recognition is required by IAS/IFRS are recognised;
- items previously classified in a certain manner in the financial statements prepared under the previous accounting principles are classified to satisfy the requirements of IAS/IFRS;
- IAS/IFRS are applied in measuring all recognised assets and liabilities.

The effect of the adoption of the new accounting standards has been recognised in equity, also taking into account the relative tax effect of adjustments for which the appropriate deferred tax assets and liabilities have been recognised.

The preparation of the balance sheet at 1 January 2004 and the financial statements for the year ended 31 December 2004 has involved choosing certain options from among those available under IAS/IFRS, as described below.

## Optional exemptions elected by Mondadori

*Re-calculating data in accordance with IFRS 3*

Mondadori elected not to apply retrospectively the provisions contained in IFRS 3 regarding business combinations; as a result, the previous figures for the purchase of companies, businesses and investments that took place before 1 January 2004, the transition date, have not been amended.

*Re-calculating data concerning employee benefits in accordance with IAS 19*

Mondadori has elected not to use the corridor method in accounting for actuarial gains and losses in accordance with IAS 19.

*Measurement and presentation of compound financial instruments in accordance with IAS 32*

Mondadori has elected to apply the provisions of IAS 32 and IAS 39 from 1 January 2005, without providing comparative data for the year ended 31 December 2004.

*Stock options*

Mondadori has applied the provisions contained in IFRS 2 to all stock options granted after 7 November 2002.

## Accounting principles and valuation methods

### General principles

Reference should be made in this respect to the discussion included in the corresponding section relating to the consolidated financial statements for details of the principles used in the preparation of the report and reconciliations that follow in accordance with the IAS/IFRS standards effective as of today's date.

# Effects of the adoption of IAS/IFRS on shareholders' equity at 1 January 2004

## Reconciliation of shareholders' equity at 1 January 2004

| | | (€/000) |
|---|---|---|
| | **Shareholders' equity in accordance with Italian accounting principles** | **555,445** |
| 1. | Elimination of intangible assets | (935) |
| 2. | Valuation of intangible assets in accordance with IAS 36 | (181) |
| 3. | Separation of value of land from value of buildings | 941 |
| 4. | Other adjustments to property, plant and equipment | 6,419 |
| 5. | Leased assets in accordance with IAS 17 | 1,536 |
| 6. | Discounting of provisions | 912 |
| 7. | Employees' leaving entitlement in accordance with IAS 19 | 5,608 |
| 8. | Stock option valuation in accordance with IFRS 2 | 238 |
| 9. | Tax effect | (5,046) |
| | **Shareholders' equity in accordance with IAS/IFRS** | **564,937** |

The following comments refer to the items and amounts in the reconciliation between the value of shareholders' equity at 1 January 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

1. Certain costs that do not satisfy the requirement for being recognised as intangible assets under IAS/IFRS have been eliminated from intangible assets. These include start-up and expansion costs, the cost of software and deferred charges that do not have the characteristics to be recognised as assets under IAS 38. The adjustments result in a reduction of the value of intangible assets of €935 thousand.

2. Following an impairment test, designed to identify and quantify any losses in value in accordance with IAS 36, Mondadori wrote down an imprint not supported by its value in use for an amount of €181 thousand.

3. Under Italian accounting principles, land linked to buildings is depreciated together with the buildings themselves; under IAS/IFRS this land must be classified separately and not depreciated. As a result, the accumulated depreciation of this land has been eliminated and the carrying value of land and net equity have been increased by €941 thousand, of which €591 thousand refers to investment property and €350 thousand to property, plant and machinery.

4. The introduction of Legislative Decree no. 6/2003 (the so-called Vietti Reform) removed the possibility previously available under Italian law of making adjustments to accounting values and establishing provisions solely for fiscal purposes, with the result that it became necessary to eliminate this so-called fiscal interference or fiscal tainting from the financial statements of companies. Under IAS/IFRS, the elimination of fiscal tainting is equivalent to a change in accounting principle which accordingly should be accounted for in accordance with IAS 8. As a result, for IAS/IFRS purposes, adjustments have been made at 1 January 2004 to all the items in the balance sheet and equity affected by this matter, as opposed to recognising these in the income statement for the year ended 31 December 2004 as in the company's financial statements prepared in accordance with Italian accounting principles.

5. This balance represents the residual book value of assets acquired as bargain options under financial lease arrangements, accounted for in accordance with IAS 17.

6. Provisions for litigation and disputes which are expected to result in settlement after more than 12 months, for which the payment date can be reliably estimated, have been re-determined on the basis of that date. The adjustment has decreased provisions and increased net equity by €112 thousand. In addition, the agents' termination indemnity has been re-determined on the basis of an actuarial calculation, leading to an increase in net equity of €800 thousand.

7. Italian accounting principles require any liabilities resulting from the employees' leaving entitlement (TFR) to be measured on the basis of an entity's obligation at the balance sheet date, pursuant to Italian law in this respect. IAS/IFRS require such liabilities to be measured using an actuarial method. This difference has resulted in a decrease of liabilities and an increase in net equity of €5,608 thousand.

8. This amount represents the fair value of those stock options which are expected to vest by the end of the vesting period, allocated pro-rata temporis from the year in which they are granted to the end of the vesting period; these options are granted to managers of subsidiary companies who carry out functions that are relevant for the attainment of the Group's strategic results.

9. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the balance sheet at 1 January 2004

## Balance sheet at 1 January 2004

| Assets (€/000) | In accordance with Italian accounting principles(*) | IAS/IFRS reclassifications | IAS/IFRS adjustments | In accordance with IAS/IFRS |
|---|---|---|---|---|
| Intangible assets | 105,057 | (915) | (1,116) | 103,026 |
| Investment property | 7,690 | 0 | 789 | 8,479 |
| Land and buildings | 15,970 | | 2,645 | 18,615 |
| Plant and machinery | 2,816 | | 1,625 | 4,441 |
| Other tangible fixed assets | 4,409 | 915 | 3,837 | 9,161 |
| Property, plant and equipment | 23,195 | 915 | 8,107 | 32,217 |
| Investments | 747,872 | - | 238 | 748,110 |
| Non-current financial assets | 116,885 | - | - | 116,885 |
| Deferred tax assets | 14,200 | - | 416 | 14,616 |
| Other non-current assets | 3,013 | - | - | 3,013 |
| **Total non-current assets** | **1,017,912** | **0** | **8,434** | **1,026,346** |
| Tax receivables | 9,542 | - | - | 9,542 |
| Other current assets | 33,899 | - | - | 33,899 |
| Inventories | 40,212 | - | - | 40,212 |
| Trade receivables | 208,737 | - | - | 208,737 |
| Securities and other current financial assets | 79,295 | - | - | 79,295 |
| Cash and cash equivalents | 15,848 | - | - | 15,848 |
| **Total current assets** | **387,533** | **0** | **0** | **387,533** |
| Assets held for sale | - | - | - | - |
| **Total assets** | **1,405,445** | **0** | **8,434** | **1,413,879** |

(*) In all the attached tables relating to the financial statements, this column refers to the data expressed in accordance with the previous accounting principles classified in accordance with IAS/IFRS.

## Balance sheet at 1 January 2004

**Liabilities and shareholders' equity in accordance with Italian accounting principles**

| (€/000) | In accordance with Italian accounting principles(*) | IAS/IFRS reclassifications | IAS/IFRS adjustments | In accordance with IAS/IFRS |
|---|---|---|---|---|
| Share capital | 67,452 | - | - | 67,452 |
| Share premium reserve | 170,380 | - | - | 170,380 |
| Other reserves and retained earnings | 243,152 | - | 9,492 | 252,644 |
| Profit (loss) for the year | 74,461 | - | - | 74,461 |
| **Total shareholders' equity** | **555,445** | **0** | **9,492** | **564,937** |
| Provisions | 12,199 | 0 | (112) | 12,087 |
| Leaving entitlement and termination indemnities | 47,038 | - | (6,408) | 40,630 |
| Non-current financial liabilities | 296,978 | - | - | 296,978 |
| Deferred tax liabilities | - | - | 5,462 | 5,462 |
| Other non-current liabilities | - | - | - | 0 |
| **Total non-current liabilities** | **356,215** | **0** | **(1,058)** | **355,157** |
| Income tax payables | - | - | - | 0 |
| Other current liabilities | 100,526 | - | - | 100,526 |
| Trade payables | 215,744 | - | - | 215,744 |
| Payables to banks and other financial liabilities | 177,515 | - | - | 177,515 |
| **Total current liabilities** | **493,785** | **0** | **0** | **493,785** |
| Liabilities held for sale | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,405,445** | **0** | **8,434** | **1,413,879** |

The following comments refer to the items and amounts in the reconciliation between the balance sheet at 1 January 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes €915 thousand relating to leasehold improvements which have been reclassified as other tangible fixed assets.

*IAS/IFRS adjustments*

This column consists of the reconciling items already described in the notes to the reconciliation of shareholders' equity.

# Effects of the adoption of IAS/IFRS on shareholders' equity at 31 December 2004

## Reconciliation of shareholders' equity at 31 December 2004

| | | (€/000) |
|---|---|---|
| | **Shareholders' equity in accordance with Italian accounting principles** | **575,775** |
| 1. | Elimination of intangible assets | (1,433) |
| 2. | Valuation of intangible assets in accordance with IAS 36 | (1,305) |
| 3. | Amortisation of intangible assets | 9,786 |
| 4. | Depreciation of property, plant and equipment | 1,039 |
| 5. | Leased assets in accordance with IAS 17 | 1,471 |
| 6. | Discounting of provisions | 997 |
| 7. | Employees' leaving entitlement in accordance with IAS 19 | 5,663 |
| 8. | Stock option valuation in accordance with IFRS 2 | 788 |
| 9. | Tax effect | (5,767) |
| | **Shareholders' equity in accordance with IAS/IFRS** | **587,014** |

The following comments refer to the items and amounts in the reconciliation between the value of net equity at 31 December 2004 prepared in accordance with Italian accounting principles and the value prepared in accordance with IAS/IFRS.

1. Certain costs that do not satisfy the requirement for being recognised as intangible assets under IAS/IFRS have been eliminated from intangible assets. These include start-up and expansion costs, the cost of software and deferred charges that do not have the characteristics to be recognised as assets under IAS 38. The adjustments result in a reduction of the value of intangible assets of €1,433 thousand, of which an amount of €935 thousand of which was recognised on first-time adoption on 1 January 2004.

2. Following an impairment test, designed to identify and quantify any losses in value in accordance with IAS 36, Mondadori wrote down an imprint not supported by its value in use for a amount of €1,305 thousand.

3. Certain intangible assets, among these titles and imprints, are considered to have an indefinite life and are therefore no longer subject to amortisation but to an impairment test. This has led to an increase of €9,786 thousand in net equity as a result of the elimination of the amortisation charged.

4. Depreciation in property, plant and equipment is adjusted as the result of the elimination of the depreciation of land of €1,039 thousand.

5. This balance represents the residual book value of assets acquired as bargain options under financial lease arrangements before 1 January 2004, accounted for in accordance with IAS 17.

6. Provisions for litigation and disputes which are expected to result in settlement after more than 12 months, for which the payment date can be reliably estimated, have been re-determined by considering the time value of money up to that date. The adjustment has decreased provisions and increased net equity by €92 thousand. In addition, the agents' termination indemnity has been re-determined on the basis of an actuarial calculation, leading to an increase in net equity of €905 thousand.

7. Italian accounting principles require any liabilities resulting from the employees' leaving entitlement (TFR) to be measured on the basis of an entity's obligation at the balance sheet date, pursuant to Italian law in this respect. IAS/IFRS require such liabilities to be measured using an actuarial method. This difference has resulted in a decrease of liabilities and an increase in net equity of €5,663 thousand.

8. This amount represents the fair value of those stock options which are expected to vest by the end of the vesting period, allocated pro-rata temporis from the year in which they are granted to the end of the vesting period; these options are granted to managers of subsidiary companies who carry out functions that are relevant for the attainment of the Group's strategic results.

9. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the balance sheet at 31 December 2004

## Balance sheet at 31 December 2004

| Assets (€/000) | In accordance with Italian accounting principles | IAS/IFRS reclassifications | IAS/IFRS adjustments | In accordance with IAS/IFRS |
|---|---|---|---|---|
| Intangible assets | 87,811 | (386) | 7,048 | 94,473 |
| Investment property | 7,576 | 0 | 655 | 8,231 |
| Land and buildings | 16,071 | 0 | 1,855 | 17,926 |
| Plant and machinery | 5,564 | - | - | 5,564 |
| Other tangible fixed assets | 6,035 | 386 | | 6,421 |
| Property, plant and equipment | 27,670 | 386 | 1,855 | 29,911 |
| Investments | 750,777 | - | 788 | 751,565 |
| Non-current financial assets | 108,172 | - | - | 108,172 |
| Deferred tax assets | 19,426 | - | 544 | 19,970 |
| Other non-current assets | 3,237 | - | - | 3,237 |
| **Total non-current assets** | **1,004,669** | **0** | **10,890** | **1,015,559** |
| Tax receivables | 3,454 | - | - | 3,454 |
| Other current assets | 41,584 | - | - | 41,584 |
| Inventories | 36,072 | - | - | 36,072 |
| Trade receivables | 227,610 | - | - | 227,610 |
| Securities and other current financial assets | 83,704 | - | - | 83,704 |
| Cash and cash equivalents | 46,440 | - | - | 46,440 |
| **Total current assets** | **438,864** | **0** | **0** | **438,864** |
| Assets held for sale | - | - | - | - |
| **Total assets** | **1,443,533** | **0** | **10,890** | **1,454,423** |

## Balance sheet at 31 December 2004

### Liabilities and shareholders' equity in accordance with Italian accounting principles

| (€/000) | In accordance with Italian accounting principles | IAS/IFRS reclassifications | IAS/IFRS adjustments | In accordance with IAS/IFRS |
|---|---|---|---|---|
| Share capital | 67,452 | - | - | 67,452 |
| Share premium reserve | 175,575 | - | - | 175,575 |
| Other reserves and retained earnings | 239,885 | - | 11,062 | 250,947 |
| Profit (loss) for the year | 92,863 | - | 177 | 93,040 |
| **Total shareholders' equity** | **575,775** | **0** | **11,239** | **587,014** |
| Reserves | 11,958 | | (92) | 11,866 |
| Leaving entitlements and termination indemnities | 47,757 | | (6,568) | 41,189 |
| Non-current financial liabilities | 296,384 | | | 296,384 |
| Deferred tax liabilities | 3,223 | | 6,311 | 9,534 |
| Other non-current liabilities | - | - | - | 0 |
| **Total non-current liabilities** | **359,322** | **0** | **(349)** | **358,973** |
| Income tax payables | 15,216 | | | 15,216 |
| Other current liabilities | 104,053 | | | 104,053 |
| Trade payables | 214,202 | - | | 214,202 |
| Payables to banks and other financial liabilities | 174,965 | - | - | 174,965 |
| **Total current liabilities** | **508,436** | **0** | **0** | **508,436** |
| Liabilities held for sale | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,443,533** | **0** | **10,890** | **1,454,423** |

The following comments refer to the items and amounts in the reconciliation between the balance sheet at 31 December 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes €386 thousand relating to leasehold improvements which have been reclassified as other tangible fixed assets.

*IAS/IFRS adjustments*

This column consists of the reconciling items already described in the notes to the reconciliation of shareholders' equity.

# Effects of the adoption of IAS/IFRS on the net result for 2004

## Reconciliation of the net result for 2004

| | | (€/000) |
|---|---|---|
| | **Net result in accordance with Italian accounting principles** | **92,863** |
| 9. | Effects on the items "purchase of raw materials" and "purchase of services" | (496) |
| 10. | Personnel costs | 690 |
| 11. | Effects on income/expense (-) | (3,942) |
| 12. | Depreciation and impairment of property, plant and equipment | 33 |
| 13. | Amortisation and impairment of intangible assets | 8,662 |
| 14. | Effects on financial income/expense (-) and from investments | (1,658) |
| 15. | Effects on tax income/expense (-) | (3,112) |
| | **Net result in accordance with IAS/IFRS** | **93,040** |

The following comments refer to the items and amounts in the reconciliation between the net result for the year ended 31 December 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

9. The adjustment shown refers to the elimination of costs accounted for as intangible fixed assets under Italian accounting principles.

10. Personnel costs decreased by €1,710 thousand as a result of the application of IAS 19, partially set off by an increase of €1,020 thousand arising from stock option plans. This latter amount represents the fair value of those stock options which are expected to vest by the end of the vesting period, allocated pro-rata temporis from the year in which they are granted to the end of the vesting period.

11. The adjustment to income/expense is the result of the effect of discounting litigation provisions and the agents' termination indemnity, amounting in total to €86 thousand. In addition, as discussed in more detail in the reconciliation of the opening balance sheet at 1 January 2004, the elimination of fiscal tainting must be accounted for under IAS/IFRS as an adjustment to retained earnings, whereas under Italian accounting principles this adjustment was recognised in the income statement for the year ended 31 December 2004. The effect of this in the above reconciliation is the elimination of extraordinary income of €4,028 thousand since, for IAS/IFRS purposes, an adjustment to this effect was already made at 1 January 2004.

12. The depreciation of property, plant and equipment is adjusted for the combined effect of a decrease in the charge by €97 thousand as the result of separating buildings from the land on which they stand and not depreciating that land, and an increase of €64 thousand as the consequence of depreciating assets acquired under finance leases.

13. The adjustment made to the amortisation and impairment of intangible assets consists of the elimination of the amortisation and the impairment of assets with an in-

definite life, such as titles and imprints, for €7,537 thousand and €1,125 thousand respectively.

14. This adjustment relates to the increase of €1,658 thousand in interest expense arising from the recalculation of the employees' leaving entitlement.

15. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the income statement for 2004

## Income Statement for 2004

| (€/000) | In accordance with Italian accounting principles | IAS/IFRS reclassifications | IAS/IFRS adjustments | In accordance with IAS/IFRS |
|---|---|---|---|---|
| Revenues from sales and services to third parties | 1,030,852 | - | | 1,030,852 |
| Decrease (increase) in inventories | 4,140 | - | | 4,140 |
| Purchase of raw materials and consumables and goods for resale | 236,510 | - | 496 | 237,006 |
| Purchase of services | 534,169 | - | | 534,169 |
| Personnel costs | 123,873 | - | (690) | 123,183 |
| Other (income) expense | (16,557) | - | 3,942 | (12,615) |
| **Gross operating profit** | **148,717** | **0** | **(3,748)** | **144,969** |
| Depreciation of property, plant and equipment | 6,441 | 521 | (33) | 6,929 |
| Amortisation of intangible assets | 19,017 | (521) | (8,662) | 9,834 |
| **Operating profit** | **123,259** | **0** | **4,947** | **128,206** |
| Financial income (expense) | (20,003) | - | (1,658) | (21,661) |
| Income (expense) from investments | 32,194 | - | | 32,194 |
| **Profit before taxes and minority interests** | **135,450** | **0** | **3,289** | **138,739** |
| Income taxes | 42,587 | - | 3,112 | 45,699 |
| **Net result** | **92,863** | **0** | **177** | **93,040** |

The following comments refer to the items and amounts in the reconciliation between the income statement for the year ended 31 December 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes the depreciation of leasehold improvements of €521 thousand, which is reclassified from the amortisation of intangible assets to the depreciation of property, plant and equipment.

*IAS/IFRS adjustments*

This column consists of the reconciling items already described in the notes to the reconciliation of the net result.

### Effect of the adoption of IAS/IFRS on the net financial position

The following table shows the effect of the application of IAS/IFRS on the net financial position:

| (€/000) | 1/1/2004 | 12/31/2004 |
|---|---|---|
| **Net financial position (debt) in accordance with Italian accounting principles** | **(379,350)** | **(341,205)** |
| IAS/IFRS reclassifications | - | - |
| **IAS/IFRS net financial position** | **(379,350)** | **(341,205)** |

# Consolidated Financial Statements of the Mondadori Group at 31 December 2005

# Balance sheet and Consolidated Income statement of the Mondadori Group at 31 December 2005

# Consolidated balance sheet

| Assets<br>(€/000) | Note | 12/31/2005 | 12/31/2004 |
|---|---|---|---|
| Intangible assets | 1 | 219,409 | 144,800 |
| Investment property | 2 | 5,523 | 12,686 |
| Land and buildings | | 87,399 | 90,645 |
| Property, plant and equipment | | 76,303 | 87,273 |
| Other tangible fixed assets | | 45,211 | 19,252 |
| **Property, plant and equipment** | **3** | **208,913** | **197,170** |
| Investments accounted for using the equity method | | 106,649 | 100,952 |
| Other investments | | 2,156 | 2,472 |
| **Total investments** | **4** | **108,805** | **103,424** |
| Non-current financial assets | 5 | - | 130,531 |
| Deferred tax assets | 6 | 37,090 | 40,812 |
| Other non-current assets | 7 | 3,078 | 3,946 |
| **Total non-current assets** | | **582,818** | **633,369** |
| Tax receivables | 8 | 30,390 | 7,709 |
| Other current assets | 9 | 65,481 | 64,390 |
| Inventories | 10 | 127,022 | 120,895 |
| Trade receivables | 11 | 411,085 | 401,166 |
| Securities and other current financial assets | 12 | 482,204 | 504,288 |
| Cash and cash equivalents | 13 | 73,056 | 137,190 |
| **Total current assets** | | **1,189,238** | **1,235,638** |
| Assets held for sale | | - | - |
| **Total assets** | | **1,772,056** | **1,869,007** |

| Liabilities and shareholders' equity (€/000) | Note | 12/31/2005 | 12/31/2004 |
|---|---|---|---|
| Share capital | | 67,452 | 67,452 |
| Share premium reserve | | 283,747 | 153,540 |
| Treasury shares | | (137,662) | - |
| Other reserves and retained earnings | | 178,163 | 289,285 |
| Profit (loss) for the year | | 114,724 | 112,023 |
| Total shareholders' equity attributable to the Group | 14 | 506,424 | 622,300 |
| Capital and reserves attributable to minorities | 15 | 4,026 | 3,478 |
| Total shareholders' equity | | 510,450 | 625,778 |
| Provisions | 16 | 15,637 | 16,287 |
| Employees' leaving entitlement and termination indemnities | 17 | 98,983 | 94,743 |
| Non-current financial liabilities | 18 | 451,733 | 418,773 |
| Deferred tax liabilities | 6 | 25,998 | 21,587 |
| Other non-current liabilities | | - | - |
| Total non-current liabilities | | 592,351 | 551,390 |
| Income tax payables | 19 | 25,111 | 18,769 |
| Other current liabilities | 20 | 187,748 | 179,185 |
| Trade payables | 21 | 385,032 | 359,899 |
| Payables to banks and other financial liabilities | 18 | 71,364 | 133,986 |
| Total current liabilities | | 669,255 | 691,839 |
| Liabilities held for sale | | - | - |
| Total liabilities and shareholders' equity | | 1,772,056 | 1,869,007 |

# Consolidated income statement

| (€/000) | Note | 2005 | 2004 |
|---|---|---|---|
| **Revenues from sales and services** | **22** | **1,657,341** | **1,619,709** |
| Decrease (increase) in inventories | 10 | (6,127) | 4,965 |
| Cost of raw materials and consumables and goods for resale | 23 | 524,975 | 503,250 |
| Cost of services | 24 | 675,607 | 631,552 |
| Personnel costs | 25 | 268,875 | 252,313 |
| Other (income) expense | 26 | (19,964) | (5,807) |
| Income (expense) from investments accounted for using the equity method | 27 | 9,602 | 6,198 |
| **Gross operating profit** | | **223,577** | **239,634** |
| Depreciation and impairment of property, plant and equipment | 2-3 | 32,808 | 34,669 |
| Amortisation and impairment of intangible assets | 1 | 3,337 | 11,365 |
| **Operating result** | | **187,432** | **193,600** |
| Financial income (expense) | 28 | (6,071) | (10,736) |
| Income (expense) from other investments | 29 | (1) | (2,411) |
| **Profit before taxes** | | **181,360** | **180,453** |
| Income taxes | 30 | 65,492 | 67,902 |
| **Profit from continuing activities** | | **115,868** | **112,551** |
| Income (expense) from assets/liabilities held for sale | | - | - |
| Result attributable to minorities | 15 | (1,144) | (528) |
| **Net profit** | | **114,724** | **112,023** |
| Earnings per share (euros) | 31 | 0.478 | 0.465 |
| Diluted earnings per share (euros) | 31 | 0.466 | 0.454 |

*On behalf of the Board of Directors*
*Chairman*
*Marina Berlusconi*

## Changes in consolidated shareholders' equity for the year ended 31 December 2004

| (€/000) | Share capital | Share premium | Treasury share reserve | Treasury shares |
|---|---|---|---|---|
| **At 1 January 2004** | **67,452** | **170,380** | **116,885** | **-** |
| - Transfer of 2003 profit | | | | |
| - Dividends paid | | | | |
| - Changes in scope of consolidation | | | | |
| - Translation of financial statements in foreign currencies | | | | |
| - Treasury share operations | | (13,322) | 13,322 | |
| - Stock options | | | | |
| - Other changes | | (3,518) | | |
| - Profit (loss) for the year | | | | |
| **At 31 December 2004** | **67,452** | **153,540** | **130,207** | **0** |

## Changes in consolidated shareholders' equity for the year ended 31 December 2005

| (€/000) | Share capital | Share premium | Treasury share reserve | Treasury shares |
|---|---|---|---|---|
| **At 31 December 2004** | **67,452** | **153,540** | **130,207** | **-** |
| - First-time adoption of IAS 32 and IAS 39 | - | (*) 130,207 | (130,207) | (130,207) |
| **At 1 January 2005** | **67,452** | **283,747** | **-** | **(130,207)** |
| - Transfer of 2004 profit | | | | |
| - Dividends paid | | | | |
| - Changes in scope of consolidation | | | | |
| - Translation of financial statements in foreign currencies | | | | |
| - Treasury share operations | | | | (7,455) |
| - Stock options | | | | |
| - Other changes | | | | |
| - Profit (loss) for the year | | | | |
| **At 31 December 2005** | **67,452** | **283,747** | **0** | **(137,662)** |

(*) formerly Treasury Share Reserve, originally made up of transfers from the share premium reserve

| Stock option reserve | Fair value reserve | Translation reserve | Other reserves | Profit (loss) for the year | Total Group | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| **804** | **-** | **-** | **144,781** | **82,101** | **582,403** | **3,436** | **585,839** |
| | | | 9,568 | (9,568) | | | - |
| | | | | (72,533) | (72,533) | | (72,533) |
| | | | | | | | - |
| | | 116 | | | 116 | | 116 |
| | | | | | | | - |
| 1,570 | | | | | 1,570 | | 1,570 |
| | | | 2,239 | | (1,279) | (486) | (1,765) |
| | | | | 112,023 | 112,023 | 528 | 112,551 |
| **2,374** | **0** | **116** | **156,588** | **112,023** | **622,300** | **3,478** | **625,778** |

| Stock option reserve | Fair value reserve | Translation reserve | Other reserves | Profit (loss) for the year | Total Group | Minority interests | Total |
|---|---|---|---|---|---|---|---|
| **2,374** | **-** | **116** | **156,588** | **112,023** | **622,300** | **3,478** | **625,778** |
| - | (12) | - | (13,129) | - | (143,348) | - | (143,348) |
| **2,374** | **(12)** | **116** | **143,459** | **112,023** | **478,952** | **3,478** | **482,430** |
| | | | 26,642 | (26,642) | | | - |
| | | | | (85,381) | (85,381) | | (85,381) |
| | | | | | | | - |
| | | 1,257 | | | 1,257 | | 1,257 |
| | | | 852 | | (6,603) | | (6,603) |
| 2,341 | | | | | 2,341 | | 2,341 |
| | 12 | | 1,122 | | 1,134 | (596) | 538 |
| | | | | 114,724 | 114,724 | 1,144 | 115,868 |
| **4,715** | **0** | **1,373** | **172,075** | **114,724** | **506,424** | **4,026** | **510,450** |

# Consolidated cash flow statement

| Consolidated cash flow statement (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Net profit for the year | 114,724 | 112,023 |
| Adjustment | | |
| Depreciation, amortisation and impairment | 36,145 | 46,034 |
| Stock options | 2,342 | 1,572 |
| Charges to provisions, employees' leaving entitlement and termination indemnities | 14,040 | 16,761 |
| Capital (gains) losses on disposal of intangible assets, property, plant and equipment | (2,699) | (223) |
| Capital (gains) losses on disposal of financial assets | (3,110) | 3,320 |
| Capital (gains) losses on valuation of financial assets | (11,105) | (15,904) |
| (Income) expense from companies accounted for using the equity method | (8,780) | (4,193) |
| **Cash from operating activities** | **141,557** | **159,390** |
| (Increase) decrease in trade receivables | (4,891) | (12,997) |
| (Increase) decrease in inventories | (6,949) | 4,232 |
| Increase (decrease) in trade payables | 7,387 | (15,900) |
| Net change in income tax receivables/payables | (16,339) | 18,637 |
| Advances for and settlements of employees' leaving entitlement | (13,941) | (10,958) |
| Net change in deferred tax assets and liabilities | 8,133 | (3,029) |
| Net change in other assets/liabilities | (5,962) | (1,527) |
| **Cash flow from (used in) operating activities** | **108,995** | **137,848** |
| (Investments in) disposals of intangible assets | (25,410) | (3,554) |
| (Investments in) disposals of property, plant and equipment | (25,163) | (14,588) |
| (Investments in) disposals of equity investments | (813) | (23,237) |
| (Purchase) disposal of treasury shares | (6,603) | (13,322) |
| (Investments in) disposals of financial assets | 36,623 | 78,524 |
| **Cash flow from (used in) investing activities** | **(21,366)** | **23,823** |
| Net change in financial liabilities | (66,382) | (22,288) |
| Dividends paid | (85,381) | (72,533) |
| **Cash flow from (used in) financing activities** | **(151,763)** | **(94,821)** |
| **Increase (decrease) in cash and cash equivalents** | **(64,134)** | **66,850** |
| **Cash and cash equivalents at beginning of year** | **137,190** | **70,340** |
| **Cash and cash equivalents at end of year** | **73,056** | **137,190** |
| **Composition of cash and cash equivalents** | | |
| Cash, cheques and valuables in hand | 746 | 190 |
| Bank and post office deposits | 72,310 | 137,000 |
| | **73,056** | **137,190** |

## 1. General information

The main corporate purpose of Arnoldo Mondadori Editore S.p.A. and the companies in which it has direct and indirect investments (henceforth referred to as the “Mondadori Group” or the “Group”) is in business activities connected with the book and magazine publishing sectors, radio and the sale of advertising.
The Group is also involved in printing activities at its own printing works, retailing through a chain of its own shops and franchising outlets situated throughout Italy and direct marketing and mail-order sales of publishing products.

Arnoldo Mondadori Editore S.p.A. has its head office in via Bianca di Savoia 12, in Milan, Italy, while the main administrative offices are in Segrate, Milan, in Strada privata Mondadori.

The Parent Company, Arnoldo Mondadori Editore S.p.A., is quoted on the MTA (automated stock markets) of Borsa Italiana S.p.A., and is included in the S&P/MIB index and the MIDEX index.

The publication of the consolidated financial statements of the Mondadori Group for the year ended 31 December 2005 was authorised by a resolution of the Board of Directors on 29 March 2006.

## 2. Form and content

As a consequence of the introduction of European Regulation no. 1606/2002 passed by the European Parliament and the Council of Europe in July 2002, companies governed by a law of a member state whose securities are admitted to trading on a regulated market of any member state of the European Union must prepare their consolidated financial statements for each financial year starting on or after 1 January 2005 in conformity with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

Exercising the option contained in CONSOB resolution 14990 of 14 April 2005, the Mondadori Group elected to begin preparing its quarterly consolidated statements in accordance with international accounting standards from its half year report at 30 June 2005.

As IAS/IFRS were applied with effect from 1 January 2005, the balance sheet at 1 January 2004 and the balance sheet at 31 December 2004 and the income statement for the year then ended have been redetermined.
Such financial statements, together with a reconciliation of consolidated shareholders’ equity at 1 January 2004 and 31 December 2004 and a reconciliation of the consolidated result for the year ended 31 December 2004, were contained in a specific appendix to the half year report at 30 June 2005.

The following reclassifications have been made (without affecting either the consolidated result or consolidated shareholders’ equity) to the data published in the appendix

"Transition to international accounting standards (IAS/IFRS)" included in the half year report at 30 June 2005:
– certain trade receivables and payables classified under the item other non-current assets/other non-current liabilities have been reclassified under trade receivables/trade payables;
– financial income from instalment sales have been reclassified from the item other (income) expense to the item financial income (expense).

The updated tables, including the respective notes, are included in the appendix to the present financial statements.

The consolidated financial statements at 31 December 2005 were prepared in accordance with the IAS/IFRS standards effective at 31 December 2005.

The accounting principles used to prepare the financial statements at 31 December 2005 were the same as those used in preparing the IAS/IFRS consolidated financial statements at 31 December 2004, with the exception of IAS 32 and IAS 39 which were applied, in accordance with IFRS, from 1 January 2005.

The financial statements have been prepared in the following way:
- current and non-current assets and current and non-current liabilities are shown separately in the balance sheet;
- in the income statement, costs are analysed by their nature since the Group has decided that this method is more representative than an analysis by function;
- the cash flow statement has been prepared using the indirect method.

The values shown in the tables and in the notes are expressed in thousands of euros unless specifically indicated otherwise.

## 3. Consolidation policies

The consolidated financial statements of the Mondadori Group include:
- the financial statements for the year of the Parent Company and those of Italian and foreign companies in which Arnoldo Mondadori Editore SpA has control, direct or indirect, as defined in IAS 27. In these cases the financial statements are consolidated on a line-by-line basis in accordance with IAS 27;
- the financial statements for the year of those Italian and foreign companies in which Arnoldo Mondadori Editore SpA has joint control, direct or indirect, as defined in IAS 31. In these cases investments are accounted for using the equity method in accordance with IAS 31;
- the financial statements for the year of those Italian and foreign companies in which Arnoldo Mondadori Editore SpA has, directly or indirectly, an investment in an associated company as defined in IAS 28. In these cases investments are accounted for using the equity method in accordance with IAS 28.

The application of the above mentioned consolidation techniques involves the following adjustments:
- the net carrying value of investments in companies included in the scope of consolidation is eliminated against the related net equity;

- any excess of the purchase cost of investments and the Group's share of net equity at the date of purchase is allocated to the specific assets and liabilities acquired in order to state them at their fair value. Any residual excess is classified as goodwill; if the difference is negative, this is recognised immediately in the income statement;
- the amounts of capital, reserves and the consolidated financial result attributable to minority interests are recognised as separate items in equity and the income statement;
- in preparing the consolidated financial statements, receivables and payables and income and expense resulting from transactions between companies included in the scope of consolidation are eliminated, as are any unrealised gains or losses on intragroup operations.

The financial statements of companies included in the scope of consolidation are prepared at the same balance sheet date as those of Arnoldo Mondadori Editore S.p.A., in accordance with IAS/IFRS.
In cases where the balance sheet date is different from the Parent Company's balance sheet date, adjustments are made in order to recognise the effects of significant operations or events that occurred between that date and the Parent Company's balance sheet date.

The scope of consolidation of the Mondadori Group is as follows:

| Name | Registered office | Business | Currency | Share capital expressed in local currency | % held as of 12/31/05 | % held as of 12/31/04 |
|---|---|---|---|---|---|---|
| *Companies consolidated using the line-by-line method* | | | | | | |
| Arnoldo Mondadori Editore SpA | Milan | Publishing | Euro | 67,451,756.32 | | |
| *Italian subsidiaries* | | | | | | |
| Cemit Interactive Media SpA | S.Mauro | Trade | Euro | 3,835,000.00 | 100.00 | 100.00 |
| Edizioni Frassinelli Srl | Milan | Publishing | Euro | 10,400.00 | 100.00 | 100.00 |
| Edizioni Piemme SpA | Milan | Publishing | Euro | 566,661.00 | 70.00 | 70.00 |
| Edumond Le Monnier SpA | Milan | Publishing | Euro | 10,608,000.00 | 100.00 | 100.00 |
| Mondadori Electa SpA | Milan | Publishing | Euro | 1,593,735.00 | 100.00 | 100.00 |
| Electa Napoli SpA | Naples | Publishing | Euro | 155,000.00 | 60.00 | 60.00 |
| Mondadori Retail SpA | Milan | Trade | Euro | 2,700,000.00 | 100.00 | 100.00 |
| Fied SpA | Milan | Financial publishing | Euro | 416,000.00 | 100.00 | 100.00 |
| Giulio Einaudi Editore SpA | Turin | Publishing | Euro | 23,920,000.00 | 100.00 | 100.00 |
| Mondadori Printing SpA | Milan | Printing | Euro | 45,396,000.00 | 100.00 | 100.00 |
| Mondadori Pubblicità SpA | Milan | Advertising agent | Euro | 3,120,000.00 | 100.00 | 100.00 |
| Mondadori Franchising SpA | Rimini | Trade | Euro | 1,954,000.00 | 100.00 | 100.00 |
| Mondadori Sistemi di Comunicazione Srl | Milan | Services | Euro | 95,000.00 | 100.00 | 100.00 |
| Monradio Srl | Milan | Radio | Euro | 500,000.00 | 100.00 | (*) |
| Sperling & Kupfer Editori SpA | Milan | Publishing | Euro | 388,800.00 | 100.00 | 100.00 |
| Texto SpA | | | | | (**) | 100.00 |
| *Foreign subsidiaries* | | | | | | |
| Arnoldo Mondadori Deutschland GmbH | Munich | Services | Euro | 25,564.50 | 99.99 | 99.99 |
| Ame France Sarl | Paris | Services | Euro | 20,000.00 | 99.99 | 99.99 |
| Ame Publishing Ltd | New York | Services | US $ | 50,000 | 99.99 | 99.99 |
| Arnoweb SA | Luxembourg | Financial | Euro | 36,256,900.00 | 99.99 | 99.99 |
| Artes Graficas Toledo SA | Toledo | Printing | Euro | 5,409,000.00 | 100.00 | 100.00 |
| Atimod Publishing Investments SA | | | | | (***) | 99.99 |
| Helit Investments SA | | | | | (***) | - |
| Misa Finance Fund Plc | Ireland | Financial | Euro | 73,578,286.00 | 99.99 | 99.99 |
| Mondadori Com USA Inc. | Delaware | IT | US $ | 1,000 | 99.99 | 99.99 |
| Mondadori Finance SA | | | | | (***) | 99.96 |
| Mondadori International SA | Luxembourg | Financial | Euro | 393,625,900.00 | 99.99 | 99.99 |
| Prisco Spain Sa | Barcelona | Financial | Euro | 60,101.30 | 100.00 | 100.00 |

(*) established in 2004;
(**) merged into Le Monnier SpA;
(***) merged into Mondadori International SA.

| Name | Registered office | Business | Currency | Share capital expressed in local currency | % held as of 12/31/05 | % held as of 12/31/04 |
|---|---|---|---|---|---|---|
| *Companies valued using the proportionate method* | | | | | | |
| ABS Finance Fund Sicav | Luxembourg | Financial | Euro | 438,763,904.25 | 61.35 | - |
| *Companies valued using the net equity method* | | | | | | |
| Aci Mondadori SpA | Milan | Publishing | Euro | 590,290.00 | 50.00 | 50.00 |
| Ag. Lombarda Distrib. Giornali e Riviste Srl | Milan | Trade | Euro | 400,000.00 | 50.00 | 50.00 |
| Gruppo Attica Publications | Athens | Publishing | Euro | 4,590,000.00 | 41.66 | 40.00 |
| BOL Books on Line Italia SpA | Milan | Trade | Euro | 1,000,000.00 | 50.00 | 50.00 |
| Consorzio Covar | Rome | Services | Euro | 15,493.70 | 25.00 | 25.00 |
| Consorzio Forma | Rome | Services | Euro | 3,615.00 | 25.00 | 25.00 |
| Edizioni Electa Bruno Mondadori Srl | Milan | Publishing | Euro | 10,400.00 | 50.00 | 50.00 |
| Edizioni EL Srl | Trieste | Publishing | Euro | 620,000.00 | 50.00 | 50.00 |
| Grupo Editorial Random House Mondadori | Barcelona | Publishing | Euro | 10,002,000.00 | 50.00 | 50.00 |
| Gruner und Jahr / Mondadori SpA | Milan | Publishing | Euro | 2,600,000.00 | 50.00 | 50.00 |
| Harlequin Mondadori SpA | Milan | Publishing | Euro | 258,250.00 | 50.00 | 50.00 |
| Hearst Mondadori Editoriale Srl | Milan | Publishing | Euro | 99,600.00 | 50.00 | 50.00 |
| Mach 2 Libri SpA | Peschiera Borromeo | Trade | Euro | 646,250.00 | 24.00 | 24.00 |
| Mondadori Rodale Srl | Milan | Publishing | Euro | 90,000.00 | 50.00 | 50.00 |
| Mondolibri SpA | Milan | Trade Publishing | Euro | 1,040,000.00 | 50.00 | 50.00 |
| Press Tv SpA | Milan | Publishing | Euro | 1,500,000.00 | 50.00 | 50.00 |
| Roccella Scarl | Naples | Services | Euro | 100,000.00 | 29.70 | - |
| Rock FM Srl | Milan | Radio | Euro | 200,000.00 | 47.49 | - |
| Società Europea di Edizioni SpA | Milan | Publishing | Euro | 2,775,601.92 | 39.27 | 39.27 |
| Venezia Accademia Scarl | Venice | Services | Euro | 15,000.00 | 26.00 | 26.00 |
| Venezia Musei Scarl (in liquidation) | Venice | Services | Euro | 10,000.00 | 34.00 | 34.00 |
| Venezia Musei Soc. per i servizi museali Scarl | Venice | Services | Euro | 10,000.00 | 34.00 | 34.00 |
| *Companies valued at cost* | | | | | | |
| Casa Editrice e di Distribuzione Bences | | | | | (§) | 15.40 |
| Consuledit Srl | Milan | Services | Euro | 20,000.00 | 9.54 | 9.54 |
| Cons. Sistemi Informativi Editoriali Distributivi | Milan | Services | Euro | 103,291.38 | 10.00 | 10.00 |
| Editrice Portoria SpA | Milan | Publishing | Euro | 364,000.00 | 16.78 | 16.78 |
| Editrice Storia Illustrata Srl (in liq.) | Milan | Publishing | Lire | 20,000,000 | 8.39 | 8.39 |
| Euromedia Luxembourg Two SA | Luxembourg | Financial | US $ | 42,500,000 | 11.76 | 11.76 |
| Giulio Einaudi Editore SpA (in administration) | Turin | | Lire | 3,000,000,000 | 7.35 | 7.35 |
| Immobiliare Editori Giornali Srl | Rome | Real estate | Euro | 830,462.00 | 7.88 | 7.88 |
| Istud – Istituto Studi Direzionali SpA | Milan | Services | Euro | 985,084.00 | 0.59 | 0.59 |
| News Alert Investors Llc | | | | | (§§) | 11.21 |
| Novamusa Gelmar Biblioteca Nazionale Scarl | Rome | Services | Euro | 10,200.00 | 12.00 | 12.00 |
| Novamusa Val di Noto Scarl | Messina | Services | Euro | 90,000.00 | 12.00 | 12.00 |
| Novamusa Valdemone Scarl | Messina | Services | Euro | 90,000.00 | 12.00 | 12.00 |
| Novamusa Val di Mazara Scarl | Messina | Services | Euro | 90,000.00 | 12.00 | - |
| Selcon Srl | Milan | Services | Euro | 20,800.00 | 17.60 | 17.60 |
| Società Editrice Il Mulino SpA | Bologna | Publishing | Euro | 1,175,000.00 | 7.05 | 7.05 |

(§) sold in 2005.
(§§) liquidated in 2005.

### 4. Conversion of financial statements in foreign currencies

All amounts in the consolidated financial statements of the Mondadori Group are expressed in euros, which is the functional and presentation currency of the Mondadori Group.
The financial statements of companies whose functional currency is not the euro are converted into euros in the following way:

- assets and liabilities are converted at the exchange rate ruling at the balance sheet date;
- income statement items are converted at the average exchange rate for the period.

Exchange rate differences that arise from these conversions are recognised in a specific reserve in shareholders' equity.

### 5. Segment information

In defining segment information, the Mondadori Group has determined that the nature and source of benefits and risks for the companies involved are mainly influenced by the differences in the products sold and the services offered.

Therefore the primary format used for providing segment information is the activity of the company involved and the secondary format is by geographical segment. As far as assets and liabilities which are not attributable to any specific segment are concerned, specific attribution parameters have been determined, while assets and liabilities that cannot be allocated by means of specific parameters are presented separately.

Primary and secondary segment reporting for 2005 and 2004 is included in the notes that follow.

### 6. Accounting principles and valuation methods

The following is an explanation of the principles adopted by the Mondadori group in preparing the IAS/IFRS consolidated financial statements at 31 December 2005.

#### 6.1 Intangible assets

When it is probable that costs will generate future economic benefits, intangible assets include the cost, including accessory charges, of the purchase of assets or resources, without any physical form, used in the production of goods or in the supply of services, to rent to third parties or for administrative purposes, on condition that the cost is quantifiable in a reliable manner and that the goods are clearly identifiable and controlled by the company that owns them.

Any costs incurred after the initial purchase are included in the increase of the cost of the intangible assets in direct relation to the extent to which those costs are able to generate future economic benefits.

Internal costs for producing mastheads and for the launch of newspapers, magazines or other journals are recognised in the income statement for the year in question.

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses.

Intangible assets purchased separately and those purchased as part of business combinations that took place before the adoption of IAS/IFRS are initially recognised at cost, while those purchased as part of business combination operations that took place after the adoption of IAS/IFRS are initially recognised at their fair value.

*Intangible assets with a definite useful life*

The cost of intangible assets with a finite useful life is systematically amortised over the useful life of the asset from the moment that the asset is available for use. The amortisation criteria depend on how the Group will receive the relative future economic benefits.

The amortisation rates that generally reflect the useful lives attributed to intangible assets with a finite life are as follows:

| Intangible assets with a finite useful life | Amortisation rate |
|---|---|
| Costs of taking over lease contracts | Term of rental contract |
| Goods under concession or licence | Term of franchise or licence |
| Software | Straight line over 3 years |
| Patents and rights | Straight line over 3 to 5 years |
| Other intangible assets | Straight line over 3 to 5 years |

Intangible assets with a finite useful life are subject to an impairment test every time there is an indication of a possible loss of value. The period and method of amortisation applied is reviewed at the end of each year or more frequently if necessary.

Variations in the expected useful life or in the way future economic benefits linked to intangible assets are expected to be earned by the Group are recognised by modifying the period or method of amortisation, and are treated as changes in accounting estimate.

*Intangible assets with an indefinite useful life*

Intangible assets are considered to have an indefinite useful life when, on the basis of a thorough analysis of the relevant factors, there is no foreseeable limit to the length of time the assets may generate income for the Group.

The intangible assets identified by the Group as having an indefinite useful life are shown in the following table:

| Intangible assets with an indefinite useful life |
|---|
| Titles |
| Series |
| Radio frequencies |
| Imprints |
| Goodwill |

Goodwill represents the excess of the cost of a business combination over the share purchased by the Group of the fair value of the assets, liabilities and contingent liabilities acquired, identifiable at the time of purchase. Goodwill and the other intangible assets with an indefinite useful life are not subject to amortisation but to an impairment test of their carrying value. This test concerns the value of the individual assets or of the business unit that generates the financial income (the cash generating unit) and is carried out whenever it is believed that the value has decreased, and in any case at least once a year.

In cases where goodwill is attributed to a cash generating unit (or to a group of units) whose assets are partially disposed of, the goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or capital losses resulting from the operation. In these circumstances the goodwill disposed of is measured on the basis of the value of the assets disposed of compared with the asset still included in the cash generating unit in question.

### 6.2 Investment property

A property investment is considered an asset when it is held in order to earn income from its rental or in order for the invested capital to increase, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the Group.

Investment property stated at cost, which includes the purchase cost and all accessory charges directly connected to this.

Costs which arise after the initial purchase are included in the increase of the cost of the property in direct relation to how much those costs are able to generate future economic benefits higher than those originally assessed.

The cost of investment property, except for that part pertaining to the cost of the land, is systematically amortised over the useful life of the asset. The depreciation criteria depend on the how the relative future economic benefits are earned by the Group.

The depreciation rates that reflect the useful life attributed to the investments are as follows:

| Investment property | Depreciation rate |
|---|---|
| Buildings not used in business activities | 3% |

Both the useful life and the depreciation criteria are constantly reviewed and, if any significant changes are found in the assumptions previously adopted, the depreciation rate for the period in question and for subsequent periods is adjusted.

Gains and losses deriving from the disposal of investment property are recognised in the income statement in the year the operation takes place.

Investment property is reclassified when there is a change of use determined by specific events.

### 6.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognised as assets, on condition that the costs of the asset can be reliably calculated and any relative future economic benefits and the relative future economic benefits will flow to the Group.

Assets booked to property, plant and equipment are valued at cost, including any accessory charges, and are stated net of accumulated depreciation and any impairment.

Costs which arise after the initial purchase are recognised as an increase in cost in direct relation to the extent that these costs are able to improve the performance of the asset.

Assets booked to property, plant and equipment purchased as part of acquisitions and business combinations are recognised when they are first recognised at their fair value determined at the time of their purchase and subsequently at cost.

Assets recognised as property, plant and equipment, with the exception of land, are depreciated over the useful life of the asset from the moment the assets are available for use.

If the assets include more than one significant component and the components have different useful lives, each individual component is depreciated separately.

The depreciation rates that generally reflect the useful lives attributed to property, plant and equipment are as follows:

| Property, plant and equipment | Depreciation rate |
|---|---|
| Buildings used in business activities | 3% |
| Plant | 10% - 25% |
| Rotary press | 10% |
| Machinery | 15.5% |
| Equipment | 25% |
| Electronic office equipment | 30% |
| Furniture and fixtures | 12% |
| Motor vehicles and transport vehicles | 20% - 30% |
| Other assets | 20% |

The residual value of assets, useful lives and the depreciation criteria applied, are reviewed on an annual basis and adjusted, if necessary, at the end of every year.

Leasehold improvements are recognised as fixed assets and depreciated over the lower of the residual useful life of the asset and the residual term of the lease contract.

### 6.4 Finance lease assets

Assets held under finance leases, which transfer all the risks and benefits connected with the asset to the company, are booked at their market value or, if lower,at the present value of the minimum lease payments, including the amount to be paid for exercising any purchase option.

Liabilities arising from leasing contracts are recognised as financial liabilities.

These assets are booked under their respective categories in the item property, plant and equipment and depreciated over the lower of the contract term and the useful life of the asset in question.

A lease where the lessor retains substantially all the risks and benefits linked to the property is classified as an operating lease and the relative costs are recognised in the income statement over the contract term.

### 6.5 Borrowing costs

The Group does not capitalise any financial charges connected with the purchase, construction or production of assets that can be capitalised. These charges are recognised in the income statement in the year in which they are incurred.

### 6.6 Impairment

The carrying value of intangible assets, investment property and property, plant and machinery is subject to an impairment test whenever it is believed that it may have decreased.

Impairment tests are carried out at least once a year on goodwill, other intangible assets with an indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is the higher of the fair value less the sales cost and the value in use of the asset.

If no binding sales agreement or an active market for an asset exist, the fair value is calculated on the basis of the best information available as to the amount the Group could obtain, at the balance sheet date, from the disposal of an asset in a free transaction between informed and willing parties, after the costs of disposal have been deducted.

The value in use of an asset is determined by calculating the amount of income expected from the use of the asset, basing the forecasts of financial income on reasonable, plausible assumptions that represent the best estimates carried out by management of a series of economic conditions that exist for the remainder of the life of the asset, giving more importance to external indicators.

The pre-tax discount rate used reflects the current market value of money and the specific risks connected to the asset.

The valuation is carried out either for each individual asset or for the smallest cash generating unit of assets that generate income from the use of the assets in question.

If the value calculated by the impairment test is lower than cost, the loss is recognised as a reduction of the asset and as a cost in the income statement.

If during the subsequent financial years, when the impairment test is repeated, the reasons for the writedown no longer exist, the value of the asset, with the exception of the goodwill, is reinstated to take into account the new recoverable value which does not however, exceed the value that would have been calculated had no loss in value been recognised.

### 6.7 Investments in joint ventures and associated companies

This item refers to investments in companies where the control of the business activity is shared and where financial and management decisions require the unanimous consensus of all the parties who share control; and to investments in companies where the Group has a significant influence that enables it to take part in determining the financial and management policies of the company even though it does not have control or joint control.

Investments in joint-ventures and associated companies are initially measured at cost and subsequently adjusted as a consequence of any changes in the share the Group holds in the equity of the companies in question.
The Group's share of any profits and losses of such companies is recognised in the income statement.
The carrying value of these investments also contains any excess cost paid and attributed to goodwill.

The risk resulting from any losses that exceed the investee's equity is recognised as a liability to the extent that the Group is has a legal or constructive obligation or has made payments on behalf of the company in question.

### 6.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory cost includes the purchase cost, the transformation cost and the other costs involved in bringing an item to the location and condition necessary without taking into consideration financial charges.

The calculation of cost is based on the average cost of raw and consumable materials and of finished products purchased for sale, while the FIFO method is used for finished products.

The valuation of goods under construction and semi-finished products and work in progress to order is based on the cost of the materials and other costs incurred, taking into account the progress of the production process.

The presumed net value for raw, subsidiary and consumer materials is represented by replacement cost while for semi-finished and finished products by the normal estimated sales price net of, respectively, the estimated cost to completion and the sales cost.

### 6.9 Financial assets

Financial assets are initially measured at cost, plus the accessory purchase charges that represent the fair value of the amount paid. The purchase and sale of financial assets are valued as of the trading date, which is the date the Group agreed to purchase the asset in question. After initial measurement, financial assets are valued according to their classification as outlined below:

Financial assets at fair value with changes recognised in the income statement ("at fair value through profit and loss")
This category includes financial assets held for trading that have been acquired with the intention of selling them in the short term. Derivatives are classified as financial instruments held for trading, with the exception of effective hedge derivatives.

Profits and losses deriving from measuring assets held for trading at fair value are recognised in the income statement.

Held-to-maturity investments
When the Group intends to hold financial assets in its portfolio to maturity, it classifies these assets, which have fixed or determinable payments with fixed maturity, as "held-to-maturity investments".

Long-term financial investments that are held to their maturity, such as bonds, are valued after the initial valuation using the amortised cost method based on the effective interest rates, which represent the rates that will apply to the future payments or returns estimated for the entire life of the financial instrument.
The amortised cost is calculated taking into consideration any eventual discounts or premiums that will be applied during the entire period of time up to maturity.

Those financial assets that the Group decides to keep in its portfolio for an indefinite period do not come into this category.

Loans and receivables
This item includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

These assets are valued at amortised cost method using the effective discount rate method. Profits and losses are recognised in the income statement when the loans and receivables are eliminated or when a loss of value occurs, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets consist of all of those assets that do not fall into any of the categories mentioned above.

After being initially measured at cost, available-for-sale financial assets are measured at fair value. The profits and losses of the valuations are recognised in a separate item in shareholders' equity for as long as the assets are held in the portfolio and for as long as there is no loss of value.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the value established at the close of trading on the balance sheet date.
For investments where an active market does not exist, fair value is determined by valuations based on recent trading prices between independent parties, on the basis of the current market value of a financial instrument that is substantially similar or from an analysis of up-to-date cash flows or of option pricing models.
Available-for-sale financial assets also include shares in other companies.

### 6.10 Trade receivables and other receivables

Trade receivables and other receivables are initially measured at cost, or at the fair value of the amount received during the transaction. Receivables are measured at their present values when the financial effect linked to the collection date forecast is significant and the collection date can be reliably estimated.
Receivables are subsequently recognised in the financial statements at their estimated realisable value.

### 6.11 Treasury shares

Treasury shares are booked in shareholders' equity in the relative reserve.
No profit or loss is recognised in the income statement on the purchase, sale, issue, cancellation or any other operation concerned with treasury shares.

### 6.12 Cash and cash equivalents

The item cash and cash equivalents includes liquid financial assets and financial investments with due date falling within three months and which are subject to a minimal risk of variation in their face value.

They are booked at their face value.

### 6.13 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables linked to financial leasing contracts and trade payables. All financial liabilities, unlike derivative financial instruments, are initially valued at fair value as increased by any cost of the related transaction and are subsequently valued at amortised cost using the effective interest rate method.
Financial instruments consisting of bonds that can be converted into shares of Arnoldo Mondadori Editore S.p.A. are recognised by separating the liability component from the option component. The liability component is recognised in the financial statements under financial liabilities applying the amortised cost method while the option value, calculated as the difference between the value of the liability component and the nominal value of the financial instrument issued, is recognised in a reserve in net equity.
Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges), are valued at fair value, in accordance with the methodology outlined in IAS 39 for hedge accounting. Profits and losses resulting from subsequent variations in fair value are recognised in the income statement. The portions of these changes linked to the efficient portion of the hedge are compensated for by changes in value of derivative instruments.
Financial liabilities hedged by derivative instruments against the risk of changes in the cash flow (cash flow hedges), are valued at amortised cost, in accordance with the methodology outlined in IAS 39 for hedge accounting.

### 6.14 Derecognition of financial assets and liabilities

A financial asset or, where applicable, a part of a financial asset or parts of a group of similar financial assets, is derecognised when:

- the right to receive cash flows from the asset has been extinguished;
- the Group still has the right to receive cash flows from the asset but has taken on a contractual obligation to transfer the entire cash flow immediately to a third party;
- the Group has transferred the right to receive cash flows from an asset and has transferred substantially all the risks and benefits deriving from the ownership of the financial asset or has transferred control of the financial asset.

A financial asset is derecognised from the balance sheet when the obligation relating to the asset is discharged, is cancelled or expires.

### 6.15 Impairment of financial assets

The Group performs a review to determine whether a financial asset or group of financial assets has undergone a loss of value every time the financial statements are prepared.

Financial assets valued at amortised cost

If there is objective evidence that there is a reduction in the value of loans and receivables, the amount of the loss is recognised in the income statement and is calculated as the difference between the asset's carrying value and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.
If, in a subsequent period, the amount of the loss of value decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised loss of value is reversed up to the amount the asset would have had, taking into account the amortisation, at the date of the reversal.

Available-for-sale financial assets

If an available-for-sale financial asset suffers an effective reduction in value, the accumulated loss is recognised in the income statement. The reversal of values relative to equity instruments classified as available-for-sale are not recognised in the income statement. The reversal of values relative to debt instruments are recognised in the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the loss was recognised in the income statement.

Financial assets valued at cost

If there is objective evidence that a loss of value has been incurred on an unquoted equity instrument that is not booked at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and settled by delivery of that unquoted equity instrument, the amount of the loss of value is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

### 6.16 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date they are stipulated. When a hedge operation is entered into, the company designs and formally documents the hedge relationship to which it intends to apply the hedge accounting, its objectives in managing the risk and the strategy carried out. The documentation includes the identification of the hedging instrument, element or operation that is being hedged, the nature of the risk and the way the Group intends to evaluate the effectiveness of the hedge in compensating the exposure to the variations of the fair value of the

element hedged or of the cash flows linked to the risk hedged.
It is expected that this hedge is effective enough to compensate for the exposure of the element hedged to variations in fair value or in cash flows attributable to the risk hedged. The evaluation of whether or not this hedge is in reality sufficiently effective is carried out on a continuous basis over the years in question.

Operations that satisfy the criteria of hedge accounting are accounted for as follows:

*Fair value hedge*
If a derivative financial instrument is designated as a hedge for the exposure to variations in the fair value of an asset or liability attributable to a particular risk, the profit or loss deriving from subsequent variations in the fair value of the hedge instrument is recognised in the income statement. The profit or loss deriving from the adjustment of the fair value of the item hedged, for the part attributable to the risk hedged, modifies the carrying value of the item and is recognised in the income statement.

*Cash flow hedge*
If a derivative financial instrument is designated as an instrument for hedging the exposure to variations in cash flows of an asset or of a liability included in the financial statement or of a highly probable forecast transaction, the effective portion of the assets or of the losses deriving from the adjustment of the fair value of the derivative instrument is recognised in a special reserve in net equity. The accumulated profit and loss are transferred from the equity reserve and recognised in the income statement when the results of the hedge operation are recognised in the income statement. The profit and loss associated with the ineffective part of a hedge are recognised in the income statement. If a hedging instrument is terminated but the hedging operation has not yet been carried out, the accumulated profits and losses remain in the reserve in the net equity and are reclassified to the income statement when the relative operation is carried out. If the hedging operation is no longer considered probable, the profits and losses not yet realised and recognised in equity are recognised in the income statement.
If hedge accounting cannot be applied, profits and losses deriving from the valuation of the fair value of the derivative financial instrument are recognised in the income statement.

### 6.17 Provision

Provisions against significant losses or liabilities that are certain or probable but whose amount or date of occurrence is impossible to establish when the financial statements are prepared, are recognised when it becomes probable that a present, legal or constructive obligation exists as the result of events that happened in the past, when the obligation in question is onerous and when the amount can be reliably estimated.

Provisions are valued at fair value for each obligation. When the time value of money linked to a forecast of when the payment will be made is significant and the payment date can be reliably estimated, the provision includes the financial component which is recognised in the income statement under financial income (expense).

### 6.18 Employees’ leaving entitlement

Benefits due to employees on leaving a company may be separated into defined contribution plans and defined benefit plans. In defined contribution plans, the legal or constructive obligation of a company is limited to the amount of the contributions it has paid to the plan, and as a result the actuarial risk and the investment risks fall on the employee. In defined benefit plans, the obligation of a company consists in granting and guaranteeing agreed benefits to employees, therefore the actuarial and investment risks fall on the company itself. In accordance with IAS 19, the Italian employees' leaving entitlement (the "trattamento di fine rapporto" or "TFR") is classified as a defined benefit plan.

The TFR obligation is determined using an actuarial method, based on demographic assumptions taking into account mortality rates and the turnover of the workforce, and on financial assumptions, taking into account the discount rate that reflects the time value of money, the inflation rate and future salary and wage levels.
The amount recognised as a liability for defined benefit plans is represented by the present value of the obligation at the balance sheet date, net of the present value of any plan assets. The amount that is recognised as costs in the income statement also includes the following:
– social security costs relative to the current work;
– interest costs;
– actuarial gains or losses;
– the return expected from any plan assets.

The Group does not apply the corridor method and therefore recognises all actuarial gains and losses directly in the income statement.

The charge for the amount accruing to employees during the year and the actuarial gains or losses are booked under personnel costs, while the financial component, which represents the cost the company would have to incur if it were to seek a loan on the market for the amount of the obligation, is booked under financial income (expense). The termination indemnity for agents is also determined on an actuarial basis. The charge for the estimated amount accruing to agents during the year, which becomes payable only under certain conditions if the agency relationship is terminated, is booked under other income (expense).

### 6.19 Stock options

The Group grants additional benefits to certain directors and managers who carry out functions that are relevant for the attainment of the company's strategic results, through equity-settled stock option plans. In accordance with IFRS 2, these stock options are measured at their fair value at the time they are granted. Fair value is determined on the basis of a binomial model, taking into consideration the regulations of the individual plans.

The cost of these benefits is booked during the period of service to personnel costs and is recognised over the vesting period from the date the options are granted, with an equal amount being recognised in the "Reserve for stock options" in shareholders' equity.

At the end of every year, the previously calculated fair value of every option is neither reviewed nor updated, but remains unchanged in shareholders' equity, although the estimate of the number of options that mature up to the expiry date (and therefore the number of employees who have the right to exercise these options) is updated at that time. Any change in this estimate is recognised in the "Reserve for stock options" and in personnel costs in the income statement.

When the option expires, the amount booked under "Reserve for stock options" is reclassified in the following way: the part of shareholders' equity that refers to options that have been exercised is reclassified to the "Share premium reserve", while the part that refers to options that have not been exercised is reclassified to retained earnings.

The dilutive effect of options that have not yet been exercised is reflected in the calculation of the diluted earnings per share.

The Group has applied the provisions contained in IFRS 2 for all stock option plans assigned after 7 November 2002.

### 6.20 Recognition of revenues and costs

Revenues earned from the sale of goods are recognised net of discounts, allowances and returns when it is probable that the economic benefits arising from the sale will flow to the Group and when the amount of the revenues can be reliably determined.

Revenues earned from the sale of magazines and the relative advertising space are recognised on the basis of the date of publication of the magazines.

Revenues deriving from services are recognised on the basis of the time the services are completed, when it is probable that the economic benefits arising from the sale will flow to the Group and when the amount of the revenues can be reliably calculated.

Revenues from interest are recognised on a temporal basis using the method of effective interest; royalties are recognised on an accrual basis and on the basis of the details of the respective agreements; dividends are recognised when the shareholder's right to receive payment has been established.

Costs are recognised in the same way as income and on an accrual basis.

### 6.21 Current and deferred taxes

Current taxes are calculated on the basis of an estimate of taxable income and in accordance with the laws prevailing in each country where the individual consolidated companies are resident.

Deferred tax assets and liabilities are calculated on all the temporary differences between the tax base of assets and liabilities and their relative carrying values in the consolidated financial statements, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary taxable or deductible differences resulting from the initial recognition of an asset or a liability in an operation that is not a business combination and which does not influence either the result or the taxable income at the time of the operation in question;
- for investments in subsidiary, associated and jointly-controlled companies when:
  - the Group is able to control the timing of the reversal of temporary taxable differences and it is probable that these differences will not reverse in the foreseeable future;

- it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of every period and is reduced if it is no longer probable that sufficient taxable profit will be available in the future for realising all or part of the assets.
Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply to the period when the assets are realised or the liabilities settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Taxation relating to items recognised directly in equity is recognised directly in equity and not in the income statement.

### 6.22 Operations in foreign currencies

Revenues and costs relating to operations in foreign currencies are expressed in the money of account using the exchange rates ruling on the day the operation was carried out.
Monetary assets and liabilities in foreign currencies are converted at the exchange rate ruling at the balance sheet date and any exchange differences are recognised in the income statement, with the exception of those deriving from loans in foreign currencies that are hedged by a net investment in a foreign company, which are recognised directly in equity until the net investment is disposed of.
Non-monetary items valued at historical cost in foreign currencies are converted using the exchange rates ruling at the time the transaction was carried out. Non-monetary items booked at fair value in foreign currencies are converted using the exchange rates ruling at the time that fair value was calculated.

### 6.23 Grants and contributions

Grants and contributions are recognised if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When the grants are linked to cost items, they are recognised as income and recognised on a systematic basis so that they are in proportion to the costs they are intended to set off or partially set off. In the cases where a grant is linked to an asset, the relative fair value is deferred in long-term liabilities and is recognised in the income statement at a constant rate over the useful life of the asset in question.

### 6.24 Earnings per share

Earnings per share is as the ratio between the Group's net profit and the average number of shares outstanding during the period.

In order to calculate diluted earnings per share, the average number of shares outstanding is modified on the assumption that all potential shares with dilutive effect are converted.

### 6.25 Assets and liabilities held for sale and discontinued operations

Non-current assets and groups of assets and liabilities whose carrying value will be mainly recovered through disposal instead of continuous use, are presented separately from other assets and liabilities in the consolidated balance sheet. These assets and liabilities are classified as "assets and liabilities held for sale" and are valued at the lower of their carrying value and their fair value less probable disposable costs. Gains and losses, net of the related tax effect, resulting from the valuation or disposal of the assets or liabilities in question are recognised in a specific item in the income statement.

### 6.26 New standards and interpretations adopted by the European Union but not yet effective

As required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the possible impact of new standards or interpretations on the financial statements in their first year of application are listed below.
Those standards and interpretations which came into effect after 31 December 2005 are indicated and briefly illustrated.

*Amendment to IAS 19 Employee Benefits*
This amendment, adopted by the European Union in November 2005 (EC Regulation 1910-2005), provides the option to immediately recognise actuarial gains and losses in the financial year they arise, not in the income statement but directly in a specific item in equity. This amendment became effective on 1 January 2006.

*IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease*
This interpretation, adopted by the European Union in November 2005 (EC Regulation 1910-2005), states that agreements that do not take the legal form of a lease but contain the right to use an asset must be classified as a finance lease or an operating lease as per IAS 17. This interpretation became effective on 1 January 2006.

*IFRS 7 Financial Instruments: Disclosures*
This principle, adopted by the European Union in January 2006 (EC Regulation 108/2006) assimilates the disclosures section contained in IAS 32 Financial Instruments: Disclosure and Presentation with modifications and integrations. As a consequence, the title of IAS 32 was changed to "Financial Instruments: Presentation".

*Amendment to IAS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
This amendment, adopted by the European Union in December 2005 (EC Regulation 2006-2005), permits the application of hedge accounting in consolidated financial statements to forecast intragroup operations that are highly probable and denominated in a foreign currency, and which are arranged for hedging purposes, on the condition that the transaction is denominated in a currency that is different from the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement.

The company is evaluating the impact of the standards and interpretations referred to above, all of which came into effect on 1 January 2006.

## 7. Use of estimates

In preparing the attached tables and the relative notes, it has been necessary to use estimates and assumptions in order to calculate, in particular, the provision for returns for published products, provisions for the writedowns of assets and for risks, employee benefits and taxation.

These estimates are constantly reviewed and any effects are recognised in the income statement.

### 8. Business combinations

On the first-time adoption of IFRS, the Group elected the exemption permitted under IFRS 1 not to apply IFRS 3 retrospectively to business combinations that took place before 1 January 2004.

Business combinations are recognised using the purchase method envisaged by IFRS 3. Under the purchase method, cost is determined as the sum of the fair values of the assets and liabilities acquired, including any contingent liabilities assumed and equity instruments issued at the date of the operation, plus any costs directly attributable to the purchase.

Any excess of purchase cost over the Group's share of the fair value of the assets, liabilities and contingent liabilities acquired and identifiable at the time of purchase is recognised as goodwill under assets. If this difference is negative it is recognised directly in the income statement.

### 9. Risk management

When carrying out its business activities the Mondadori Group finds itself exposed to various financial risks, such as interest rate risk, exchange rate risk, price risk, credit/counterparty risk, issuer risk and liquidity risk.

In order to manage interest rate risk and exchange rate risk, which result from its sources of financing, the Mondadori Group uses derivative financial instruments, in particular interest rate swaps and cross currency swaps. The Group also forward currency contracts in connection with the production and printing of publications for foreign markets.

Financial risk management is regulated by a policy adopted at Group level that defines objectives, guidelines, strategies, operational methods and operational limits, and which permits the use of transactions in derivatives only to hedge the financial risks the Group is exposed to, which are explained in more detail below.

*Interest rate risk*

The Group's exposure to fluctuations in interest rates mainly arises from its bond denominated in US dollars (US Private Placement) underwritten by American institutional investors. In order to hedge the risk of fair value on this situation, the Group has entered a cross currency swap agreement for the same amount and with the same due date, that converts the fixed interest rate into a floating interest rate and the dollar exposure into a euro exposure.

*Currency exchange risk*

In order to hedge exchange risks resulting from the sale of US dollars and sterling earned from the production and printing activities of subsidiary companies, the Group uses forward sales contracts for the currencies in question.

The Group's policy is to cover a percentage of the positions forecast in the budget and all of the orders received.

*Price risk*
The price risk refers to the uncertainty associated mainly with variations in the market price of equity instruments and to the loss of value in assets/liabilities as a result of variations in commodity prices.

At 31 December 2005, the group had options expiring in January 2006 linked to the 2003 stock option plan, taken out in order to neutralise any risks deriving from fluctuations in the price of Mondadori shares to be purchased for the stock option plan.

The Group is also exposed to the risk of fluctuations in the cost of paper. In order to reduce the variability of the market price of paper, long-term commercial contracts are signed directly with suppliers, making it possible to absorb any eventual increases in purchase costs.

*Credit/counterparty risk and the risk of the unavailability of funds*
The trading activities of the Mondadori Group do not entail any significant credit risk. When carrying out financial operations, including the use of derivative instruments, the Mondadori Group only works with primary financial institutions.

The risk of not being able to convert the financial assets held by the Mondadori Group into liquid assets is managed by diversifying investment instruments and by controlling the concentration of these instruments and the financial institutions involved.

*Issuer risk*
This risk exists if a company holds corporate bonds or financial instruments with credit portfolios as the underlying.
This risk includes debtor insolvency and the deterioration of the receivable. In order to deal with this risk, the Group has specific guidelines on financial investments that establish the minimum rating of the counterparty.

*Liquidity risk*
The Group attempts to maintain a constant balance and flexibility between financial sources and investments. The Group currently uses mainly medium- and long-term loans (bonds, convertible bonds, subsidised loans) with non-banking financial institutions, making it possible if necessary to make use of bank guarantees already held by the Group.

## 1. Intangible assets

The composition of and changes in intangible assets are described and commented on below:

| Intangible assets<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Intangible assets with finite useful lives | 2,812 | 4,358 |
| Intangible assets with indefinite useful lives | 216,597 | 140,442 |
| **Total intangible assets** | **219,409** | **144,800** |

The following two tables show the changes in intangible assets in 2005 and 2004.

Investments relate mainly to the purchase of software.
On the basis of the results of impairment tests, no writedowns were necessary during the current year or the previous year.

There is no restriction on the availability or use of intangible assets.

| Intangible assets with finite useful lives<br>(€/000) | Expenses for taking over shop leasing contracts | Software | Licences, patents and rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2004 | 4,360 | 9,061 | 967 | 1,352 | 319 | 16,059 |
| Investments | 38 | 1,340 | 10 | 137 | 48 | 1,573 |
| Disposals | - | (15) | . | - | - | (15) |
| Other changes | - | (2,202) | (17) | - | (319) | (2,538) |
| Cost at 31 December 2004 | 4,398 | 8,184 | 960 | 1,489 | 48 | 15,079 |
| Accumulated amortisation and impairment losses at 1 January 2004 | 1,745 | 6,884 | 642 | 838 | - | 10,109 |
| Amortisation | 533 | 1,941 | 226 | 263 | - | 2,963 |
| Writedowns/reinstatement of value | - | - | - | - | - | 0 |
| Disposals | - | (6) | - | - | - | (6) |
| Other changes | - | (2,344) | (12) | 11 | - | (2,345) |
| Accumulated amortisation and impairment losses at 31 December 2004 | 2,278 | 6,475 | 856 | 1,112 | 0 | 10,721 |
| Net book value at 1 January 2004 | 2,615 | 2,177 | 325 | 514 | 319 | 5,950 |
| **Net book value at 31 December 2004** | **2,120** | **1,709** | **104** | **377** | **48** | **4,358** |

| Intangible assets with finite useful lives (€/000) | Expenses for taking over shop leasing contracts | Software | Licences, patents and rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|
| Cost at 31 December 2004 | 4,398 | 8,184 | 960 | 1,489 | 48 | 15,079 |
| Investments | - | 896 | 23 | 2 | - | 921 |
| Disposals | - | (115) | - | - | - | (115) |
| Other changes | (17) | 191 | (252) | (1,389) | (48) | (1,515) |
| Cost at 31 December 2005 | 4,381 | 9,156 | 731 | 102 | 0 | 14,370 |
| Accumulated amortisation and impairment losses at 31 December 2004 | 2,278 | 6,475 | 856 | 1,112 | - | 10,721 |
| Amortisation | 534 | 1,422 | 47 | 17 | - | 2,020 |
| Writedowns/reinstatement of value | - | - | - | - | - | 0 |
| Disposals | - | (74) | - | - | - | (74) |
| Other changes | (17) | 204 | (219) | (1,077) | - | (1,109) |
| Accumulated amortisation and impairment losses at 31 December 2005 | 2,795 | 8,027 | 684 | 52 | 0 | 11,558 |
| Net book value at 31 December 2004 | 2,120 | 1,709 | 104 | 377 | 48 | 4,358 |
| **Net book value at 31 December 2005** | **1,586** | **1,129** | **47** | **50** | **0** | **2,812** |

The following data refer to intangible assets with an indefinite useful life.
As can be seen from the tables, the year was characterised by the writedown of certain magazine titles following an impairment test, the values of which were not reinstated in 2005 as further writedowns were carried out.

The most distinguishing feature of 2005 was the investments made by the Group in the radio sector. Mondadori acquired the radio frequencies of Radio One-O-One from Radio Milano International through the contributions made by Radio Milano International and Beta Srl of their business assets, represented almost exclusively by radio frequencies. The excess of € 43 million of the price paid by Arnoldo Mondadori Editore for the shares acquired as the result of the contribution over the net assets acquired has been mostly allocated to these frequencies.

During the year a number of other significant investments in equipment and frequencies were made in order to ensure that the radio signal could be received throughout the country.

| Intangible assets with indefinite useful lives (€/000) | Titles | Series | Imprints | Radio frequencies | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2004 | 98,158 | 31,129 | 4,464 | | 12,896 | 146,647 |
| Investments | - | 380 | 920 | - | 897 | 2,197 |
| Disposals | - | - | - | - | - | 0 |
| Other changes | - | - | - | - | - | 0 |
| Cost at 31 December 2004 | 98,158 | 31,509 | 5,384 | 0 | 13,793 | 148,844 |
| Impairment at 1 January 2004 | - | - | - | - | - | 0 |
| Writedown/reinstatement of value | 8,331 | - | 20 | - | 51 | 8,402 |
| Impairment at 31 December 2004 | 8,331 | 0 | 20 | 0 | 51 | 8,402 |
| Net book value at 1 January 2004 | 98,158 | 31,129 | 4,464 | 0 | 12,896 | 146,647 |
| **Net book value at 31 December 2004** | **89,827** | **31,509** | **5,364** | **0** | **13,742** | **140,442** |

| Intangible assets with indefinite useful lives (€/000) | Titles | Series | Imprints | Radio frequencies | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost at 31 December 2004 | 98,158 | 31,509 | 5,384 | - | 13,793 | 148,844 |
| Investments | - | - | 385 | 77,577 | | 77,962 |
| Disposals | - | - | | (475) | | (475) |
| Other changes | - | - | | | (15) | (15) |
| Cost at 31 December 2005 | 98,158 | 31,509 | 5,949 | 77,102 | 13,727 | 226,445 |
| Impairment at 31 December 2004 | 8,331 | - | 20 | - | 51 | 8,402 |
| Writedown/reinstatement of value | 1,123 | - | 14 | 180 | | 1,317 |
| Impairment at 31 December 2005 | 9,454 | 0 | 214 | 180 | 0 | 9,848 |
| Net book value at 31 December 2004 | 89,827 | 31,509 | 5,364 | 0 | 13,742 | 140,442 |
| **Net book value at 31 December 2005** | **88,704** | **31,509** | **5,735** | **76,922** | **13,727** | **216,597** |

*Amortisation, impairment and reinstatement of value of intangible assets*

The following table summaries the amounts charged to the income statement under the item "Amortisation and impairment of intangible assets" for the amortisation of intangible assets with definite useful lives and the writedown and reinstatement in value of intangible assets with indefinite lives.

| Amortisation and impairment of intangible assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Expenses for taking over shop leasing contracts | 534 | 533 |
| Software | 1,422 | 1,941 |
| Licences, patents and rights | 47 | 226 |
| Other intangible assets | 17 | 263 |
| **Total amortisation and impairment of intangible assets** | **2,020** | **2,963** |
| Writedowns of intangible assets | 1,317 | 8,402 |
| Reinstatement of value of intangible assets | - | - |
| **Total writedowns (reinstatement) of intangible assets** | **1,317** | **8,402** |
| **Total amortisation and impairment of intangible assets** | **3,337** | **11,365** |

When carrying out the annual impairment test for magazine titles, imprints and goodwill, use was made of the forecast data included in the 2006-2008 three-year-plan approved by management.

When determining the recoverable amount of an asset recognised in the financial statements, its value in use was used and, where possible, its fair value.

A pre-tax discount rate of 10.75% was used in the model for calculating the value in use, which corresponds to the weighted average cost of capital. This rate has two components: the cost of debt and the cost of capital.

The cost of debt component is equal to the cost of borrowing money net of the income generated from financial resources; since the Mondadori Group's net financial position is positive, its average cost was considered to be zero.
The cost of capital component was defined by adjusting the pre-tax return from twenty-year

BTPs (Long-Term Treasury Bonds) (3.8%) for the current market valuation of the present value of money and for the premium requested by the stock market over the income offered by treasury bonds for the company's systematic risk.

The beta used for adjusting the discount rate of future cash flows was calculated from the weighted average beta of the last 12 months.

The market premium risk was assumed to be 4%, also in view of the most recent valuations of the Mondadori Group carried out by and published by financial analysts.

The future growth rate was maintained at zero.

Titles and imprints mainly refer to the purchase of Silvio Berlusconi Editore which took place in 1994. Every title and every imprint represents a cash generating unit.

Series mainly refer to the purchase on the market of the school textbook division of Edumond Le Monnier S.p.A., which has been identified as a cash generating unit in the education sector. Goodwill was attributed to certain publishing imprints included in this cash generating unit.

The fair value of radio frequencies, all of which were acquired in 2005, is supported by independent appraisals carried out by third party experts as of the acquisition date and as of the balance sheet date which confirm their carrying value. In addition, an impairment test was performed taking into account the value in use of these assets, determined from an extension of the Group's business plan on the basis of the development of those activities which require a longer time frame.

## 2. Investment property

The composition of and changes in investment property are described and commented on below.

| Investment property (€/000) | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 1 January 2004 | 2,624 | 15,128 | 17,752 |
| Investments | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | - | 0 |
| Cost at 31 December 2004 | 2,624 | 15,128 | 17,752 |
| Accumulated depreciation and impairment losses at 1 January 2004 | - | 4,611 | 4,611 |
| Depreciation | - | 456 | 456 |
| Writedowns/reinstatement of value | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | (1) | (1) |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 5,066 | 5,066 |
| Net book value at 1 January 2004 | 2,624 | 10,517 | 13,141 |
| **Net book value at 31 December 2004** | **2,624** | **10,062** | **12,686** |

The decrease in investment property over the year is the result of the disposal of two properties which were considered non-strategic for the Group. This operation produced capital gains of €1,071 thousand.

| Investment property (€/000) | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 31 December 2004 | 2,624 | 15,128 | 17,752 |
| Investments | - | 268 | 268 |
| Disposals | (1,670) | (6,911) | (8,581) |
| Other changes | - | - | 0 |
| Cost at 31 December 2005 | 954 | 8,485 | 9,439 |
| Accumulated depreciation and impairment losses at 31 December 2004 | - | 5,066 | 5,066 |
| Depreciation | - | 322 | 322 |
| Writedowns/reinstatement of value | - | - | 0 |
| Disposals | - | (1,472) | (1,472) |
| Other changes | - | | 0 |
| Accumulated depreciation and impairment losses at 31 December 2005 | 0 | 3,916 | 3,916 |
| Net book value at 31 December 2004 | 2,624 | 10,062 | 12,686 |
| **Net book value at 31 December 2005** | **954** | **4,569** | **5,523** |

The fair value of investment property at 31 December 2005 was €12 million.

*Depreciation of investment property*

The depreciation charge for the year amounted to €322 thousand, included in the income statement under "Depreciation and imparment of property, plant and equipment", compared to €456 thousand in 2004.

There are no restrictions on the use of assets classified as investment property.

## 3. Property, plant and equipment

The following table shows the changes that for 2005 and 2004.

| **Property, plant and equipment** (€/000) | Land | Business buildings | Plant and equipment | Other assets | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2004 | 25,733 | 95,944 | 371,035 | 86,609 | 579,321 |
| Investments | - | 743 | 16,041 | 5,893 | 22,677 |
| Disposals | (4,637) | (13) | (3,963) | (3,869) | (12,482) |
| Other changes | - | (1,926) | (637) | (726) | (3,289) |
| Cost at 31 December 2004 | 21,096 | 94,748 | 382,476 | 87,907 | 586,227 |
| Accumulated depreciation and impairment losses at 1 January 2004 | - | 23,723 | 278,364 | 60,647 | 362,734 |
| Depreciation | - | 2,979 | 21,578 | 9,656 | 34,213 |
| Writedowns/reinstatement of value | - | - | - | - | 0 |
| Disposals | - | (7) | (3,271) | (1,683) | (4,961) |
| Other changes | - | (1,496) | (1,468) | 35 | (2,929) |
| Accumulated depreciation and impairment losses at 31 December 2004 | 0 | 25,199 | 295,203 | 68,655 | 389,057 |
| Net book value at 1 January 2004 | 25,733 | 72,221 | 92,671 | 25,962 | 216,587 |
| **Net book value at 31 December 2004** | **21,096** | **69,549** | **87,273** | **19,252** | **197,170** |

| **Property, plant and equipment** (€/000) | Land | Business buildings | Plant and equipment | Other assets | Total |
|---|---|---|---|---|---|
| Cost at 31 December 2004 | 21,096 | 94,748 | 382,476 | 87,907 | 586,227 |
| Investments | - | 937 | 11,672 | 34,991 | 47,600 |
| Disposals | (550) | (847) | (9,520) | (3,532) | (14,449) |
| Other changes | - | 3 | (94) | (743) | (834) |
| Cost at 31 December 2005 | 20,546 | 94,841 | 384,534 | 118,623 | 618,544 |
| Accumulated depreciation and impairment losses at 31 December 2004 | - | 25,199 | 295,203 | 68,655 | 389,057 |
| Depreciation | - | 2,946 | 21,536 | 8,004 | 32,486 |
| Writedowns/reinstatement of value | - | - | - | - | 0 |
| Disposals | - | (157) | (8,426) | (3,175) | (11,758) |
| Other changes | - | - | (82) | (72) | (154) |
| Accumulated depreciation and impairment losses at 31 December 2005 | 0 | 27,988 | 308,231 | 73,412 | 409,631 |
| Net book value at 31 December 2004 | 21,096 | 69,549 | 87,273 | 19,252 | 197,170 |
| **Net book value at 31 December 2005** | **20,546** | **66,853** | **76,303** | **45,211** | **208,913** |

Investments relate mainly to the Group's printing facilities and have the aim of maintaining the excellent levels of printing quality.
In particular, in 2005 the item "Other assets" includes €25,150 thousand referring to assets under construction, which mainly concern the printing area.

No impairment losses were recognised in the current or previous year as the result of impairment tests.

Tangible fixed assets include property having a carrying value of €5,090 thousand (€6,590 thousand at 31 December 2004), which acts as a security for loans.

Other tangible fixed assets include:

| Other tangible fixed assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Industrial and commercial equipment | 5,734 | 2,508 |
| Electronic office machines | 5,017 | 5,949 |
| Furniture and fixtures | 4,505 | 4,339 |
| Motor vehicles and transport vehicles | 1,977 | 1,824 |
| Leasehold improvements | 2,285 | 1,464 |
| Other assets | 543 | 303 |
| Assets under construction and advances | 25,150 | 2,865 |
| **Total other tangible fixed assets** | **45,211** | **19,252** |

*Depreciation of property, plant and equipment*

The depreciation charge for the year, included in the income statement under "Depreciation and impairment of property, plant and equipment" amounted to €32,486 thousand, and was made up as follows:

| Depreciation of property, plant and equipment (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Buildings used in business activities | 2,946 | 2,979 |
| Plant and machinery | 21,536 | 21,578 |
| Equipment | 1,065 | 741 |
| Electronic office machines | 3,878 | 5,557 |
| Furniture and fixtures | 882 | 876 |
| Motor vehicles and transport vehicles | 1,068 | 1,123 |
| Leasehold improvements | 1,014 | 1,156 |
| Other assets | 97 | 203 |
| **Total depreciation of property, plant and equipment** | **32,486** | **34,213** |

No impairment losses or reinstatements of value were recognised in 2005 as a result of impairment tests.

*Leased assets*

The following table shows the value of leased assets at 31 December 2005 classified under fixed assets.

| | 12/31/2005 | | | 12/31/2004 | | |
|---|---|---|---|---|---|---|
| (€/000) | Gross value | Accumulated depreciation | Net book value | Gross value | Accumulated depreciation | Net book value |
| Buildings not used in business activities | - | - | 0 | - | - | 0 |
| Buildings used in business activities | 2,923 | (893) | 2,030 | 2,923 | (804) | 2,119 |
| Plant and machinery | 78,272 | (77,685) | 587 | 78,272 | (76,944) | 1,328 |
| Other assets | 1,586 | (1,551) | 35 | 1,528 | (1,528) | 0 |
| **Total leased assets** | **82,781** | **(80,129)** | **2,652** | **82,723** | **(79,276)** | **3,447** |

In most cases the above amounts relate to assets acquired in previous years under bargain purchase options.

Assets acquired under lease agreements still outstanding at 31 December 2005 refer mainly to a property for which the bargain purchase option of €77 thousand may be exercised in 2007. The contracts referred to above do not contain any rent revaluation clauses or restrictive clauses in relation to the assumption of new loans or to the distribution of dividends.

## 4. Investments

Investments in companies accounted for using the equity method and in other companies amounted to €108,805 thousand.

| Investments (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Investments accounted for using the equity method | 106,649 | 100,952 |
| Investments in other companies | 2,156 | 2,472 |
| **Total investments** | **108,805** | **103,424** |

Changes over the past two years in investments accounted for using the equity method are set out below.

While in 2004 there were significant investments, notably the purchase of a second block of 20% of the Attica Group, which allowed Mondadori to increase its stake to 40% of the share capital, in 2005 investments were lower and mainly related to the purchase of a further 1.66% of this group which is listed on the Athens Stock Exchange.

| Investments – Investments accounted for using the equity method (€/000) | Net value |
|---|---|
| Balance at 1 January 2004 | 75,939 |
| Movements during 2004: | |
| - purchases | 24,226 |
| - disposals and other movements | 834 |
| - revaluations | 7,590 |
| - writedowns | (1,392) |
| - dividends | (6,245) |
| **Balance at 31 December 2004** | **100,952** |
| Movements during 2005: | |
| - purchases | 831 |
| - disposals and other movements | 1,817 |
| - revaluations | 11,586 |
| - writedowns | (1,984) |
| - dividends | (6,553) |
| **Balance at 31 December 2005** | **106,649** |

The following table sets out details of investments accounted for using the equity method.

| Investments accounted for using the equity method – Detail (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Investments in joint ventures: | | |
| - Gruner und Jahr/Mondadori SpA | 5,152 | 4,988 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 317 | 429 |
| - Harlequin Mondadori SpA | 434 | 462 |
| - Hearst Mondadori Editoriale Srl | 426 | 710 |
| - Mondadori Rodale Srl | 1,003 | 832 |
| - Edizioni Electa Bruno Mondadori Srl | 329 | 219 |
| - Edizioni EL Srl | 2,034 | 1,794 |
| - Grupo Editorial Random House Mondadori SL | 30,678 | 26,628 |
| - BOL Books on line Italia SpA | - | 95 |
| - Attica Publications SA | 40,892 | 38,448 |
| - Aci Mondadori SpA | 838 | 356 |
| - Press Tv SpA | 318 | 1,078 |
| - Mondolibri SpA | 13,595 | 13,541 |
| **Total investments in joint ventures** | **96,016** | **89,580** |
| Investments in associated companies: | | |
| - Mach 2 Libri SpA | 2,796 | 2,312 |
| - Società Europea di Edizioni SpA | 7,773 | 9,038 |
| - Venezia Musei Scarl | 7 | 7 |
| - Venezia Musei società per i servizi museali Scarl | 5 | 5 |
| - Venezia Accademia Scarl | - | 9 |
| - Consorzio Covar | 3 | - |
| - Consorzio Forma | 2 | 1 |
| - Roccella Scarl | 30 | - |
| - Rock FM Srl | 17 | - |
| **Total investments in associated companies** | **10,633** | **11,372** |
| **Total investments accounted for using the equity method** | **106,649** | **100,952** |

The quoted value of the shares of the Attica Group is not considered representative of their fair value, as only 15% of the group's shares are floated on the market and the volume of trading during the year was limited in terms of both quantities and amount.

The following tables illustrate the movements in investments in other companies, stated at cost since fair value was not available.
The most significant data refer to writedowns in both years of the investment in Euromedia Luxembourg Two.

| Investments – Investments in other companies (€/000) | Net book value |
|---|---|
| Balance at 1 January 2004 | 5,899 |
| | |
| Movements during 2004: | |
| - purchases | |
| - disposals and other movements | (1,265) |
| - revaluations | - |
| - writedowns | (2,162) |
| - dividends | - |
| **Balance at 31 December 2004** | **2,472** |
| Movements during 2005: | |
| - purchases | 20 |
| - disposals and other movements | (4) |
| - revaluations | - |
| - writedowns | (332) |
| - dividends | - |
| **Balance at 31 December 2005** | **2,156** |

The following table illustrates details of investments in other companies.

| Investments in other companies – Detail<br>(€/000) | 12/31/2005 | 12/31/2005 |
|---|---|---|
| Investments in associated companies: | | |
| - Casa Editrice e di Distribuzione Bences | - | 3 |
| **Total investments in associated companies** | **0** | **3** |
| Other investments: | | |
| - Società Editrice Il Mulino SpA | 101 | 102 |
| - Euromedia Luxembourg Two SA | 1,927 | 2,257 |
| - Consuledit Srl | 1 | 1 |
| - Cons. Sistemi Informativi Editoriali Distributivi | 10 | 10 |
| - Immobiliare Editori Giornali Srl | 52 | 52 |
| - Istud – Istituto Studi Direzionali SpA | 7 | 7 |
| - Novamusa Val di Noto Scarl | 18 | 18 |
| - Novamusa Valdemone Scarl | 18 | 18 |
| - Novamusa Gelmar Scarl | 2 | 2 |
| - Novamusa Val di Mazara Scarl | 18 | - |
| - Consorzio Editoriale Fridericiano | 2 | 2 |
| **Total other investments** | **2,156** | **2,469** |
| **Total investments in other companies** | **2,156** | **2,472** |

## 5. Non-current financial assets

The balance at 31 December 2005 amounted to zero. The balance at 31 December 2004, represented mainly by treasury shares for a value of €130,207 thousand, was classified at 31 December 2005 as a direct reduction of equity, as a result of the adoption of IAS 32 and IAS 39 from 1 January 2005.

## 6. Deferred tax assets and liabilities

The following tables sets out details of deferred tax assets and liabilities.

| (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Deferred tax assets - IRES | 34,386 | 37,147 |
| Deferred tax assets - IRAP | 2,704 | 3,665 |
| **Total deferred tax assets** | **37,090** | **40,812** |
| Deferred tax liabilities - IRES | 23,472 | 18,382 |
| Deferred tax liabilities - IRAP | 2,526 | 3,205 |
| **Total deferred tax liabilities** | **25,998** | **21,587** |

*Description of temporary differences that led to the recognition of deferred tax assets*

The following table sets out the temporary differences between the book values and tax bases of assets and liabilities that generated deferred tax assets.

| (€/000) | 12/31/2005 Amount of temporary difference | Tax rate | Deferred tax assets | 12/31/2004 Amount of temporary difference | Tax rate | Deferred tax assets |
|---|---|---|---|---|---|---|
| Difference between book value and tax basis of intangible assets | 10,637 | 33% | 3,511 | 10,706 | 33% | 3,533 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 14,676 | 33% | 4,841 | 12,048 | 33% | 3,976 |
| Provision for bad debts | 11,972 | 33% | 3,951 | 16,388 | 33% | 5,408 |
| Inventory provision | 11,037 | 33% | 3,642 | 9,245 | 33% | 3,051 |
| Writedowns of advances to authors | 5,647 | 33% | 1,864 | 4,621 | 33% | 1,525 |
| Provisions | 20,401 | 33% | 6,733 | 19,948 | 33% | 6,583 |
| Agents' termination indemnity | 2,284 | 33% | 754 | 2,455 | 33% | 810 |
| Unused tax losses | 2,135 | 33% | 705 | 7,439 | 33% | 2,455 |
| Elimination of unrealised intragroup profits | 10,051 | 33% | 3,317 | 7,376 | 33% | 2,434 |
| Other temporary differences | 15,354 | 33% | 5,068 | 22,339 | 33% | 7,372 |
| **Total for IRES purposes** | **104,194** | | **34,386** | **112,565** | | **37,147** |
| Difference between book value and tax basis of intangible assets | 10,637 | 4.25% | 453 | 10,706 | 4.25% | 455 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 14,676 | 4.25% | 619 | 11,976 | 4.25% | 509 |
| Inventory provision | 9,018 | 4.25% | 384 | 7,247 | 4.25% | 308 |
| Writedowns of advances to authors | 1,436 | 4.25% | 61 | 753 | 4.25% | 32 |
| Provisions | 14,508 | 4.25% | 616 | 12,424 | 4.25% | 528 |
| Agents' termination indemnity | 331 | 4.25% | 14 | 400 | 4.25% | 17 |
| Elimination of unrealised intragroup profits | 10,051 | 4.25% | 426 | 7,341 | 4.25% | 312 |
| Other temporary differences | 3,081 | 4.25% | 131 | 35,388 | 4.25% | 1,504 |
| **Total for IRAP purposes** | **63,738** | | **2,704** | **86,235** | | **3,665** |

*Description of temporary differences that led to the recognition of deferred tax liabilities*

The following table sets out the temporary differences between the book values and tax bases of assets and liabilities that generated deferred tax liabilities.

| (€/000) | 12/31/2005 Amount of temporary difference | 12/31/2005 Tax rate | 12/31/2005 Deferred tax liabilities | 12/31/2004 Amount of temporary difference | 12/31/2004 Tax rate | 12/31/2004 Deferred tax liabilities |
|---|---|---|---|---|---|---|
| Capital gains | 26 | 33% | 9 | 333 | 33% | 110 |
| Difference between book value and tax basis of intangible assets | 9,176 | 33% | 3,028 | 4,033 | 33% | 1,331 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 36,556 | 33% | 12,063 | 25,733 | 33% | 8,492 |
| Employees' leaving entitlement | 9,161 | 33% | 3,023 | 11,736 | 33% | 3,873 |
| Agents' termination indemnity | 139 | 33% | 46 | 115 | 33% | 38 |
| Leased assets | 2,383 | 33% | 786 | 3,124 | 33% | 1,031 |
| Other temporary differences | 13,689 | 33% | 4,517 | 10,627 | 33% | 3,507 |
| **Total for IRES purposes** | **71,130** | | **23,472** | **55,701** | | **18,382** |
| Difference between book value and tax basis of intangible assets | 9,176 | 4.25% | 389 | 4,047 | 4.25% | 172 |
| Difference between book value and tax basis of investment property and property, plant and equipment | 36,615 | 4.25% | 1,556 | 27,059 | 4.25% | 1,150 |
| Agents' termination indemnity | 654 | 4.25% | 28 | 447 | 4.25% | 19 |
| Leased assets | 2,383 | 4.25% | 102 | 3,106 | 4.25% | 132 |
| Other temporary differences | 10,620 | 4.25% | 451 | 40,753 | 4.25% | 1,732 |
| **Total for IRAP purposes** | **59,452** | | **2,526** | **75,412** | | **3,205** |

The net change in deferred tax assets and liabilities led to a tax charge €19,393 thousand recognised as described in note 30.
Other changes during the year that did not have any effect on the income statement mainly relate to adjustments arising from the adoption of IAS 32 and IAS 39 on 1 January 2005.

| Unrecognised deferred taxes (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Temporary differences excluded from the determination of deferred tax assets and liabilities | - | 5,339 |
| Unused tax losses available for carryforward | 8,331 | 8,331 |

Unused tax losses available for carryforward that expire in 2007 amount to €5,319 thousand and those that expire in 2008 amount to €3,012 thousand.

Deferred tax liabilities have not been recognised for temporary differences arising from investments in joint ventures, subsidiaries and associated companies as the Group is able to control the timing of the reversal of such differences and it is not probable that those differences will reverse in the foreseeable future.

## 7. Other non-current assets

The balance of other non-current assets decreased as a result of the utilisation of prepaid withholding tax on the employees' leaving entitlement.

| Other non-current assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Guarantee deposits | 342 | 308 |
| Earnest money | - | 207 |
| Advance IRE withholding tax on the employees' leaving entitlement | 2,103 | 3,187 |
| Other | 633 | 244 |
| **Total other non-current assets** | **3,078** | **3,946** |

## 8. Tax receivables

The composition of and changes in tax receivables are described and commented on below:

| Tax receivables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Receivables from tax authorities for IRAP | 278 | 32 |
| Receivables from tax authorities for IRES | 13,801 | 1,985 |
| Receivables from Fininvest for IRES | - | - |
| Receivables from tax authorities for VAT to be recovered | 12,188 | 2,944 |
| Receivables from tax authorities for tax reimbursements | 4,123 | 2,748 |
| **Total tax receivables** | **30,390** | **7,709** |

The increase in the balance compared with the previous year is mainly due to tax credits relating to the purchase of paper and its utilisation pursuant to Law no. 350/2003 and Law no. 311/2004, and by the increase in VAT credits.

## 9. Other current assets

The composition of and changes in other current assets are described and commented on below:

| Other current assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Advances to agents | 778 | 1,446 |
| Advances to authors and collaborators | 43,627 | 37,754 |
| Advances to suppliers | 2,460 | 3,199 |
| Advances to personnel | 736 | 605 |
| Receivables for insurance compensation | - | - |
| Advances to social security institutions | 15 | 41 |
| Receivable for guarantee deposits | 247 | 2,182 |
| Earnest money | 413 | 206 |
| Prepayments | 8,014 | 10,471 |
| Other | 9,191 | 8,486 |
| **Total other current assets** | **65,481** | **64,390** |

This item does not show any particular change compared with 31 December 2004. The increase in advances to authors is due to the positive performance of the book division.

## 10. Inventories

The balance of inventories increased over that at 31 December 2004 due to initiatives in the magazine sector connected with add-on sales of publishing and various other products.

The composition of and changes in inventories are described and commented on below:

| Inventories<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Raw materials and consumables | 14,653 | 13,432 |
| Provision for raw materials and consumables | (463) | (466) |
| **Total raw materials and consumables** | **14,190** | **12,966** |
| Work in progress and semi-finished goods | 34,126 | 29,323 |
| Provision for work in progress and semi-finished goods | (1,054) | (1,054) |
| **Total work in progress and semi-finished goods** | **33,072** | **28,269** |
| Contract work in progress | 10,975 | 11,359 |
| Provision for contract work in progress | (30) | (124) |
| **Total work in progress** | **10,945** | **11,235** |
| Finished products and goods for resale | 79,068 | 77,759 |
| Provision for finished products and goods for resale | (10,253) | (9,334) |
| **Total finished products and goods for resale** | **68,815** | **68,425** |
| Advances | - | - |
| Total inventories | 127,022 | 120,895 |

Provisions against inventories are made by taking into account the saleability of finished products and the extent to which work in progress and semi-finished products may not produce margins.

| Inventories – Provisions<br>(€/000) | Raw materials | Work in progress and semi-finished goods | Contract work in progress | Finished products and goods for resale |
|---|---|---|---|---|
| Balance at 1 January 2004 | 430 | 1,248 | - | 8,599 |
| Movements during period: | | | | |
| - provisions | 65 | - | 95 | 1,339 |
| - utilisations | (29) | (165) | - | (1,496) |
| - other movements | - | (29) | 29 | 892 |
| **Balance at 31 December 2004** | **466** | **1,054** | **124** | **9,334** |
| Movements during period: | | | | |
| - provisions | 25 | - | | 2,543 |
| - utilisations | (28) | - | (94) | (1,624) |
| - other movements | - | - | - | - |
| **Balance at 31 December 2005** | **463** | **1,054** | **30** | **10,253** |

There are no inventories used to secure liabilities.

*Decrease (increase) in inventories*

The following table summaries the changes in inventories recognised in the income statement for the year.

| Decrease (increase) in inventories (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Changes in finished products | (1,309) | 1,555 |
| Charge to finished products provision | 2,543 | 1,339 |
| Utilisation of finished products provision | (1,624) | (1,496) |
| | **(390)** | **1,398** |
| Changes in semi-finished products | (4,803) | 4,777 |
| Charge to finished products provision | - | - |
| Utilisation of finished products provision | - | (165) |
| | **(4,803)** | **4,612** |
| Changes in work in progress | 384 | (1,870) |
| Charge to finished products provision | - | 95 |
| Utilisation of finished products provision | (94) | - |
| | **290** | **(1,775)** |
| Changes in raw material and goods | (1,221) | 694 |
| Charge to finished products provision | 25 | 65 |
| Utilisation of finished products provision | (28) | (29) |
| | **(1,224)** | **730** |
| **Total decrease (increase) in inventories** | **(6,127)** | **4,965** |

### 11. Trade receivables

The increase in "Trade receivables" compared with 31 December 2005 was mainly due to an increase in receivables from associated companies. Details of receivables from associated, parent and affiliated companies are contained in the attachment "Balances and transactions with related parties".

Commercial transactions with these companies are carried out in accordance with normal market conditions.

| Trade receivables<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Receivables from customers | 352,912 | 352,571 |
| Receivables from associated companies | 53,665 | 44,923 |
| Receivables from parent companies | 12 | 10 |
| Receivables from affiliated companies | 4,496 | 3,662 |
| **Total trade receivables** | **411,085** | **401,166** |

There are no trade receivables with a due date over five years; the average collection period during 2005 was 84.8 days (89.6 days in 2004).

The following table contains details of "Trade receivables". As a result of the increased volume of business in the book and magazine divisions there was an increase in receivables and in the estimate of products that will be returned in the first months of 2006. The utilisation of the bad debts provision is the result of accounting for specific debts.

| Trade receivables<br>- Receivables from customers<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Trade receivables | 497,170 | 490,160 |
| Customers - returns to be received | (119,037) | (107,410) |
| Provision for bad debts | (25,221) | (30,179) |
| **Total receivables from customers** | **352,912** | **352,571** |

| Trade receivables<br>Receivables from customers – provision<br>(€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Balance at beginning of year | 30,179 | 29,037 |
| Movements during period: | | |
| - provisions | 5,748 | 10,865 |
| - utilisations | (10,701) | (9,258) |
| - changes in scope of consolidation | - | - |
| - other movements | (5) | (465) |
| **Total receivables from customers** | **25,221** | **30,179** |

## 12. Other current financial assets

| Other current financial assets (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| - Financial receivables from customers | - | 723 |
| - Financial receivables from associated companies | 9,715 | 10,689 |
| - Financial receivables from parent companies | - | - |
| - Financial receivables from affiliated companies | - | - |
| - Financial receivables from others | 26,839 | 7,015 |
| **Total financial receivables** | **36,554** | **18,427** |
| Financial assets at fair value with changes through the income statement | 442,870 | 485,861 |
| Available-for-sale financial assets | - | - |
| Assets resulting from derivative instruments | 2,780 | - |
| **Total other current financial assets** | **482,204** | **504,288** |

"Financial assets at fair value through the income statement" and "Financial receivables from others" consist of investments of liquidity made by Mondadori International and Arnoldo Mondadori Editore SpA.
The Group mainly invests in monetary market products and bonds with floating interest rates, with fund management mandates given only to primary international financial institutions; the balance in this respect amounts to € 391.4 million.
The Group also has investments totalling € 78 million mainly invested in hedge funds, with the objective of absolute return, for € 73 million, which are distinguished by the widespread diversification of the financial institutions utilised and the strategy employed.

Monetary/bond products are mainly allocated inside the Luxembourg rate securities broker, ABS Finance Fund, whose main administrators are Morgan Stanley, Lazard, BNP Paribas and HSBC. A portion amounting to € 75 million is invested either directly by Mondadori International or by management and investment mandate in funds (Barclays and Generali) or through the direct purchase of floating rate bonds. A further portion of € 52 million is invested by Arnoldo Mondadori Editore SpA in a guaranteed minimum return capitalisation policy issued by DWS (Deutsche Bank Group).

All of the assets referred to above are measured at fair value. For quoted assets the reference is market prices, while for non-quoted assets the price is either supplied by the banks that are custodians of the shares themselves or by the respective market makers.

*Assets and liabilities resulting from derivative instruments*

The following table illustrates the assets and liabilities resulting from derivative instruments held at 31 December 2005.

| Assets and liabilities in derivative instruments – Details (€/000) | Type of derivative | Fair value at 12/31/2005 |
|---|---|---|
| Non-current financial assets | | - |
| Current financial assets | | |
| -Options purchased for 2003 stock option plan | Trading | 2,780 |
| Non-current financial liabilities | | |
| -Cross currency swap | Fair value hedge | (766) |
| Current financial liabilities | | |
| -Options sold for stock option plan 2003 | Trading | (4) |
| -Currency derivatives | Trading | (8) |

As mentioned previously, the Group elected to apply IAS 32 and IAS 39 from 1 January 2005.

Trading derivatives refer to instruments that, even though they were set up as hedge operations, do not fully satisfy all the requisites of international accounting standards to qualify for hedge accounting.

The company has adopted a Policy on the Management of Financial Risks. The utilisation of derivative instruments is in line with the guidelines contained in that document.

Currency derivatives

The Group enters currency derivative agreements to hedge against the risk of fluctuations in exchange rates. The currency derivatives utilised are exclusively forward contracts for the purchase and sale of foreign currencies. The main type of exchange risks affecting the Group are linked to the purchase of the author's rights to books in markets outside the EU and the sale of printed publishing products in markets outside the EU. In the second case, the Group initially partially covers the annual budget for forecasted sales and all the orders for sales. As of 31 December 2005, there were following outstanding operations to hedge currency exchange risks:

– forward contracts for the sale of US $3,400 thousand (€ 2,825 thousand);
– forward contracts for the sale of £1,950 thousand (€ 2,847 thousand).

The fair value of these derivatives at 31 December 2005 was a loss of € 8 thousand.

Loan derivatives

Loan derivatives refer exclusively to a cross currency swap operation set up in 2003 to cover exchange and interest rate risks linked to the US Private Placement debenture loan. The loan of A$350 million is made up of three tranches of $215 million, $40 million and $95 million with fixed rates of, respectively, 5.42%, 5.57% and 5.85% and expiry dates of 2012, 2015 and 2018. The cross currency swap derivative made it possible to transform the notional into euro and the interest rates from fixed to floating. The floating interest rates ob-

tained for the three tranches are equal to the three-month Euribor rate plus, respectively, 0.66%, 0.59% and 0.60%.
In accordance with international accounting standards, the profit (loss) from the variations in value of this derivative instrument are recognised in the income statement in line with the variation of an equal amount recognised together with the debt.

Stock option plan derivatives
In 2003 1,960,000 call options were bought on the options assigned to employees. The purchase of these purchase options was financed by the sale of put options with the same expiry date. The derivatives in question were underwritten in order to neutralise the risk deriving from fluctuations in the price of Mondadori shares to be bought as part of the stock option plan. At 31 December 2005 the fair value of the call option and the put option amounted, respectively, to a positive total of € 2,780 thousand and a negative total of € 4 thousand. The options in question, with an expiry date of January 2006, were extinguished with a net profit slightly in excess of the net fair value as of 31 December 2005.

## 13. Cash and cash equivalents

The significant decrease in cash at banks is mainly due to the decision of the rate securities broker, ABS Finance Fund, to invest a part of the cash held at the end of 2004 in shares.

| Cash and cash equivalents (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Cash and valuables | 705 | 176 |
| Cheques | 41 | 14 |
| Bank deposits | 71,344 | 135,445 |
| Post office deposits | 966 | 1,555 |
| **Total cash and cash equivalents** | **73,056** | **137,190** |

Short-term deposits mainly have expiry dates of between one week and three months, in keeping with the financial needs of the Group, and mature interest at the respective short-term rates. The fair value of cash and cash equivalents at 31 December 2005 is equal to their carrying value at that date.

There are no restrictions on the use of cash and cash equivalents.

## 14. Shareholders’ equity

More detailed information concerning the composition of and changes in shareholders’ equity is contained in the section “Changes in consolidated shareholders’ equity”.

The Mondadori Group is controlled by Fininvest S.p.A.

*Share capital*
The share capital of the parent company, Arnoldo Mondadori Editore S.p.A., amounting to € 67,452 thousand, is fully subscribed and paid up and is represented by 259,429,832 ordinary shares with a par value of € 0.26. No new share issues took place during the year.

*Share premium reserve*

The share premium reserve of Arnoldo Mondadori Editore S.p.A. shares, amounting to € 283,747 thousand, includes:

- € 15,289 thousand, € 13,278 thousand of which deriving from the conversion of the former AMEF 6.5% 1987/1991 debenture bond into shares and € 2,011 thousand from the merger of the former AME on 29 November 1991;
- € 238,603 thousand deriving from the € 17,043 thousand increase in capital completed on 27 June 1994 in conformity with a resolution of shareholders in extraordinary meeting on 30 May 1994 that provided for the issue of 33,000,000 ordinary shares with a par value of € 0.52 (1,000 lire) at a price of € 7.75 (15,000 lire) per share, € 7.23 (14,000 lire) of which was share premium;
- € 384 thousand deriving from the increase in capital completed on 23 November 1998;
- € 692 thousand deriving from the increase in capital completed on 17 September 1999;
- € 1,801 thousand deriving from the increase in capital completed on 18 July 2000;
- € 26,978 thousand generated from the conversion into ordinary shares of 13,929,942 savings shares, in conformity with a resolution of shareholders of 30 May 1994 that provided for holders of savings shares to convert them into ordinary shares in the ratio of one-to-one with a par value of € 0.52 (1,000 lire), to be exercised during the period 16 June to 31 July 1994 with payment of a balance of € 1.94 (3,750 lire) for every share converted.

*Treasury shares*

This item, which amounts to € 137,662 thousand (€ 130,207 thousand at 31 December 2004), represents the value at the balance sheet date of treasury shares in portfolio, with 15,484,787 ordinary shares held by Arnoldo Mondadori Editore S.p.A. and 4,517,486 ordinary shares held by Mondadori International S.A.

*Reserve for stock options*

This reserve, which amounts to € 4,715 thousand, is used for the stock option plans granted to directors and managers of the Group. Further details of this item are provided in note 26.

*Translation reserve*

The translation reserve, which amounts to € 1,373 thousand, derives from the translation of the financial statements of companies belonging to the Random House Mondadori Group, operating in Latin America, the Attica Group, with offices in Eastern Europe, and to AME Publishing, which has a representative office in New York.

The exchange rates used for the conversion of financial statements in foreign currencies are summarised in the following table:

| | Exchange rate at 12/31/2005 | | Exchange rate at 12/31//2004 | |
|---|---|---|---|---|
| | average | spot | average | spot |
| US dollars | 1.24 | 1.18 | 1.24 | 1.36 |
| Argentinian pesos | 3.65 | 3.58 | 3.67 | 4.05 |
| Chilean pesos | 696.65 | 606.37 | 759.01 | 756.99 |
| Colombian pesos | 2,902.37 | 2,697.42 | 3,275.47 | 3,264.27 |
| Mexican pesos | 13.59 | 12.51 | 14.10 | 15.19 |
| Uruguayan pesos | 30.70 | 27.96 | 35.63 | 35.97 |
| Venezuelan bolivares | 2,586.98 | 2,533.17 | 2,321.27 | 2,612.51 |
| Roumanian leu | - | - | 40,509.70 | 39,390.00 |
| Roumanian new leu | 3.58 | 3.67 | - | - |
| Bulgarian leva | 1.96 | 1.96 | 1.96 | 1.96 |
| Serbian dinars | 83.09 | 85.5 | 72.28 | 81.56 |
| Hungarian florins | 248.05 | 248.54 | 251.66 | 245.97 |

*Other reserves and retained earnings*

At 31 December 2005, "Other reserves and retained earnings" amounted to € 172,075 thousand, including € 13,490 thousand for the legal reserve and € 5,335 thousand for grants from the Agenzia per la Promozione dello Sviluppo del Mezzogiorno (Ministerial Decrees of 28 June 1979 and 3 May 1989) for the purposes of industrial investments carried out at the plant in Pomezia (Rome) and from the State in accordance with Publishing Law no. 416 of 5 August 1981.

The residual balance represents retained earnings.

## 15. Capital and reserves attributable to minorities

This item refers to the non-controlling interests in Edizioni Piemme S.p.A. and Electa Napoli S.p.A., as set out below:

| Capital and reserves attributable to minorities (€/000) | Edizioni Piemme S.p.A. | Electa Napoli S.p.A. | Mondadori Finance |
|---|---|---|---|
| Equity at 31 December 2004 | 2,871 | 467 | 140 |
| Result for 2004 | 466 | 57 | 5 |
| Equity at 31 December 2005 | 3,486 | 540 | - |
| Result for 2005 | 1,074 | 69 | 1 |

## 16. Provisions

The composition of and changes in provisions for risks and charges is described and commented on below:

| Provisions (€/000) | 12/31/2004 | Charge | Utilisations | Other movements | 12/31/2005 |
|---|---|---|---|---|---|
| Agents' contractual risks | 1,094 | 397 | (108) | (709) | 674 |
| Litigation | 7,877 | 3,088 | (2,650) | (4) | 8,311 |
| Equity investment provision | 972 | 136 | | | 1,108 |
| Tax disputes | 2,159 | | | (100) | 2,059 |
| Other risks | 4,185 | 1,349 | (1,972) | (77) | 3,485 |
| **Total provisions** | **16,287** | **4,970** | **(4,730)** | **(890)** | **15,637** |

The long-term portion of provisions, whose payment date can be reliably estimated, has been discounted to take account of implicit interest.

### 17. Employees’ leaving entitlement and termination indemnities

The composition of and changes in of the employees’ leaving entitlement and termination indemnities are described and commented on below:

| Leaving entitlements and termination indemnities (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Employees’ leaving entitlement (TFR) | 92,479 | 88,727 |
| Agents’ termination indemnity (FISC) | 5,783 | 5,195 |
| Termination indemnity for journalists (IFGP) | 721 | 821 |
| **Total leaving entitlements and termination indemnities** | **98,983** | **94,743** |

| Employees’ leaving entitlement – Details (€/000) | TFR | F.I.S.C. | IFGP |
|---|---|---|---|
| Balance at 31 December 2004 | 88,727 | 5,195 | 821 |
| Changes during 2005: | | | |
| - provisions | 14,887 | 1,080 | 14 |
| - utilisations | (13,385) | (431) | (125) |
| - reversals | - | - | - |
| - discounting | 3,384 | | - |
| - change in scope of consolidation | - | - | - |
| - others | (1,134) | (61) | 11 |
| **Balance at 31 December 2005** | **92,479** | **5,783** | **721** |

The employees’ leaving entitlement and the agents’ termination indemnity are determined, in accordance with IAS 19 and IAS 37, by applying an actuarial method.

The following assumptions were used when determining the actuarial value of the employees’ leaving entitlement:

| Actuarial assumptions used for the employees’ leaving entitlement (TFR) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Economic assumptions: | | |
| - increase in cost of living | 1.5% | 2.0% |
| - discount rate | 4.0% | 4.5% |
| - salary increases | 3.0%-4.0% | 3.0%-4.0% |
| Demographic assumptions: | | |
| - probability of death | IPS 55 tables | RG 48 tables |
| - probability of disability | INPS 2000 tables | INPS 2000 tables |
| - probability of leaving for other reasons | From 0.50% to 7.20% | From 0.50% to 9.00% |
| - pensionable age | Current regulations | Current regulations |

Charges to the income statement for the employees' leaving entitlement were follows:

| Cost of employees' leaving entitlement (TFR) (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Current cost of the employees' leaving entitlement | 15,688 | 14,843 |
| Financial charges | 3,384 | 3,721 |
| Actuarial (gains) losses | (801) | (4,172) |
| **Total cost of employees' leaving entitlement** | **18,271** | **14,392** |

The "current cost of the employees' leaving entitlement" together with the "actuarial (gains)/losses" are booked in the income statement under "personnel costs" while the financial component is booked under financial expense for the year.

The following assumptions were used when determining the provision for the agents' termination indemnity:

| Actuarial assumptions used for the agent's termination indemnity (FISC) | 31/12/2005 | 31/12/2004 |
|---|---|---|
| Economic assumptions: | | |
| - discount rate | 4.0% | 4.5% |
| Demographic assumptions: | | |
| - probability of death/disability | 1.0% | 1.0% |
| - probability of leaving service | 0.5% | 0.5% |
| - probability of voluntary resignation | 1.5% | 1.5% |
| - average retirement age | 65 | 65 |

The other termination liabilities were not discounted as the effect would not be significant.

## 18. Financial liabilities

The following table sets out current and non-current financial liabilities:

| Non-current financial liabilities (€/000) | Effective interest rate | Due between 1 and 5 years | Due after 5 years | 12/31/2005 | 12/31/2004 |
|---|---|---|---|---|---|
| Bonds | Eur3M+0.667% | - | 295,280 | 295,280 | 295,711 |
| Convertible bonds | 4.37% | 103,605 | - | 103,605 | 109,591 |
| Loans | 1.608% | 30,203 | 21,681 | 51,884 | 12,881 |
| Amounts due to suppliers | | - | - | - | - |
| Amounts due to associated companies | | - | - | - | - |
| Amounts due to parent companies | | - | - | - | - |
| Amounts due to affiliated companies | | - | - | - | - |
| Amounts due for lease agreements | | 167 | - | 167 | 241 |
| Amounts due to shareholders for loans | | 31 | - | 31 | 24 |
| Liabilities resulting from derivative instruments | | 766 | - | 766 | - |
| Other financial liabilities | | - | - | - | 325 |
| **Total non-current financial liabilities** | | **134,772** | **316,961** | **451,733** | **418,773** |

Financial liabilities include:

– € 295,280 thousand representing the amortised cost of the US Private Placement bond issued by Mondadori International in December 2003 for an amount of $350 million and composed of three tranches of $215 million, $40 million and $95 million at fixed interest rates of 5.42%, 5.57% and 5.82% respectively having due dates of 2013, 2015 and 2018. The valuation of the US Private Placement bond was carried out in line with a cross currency swap taken out to hedge foreign exchange and interest rate risks.

The average spread paid on three-month Euribor was 0.636% which corresponds to an effective three-month Euribor spread of 0.667%;

– € 103,605 thousand for the amortised cost of the bond convertible into Mondadori ordinary shares issued in October 2003 by Mondadori Finance. This bond is repayable in 2008 and has a nominal value of € 109.9 million and an annual coupon of 2.00%.

  The bond can be converted into 12,962,657 Mondadori shares and has a conversion price of € 8.4782. The effective interest rate is the result of the application of IAS 32 that requires the separation of the equity option (included in the other equity reserves) from the debt component, from which the effective financial charges were calculated. This rate is equal to the market rate that would be applied to the issue of non-convertible bonds.

As a result of the merger of Mondadori Finance into Mondadori International, which took place in December 2005, this loan has now been taken over by Mondadori International.

– € 51,884 thousand for a subsidised long term loan for publishers. The effective interest rate is the average of the ten subsidised loans currently held by the Group.

The reduction in convertible bonds of € 5,986 thousand is due to the effect of separating the portion of debt (measured using the amortised cost method) and the option component that represents the implicit derivative instrument.

The increase in loans (subsidised) of € 39,003 thousand is due to the granting of five new subsidised loans in accordance with Law no. 62/01 for publishers (formerly Law no. 416/81), taken out to cover investments in the printing division (rotogravure area, new offset rotary press and adjustments to printing technology).

Non-current financial liabilities include balances with a due date of over 5 years totalling € 316,961 thousand.

| Amounts payable to banks and other financial payables (€/000) | Effective interest rate | 12/31/2005 | 12/31/2004 |
|---|---|---|---|
| Bank overdrafts | | 2,164 | 2,419 |
| Bonds | | - | - |
| Convertible bonds | | - | - |
| Loans | 1.608% | 5,631 | 102,509 |
| Amounts due to suppliers | | 305 | - |
| Amounts due to associated companies | | 18,211 | 16,513 |
| Amounts due to parent companies | | - | - |
| Amounts due to affiliated companies | | - | - |
| Amounts due for lease agreements | | 99 | 82 |
| Amounts due to shareholders for loans | | - | - |
| Liabilities resulting from derivative instruments | | 12 | - |
| Other financial payables | | 44,942 | 12,463 |
| **Total amounts payable to banks and other financial payables** | | **71,364** | **133,986** |

These include:
– € 2,164 thousand for current account overdrafts;
– € 5,631 thousand for a subsidised short-term loan granted in accordance with the law for publishers;
– € 18,211 thousand for loans to associated companies that utilise the intergroup current account, details of which can be found in the attachment "Balances and transactions with related parties";
– approximately € 40 million for a loan for the purchase of the radio station R101, which is due in March 2006 ("Other financial payables"). This loan has been discounted to present value.

All loans granted to the Group are expressed in euros with the exception of the US Private Placement loan which is expressed in US dollars.

No mortgage security has been given in respect of he US Private Placement debenture loan in question but there exists the obligation to respect of a number of financial covenants that could result, should the obligations not be respected, in the loan being reimbursed in advance.

Financial covenants are set out below:
– consolidated equity (including treasury shares but excluding minority interests) must be greater than or equal to the sum of € 400 million plus 20% of the annual consolidated net profit (beginning with the consolidated net profit for 2003);
– the ratio of net debt to gross operating profit (calculated for a period of 12 consecutive months) must be less than or equal to 2.75;
– the ratio of net debt to net capitalisation must be less than or equal to 60%.

Net debt is defined as the sum of the Group's gross debt less cash and cash equivalents, that is liquid funds and all financial investments with a duration of less than or equal to 1 year and an average rating of greater than or equal to A.
The Mondadori Group has always respected the financial parameters established by the contract since the first analysis was carried out in December 2003.

Net debt is defined as the sum of the Group's gross debt less cash and cash equivalents, that is liquid funds and all financial investments with a duration of less than or equal to 1

year and an average rating of greater than or equal to A.
The Mondadori Group has always respected the financial parameters established by the contract since the first analysis was carried out in December 2003.

The subsidised loans were drawn up in accordance with subsidiary loan Law no. 62/01, Law no. 46 of 17 February 1982 (the technology innovation fund) and provincial Law no. 4/81 Chap. II, paragraph III (for the printing works in Cles). These loans are secured by mortgages and in certain cases require that covenants (or financial parameters) be respected regarding possible variations in the interest rates applied to the loans.
The interest rates for each period are determined on the basis of a fixed rate equal to 50 base points and a floating rate equal to the six-month Euribor rate. The fixed rate may be subject to variations if the thresholds of the financial parameters described below are exceeded:
– the ratio between net financial debt and gross operating profit must be less than 1.50 (if higher than 1.50, the fixed rate will equal 60 base points; if higher than 2.25, the fixed rate will equal 75 base points; if higher than 2.75, the fixed rate will equal 90 base points);
– the ratio between net financial debt and net equity must be less than 0.95 (if higher than 0.95, the fixed rate will equal 60 base points; if higher than 1.40, the fixed rate will equal 75 base points; if higher than 1.70, the fixed rate will equal 90 base points).

The calculation of these parameters began in December 2005 as a result of the new loan terms introduced in October 2005, and this confirmed that the financial parameters established in the contract were being totally respected.

The average duration of financial leasing contracts is 1.7 years.

Information concerning derivative financial instruments is contained in section *12 – Non-current financial assets.*

## 19. Income tax payables

Income tax payables are made up as follows:

| Income tax payables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Payables due to tax authorities for IRAP | 934 | 2,761 |
| Payables due to tax authorities for IRES | 1,867 | 1,477 |
| Tax payables due to Fininvest for IRES | 22,310 | 14,531 |
| **Total income tax payables** | **25,111** | **18,769** |

The item “tax payables due to Fininvest for IRES” refers to tax payables owed to Fininvest S.p.A. by the companies participating in the tax consolidation.

## 20. Other current liabilities

Other current liabilities consist of the following:

| Other current liabilities (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Customer advances | 35,076 | 36,070 |
| Income tax payables | 15,715 | 10,240 |
| Amounts due to pension funds and social security institutions | 19,043 | 18,150 |
| Other payables | 117,914 | 114,725 |
| **Total other current liabilities** | **187,748** | **179,185** |

The increase over the balance at 31 December 2004 is mainly due to a capital tax of € 5,267 thousand relating to the revaluation of certain assets.

The main changes in "Other payables" is due to increases in amounts to payable to authors and collaborators as a result of the good performance in the book division.

| Other current liabilities - Other payables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Payroll and other amounts due to personnel | 34,483 | 31,199 |
| Due to authors and collaborators | 48,692 | 45,752 |
| Due to agents | 13,789 | 13,535 |
| Due to subscription and instalment customers | 10,241 | 11,517 |
| Due to shareholders for dividends | 176 | 140 |
| Due to directors and statutory auditors | 1,188 | 3,253 |
| Prepaid rental income | 865 | 1,027 |
| Other payables, accrued expenses and deferred income | 8,480 | 8,302 |
| **Total other payables** | **117,914** | **114,725** |

## 21. Trade payables

The composition of and movements in trade payables is described and commented on below:

| Trade payables (€/000) | 12/31/2005 | 12/31/2004 |
|---|---|---|
| Suppliers | 354,304 | 320,193 |
| Associated companies | 28,500 | 33,972 |
| Parent companies | 42 | 1 |
| Affiliated companies | 2,186 | 5,733 |
| **Total trade payables** | **385,032** | **359,899** |

The increase in amounts due to suppliers is mainly to the result of an increase in business activities. Amounts due to associated, parent and affiliated companies refer to commercial transactions carried out under normal market conditions.

Precise details of the item are contained in the attachment "Balances and transactions with related parties".

There are no trade payables with a due date of more than 5 years and the average payment period in 2005 was 106.8 days (112.4 days in 2004).

## 22. Revenues from sales and services

An analysis of revenues is set out in the following table:

| Revenues from sales and services (€/000) | 2005 | 2004 | % Change |
|---|---|---|---|
| Revenues from the sale of goods: | | | |
| - books | 370,284 | 367,115 | 0.9% |
| - magazines | 548,578 | 529,587 | 3.6% |
| - direct | 835 | 1,485 | (43.8%) |
| - retail | 136,279 | 107,040 | 27.3% |
| - other goods | 4,448 | 6,782 | (34.4%) |
| Revenues from services: | | | |
| - sales of publishing rights | 17,816 | 17,997 | (1.0%) |
| - advertising services | 333,303 | 329,726 | 1.1% |
| - printing and graphic work | 194,584 | 209,049 | (6.9%) |
| - direct | 24,996 | 27,666 | (9.6%) |
| - tickets and exhibition organisation | 8,513 | 6,018 | 41.5% |
| - other services | 17,705 | 17,244 | 2.7% |
| **Total revenues from sales and services** | **1,657,341** | **1,619,709** | **2.3%** |

## 23. Cost of raw materials and consumables and goods for resale

This item are the result of the performance of the business areas in which the Group operates. The cost of raw materials used in production processes remained substantially unchanged, partly as a result of a decrease in the cost of paper, while the cost of goods for resale increased mainly due to add-on sales linked to the most important titles of the Parent Company, which continued to assist in developing the add-on sales market, and also due to the increasing number of retail sales outlets.

| Cost of raw materials and consumables and goods for resale (€/000) | 2005 | 2004 |
|---|---|---|
| Paper | 204,322 | 203,041 |
| Electricity, water, gas, fuel | 16,308 | 14,068 |
| Other production materials | 35,994 | 34,863 |
| **Total cost of raw materials** | **256,624** | **251,972** |
| Goods for resale | 231,833 | 211,445 |
| Consumption and maintenance materials | 5,808 | 6,122 |
| Others | 30,710 | 33,711 |
| **Total cost of consumable materials and goods for resale** | **268,351** | **251,278** |
| **Total cost of raw materials and consumables and goods for resale** | **524,975** | **503,250** |

## 24. Cost of services

The largest increases in the cost of services refer to:

- rights and royalties for authors (in the book division) and to record and film companies (in the magazine division) for the sale of DVDs and CDs offered as add-on sales with magazines belonging to the Group;
- contracted out processing and printing as a result of the increased volume of business in the book and magazine divisions;
- advertising, which also includes the costs involved in launching new publishing initiatives.

| Cost of services (€/000) | 2005 | 2004 |
|---|---|---|
| Rights and royalties | 149,755 | 140,032 |
| Third-party consultancy and collaboration | 57,293 | 55,158 |
| Commissions | 54,057 | 52,049 |
| Third-party processing | 134,584 | 122,024 |
| Transport and shipping | 60,867 | 56,516 |
| Purchase of advertising space and publicity expenses | 66,766 | 54,873 |
| Travel and other expense reimbursements | 9,898 | 10,561 |
| Maintenance | 8,940 | 8,251 |
| Warehousing and porter costs | 6,168 | 5,082 |
| Postal and telephone | 5,813 | 5,522 |
| Catering and cleaning services | 7,995 | 6,246 |
| Market research | 5,323 | 5,642 |
| Insurance | 4,340 | 3,865 |
| Publisher's share | 60,117 | 61,542 |
| Job order services | 7,041 | 9,778 |
| Bank services and commission | 1,246 | 1,446 |
| Directors' and statutory auditors' fees | 3,869 | 6,033 |
| Other services | 31,535 | 26,932 |
| **Total cost of services** | **675,607** | **631,552** |

"Directors' and statutory auditors' fees" represent the fees paid to Directors and Statutory Auditors for € 3,490 thousand and € 379 thousand respectively.

## 25. Personnel costs

These are made up of:

| Personnel costs (€/000) | 2005 | 2004 |
|---|---|---|
| Salaries and wages | 187,863 | 179,871 |
| Stock options | 2,342 | 1,572 |
| Social charges | 58,885 | 56,323 |
| Leaving entitlement | 14,887 | 10,671 |
| Termination indemnities and similar | 14 | 29 |
| Other | 4,884 | 3,847 |
| **Total personnel costs** | **268,875** | **252,313** |

| Personnel | At 12/31/2005 | At 12/31/2004 | Average 2005 | Average 2004 |
|---|---|---|---|---|
| Managers | 171 | 167 | 170 | 166 |
| Journalists | 460 | 449 | 460 | 458 |
| White-collars and intermediates | 2,475 | 2,476 | 2,488 | 2,458 |
| Blue-collars | 1,344 | 1,400 | 1,400 | 1,414 |
| **Total** | **4,450** | **4,492** | **4,518** | **4,496** |

*Information about stock option plans*

Following the expiry on 28 April 2003 of the previous stock option plan for the period 2000/2001/2002, shareholders resolved in general meeting to renew the Stock Option Plan regarding the company's shares for the three-year period 2003-2004-2005.

The Plan is directed at managers of the company, its subsidiaries and the parent company whose activities have a determining impact on the attainment of the Group's strategic objectives, together with directors of the company and of associated companies.

Shareholders' 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. Shareholders also entrusted the Committee with the task of defining the Regulations for implementing the Stock Option Plan, to be presented to the Board of Directors for approval.

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

The option can only be exercised, in a single act, during the period between 1 January of the third year and 31 December of the fourth year after the year of each grant date. The options allocated in 2005 can be exercised between the 1 January of the third year and the 31 December of the fifth year after the year of being granted.

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 who are responsible for running an organisational unit, 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, directors of the company's subsidiaries, journalists employed by the company or its subsidiaries who are editors or deputy-editors of titles and managers who work for the Parent Company with the title of "direttore" and who carry out activities in favour of the company.

The Regulations further specify that the Committee identifies the conditions for exercising the options granted 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 is verified by the Committee, for each year in which the Plan is in force, by the end of the first half of the year after that in which the options are granted.

The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2003-2005 as being ROE and Free-cash flow, since in the light of past experience, these indicators also respond to market expectations and those of institutional investors, who have shown their appreciation of them.

The following table illustrates the situation at 31 December 2005 regarding the total number of options that have been granted and can still be exercised, the price and the exercise term:

| Stock options | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| In circulation at 1/1/2005 | 779,000 | 1,524,000 | 1,945,000 | 2,170,000 | - |
| - assigned during year | - | - | - | - | 2,625,000 |
| - cancelled during year | (734,000) | - | - | - | (30,000) |
| - exercised during year | (45,000) | (990,794) | - | - | - |
| - expired during year | - | - | - | - | - |
| In circulation at 31/12/2005 | - | 533,206 | 1,945,000 | 2,170,000 | 2,595,000 |
| Exercise term | 1/1/2004-31/12/2005 | 1/1/2005-31/12/2006 | 1/1/2006-31/12/2007 | 1/1/2007-31/12/2008 | 1/1/2008-31/12/2010 |
| Exercise price in euros | | 6.85 | 6.471 | 7.749 | 7.87 |
| Exercisable at 31/12/2005 | | 533,206 | - | - | - |

The weighted average price of the shares at exercise date, for the options exercised during the year, was € 8.16.

Options granted after 7 November 2002 have been measured at their fair value on the basis of a numerical calculation based on binomial trees and utilising the following parameters:

| Parameters for the option measuring model | 2003 | 2004 | 2005 |
|---|---|---|---|
| Exercise price of the option | 6.471 | 7.749 | 7.87 |
| Option term (residual period) | 2 | 3 | 5 |
| Market price of the underlying shares at the grant date in euros | 6.234 | 7.793 | 7.865 |
| Expected volatility of share price | 30.00% | 20.00% | 18.45% |
| Dividend yield | 4.00% | 4.00% | 4.45% |
| Risk free interest rate for the option term | 2.80% | 3.50% | 2.65% |

The cost of share-based payments recognised in the income statement for the year, booked under the item "Personnel costs", amounted to € 2,342 thousand.

## 26. Other (income) expense

This item is made up as follows:

| Other (income) expense<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Other revenues and income | (72,878) | (57,253) |
| Cost of use of third-party assets | 23,489 | 22,635 |
| Various operating costs | 29,425 | 28,811 |
| **Total other (income) expense** | **(19,964)** | **(5,807)** |

There was a sharp increase in "Other (income) expense" in 2005 as a result of the grant for paper consumption, that matured and was booked in 2005 and that which matured in 2004 but was not booked in that year, for a total of approximately € 18.8 million.

| Other (income) expense - Other revenues and income<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Revenue grants | 20,381 | 6,681 |
| Capital gains on disposal of fixed assets | 2,773 | 453 |
| Supplier rebates and other third-party contributions | 6,675 | 4,984 |
| Insurance reimbursements | 440 | 280 |
| Rental income | 1,349 | 1,096 |
| Prior year income | 4,490 | 5,144 |
| Expenses recovered from third parties | 23,838 | 26,860 |
| Others | 12,932 | 11,755 |
| **Total other revenues and income** | **72,878** | **57,253** |

The increase in rent payable is mainly due to bookshops in museums and art galleries and the radio studios of Monradio S.p.A.

| Other (income) expense - Cost of third party assets<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Rental expense | 18,732 | 16,806 |
| Data processing, leasing and hire purchase payments | 4,712 | 5,768 |
| Others | 45 | 61 |
| **Total cost of third party assets** | **23,489** | **22,635** |

The total cost for 2005 is substantially unchanged, although in 2005 there were greater losses from bad debts corresponding to a greater utilisation of provisions made in previous years.

| Other (income) expense - Other operating costs -<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Compensation and settlements | 3,666 | 3,471 |
| Bad debts | 11,725 | 9,849 |
| Charges to provisions | 12,570 | 14,354 |
| Utilisation of provisions | (15,729) | (11,823) |
| Contributions and grants | 2,851 | 2,226 |
| Prior year expenses | 3,387 | 985 |
| Capital losses on the sale of fixed assets | 74 | 230 |
| Information material, entertainment expenses and gifts | 3,443 | 3,437 |
| Taxes and dues | 3,508 | 2,780 |
| Other expense | 3,930 | 3,302 |
| **Total other operating costs** | **29,425** | **28,811** |

## 27. Results of investments accounted for using the equity method

The following table shows the results for 2005 and 2004 of companies accounted for using the equity method.

| Income (expense) from investments accounted for using the equity method (€/000) | 2005 | 2004 |
|---|---|---|
| - Hearst Mondadori Editoriale Srl | 386 | 358 |
| - Gruner und Jahr/Mondadori SpA | 2,701 | 2,674 |
| - Harlequin Mondadori SpA | 240 | 268 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 68 | 178 |
| - Aci Mondadori SpA | 482 | 50 |
| - Mondadori Rodale Srl | 640 | 470 |
| - Attica Publications SA | 2,287 | 850 |
| - Società Europea di Edizioni SpA | (1,265) | 1,329 |
| - Grupo Editorial Random House Mondadori SL | 2,453 | (94) |
| - Edizioni Electa Bruno Mondadori Srl | 210 | 158 |
| - Mach 2 Libri SpA | 742 | 40 |
| - Venezia Musei società per i servizi museali Scarl | - | 2 |
| - Edizioni EL Srl | 488 | 373 |
| - Press Tv SpA | (760) | (423) |
| - BOL Books on line Italia SpA | 526 | (540) |
| - Mondolibri SpA | 620 | 691 |
| - Venezia Musei Scarl | - | 5 |
| - Venezia Accademia Scarl | (26) | (3) |
| - Rock FM Srl | (190) | - |
| - Mondadori Informatica e BisMedia Srl | | (188) |
| **Total income (expense) from investments accounted for using the equity method** | **9,602** | **6,198** |

## 28. Financial income (expense)

This item is made up as follows:

| Financial income (expense)<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Interest from banks and post offices | 901 | 2,768 |
| Interest from associated companies | 324 | 386 |
| Interest from other companies | 8 | 5 |
| Interest from bonds and loans | - | - |
| Financial income from derivative instrument operations | 9,400 | 8,606 |
| Other interest and financial income | 3,034 | 1,216 |
| **Total interest income and other financial income** | **13,667** | **12,981** |
| Interest to banks | 232 | 452 |
| Interest to associated companies | 251 | 318 |
| Interest to other companies | 177 | - |
| Interest paid for bonds, mortgages and loans | 23,740 | 21,403 |
| Financial expense from derivative instrument operations | 2,874 | 5,339 |
| Financial charges from discounting assets/liabilities | 3,400 | 3,774 |
| Other interest paid and financial expense | 2,613 | 4,668 |
| **Total interest expense and other financial expense** | **33,287** | **35,954** |
| Realised foreign exchange gains | 532 | 718 |
| Unrealised foreign exchange gains | 320 | 132 |
| Realised foreign exchange losses | (1,432) | (1,161) |
| Unrealised foreign exchange losses | (86) | (36) |
| **Total profit (loss) on foreign exchange operations** | **(666)** | **(347)** |
| Income (expense) from share valuations | 11,105 | 15,904 |
| Capital gains on share disposals | 3,662 | - |
| Losses on share disposals | (552) | (3,320) |
| Total financial income (expense) deriving from shares | 14,215 | 12,584 |
| **Total financial income (expense)** | **(6,071)** | **(10,736)** |

## 29. Income (expense) from other investments

In the following table, writedowns refer, as in 2004, to Euromedia Luxembourg Two S.A., while capital gains mostly relate to the disposal of the investment in News Alert Llc.

| Income (expense) from other investments<br>(€/000) | 2005 | 2004 |
|---|---|---|
| Dividends | - | - |
| Revaluations | - | - |
| Writedowns | (332) | (2,162) |
| Capital gains from disposals/liquidations of investments and businesses | 331 | - |
| Capital losses on disposals/liquidations of investments and businesses | - | (249) |
| **Total income (expense) from other investments** | **(1)** | **(2,411)** |

## 30. Income taxes

Income taxes for 2005 and 2004 are set out in the following table:

| Income taxes (€/000) | 2005 | 2004 |
|---|---|---|
| IRES tax on income for the year | 26,601 | 50,624 |
| IRAP for the year | 19,498 | 19,097 |
| **Total current taxes** | **46,099** | **69,721** |
| Deferred tax (income) expense - IRES | 20,348 | (2,463) |
| Deferred tax (income) expense - IRAP | (955) | 644 |
| **Total deferred tax (income) expense** | **19,393** | **(1,819)** |
| **Total income taxes** | **65,492** | **67,902** |

*Reconciliation between the tax charge in the consolidated financial statements and the theoretical tax charge*

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| Amounts expressed in €/000 | Profits before taxes | Taxes | Current tax rate | Profits before taxes | Taxes | Current tax rate |
| Theoretical IRES tax charge | 181,360 | 59,849 | 33.00% | 180,453 | 59,549 | 33.00% |
| Theoretical IRAP tax charge | 181,360 | 7,708 | 4.25% | 180,453 | 7,669 | 4.25% |
| **Total theoretical tax charge /rate** | | **67,557** | **37.25%** | | **67,218** | **37.25%** |
| Actual IRES tax charge | | 46,949 | 25.89% | | 48,161 | 26.68% |
| Actual IRAP tax charge | | 18,543 | 10.22% | | 19,741 | 10.94% |
| **Actual tax charge/effective tax rate** | | **65,492** | **36.11%** | | **67,902** | **37.62%** |
| **Theoretical tax charge/rate** | | **67,557** | **37.25%** | | **67,218** | **37.25%** |
| Effect relative to loss-making subsidiaries | | 594 | 0.32% | | 731 | 0.40% |
| Recognition of deferred tax income/expense on differences arising in previous years | | - | - | | (1,813) | (1.0%) |
| Effect of utilisation of tax losses from previous years | | - | - | | (2,312) | (1.28%) |
| Tax credits for State grants and contributions | | (6,212) | (3.43%) | | (1,659) | (0.92%) |
| Effect of differences of tax rates on taxable income of foreign subsidiaries | | (4,254) | (2.35%) | | (4,979) | (2.77%) |
| Net effect of other permanent differences | | (3,028) | (1.65%) | | (1,356) | (0.75%) |
| Effect of different IRAP tax base | | 10,835 | 5.97% | | 12,072 | 6.69% |
| **Actual tax charge/effective tax rate** | | **65,492** | **36.11%** | | **67,902** | **37.62%** |

If the distribution of dividends proposed by the Board of Directors on 29 March 2006 is approved by shareholders, this will not result in any tax charge for the Mondadori Group, since all tax obligations have already been paid on the profits in question.

## 31. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to the Group by the average number of ordinary shares outstanding during the period.

| | 2005 | 2004 |
|---|---|---|
| Net profit for the period (€/000) | 114,724 | 112,023 |
| Average number of ordinary shares outstanding (thousands) | 240,040 | 240,791 |
| **Basic profit per share (euros)** | **0.478** | **0.465** |

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the Group by the average number of ordinary shares outstanding during the period. The average is adjusted by assuming that all the potential shares arising from the convertible bond are converted and subscribed by the end of the period.

| | 2005 | 2004 |
|---|---|---|
| Net profit for the period (€/000) | 114,724 | 112,023 |
| Average number of ordinary shares outstanding (thousands) | 240,040 | 240,791 |
| Number of options with dilutive effect (thousands) | 498 | 409 |
| **Diluted earnings per share (euros)** | **0.466** | **0.454** |

## Commitments and contingent liabilities

At 31 December 2005, the Mondadori Group had made commitments for a total of € 162,721 thousand (€ 142,952 thousand at 31 December 2004).

These include € 11,263 thousand for contracts to purchase plant and machinery (€ 21,016 thousand at 31 December 2004), while the residue is represented by € 38 million for guarantees given in connection with the purchase of the One-O-One business, sureties, letters of patronage and other guarantees issued mainly in favour of the Ministry of Industry for prize-giving operations and competitions, to the VAT Office for payment of the Group's VAT bill and for lease contracts.

## Related parties

Operations carried out with related parties, including intragroup operations, cannot be qualified as either atypical or unusual since they are part of the normal business activities of the Group companies. These operations, when they are not carried out under normal conditions or if they are dictated by specific regulations, are in any case carried out under market conditions.

*Benefits for managers with strategic responsible for companies.*

Managers who are responsible for planning, managing and controlling the business activities of the Mondadori Group form the Group's Management Committee.

| | |
|---|---|
| **Directors** | |
| Maurizio Costa | Deputy Chairman and Managing Director |
| | |
| **Managers** | |
| Roberto Briglia | General Manager of Magazine Division |
| Rossella Citterio | Director of External Relations and Communications |
| Alberto De Matthaeis | Managing Director of Mondadori Printing |
| Gianarturo Ferrari | General Manager of Book Division |
| Eduardo Giliberti | Chairman and Managing Director of Mondadori Pubblicità |
| Carlo Luigi Mandelli | Managing Director of Monradio |
| Gianfranco Righi | Manager of Personnel, Organisation and Information Systems |
| Renato Rodenghi | Head of Direct Marketing Division, Managing Director of the Direct Marketing Division companies and Chairman of Mondadori Franchising |
| Carlo Maria Vismara | Manager of Central Administration, Finance and Control |

The total remuneration paid by Arnoldo Mondadori Editore S.p.A. and its subsidiaries to managers with strategic responsibilities amounted to € 10.0 million and was made up as follows:

– short-term remuneration of € 7.9 million
– long-term remuneration of € 2.1 million.

*Operations with parent companies, subsidiaries and associated companies*

The following part of the notes provides details of the economic and balance sheet effects of operations carried out with parent companies, subsidiaries and associated companies during 2005.

# Balances and transactions with related parties as of and for the year ended 31 December 2005

| (€/000) | Trade receivables | Financial receivables | Trade payables |
|---|---|---|---|
| Parent companies: | | | |
| - Fininvest SpA | 12 | - | 42 |
| Associated companies: | | | |
| - Gruner und Jahr/Mondadori SpA | 2,586 | 1,165 | 13,409 |
| - Mach 2 Libri SpA | 18,823 | - | 311 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 452 | - | 4 |
| - Venezia Accademia Scarl | 9 | 24 | 161 |
| - Venezia Musei Scarl | 32 | - | 1 |
| - Venezia Musei Società per i servizi museali Scarl | 447 | - | 724 |
| - Hearst Mondadori Editoriale Srl | 1,868 | - | 2,310 |
| - Harlequin Mondadori SpA | 3,527 | 74 | - |
| - Mondadori Rodale Srl | 3,345 | - | 3,345 |
| - Group Attica | 358 | - | - |
| - Rock FM Srl | 21 | - | 65 |
| - Euromedia Luxembourg SA | - | - | - |
| - BOL Books On Line Italia SpA | 4 | - | - |
| - Edizioni Electa Bruno Mondadori Srl | 8 | 537 | - |
| - Edizioni EL Srl | 523 | - | 2,735 |
| - Grupo Editorial Random House Mondadori SL | 623 | 5,939 | 90 |
| - Società Europea di Edizioni SpA | 9,434 | - | 2,684 |
| - Aci Mondadori SpA | 2,836 | - | 1,529 |
| - Press Tv SpA | 1,265 | 1,976 | 343 |
| - Covar | 4 | - | - |
| - Mondolibri SpA | 7,500 | - | 789 |
| **Total associated companies** | **53,665** | **9,715** | **28,500** |
| Affiliated companies: | | | |
| - Pagine Italia SpA | 3,413 | - | 20 |
| - RTI SpA | 459 | - | 64 |
| - Publitalia 80 SpA | 144 | - | 1,514 |
| - Medusa Video Srl | 12 | - | 450 |
| - Promoservice Italia Srl | 300 | - | - |
| - Fininvest Gestione Servizi SpA (ex Finedim Italia SpA) | 4 | - | - |
| - Il Teatro Manzoni | 3 | - | 16 |
| - Mediolanum Vita SpA | - | - | - |
| - Mediolanum SpA | 23 | - | - |
| - Banca Mediolanum SpA | 72 | - | - |
| - Medusa Film SpA | 16 | - | 42 |
| - Alba Servizi Aerotrasporti SpA | - | - | - |
| - Radio e Reti Srl | 7 | - | 74 |
| - Isim SpA | - | - | 2 |
| - Consorzio Aeromobili Fininvest | - | - | - |
| - Videotime SpA | 2 | - | - |
| - Mediaset SpA | 25 | - | - |
| - Milan A.C. SpA | 1 | - | - |
| - Eis Roma Srl | - | - | - |
| - Eis Srl | - | - | - |
| - Elettronica Industriale SpA | - | - | 4 |
| - Medusa Multicinema SpA | 15 | - | - |
| **Total affiliated companies** | **4,496** | **0** | **2,186** |

| Financial payables | Tax payables | Revenues | Purchase of raw materials | Purchase of services | Other (income) expense | Financial income (expense) |
|---|---|---|---|---|---|---|
| - | 22,310 | 13 | - | - | - | - |
| | | | | | | |
| 2,066 | - | 4.324 | 36,678 | 13,281 | (3,236) | (100) |
| - | - | 34,081 | - | 1,867 | (4) | - |
| - | - | 18,915 | - | 2,142 | 15 | - |
| - | - | 4 | 10 | 271 | (4) | - |
| - | - | - | - | - | - | - |
| - | - | 456 | 7 | 889 | - | - |
| 1,508 | - | 4,604 | 3,822 | 6,864 | (1,072) | (16) |
| 6,450 | - | 448 | 11,316 | - | (490) | (65) |
| 3,991 | - | 8,646 | 11,738 | 10,327 | (2,943) | (39) |
| - | - | 271 | - | - | - | - |
| 2 | - | 18 | - | 97 | (3) | - |
| 1,262 | - | - | - | - | - | - |
| 2 | - | 798 | - | 4 | (6) | - |
| - | - | - | 574 | - | (1) | 15 |
| - | - | 415 | 4,242 | 28 | (418) | - |
| - | - | 1,186 | - | 106 | 3 | 250 |
| - | - | 15,294 | 383 | 17,943 | (197) | - |
| 2,928 | - | 7,331 | 5,757 | 4,792 | (1,790) | (25) |
| 2 | - | 4,477 | 1,915 | 657 | (591) | 53 |
| - | - | - | - | 54 | - | - |
| - | - | 14,396 | 251 | 2,127 | (1,614) | - |
| **18,211** | **0** | **116,238** | **76,119** | **61,449** | **(12,351)** | **73** |
| | | | | | | |
| - | - | 4,922 | - | 30 | - | - |
| - | - | 317 | - | 211 | (2) | - |
| - | - | 241 | - | 25,097 | - | - |
| - | - | 9 | - | 1,005 | - | - |
| - | - | - | - | 3 | - | - |
| - | - | 4 | - | 26 | 18 | - |
| - | - | 2 | - | - | 7 | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | (31) | - |
| - | - | 16 | - | - | - | - |
| - | - | 8 | - | (52) | - | - |
| - | - | - | - | - | 52 | - |
| - | - | - | - | 161 | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 79 | - | - | - | - |
| - | - | 1 | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| **0** | **0** | **5,599** | **0** | **26,481** | **44** | **0** |

# Balances and transactions with related parties as of and for the year ended 31 December 2004

| Trade (€/000) | Trade receivables | Financial receivables | Trade payables |
|---|---|---|---|
| **Parent companies:** | | | |
| - Fininvest SpA | 10 | - | 1 |
| **Associated companies:** | | | |
| - Gruner und Jahr/Mondadori SpA | 2,561 | - | 10,877 |
| - Mach 2 Libri SpA | 16,792 | - | 305 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 189 | - | 202 |
| - Venezia Accademia Scarl | 48 | 24 | 100 |
| - Venezia Musei Scarl | 52 | - | 1 |
| - Venezia Musei Società per i servizi museali Scarl | 247 | - | 395 |
| - Hearst Mondadori Editoriale Srl | 1,558 | - | 2,930 |
| - Harlequin Mondadori SpA | 2,304 | - | 59 |
| - Mondadori Rodale Srl | 2,931 | - | 5,904 |
| - Group Attica | - | - | - |
| - Rock FM Srl | - | - | - |
| - Euromedia Luxembourg SA | - | - | - |
| - BOL Books on line Italia SpA | 630 | - | - |
| - Edizioni Electa Bruno Mondadori Srl | 283 | 654 | - |
| - Edizioni EL Srl | 591 | - | 2,707 |
| - Grupo Editorial Random House Mondadori SL | 239 | 8,958 | 10 |
| - Società Europea di Edizioni SpA | 5,341 | - | 4,186 |
| - Aci Mondadori SpA | 2,729 | - | 3,492 |
| - Press Tv SpA | 1,757 | 1,053 | 1,883 |
| - Mondolibri SpA | 6,671 | - | 921 |
| **Total associated companies** | **44,923** | **10,689** | **33,972** |
| **Affiliated companies:** | | | |
| - Pagine Italia SpA | 2,823 | - | 40 |
| - RTI SpA | 396 | - | 509 |
| - Publitalia 80 SpA | 159 | - | 3,257 |
| - Medusa Video Srl | 67 | - | 1,281 |
| - Promoservice Italia Srl | 150 | - | 1 |
| - Finedim Italia SpA | 4 | - | 16 |
| - Il Teatro Manzoni | 1 | - | 26 |
| - Mediolanum Vita SpA | - | - | - |
| - Mediolanum SpA | - | - | - |
| - Banca Mediolanum SpA | 56 | - | 14 |
| - Medusa Film SpA | 6 | - | 111 |
| - Alba Servizi Aerotrasporti SpA | - | - | - |
| - Radio e Reti Srl | - | - | 443 |
| - Isim | - | - | 2 |
| - Consorzio Aeromobili Fininvest | - | - | 2 |
| - Videotime SpA | - | - | - |
| - Mediaset SpA | - | - | - |
| - Milan A.C. SpA | - | - | - |
| - Eis Roma Srl | - | - | 4 |
| - Eis Srl | - | - | 21 |
| - Elettronica Industriale SpA | - | - | 4 |
| - Medusa Multicinema SpA | - | - | 2 |
| **Total affiliated companies** | **3,662** | **0** | **5,733** |

| Financial payables | Tax payables | Revenues | Purchase of raw materials | Purchase of services | Other (income) expense | Financial income (expense) |
|---|---|---|---|---|---|---|
| | | | | | | |
| - | 14,531 | 3 | - | - | 5 | - |
| | | | | | | |
| 6,304 | - | 3,933 | 43,768 | 15,744 | (3,426) | (161) |
| 2 | - | 29,221 | - | 1,753 | (4) | - |
| - | - | 18,439 | - | 2,333 | 155 | - |
| - | - | - | 32 | 296 | (40) | - |
| - | - | - | 1 | 44 | - | - |
| - | - | 350 | - | 495 | (13) | - |
| 846 | - | 4.127 | 3,704 | 5,723 | (1,055) | (19) |
| 4,982 | - | 571 | 11,944 | 1 | (477) | (60) |
| 712 | - | 8,725 | 12,729 | 9,770 | (3,083) | (42) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 1,693 | - | - | - | - | - | - |
| - | - | 1,828 | 10 | 1 | (89) | - |
| - | - | 634 | - | - | (6) | 33 |
| - | - | 374 | 3,917 | 63 | (370) | - |
| - | - | 1,447 | - | - | - | 314 |
| - | - | 16,549 | - | 18,067 | (178) | - |
| 1,974 | - | 7,433 | 5,939 | 5,826 | (1,911) | (30) |
| - | - | 5,563 | 3,822 | 2,244 | (1,128) | 33 |
| - | - | 13,384 | 144 | 2,106 | (1,560) | - |
| **16,513** | **0** | **112,578** | **86,010** | **64,466** | **(13,185)** | **68** |
| | | | | | | |
| - | - | 6,794 | - | 85 | - | - |
| - | - | 1,775 | - | 731 | (1) | - |
| - | - | 154 | - | 20,538 | - | - |
| - | - | - | 329 | 1,723 | (19) | - |
| - | - | - | - | 18 | - | - |
| - | - | 4 | - | - | 13 | - |
| - | - | 1 | - | 34 | - | - |
| - | - | - | - | 12 | - | - |
| - | - | - | - | - | (31) | - |
| - | - | 21 | - | - | - | - |
| - | - | 10 | - | 338 | (3) | - |
| - | - | - | - | - | 95 | - |
| - | - | - | - | 426 | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | (5) | - |
| - | - | - | - | 20 | (2) | - |
| - | - | 1 | - | - | 8 | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | 2 | - | - | - | - |
| - | - | - | - | - | 1 | - |
| **0** | **0** | **8,762** | **329** | **23,925** | **56** | **0** |

# Effects of the adoption of IAS 32 and IAS 39 on consolidated shareholders' equity and on the consolidated balance sheet at 1 January 2005

The Mondadori Group elected to apply IAS 32 and 39 with effect from 1 January 2005. As permitted by IFRS 1, comparative figures at 31 December 2004 are not presented in accordance with IAS 32 and IAS 39. The tables and notes showing the effects of IAS 32 and IAS 39 on consolidated shareholders' equity at 1 January 2005, stated net of tax effects, are set out below.

(€/000)

| | | |
|---|---|---|
| | **Consolidated shareholders' equity at 31 December 2004** | **622,300** |
| 1. | Treasury shares | (130,207) |
| 2. | Fair value of securities | 2,750 |
| 3. | Valuation of financial instruments and derivatives | (15,891) |
| | **Consolidated shareholders' equity at 1 January 2005** | **478,952** |

1. Treasury shares amounting to € 130,207 thousand and previously booked as assets in the financial statements have been reclassified as a direct reduction of equity in compliance with IAS/IFRS.

2. This item corresponds to a valuation at fair value of the securities recognised as financial assets by Mondadori International and its subsidiaries and classified as held for trading. The effect of this is to increase consolidated shareholders' equity at 1 January 2005 by € 2,750 thousand.

3. This item consists of the combined effect of a valuation of loans and derivative in compliance with IAS 32 and IAS 39. Under IAS/IFRS, the US Private Placement bond is measured using the amortised cost method, which is its initial value (fair value) adjusted on the basis of the amortisation of the cost of the issue, also taking into account the effect resulting from the changes in the euro/dollar exchange rate. The convertible bond, on the other hand, is separated into a debt component (valued using the amortised cost method) and the optional component that represents the embedded derivative instrument. The overall effect of this calculation was to increase net equity by € 33,940 thousand. In compliance with IAS/IFRS, derivatives are measured at fair value. When the transition to IAS/IFRS was carried out, the following operations were still outstanding: derivatives relating to interest rates and exchange rates on loans, derivatives relating to exchange rates for sales in foreign currencies of publishing products and derivatives relating to stock option plans. The measurement of derivatives at fair value resulted in an overall decrease in net equity of € 49,831 thousand.

The following tables present a reconciliation between the consolidated balance sheet as of 1 January 2005 prepared in accordance with IAS/IFRS, including IAS 32 and IAS 39, and the consolidated balance sheet as of 31 December 2004 prepared in accordance with IAS/IFRS but excluding IAS 32 and IAS 39.

## Consolidated balance sheet at 1 January 2005

| Assets<br><br>(€/000) | In accordance with IAS/IFRS at 12/31/2004 | IAS 32 reclassifications | IAS 32 and IAS 39 adjustments | In accordance with IAS/IFRS at 1/1/2005 |
|---|---|---|---|---|
| Intangible assets | 144,800 | - | - | 144,800 |
| Investment property | 12,686 | - | - | 12,686 |
| Land and buildings | 90,645 | - | - | 90,645 |
| Plant and machinery | 87,273 | - | - | 87,273 |
| Other tangible fixed assets | 19,252 | - | - | 19,252 |
| **Property, plant and equipment** | **197,170** | **0** | **0** | **197,170** |
| Investments accounted for using the equity method | 100,951 | - | - | 100,951 |
| Other investments | 2,473 | - | - | 2,473 |
| **Total investments** | **103,424** | **0** | **0** | **103,424** |
| Non-current financial assets | 130,531 | (130,207) | - | 324 |
| Deferred tax assets | 40,812 | - | 14,068 | 54,880 |
| Other non-current assets | 17,810 | - | - | 17,810 |
| **Total non-current assets** | **647,233** | **(130,207)** | **14,068** | **531,094** |
| Tax receivables | 7,709 | - | - | 7,709 |
| Other current assets | 64,378 | - | - | 64,378 |
| Inventories | 120,895 | - | - | 120,895 |
| Trade receivables | 387,302 | - | - | 387,302 |
| Securities and other current financial assets | 504,300 | - | 6,821 | 511,121 |
| Cash and cash equivalents | 137,190 | - | - | 137,190 |
| **Total current assets** | **1,221,774** | **0** | **6,821** | **1,228,595** |
| Assets held for sale | - | - | - | - |
| **Total assets** | **1,869,007** | **(130,207)** | **20,889** | **1,759,689** |

## Consolidated balance sheet at 1 January 2005

| Liabilities and shareholders' equity<br>(€/000) | In accordance with IAS/IFRS at 12/31/2004 | IAS 32 reclassifications | IAS 32 and IAS 39 adjustments | In accordance with IAS/IFRS at 1/1/2005 |
|---|---|---|---|---|
| Share capital | 67,452 | - | - | 67,452 |
| Share premium reserve | 153,540 | 130,207 | - | 283,747 |
| Treasury shares | - | (130,207) | | (130,207) |
| Other reserves and retained earnings | 289,285 | (130,207) | (13,141) | 145,937 |
| Profit (loss) for the year | 112,023 | | | 112,023 |
| **Total shareholders' equity attributable to the Group** | **622,300** | **(130,207)** | **(13,141)** | **478,952** |
| Capital and reserves attributable to minorities | 3,478 | - | - | 3,478 |
| **Total shareholders' equity** | **625,778** | **(130,207)** | **(13,141)** | **482,430** |
| Provisions | 16,287 | - | - | 16,287 |
| Employees' leaving entitlement and termination indemnities | 94,743 | - | - | 94,743 |
| Non-current financial liabilities | 418,773 | - | 32,686 | 451,459 |
| Deferred tax liabilities | 21,587 | - | 1,344 | 22,931 |
| Other non-current liabilities | - | - | - | - |
| **Total non-current liabilities** | **551,390** | **0** | **34,030** | **585,420** |
| Income tax payables | 18,769 | - | - | 18,769 |
| Other current liabilities | 179,185 | - | - | 179,185 |
| Trade payables | 359,899 | - | - | 359,899 |
| Payables to banks and other financial liabilities | 133,986 | - | - | 133,986 |
| **Total current liabilities** | **691,839** | **0** | **0** | **691,839** |
| Liabilities held for sale | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,869,007** | **(130,207)** | **20,889** | **1,759,689** |

### Effects of the adoption of IAS 32 and IAS 39 on the net consolidated financial position at 1 January 2005.

The application of IAS 32 and IAS 39 on the net financial position at 1 January 2005 resulted in a decrease of € 25.9 million.

| | |
|---|---|
| **IAS/IFRS net consolidated financial position at 31 December 2004** | **89,043** |
| IAS/IFRS adjustments | (25,865) |
| **IAS/IFRS net consolidated financial position at 1 January 2005** | **63,178** |

*On behalf of the Board of Directors*
*Chairman*
*Marina Berlusconi*

# Segment information

# Primary segment information for the year ended 31 December 2005

| (€/000) | Books | Magazines | Advertising services | Printing |
|---|---|---|---|---|
| **Revenues from sales and services to external customers** | **401,150** | **560,600** | **333,742** | **193,586** |
| **Revenues from sales and services to other sectors** | **23,863** | **217,414** | **7,315** | **265,507** |
| Income (expense) from investments using equity method | 4,107 | 5,804 | - | - |
| **Gross operating profit** | **72,643** | **130,210** | **2,793** | **39,311** |
| **Operating result** | **69,530** | **127,234** | **2,539** | **16,104** |
| Financial income (expense) | - | - | - | - |
| **Profit before taxes and minority interests** | **69,528** | **127,269** | **2,539** | **16,104** |
| Income taxes | - | - | - | - |
| Result attributable to minority interests | 1,143 | - | - | - |
| **Net result** | **68,385** | **127,269** | **2,539** | **16,104** |
| Investments | 2,773 | 1,200 | 344 | 34,201 |
| Depreciation, amortisation and impairment | 3,113 | 2,976 | 254 | 23,207 |
| Non-monetary costs | 11,360 | 8,601 | 1,971 | 5,580 |
| Investments accounted for using the equity method | 36,318 | 48,946 | - | - |
| Other assets | 325,438 | 244,825 | 152,887 | 326,385 |
| Financial assets | - | - | - | - |
| Tax assets | - | - | - | - |
| **Total assets** | **361,756** | **293,771** | **152,887** | **326,385** |
| Other liabilities | 155,011 | 231,238 | 153,633 | 215,902 |
| Financial liabilities | - | - | - | - |
| Tax liabilities | - | - | - | - |
| **Total liabilities** | **155,011** | **231,238** | **153,633** | **215,902** |

| Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|
| **25,831** | **136,281** | **37** | **6,114** | **-** | **1,657,341** |
| **546** | **928** | **4,303** | **9,081** | **(528,957)** | **-** |
| 1,146 | - | (190) | (1,265) | - | 9,602 |
| **4,693** | **2,654** | **(11,837)** | **(16,890)** | **-** | **223,577** |
| **4,252** | **413** | **(12,550)** | **(20,090)** | **-** | **187,432** |
| - | - | - | (6,071) | - | (6,071) |
| **4,252** | **413** | **(12,550)** | **(26,195)** | **-** | **181,360** |
| - | - | - | 65,492 | - | 65,492 |
| - | - | - | 1 | - | 1,144 |
| **4,252** | **413** | **(12,550)** | **(91,688)** | **-** | **114,724** |
| 118 | 1,559 | 84,174 | 2,382 | - | 126,751 |
| 441 | 2,241 | 713 | 3,200 | - | 36,145 |
| 811 | 908 | 459 | 3,733 | - | 33,423 |
| 13,595 | - | 17 | 7,773 | - | 106,649 |
| 13,929 | 49,600 | 84,761 | 41,499 | (196,657) | 1,042,667 |
| - | - | - | 555,260 | - | 555,260 |
| - | - | - | 67,480 | - | 67,480 |
| **27,524** | **49,600** | **84,778** | **672,012** | **(196,657)** | **1,772,056** |
| 11,843 | 49,671 | 15,436 | 51,323 | (196,657) | 687,400 |
| - | - | - | 523,097 | - | 523,097 |
| - | - | - | 51,109 | - | 51,109 |
| **11,843** | **49,671** | **15,436** | **625,529** | **(196,657)** | **1,261,606** |

# Primary segment information for the year ended 31 December 2004

| (€/000) | Books | Magazines | Advertising services | Printing |
|---|---|---|---|---|
| **Revenues from sales and services to external customers** | **395,121** | **542,748** | **329,170** | **207,927** |
| **Revenues from sales and services to other sectors** | **19,491** | **217,888** | **7,501** | **241,599** |
| Income (expense) from investments using equity method | 749 | 4,157 | - | - |
| **Gross operating profit** | **57,112** | **134,244** | **5,592** | **49,394** |
| **Operating result** | **53,378** | **122,891** | **5,201** | **25,900** |
| Financial income (expense) | - | - | - | - |
| **Profit before taxes and minority interests** | **53,342** | **122,891** | **5,201** | **25,900** |
| Income taxes | - | - | - | - |
| Result attributable to minority interests | 524 | - | - | - |
| **Net result** | **52,818** | **122,891** | **5,201** | **25,900** |
| Investments | 4,800 | 2,340 | 153 | 14,556 |
| Depreciation, amortisation and impairment | 3,734 | 11,353 | 391 | 23,494 |
| Non-monetary costs | 11,638 | 8,418 | 2,109 | 4,702 |
| Investments accounted for using the equity method | 31,437 | 46,841 | - | - |
| Other assets | 319,119 | 252,452 | 152,051 | 300,623 |
| Financial assets | - | - | - | - |
| Tax assets | - | - | - | - |
| **Total assets** | **350,556** | **299,293** | **152,051** | **300,623** |
| Other liabilities | 154,633 | 235,455 | 155,096 | 182,872 |
| Financial liabilities | - | - | - | - |
| Tax liabilities | - | - | - | - |
| **Total liabilities** | **154,633** | **235,455** | **155,096** | **182,872** |

| Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|
| **29,151** | **107,040** | **-** | **8,552** | **-** | **1,619,709** |
| **914** | **856** | **-** | **8,317** | **(496,566)** | **-** |
| 151 | - | - | 1,141 | - | 6,198 |
| **5,898** | **2,615** | **(165)** | **(15,056)** | **-** | **239,634** |
| **5,194** | **196** | **(165)** | **(18,995)** | **-** | **193,600** |
| - | - | - | (10,736) | - | (10,736) |
| **5,194** | **196** | **(165)** | **(32,106)** | **-** | **180,453** |
| - | - | - | 67,902 | - | 67,902 |
| - | - | - | 4 | - | 528 |
| **5,194** | **196** | **(165)** | **(100,012)** | **-** | **112,023** |
| 89 | 2,229 | - | 2,403 | - | 26,570 |
| 704 | 2,419 | - | 3,939 | - | 46,034 |
| 383 | 1,035 | - | 1,989 | - | 30,274 |
| 13,636 | - | - | 9,038 | - | 100,952 |
| 15,575 | 44,966 | - | 180,652 | (187,706) | 1,077,732 |
| - | - | - | 641,802 | - | 641,802 |
| - | - | - | 48,521 | - | 48,521 |
| **29,211** | **44,966** | **0** | **880,013** | **(187,706)** | **1,869,007** |
| 12,918 | 43,749 | - | 53,097 | (187,706) | 650,104 |
| - | - | - | 552,759 | - | 552,759 |
| - | - | - | 40,356 | - | 40,356 |
| **12,918** | **43,749** | **0** | **646,212** | **(187,706)** | **1,243,219** |

# Secondary segment information for the year ended 31 December 2005

| (€/000) | Books | Magazines | Advertising services | Printing |
|---|---|---|---|---|
| Italian market | 417,057 | 771,645 | 325,633 | 383,898 |
| Other EU markets | 3,012 | 5,683 | 11,286 | 63,740 |
| USA market | 957 | 361 | 143 | 6,976 |
| Other countries | 3,987 | 325 | 3,995 | 4,479 |
| **Revenues from sales and services** | **425,013** | **778,014** | **341,057** | **459,093** |
| Italian market | 344,516 | 252,879 | 152,887 | 313,831 |
| Other EU markets | 17,240 | 40,892 | - | 12,554 |
| USA market | - | - | - | - |
| Other countries | - | - | - | - |
| **Total assets** | **361,756** | **293,771** | **152,887** | **326,385** |
| Italian market | 2,773 | 1,200 | 344 | 33,973 |
| Other EU markets | - | - | - | 228 |
| USA market | - | - | - | - |
| Other countries | - | - | - | - |
| **Total investments** | **2,773** | **1,200** | **344** | **34,201** |

# Secondary segment information for the year ended 31 December 2004

| (€/000) | Books | Magazines | Advertising services | Printing |
|---|---|---|---|---|
| Italian market | 409,903 | 755,908 | 322,052 | 372,855 |
| Other EU markets | 3,264 | 4,196 | 11,279 | 63,752 |
| USA market | 938 | 297 | 46 | 9,665 |
| Other countries | 507 | 235 | 3,294 | 3,254 |
| **Revenues from sales and services** | **414,612** | **760,636** | **336,671** | **449,526** |
| Italian market | 336,880 | 260,835 | 152,051 | 287,332 |
| Other EU markets | 13,676 | 38,458 | - | 13,291 |
| USA market | - | - | - | - |
| Other countries | - | - | - | - |
| **Total assets** | **350,556** | **299,293** | **152,051** | **300,623** |
| Italian market | 4,800 | 2,340 | 153 | 12,010 |
| Other EU markets | - | - | - | 2,546 |
| USA market | - | - | - | - |
| Other countries | - | - | - | - |
| **Total investments** | **4,800** | **2,340** | **153** | **14,556** |

| Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|
| 20,135 | 137,209 | 4,340 | 15,195 | (528,951) | 1,546,161 |
| 5,595 | - | - | - | (6) | 89,310 |
| - | - | - | - | - | 8,437 |
| 647 | - | - | - | - | 13,433 |
| **26,377** | **137,209** | **4,340** | **15,195** | **(528,957)** | **1,657,341** |
| 27,524 | 49,600 | 84,778 | 228,914 | (193,398) | 1,261,531 |
| - | - | - | 442,056 | (2,893) | 509,849 |
| - | - | - | 1,042 | (366) | 676 |
| - | - | - | - | - | |
| **27,524** | **49,600** | **84,778** | **672,012** | **(196,657)** | **1,772,056** |
| 118 | 1,559 | 84,174 | 2,342 | - | 126,483 |
| - | - | - | 25 | - | 253 |
| - | - | - | 15 | - | 15 |
| - | - | - | - | - | - |
| **118** | **1,559** | **84,174** | **2,382** | **0** | **126,751** |

| Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|
| 26,117 | 107,896 | - | 16,869 | (496,566) | 1,515,034 |
| 3,614 | - | - | - | - | 86,105 |
| 2 | - | - | - | - | 10,948 |
| 332 | - | - | - | - | 7,622 |
| **30,065** | **107,896** | **0** | **16,869** | **(496,566)** | **810,824** |
| 29,211 | 44,966 | - | 323,779 | (185,030) | 1,250,024 |
| - | - | - | 556,136 | (2,671) | 618,890 |
| - | - | - | 98 | (5) | 93 |
| - | - | - | - | - | - |
| **29,211** | **44,966** | **0** | **880,013** | **(187,706)** | **1,869,007** |
| 89 | 2,229 | - | 2,347 | - | 23,968 |
| - | - | - | 36 | - | 2,582 |
| - | - | - | 20 | - | 20 |
| - | - | - | - | - | - |
| **89** | **2,229** | **0** | **2,403** | **0** | **26,570** |

# Transition to IAS/IFRS

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# Transition to IAS/IFRS

As a consequence of the introduction of European Regulation no. 1606/2002 passed by the European Parliament and the Council of Europe in July 2002, companies governed by a law of a member state whose securities are admitted to trading on a regulated market of any member state of the European Union must prepare their consolidated financial statements for each financial year starting on or after 1 January 2005 in conformity with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

Exercising the option contained in CONSOB resolution 14990 of 14 April 2005, the Mondadori Group elected to begin preparing its quarterly consolidated statements in accordance with international accounting standards from its half year report at 30 June 2005.

In compliance with IFRS 1, information on the quantitative and qualitative effects of the transition to IAS/IFRS as from the half year report at 30 June 2005 is provided below.
The following reclassifications to the balance sheet and income statement prepared in accordance with Italian accounting principles were made:
- long-term trade receivables and payables were reclassified from non-current assets/other non-current liabilities to trade receivables/trade payables;
- financial income referring to instalment sales was reclassified from other (income) expense to financial income (expense).

In particular, the attachments to the notes contain reconciliations between consolidated net equity prepared in accordance with the accounting principles previously used and those prepared in accordance with IAS/IFRS at 1 January 2004, the date of transition, together with reconciliations of consolidated shareholders' equity and of consolidated net profit prepared in accordance with Italian accounting principles with those prepared in accordance with IAS/IFRS for the year ended 31 December 2004.

The IAS/IFRS balance sheets and the IAS/IFRS income statements have been prepared by making adjustments and reclassifications to the consolidated financial statements prepared in accordance with Italian legal requirements, with the purpose of arriving at financial statements in which the presentation, recognition and measurement criteria of the new standards are respected.

The statements and reconciliations have been prepared solely for the purpose of preparing the first set of complete consolidated financial statements prepared in accordance with IAS/IFRS for the year ended 31 December 2005, and accordingly do not include comparative data or notes that would normally be required in order to present the Mondadori Group's financial position and results in accordance with IAS/IFRS.

The adjustments have been made on the basis of the IAS/IFRS standards currently effective. The European Commission is at the present time carrying out ratifications, and procedures are also being carried out by other official bodies to adapt or interpret these standards.

The Mondadori Group has appointed Reconta Ernst & Young SpA to perform a full audit of the reconciliations tables at 1 January 2004 and at 31 December 2004.

### First-time adoption of international accounting standards (IFRS 1)

As required by IFRS 1, as from 1 January 2004, the date of transition to IFRS/IAS, a consolidated balance sheet has been prepared where:

- assets and liabilities whose recognition is required by IAS/IFRS are recognised;
- items previously classified in one way in the financial statements prepared under the previous accounting principles are classified to satisfy the requirements of IAS/IFRS;
- IAS/IFRS are applied in measuring all recognised assets and liabilities.

The effect of the adoption of the new accounting standards has been recognised in equity, also taking into account the relative tax effect of adjustments for which the appropriate deferred tax assets and liabilities have been recognised.

The preparation of the consolidated balance sheet at 1 January 2004 and the consolidated financial statements for the year ended 31 December 2004 has involved choosing certain options from among those available in IAS/IFRS, as described below.

### Optional exemptions utilised by the Mondadori Group

*Re-calculating data in accordance with IFRS 3*

The Mondadori Group elected not to apply retrospectively the provisions contained in IFRS 3 regarding business combinations; as a result, the previous figures for the purchase of companies, businesses and investments that took place before 1 January 2004, the transition date, have not been amended.

*Fair value measurement of investment property and property, plant and machinery and utilisation of this method instead of historical cost in accordance with the provisions of IAS 40 and IAS 16.*

The Mondadori Group elected to use fair value to replace historical cost at 1 January 2004 in the measurement of certain assets recognised as investment property and property, plant and equipment that have a carrying value that is significantly different from their current value.

The adjustments made were based on specific appraisals performed by independent, third party experts.

After the initial adjustments, the new value has been considered deemed cost at the transition date and the cost model is then used going forward.

*Re-calculating data concerning employee benefits in accordance with IAS 19*

The Mondadori Group has elected not to use the corridor method in accounting for actuarial gains and losses in accordance with IAS 19.

*Measurement and presentation of compound financial instruments in accordance with IAS 32*

The Mondadori Group has elected to apply the provisions of IAS 32 and IAS 39 from 1 January 2005, without providing comparative data for the year ended 31 December 2004.

*Cumulated translation differences*

Cumulated translation differences at 1 January 2004 recognised under the previous accounting principles have not been recognised for IAS/IFRS and are deemed to be zero at that date. As a result, only those arising after that date are recognised.

*Stock options*

The Mondadori Group has applied the provisions contained in IFRS 2 to all stock options granted after 7 November 2002.

# Effects of the adoption of IAS/IFRS on consolidated shareholders' equity at 1 January 2004

## Reconciliation of consolidated shareholders' equity at 1 January 2004

| | | (€/000) |
|---|---|---|
| | **Consolidated shareholders' equity in accordance with Italian accounting principles** | **551,918** |
| 1. | Elimination of intangible assets | (1,449) |
| 2. | Valuation of intangible assets in accordance with IAS 36 | (969) |
| 3. | Separation of value of land from value of buildings | 4,794 |
| 4. | Valuation of land and buildings at fair value | 23,854 |
| 5. | Valuation of property, plant and equipment in accordance with IAS 36 | (179) |
| 6. | Valuation of inventories in accordance with IAS 2 | (3,611) |
| 7. | Discounting of provisions | 4,470 |
| 8. | Employees' leaving entitlement in accordance with IAS 19 | 11,304 |
| 9. | Application of IAS/IFRS to companies accounted for using the equity method | (249) |
| 10. | Changes in the scope of consolidation and other adjustments | 110 |
| 11. | Tax effect | (7,590) |
| | **Consolidated shareholders' equity in accordance with IAS/IFRS** | **582,403** |

The following comments refer to the items and amounts in the reconciliation between consolidated net equity at 1 January 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

1. Certain costs that do not satisfy the requirement for being recognised as intangible assets under IAS/IFRS have been eliminated from intangible assets. These include start-up and expansion costs, the cost of software and deferred charges that do not have the characteristics to be recognised as assets under IAS 38. The adjustments result in a reduction of the value of intangible assets of € 1,449 thousand.

2. Following an impairment test, designed to identify and quantify any losses in value in accordance with IAS 36, the Mondadori Group wrote down an imprint and certain goodwill, not supported by their respective values in use, for a total amount of € 969 thousand.

3. Under Italian accounting principles, land linked to buildings is depreciated together with the buildings themselves; under IAS/IFRS this land must be classified separately and not depreciated. As a result, the accumulated depreciation of this land has been eliminated and the carrying value of the land and consolidated net equity has been increased by € 4,794 thousand, of which € 873 thousand refers to investment property and € 3,921 thousand to property, plant and machinery.

4. Land and buildings previously stated at values significantly different from their current values were remeasured to fair value on the basis of appraisals carried out by independent, third party experts. After the initial adjustments, the new value has been considered deemed cost at the transition date and the cost model is then used going forward. The adjustments made resulted in an increase in the value of land and buildings and in consolidated net equity for € 87 thousand in respect of the investment property and an increase of € 23,767 thousand in respect of property, plant and machinery.

5. The adjustment of € 179 thousand refers to the writedown of other tangible fixed assets as a result of carrying out an impairment test in accordance with IAS/IFRS.

6. Inventories are stated in accordance with IAS/IFRS. In particular, where the LIFO method was previously employed in the measurement of raw materials, the weighted average cost method is now used. The adjustment also includes the result of recalculating the elimination of unrealised intra-group profits. As a result of these adjustments, inventory and consolidated net equity decreased by € 3,611 thousand.

7. Provisions for litigation and disputes which are expected to result in settlement after more than 12 months, for which the payment date can be reliably estimated, have been re-determined on the basis of that date. The adjustment has decreased provisions and increased net equity by € 112 thousand. In addition, the agents' termination indemnity has been re-determined on the basis of an actuarial calculation, leading to an increase in consolidated net equity of € 4,358 thousand.

8. Italian accounting principles require any liabilities resulting from the employees' leaving entitlement (TFR) to be measured on the basis of an entity's obligation at the balance sheet date, pursuant to Italian law in this respect. IAS/IFRS require such liabilities to be measured using an actuarial method. This difference has resulted in a decrease of liabilities and an increase in net equity of € 11,304 thousand.

9. Following the application of IAS/IFRS, the carrying value of associated companies and joint ventures, accounted for using the equity method, decreased by € 249 thousand, which was mainly due to the effect of eliminating intangible assets that do not satisfy the requirements of IAS 38 and to the valuation of the employees' leaving entitlement using an actuarial method.

10. The effect resulting from the change in the scope of consolidation regards investments in companies that were not consolidated in the financial statements prepared in accordance with Italian accounting principles because they were considered to be immaterial in terms of representing the financial and economic situation of the Mondadori Group. Following the adoption of IAS/IFRS, these companies are now consolidated. This adjustment led to an increase in consolidated net equity of € 133 thousand. This item also includes the elimination of adjustments from Group equity of € 23 thousand attributable to third parties.

11. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the consolidated balance sheet at 1 January 2004

## Consolidated balance sheet at 1 January 2004

| Assets (€/000) | Under Italian accounting principles(*) | Changes in consolidation scope | IAS/IFRS reclassifications | IAS/IFRS adjustments | Under IAS/IFRS |
|---|---|---|---|---|---|
| Intangible assets | 158,426 | (113) | (3,298) | (2,418) | 152,597 |
| Investment property | 12,181 | - | - | 960 | 13,141 |
| Land and buildings | 70,266 | - | - | 27,688 | 97,954 |
| Plant and machinery | 92,978 | (307) | - | - | 92,671 |
| Other tangible fixed assets | 24,453 | (494) | 2,182 | (179) | 25,962 |
| **Property, plant and equipment** | **187,697** | **(801)** | **2,182** | **27,509** | **216,587** |
| Investments accounted for using the equity method | 64,092 | 12,271 | - | (249) | 76,114 |
| Other investments | 5,888 | (164) | - | - | 5,724 |
| **Total investments** | **69,980** | **12,107** | **0** | **(249)** | **81,838** |
| Non-current financial assets | 118,769 | - | - | - | 118,769 |
| Deferred tax assets | 39,140 | (1,152) | - | (5,155) | 32,833 |
| Other non-current assets | 5,510 | (180) | - | - | 5,330 |
| **Total non-current assets** | **591,703** | **9,861** | **(1,116)** | **20,647** | **621,095** |
| Tax receivables | 19,833 | (4,372) | - | - | 15,461 |
| Other current assets | 59,854 | (174) | - | - | 59,680 |
| Inventories | 133,521 | (4,974) | - | (3,611) | 124,936 |
| Trade receivables | 390,715 | (939) | - | - | 389,776 |
| Securities and other current financial assets | 604,266 | (35,598) | - | - | 568,668 |
| Cash and cash equivalents | 42,685 | 27,655 | - | - | 70,340 |
| **Total current assets** | **1,250,874** | **(18,402)** | **0** | **(3,611)** | **1,228,861** |
| Assets held for sale | - | - | - | - | - |
| **Total assets** | **1,842,577** | **(8,541)** | **(1,116)** | **17,036** | **1,849,956** |

(*) In all the attached tables relating to the financial statements, this column refers to the data expressed in accordance with Italian accounting principles reclassified in accordance with IAS/IFRS.

## Consolidated balance sheet at 1 January 2004

| Liabilities and shareholders' equity (€/000) | Under Italian accounting principles | Changes in consolidation scope | IAS/IFRS reclassifications | IAS/IFRS adjustments | Under IAS/IFRS |
|---|---|---|---|---|---|
| Share capital | 67,452 | - | - | - | 67,452 |
| Share premium reserve | 170,380 | - | - | - | 170,380 |
| Other reserves and retained earnings | 231,985 | 133 | - | 30,352 | 262,470 |
| Profit (loss) for the year | 82,101 | - | - | - | 82,101 |
| **Total shareholders' equity attributable to the Group** | **551,918** | **133** | **0** | **30,352** | **582,403** |
| Capital and reserves attributable to minorities | 3,282 | 131 | - | 23 | 3,436 |
| **Total shareholders' equity** | **555,200** | **264** | **0** | **30,375** | **585,839** |
| Provisions | 17,748 | - | - | (112) | 17,636 |
| Leaving entitlements and termination indemnities | 110,888 | (2,299) | - | (15,662) | 92,927 |
| Non-current financial liabilities | 422,752 | 23 | (1,116) | - | 421,659 |
| Deferred tax liabilities | 14,248 | (46) | - | 2,435 | 16,637 |
| Other non-current liabilities | 0 | - | - | - | 0 |
| **Total non-current liabilities** | **565,636** | **(2,322)** | **(1,116)** | **(13,339)** | **548,859** |
| Income tax payables | 7,832 | 52 | - | - | 7,884 |
| Other current liabilities | 178,900 | (713) | - | - | 178,187 |
| Trade payables | 381,780 | (5,981) | - | - | 375,799 |
| Payables to banks and other financial liabilities | 153,229 | 159 | - | - | 153,388 |
| **Total current liabilities** | **721,741** | **(6,483)** | **0** | **0** | **715,258** |
| Liabilities held for sale | - | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,842,577** | **(8,541)** | **(1,116)** | **17,036** | **1,849,956** |

The following comments refer to the items and amounts in the reconciliation between the consolidated balance sheet at 1 January 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes:

- € 2,182 thousand relating to leasehold improvements which, being identifiable and separable, have been reclassified as other fixed assets;
- € 1,116 thousand for loan accessory charges (private placements and convertible bonds) which are reclassified as a reduction of the respective loans.

*IAS/IFRS adjustments*

In addition to those reconciling items with an impact on net equity already described above, the change in the scope of consolidation column mainly includes the following:

- the effect resulting from the Mondolibri SpA joint venture, which was previously consolidated using the proportionate method but is accounted for under IAS/IFRS using the equity method. The result of this change was the recognition of an investment of € 12,306 thousand and the consequent reclassification of the previously recognised specific assets and liabilities for the same amount;
- the effect resulting from the consolidation of the SICAV Misa Finance Fund, held by Mondadori Finance and recognised in accordance with Italian accounting principles as a financial investment in securities measured at the lower of cost and market value,

but consolidated on a line-by-line basis under IAS/IFRS. In view of the fact that the Mondadori Group applies IAS 32 and IAS 39 from 1 January 2005, the effect of the consolidation has mainly resulted in an increase of € 28,809 thousand in cash and cash equivalents and a reduction of € 28,287 thousand in the balance of securities and other current financial assets.

# Effects of the adoption of IAS/IFRS principles on consolidated shareholders' equity at 31 December 2004

## Reconciliation of consolidated shareholders' equity at 31 December 2004

| | | (€/000) |
|---|---|---|
| | **Shareholders' equity in accordance with Italian accounting principles** | **584,499** |
| 1. | Elimination of intangible assets | (2,323) |
| 2. | Amortisation of intangible assets | 16,686 |
| 3. | Valuation of intangible assets in accordance with IAS 36 | (2,094) |
| 4. | Effects on property, plant and equipment | 23,596 |
| 5. | Depreciation of property, plant and equipment | 957 |
| 6. | Valuation of inventories in accordance with IAS 2 | (4,126) |
| 7. | Discounting of provisions | 4,839 |
| 8. | Employees' leaving entitlement in accordance with IAS 19 | 11,758 |
| 9. | Application of IAS/IFRS to companies accounted for using the equity method | 606 |
| 10. | Changes in the scope of consolidation and other adjustments | (258) |
| 11. | Tax effect | (11,840) |
| | **Consolidated shareholders' equity in accordance with IAS/IFRS** | **622,300** |

The following comments refer to the items and amounts in the reconciliation between consolidated net equity at 31 December 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

1. Certain costs that do not satisfy the requirement for being recognised as intangible assets under IAS/IFRS have been eliminated from intangible assets. These include start-up and expansion costs, the cost of software and deferred charges that do not have the characteristics to be recognised as assets under IAS 38. The adjustments result in a reduction of the value of intangible assets of € 2,323 thousand.

2. Certain intangible assets, principally titles, series and imprints, are considered to have an indefinite life and are therefore they are no longer subject to amortisation, but to an impairment test. This has led to an increase of in consolidated net equity of € 16,686 thousand.

3. Following an impairment test, designed identify and quantify any losses in value in accordance with IAS 36, the Mondadori Group wrote down an imprint, certain titles and certain goodwill not supported by their respective values in use for a total amount of € 2,094 thousand.

4. Adjustments to property, plant and machinery include an increase in consolidated net equity in respect of € 19,409 thousand regarding land and buildings at 31 December 2004 that were measured at fair value at 1 January 2004 and the separation of buildings from the underlying land which resulted in an adjustment of € 4,794 thousand. Also included are a writedown of € 179 thousand of other tangible fixed assets and other movements that resulted in a decrease of € 428 thousand in consolidated net equity.

5. Depreciation in property, plant and machinery changed as a result of the combined effect of the fair value measurement of certain land and buildings on the adoption of IAS/IFRS, and the elimination of depreciation of land, for an overall total of € 957 thousand.

6. Inventories are stated in accordance with IAS/IFRS. In particular, where the LIFO method was previously employed in the measurement of raw materials, the weighted average cost method is now used. The adjustment also includes the result of recalculating the elimination of unrealised intra-group profits. As a result of these adjustments, inventory and consolidated net equity decreased by € 4,126 thousand.

7. Provisions for litigation and disputes which are expected to result in settlement after more than 12 months, for which the payment date can be reliably estimated, have been re-determined on the basis of that date. The adjustment has decreased provisions and increased consolidated net equity by € 94 thousand. In addition, the agents' termination indemnity has been re-determined on the basis of an actuarial calculation, leading to an increase in consolidated net equity of € 4,745 thousand.

8. Italian accounting principles require any liabilities resulting from the employees' leaving entitlement (TFR) to be measured on the basis of an entity's obligation at the balance sheet date, pursuant to Italian law in this respect. IAS/IFRS require such liabilities to be measured using an actuarial method. This difference has resulted in a decrease of liabilities and an increase in consolidated net equity of € 11,758 thousand.

9. Following the application of IAS/IFRS accounting principles, the book value of associated companies and joint ventures, accounted for using the equity method, decreased by € 606 thousand, which was mainly due to the economic effects deriving from the reversals in the depreciation of the goodwill of some companies, the elimination of intangible assets that do not satisfy the requirements contained in IAS 38 and the valuation of severance indemnities under an actuarial method.

10. The effect resulting from the change in the scope of consolidation regards investments in companies that were not consolidated in the financial statements prepared in accordance with Italian accounting principles because they were considered to be immaterial in terms of representing the financial and economic situation of the Mondadori Group. Following the adoption of IAS/IFRS, these companies are now consolidated. This adjustment led to a decrease in consolidated net equity of € 185 thousand. This item also includes the elimination of adjustments from Group equity of € 73 thousand attributable to third parties.

11. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the consolidated balance sheet at 31 December 2004

## Consolidated balance sheet at 31 December 2004

| Assets (€/000) | Under Italian accounting principles | Changes in consolidation scope | IAS/IFRS reclassifications | IAS/IFRS adjustments | Under IAS/IFRS |
|---|---|---|---|---|---|
| Intangible assets | 133,874 | 1,173 | (2,516) | 12,269 | 144,800 |
| Investment property | 11,650 | - | - | 1,036 | 12,686 |
| Land and buildings | 66,949 | - | - | 23,696 | 90,645 |
| Plant and machinery | 87,510 | (237) | - | - | 87,273 |
| Other tangible fixed assets | 18,386 | (509) | 1,554 | (179) | 19,252 |
| **Property, plant and equipment** | **172,845** | **(746)** | **1,554** | **23,517** | **197,170** |
| Investments accounted for using the equity method | 87,053 | 13,293 | - | 606 | 100,952 |
| Other investments | 4,484 | (2,012) | - | - | 2,472 |
| **Total investments** | **91,537** | **11,281** | **0** | **606** | **103,424** |
| Non-current financial assets | 130,531 | - | - | - | 130,531 |
| Deferred taxes | 45,029 | (1,087) | - | (3,130) | 40,812 |
| Other non-current assets | 4,099 | (153) | - | - | 3,946 |
| **Total non-current assets** | **589,565** | **10,468** | **(962)** | **34,298** | **633,369** |
| Tax receivables | 11,545 | (3,836) | - | - | 7,709 |
| Other current assets | 64,463 | (73) | - | - | 64,390 |
| Inventories | 129,521 | (4,500) | - | (4,126) | 120,895 |
| Trade receivables | 402,696 | (1,530) | - | - | 401,166 |
| Securities and other current financial assets | 566,726 | (62,438) | - | - | 504,288 |
| Cash and cash equivalents | 80,344 | 56,846 | - | - | 137,190 |
| **Total current assets** | **1,255,295** | **(15,531)** | **0** | **(4,126)** | **1,235,638** |
| Assets held for sale | - | - | - | - | - |
| **Total assets** | **1,844,860** | **(5,063)** | **(962)** | **30,172** | **1,869,007** |

## Consolidated balance sheet at 31 December 2004

| Liabilities and shareholders' equity (€/000) | Under Italian accounting principles | Changes in consolidation scope | IAS/IFRS reclassifications | IAS/IFRS adjustments | Under IAS/IFR |
|---|---|---|---|---|---|
| Share capital | 67,452 | - | - | - | 67,452 |
| Share premium reserve | 153,540 | - | - | - | 153,540 |
| Other reserves and retained earnings | 259,393 | 133 | - | 29,759 | 289,285 |
| Profit (loss) for the year | 104,114 | (318) | - | 8,227 | 112,023 |
| **Total shareholders' equity attributable to the Group** | **584,499** | **(185)** | **0** | **37,986** | **622,300** |
| Capital and reserves attributable to minorities | 3,269 | 136 | - | 73 | 3,478 |
| **Total shareholders' equity** | **587,768** | **(49)** | **0** | **38,059** | **625,778** |
| Provisions | 16,381 | - | - | (94) | 16,287 |
| Leaving entitlements and termination indemnities | 113,568 | (2,322) | - | (16,503) | 94,743 |
| Non-current financial liabilities | 419,731 | 4 | (962) | - | 418,773 |
| Deferred tax liabilities | 12,965 | (88) | - | 8,710 | 21,587 |
| Other non-current liabilities | - | - | - | - | 0 |
| **Total non-current liabilities** | **562,645** | **(2,406)** | **(962)** | **(7,887)** | **551,390** |
| Income tax payables | 18,878 | (109) | - | - | 18,769 |
| Other current liabilities | 179,792 | (607) | - | - | 179,185 |
| Trade payables | 364,799 | (4,900) | - | - | 359,899 |
| Payables to banks and other financial liabilities | 130,978 | 3,008 | - | - | 133,986 |
| **Total current liabilities** | **694,447** | **(2,608)** | **0** | **0** | **691,839** |
| Liabilities held for sale | - | - | - | - | - |
| **Total liabilities and shareholders' equity** | **1,844,860** | **(5,063)** | **(962)** | **30,172** | **1,869,007** |

The following comments refer to the items and amounts in the reconciliation between the consolidated balance sheet at 31 December 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes:
- € 1,554 thousand relating to leasehold improvements which, being identifiable and separable, have been reclassified as other fixed assets;
- € 962 thousand for loan accessory charges (private placements and convertible bonds) which are reclassified as a reduction of the respective loans.

*IAS/IFRS adjustments*

In addition to those reconciling items with an impact on net equity already described above, the change in the scope of consolidation column mainly includes the following:
- the effect resulting from the Mondolibri SpA joint venture, which was previously consolidated using the proportionate method but is accounted for under IAS/IFRS using the equity method. The result of this change was the recognition of an investment of € 13,336 thousand and the consequent reclassification of the previously recognised specific assets and liabilities for the same amount;
- the effect resulting from the consolidation of the SICAV Misa Finance Fund, held by Mondadori Finance and recognised in accordance with Italian accounting principles as a financial investment in securities measured at the lower of cost and market value,

but consolidated on a line-by-line basis under IAS/IFRS. In view of the fact that the Mondadori Group applies IAS 32 and IAS 39 from 1 January 2005, the effect of the consolidation has mainly resulted in an increase of € 65,436 thousand in cash and cash equivalents and a reduction of € 62,003 thousand in the balance of securities and other current financial assets.

# Effects of the adoption of IAS/IFRS on the consolidated net result for 2004

## Reconciliation of consolidated net result for 2004

| | | (€/000) |
|---|---|---|
| | **Consolidated net result in accordance with Italian accounting principles** | **104,114** |
| 12. | Changes in inventories | (515) |
| 13. | Effects on purchase of raw materials and services | (907) |
| 14. | Personnel costs | 2,604 |
| 15. | Effects on other (income) expense | (4,477) |
| 16. | Depreciation and impairment of property, plant and equipment | 957 |
| 17. | Amortisation and impairment of intangible assets | 15,561 |
| 18. | Effects on financial income (expense) | (3,774) |
| 19. | Effects on income (expense) from investments | 2,876 |
| 20. | Changes in the scope of consolidation and other adjustments | (368) |
| 21. | Tax effect | (4,048) |
| | **Consolidated net result in accordance with IAS/IFRS** | **112,023** |

The following comments refer to the items and amounts in the reconciliation between the consolidated net result for 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

12. The effect of the change in the method of measuring inventories to a weighted average cost method and the effect of recalculating the elimination of unrealised intra-group profits led to a decrease in the consolidated result of € 515 thousand.

13. The adjustments shown in the reconciliation refer to costs of € 874 thousand recognised in the income statement under IAS/IFRS which were recognised as intangible assets under Italian accounting principles, together with other minor amounts.

14. Personnel costs decreased by € 4,175 thousand as a result of the application of IAS 19, partially compensated by an increase of € 1,571 thousand arising from stock option plans. This latter amount represents the fair value of stock options granted during the year.

15. Adjustments to other (income) expense refer to the lower capital gains resulting from the disposal of land measured fair value on the adoption of IAS/IFRS for a total of € 4,445 thousand. The adjustments also include other minor amounts.

16. The depreciation of property, plant and machinery is adjusted for the combined effect of separating buildings from the land on which they stand and of measuring certain buildings at fair value on first-time adoption of IAS/IFRS, for a total of 957 thousand euros.

17. The adjustment made to the amortisation and impairment of intangible assets consists of the elimination of the amortisation and impairment of assets with an indefinite life, such as titles, series and imprints, for € 16,686 thousand and € 1,125 thousand respectively.

18. This adjustment refers to the increase in interest expense arising from the recalculation of the employees' leaving entitlement (€ 3,721 thousand) and provisions for litigation (€ 53 thousand).

19. The increase in income from investments is the result of the elimination of goodwill amortisation regarding certain joint ventures, for € 3,257 thousand, and the lower results from companies accounted for using the equity method, for € 381 thousand, as a consequence of the application of IAS/IFRS.

20. This item includes the effect on the income statement of the consolidation of companies that were not consolidated under Italian accounting principles. It also includes the effect of adjustments to minority interests of € 50 thousand.

21. This item consists of the tax effect of the reconciliation adjustments.

# Effects of the adoption of IAS/IFRS on the consolidated income statement for 2004

## Income Statement for 2004

| (€/000) | Under Italian accounting principles | Changes in consolidation scope | IAS/IFRS reclassifications | IAS/IFRS adjustments | Under IAS/IFR |
|---|---|---|---|---|---|
| **Revenues from sales and services to third parties** | **1,652,798** | **(33,089)** | **-** | **-** | **1,619,709** |
| Decrease (increase) in inventories | 4,014 | 436 | - | 515 | 4,965 |
| Purchase of raw materials and consumables and goods for resale | 507,531 | (4,842) | - | 561 | 503,250 |
| Purchase of services | 648,824 | (17,618) | - | 346 | 631,552 |
| Personnel costs | 259,096 | (4,179) | - | (2,604) | 252,313 |
| Other (income) expense | (7,101) | (3,183) | - | 4,477 | (5,807) |
| Income (expense) from investments accounted for using the equity method | 2,604 | 718 | - | 2,876 | 6,198 |
| **Gross operating profit** | **243,038** | **(2,985)** | **0** | **(419)** | **239,634** |
| Depreciation and impairment of property, plant and equipment | 34,755 | (310) | 1,181 | (957) | 34,669 |
| Amortisation and impairment of intangible assets | 28,302 | (41) | (1,335) | (15,561) | 11,365 |
| **Operating result** | **179,981** | **(2,634)** | **154** | **16,099** | **193,600** |
| Financial income (expense) | (8,064) | 1,256 | (154) | (3,774) | (10,736) |
| Income (expense) from other investments | (2,411) | - | - | - | (2,411) |
| **Result before taxes and minority interests** | **169,506** | **(1,378)** | **0** | **12,325** | **180,453** |
| Income taxes | 64,926 | (1,072) | - | 4,048 | 67,902 |
| Result attributable to minorities | (466) | (12) | - | (50) | (528) |
| **Net result** | **104,114** | **(318)** | **0** | **8,227** | **112,023** |

The following comments refer to the items and amounts in the reconciliation between the consolidated income statement for 2004 prepared in accordance with Italian accounting principles and that prepared in accordance with IAS/IFRS.

*IAS/IFRS reclassifications*

The reclassification column includes:

- € 1,181 thousand relating to the depreciation of leasehold improvements, reclassified from the amortisation of intangible assets to the depreciation property, plant and equipment;
- the amortisation of € 154 thousand of loan accessory charges (private placements and convertible bonds) which is reclassified from amortisation to financial expense.

*IAS/IFRS adjustments*

In addition to those reconciling items with an impact on the consolidated net result already described above, the change in the scope of consolidation column mainly includes the following:

- the effect resulting from the Mondolibri SpA joint venture, which was previously consolidated using the proportionate method but is accounted for under IAS/IFRS using the equity method. The result of this change was the recognition of € 721 thousand in other income (expense) from investments and the corresponding net change in the other items of the income statement;

- the effect resulting from the consolidation of the SICAV Misa Finance Fund, held by Mondadori Finance and recognised in accordance with Italian accounting principles as a financial investment in securities measured at the lower of cost and market value, but consolidated on a line-by-line basis under IAS/IFRS. In view of the fact that the Mondadori Group applies IAS 32 and IAS 39 from 1 January 2005, the effect of the consolidation has led to in an increase in financial income (expense) of € 1,417 thousand and the corresponding increase in the purchase of services for € 1,018 thousand and other (income) expense for € 399 thousand euros.

**Effects of the adoption of IAS/IFRS accounting principles on the consolidated net financial position**

The following table shows the effects on the consolidated net financial position resulting from the application of IAS/IFRS:

| (€/000) | 1/1/2004 | 12/31/2004 |
|---|---|---|
| **Net financial position as per Italian accounting principles** | **72,854** | **96,685** |
| IAS/IFRS reclassification | 1,116 | 962 |
| Changes in the scope of consolidation and other | (8,125) | (8,604) |
| **IAS/IFRS net financial position** | **65,845** | **89,043** |

The reclassification refers to accessory charges incurred for loans (private placement and convertible bonds), classified as intangible assets under Italian accounting principles and recognised as a reduction in the relative financial liability under IAS/IFRS.

The item “Changes in the scope of consolidation and other” mainly consists of the effect of accounting for the Mondolibri SpA joint venture using the equity method instead of the proportionate method as was used under Italian accounting principles.

# Report of the Board of Statutory Auditors

# Report of the Board of Statutory Auditors to the Shareholders' Meeting called to approve the Financial Statements for the year ended 31 December 2005 (Article 153, Legislative Decree no. 58/98)

Shareholders,
during the year we have performed the oversight activities envisaged by the law taking into consideration the principles of conduct recommended by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (the Italian accounting profession).
In particular, we have:

- ensured that legal requirements have been fulfilled and that the articles of association and the principles of correct administration have been adhered to;
- taken part in all meetings of shareholders and of the Board of Directors, obtaining from the Directors information on the general performance of the company, the probable future development of business activities and the significant operations affecting the company's economic and financial position, ensuring that resolutions taken and implemented are not manifestly imprudent, risky, potentially conflictual, in contrast with the resolutions of the shareholders' meetings or likely to compromise the integrity of the company's equity;
- become acquainted with the company's structures and overseen their adequacy, to the extent of our responsibility, by direct observation, by the examination of information provided by the company and through meetings with the independent auditors, Reconta Ernst & Young SpA, held for the exchange of information and data, from which no significant aspects emerged;
- assessed and overseen the company's internal control system, the activities carried out as part of the control system and the administrative-accounting system, as well as checking the extent to which the latter is able to represent correctly the company's operations, by means of obtaining information, examining company documents and analysing the results of the work carried out by the independent auditors. We have also had periodic meetings with the head of internal control, with whom we have exchanged information on the results of the procedures performed by him at subsidiary companies and have taken part in meetings of the internal control committee;
- assessed and overseen the adequacy of the instructions given to subsidiary companies. These instructions have enabled the subsidiaries to provide the Parent Company with the information it needs to comply with the communication obligations envisaged by prevailing legislation;
- checked that the company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2005 have been prepared in accordance with law, through direct checks and discussions with the independent auditors.

During the performance of the activities described above, no significant omissions, illegal acts or irregularities emerged such as to require us to report these either to the competent external supervisory authorities or discuss them in this report.
The body entrusted with overseeing the effectiveness of the organisational, management and control model and ensuring that it is observed and updated, pursuant to Legislative Decree no. 231/01, has not advised us of any important matters.
Furthermore, in line with the recommendations of CONSOB, the Board of Statutory Auditors states the following:

- we did not find any atypical and/or unusual operations, including intragroup operations and related party transactions;
- the information provided by the Board of Directors, including information concerning intragroup operations and transactions with related parties, is considered complete. In particular, intragroup operations were connected with and were relevant to the corporate purpose, and the nature and economic effects of these ordinary operations are reported in the notes to the financial statements and are to be considered appropriate and in line with the company's business interests.
  In addition, we did not identify in this context any conflict of interest or any operations able to have a significant impact on the company's economic or financial position;
- the company has for some time adhered to the self-regulation code of the Committee of Corporate Governance of listed companies issued by Borsa Italiana SpA, as referred to in the Report of the Board of Directors, and is currently carrying out a revision of its own code in order to adapt it to best practices and to recent legislative changes;
- during the year:
  - regular meetings were held to exchange information with representatives of Reconta Ernst & Young SpA and, while we have yet to see the reports of the independent auditors on the financial statements and consolidated financial statements, we have reason to believe that the auditors' opinions will not be qualified;
  - the Board of Statutory Auditors issued opinions pursuant to article 2389, paragraph 3, of the Civil Code, whilst it has not issued any opinion pursuant to article 159, paragraph 1, of Legislative Decree no. 58/98;
  - eight meetings of the Board of Directors and thirteen meetings of the Board of Statutory Auditors were held;
  - the company appointed Reconta Ernst & Young S.p.A., already appointed as auditors

of the annual financial statements, the consolidated financial statements and the half year report, to perform the following engagements:
  - the audit of the IFRS reconciliations for 2004, at a cost of € 212,000;
  - analyses and assistance connected with the introduction of IFRS, at a cost of € 170,000;
  - an "Accertamento Diffusione Stampa" (ADS) audit, at a cost of € 46,200;
- the company instructed the following companies, which are connected with Reconta Ernst & Young S.p.A. and which are part of the same international network, to perform the engagements specified below:
  - Studio Legale e Tributario, to provide assistance in the fiscal/legal area, at a cost of € 19,500;
  - Ernst & Young Financial-Business Advisors S.p.A., to provide assistance in the finance area, at a cost of € 80,600;
- the Board of Statutory Auditors has received no denouncements pursuant to article 2408 of the Civil Code.

After taking into account the above matters and to the extent of its responsibility, the Board of Statutory Auditors is able to state that it has found no impediment to approving the financial statements at 31 December 2005, which show net profit for the year of € 101,290,135, or to the payment of a dividend in the manner formulated by the Board of Directors, in this case also in consideration of the reserves available.

Milan, 4 April 2006

*On Behalf of the Board of Statutory Auditors*
*Dott. Achille Frattini, Chairman*
*Dott. Antonio Aiello*
*Prof. Ferdinando Superti Furga*

# Independent Auditors' Report

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

RECONTA ERNST & YOUNG

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

1. We have audited the financial statements of Arnoldo Mondadori Editore S.p.A. as of and for the year ended December 31, 2005, comprising the balance sheet, the statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent the first financial statements prepared by Arnoldo Mondadori Editore S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial statements of certain joint-venture companies, which represent approximately 3% and 1.6% respectively of total investments and of total assets, is the responsibility of other auditors.

   For comparative purposes, the financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005, in accordance with the exemption allowed by IFRS 1. In addition, the appendix to the financial statements "Transition to IAS/IFRS" explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1. The disclosures included in the above-mentioned appendix have been reviewed by us for the purpose of expressing an opinion on the financial statements of Arnoldo Mondadori Editore S.p.A. as a whole as of and for the year ended December 31, 2005.

3. In our opinion, the financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Arnoldo Mondadori Editore S.p.A. as of December 31, 2005, and for the year then ended in accordance with IFRS as adopted by the European Union.

Milan, Italy
April 7, 2006

*Reconta Ernst & Young S.p.A.*
*Signed by Pellegrino Libroia*
*(Partner)*

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

1. We have audited the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. as of and for the year ended December 31, 2005, comprising the consolidated balance sheet, the consolidated statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements prepared by Arnoldo Mondadori Editore S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The audit of the financial statements of certain consolidated joint-venture companies, which respectively represent approximately 67% of total consolidated investments accounted for in accordance with equity method and 4% of total consolidated assets, is the responsibility of other auditors.

   For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles except for the effects of IAS 32 and IAS 39 which have been applied from January 1, 2005, in accordance with the exemption allowed by IFRS 1. In addition, the appendix to the consolidated financial statements "Transition to IAS/IFRS" explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published as an attachment to the Arnoldo Mondadori Editore S.p.A. half-year interim consolidated financial statements, and which have been audited by us. Reference should be made to our audit report dated October 25, 2005.

3. In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of Mondadori Group as of December 31, 2005, and for the year then ended in accordance with IFRS as adopted by the European Union.

Milan, Italy
April 7, 2006

*Reconta Ernst & Young S.p.A.*
*Signed by Pellegrino Libroia*
*(Partner)*

Graphic design: Bob Noorda