



MEDIASET GROUP

***Report
on operations
in the first quarter of 2000***

MEDIASET S.p.A. - VIA PALEOCAPA, 3 - 20121 MILAN
SHARE CAPITAL ITL 1,180,320,964,000 WHOLLY PAID-UP
REGISTERED IN MILAN NO. 276785 (MILAN COURT)
TAX CODE - VAT NUMBER: 09032310154

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Fedele Confalonieri

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MEDIASET GROUP

REPORT ON OPERATIONS IN THE FIRST QUARTER OF 2000

Dear Shareholders,

This is the first quarterly report drafted by the Group heading your Company in compliance with the obligation introduced as of 1 January 2000, for the groups floated at the Stock Exchange, by Art. 82 of the Consob deliberation no. 11971 of 14 May 1999.

After the exceptional results obtained in 1999, the economic situation in the first quarter 2000 augurs extremely well for achieving equally significant objectives in this year, as is Mediaset's intention. In the first quarter 2000 the Mediaset Group has recorded consolidated net revenues of ITL 1,199.3 billion, with a 17.7% increase over the first quarter 1999, the operating profit has reached ITL 453.9 billion (vs. 310.3 in the first quarter 1999) net of amortisation, depreciation and write-downs for ITL 305.9 billion. Operating results have therefore grown from 30.4% to 37.8%. Profit before taxation and the quota attributable to minority interests amounted to ITL 440.6 billion, vs. 313.9 in the first quarter 1999.

These results take into consideration for the first time the impact of the proportional consolidation of the Epsilon Group; the effects on the economic profits of the Mediaset Group are however still negligible and can be mainly attributed to the amortisation quotas of the goodwill acknowledged on some business activities passed over to the new Group. The joint venture with Kirch Media, stipulated in October 1999, will complete the company's corporate structure and start its independent and full operation in the next few months, also by setting up two new companies for the production of television (E-Vision) and cinema contents (E-Motion).

The significant returns obtained in the first quarter 2000 by the Mediaset Group show the well proven capability of our domestic core business to maximize the economic income provided by television advertising. During the first three months of the year, advertising sales from third parties have increased by 16.6% over the same period of 1999. This result, achieved in the presence of a constant exceptional expansion of advertising investments, has been fostered by the constantly high audience levels of our networks and their growing capability of segmenting reference advertising macro-targets.

MEDIASET GROUP – ECONOMIC AND FINANCIAL RESULTS

GENERAL CRITERIA

The following economic and financial information refers to the first quarter 2000, the first quarter 1999 and the year ended at 31 December 1999. In drafting the accounting situation, the same evaluation criteria were used as for the financial statements of the parent company and the consolidated financial statements at 31 December 1999. It is also worth mentioning that the Euroset Group was consolidated for the first time with the proportional consolidation method. The financial statements have been prepared in order to be comparable with those included in the half-year report on operations and in the annual report. The accounting situation has not been subject to an audit.

Let us now analyse the main consolidated results for the first quarter 2000.

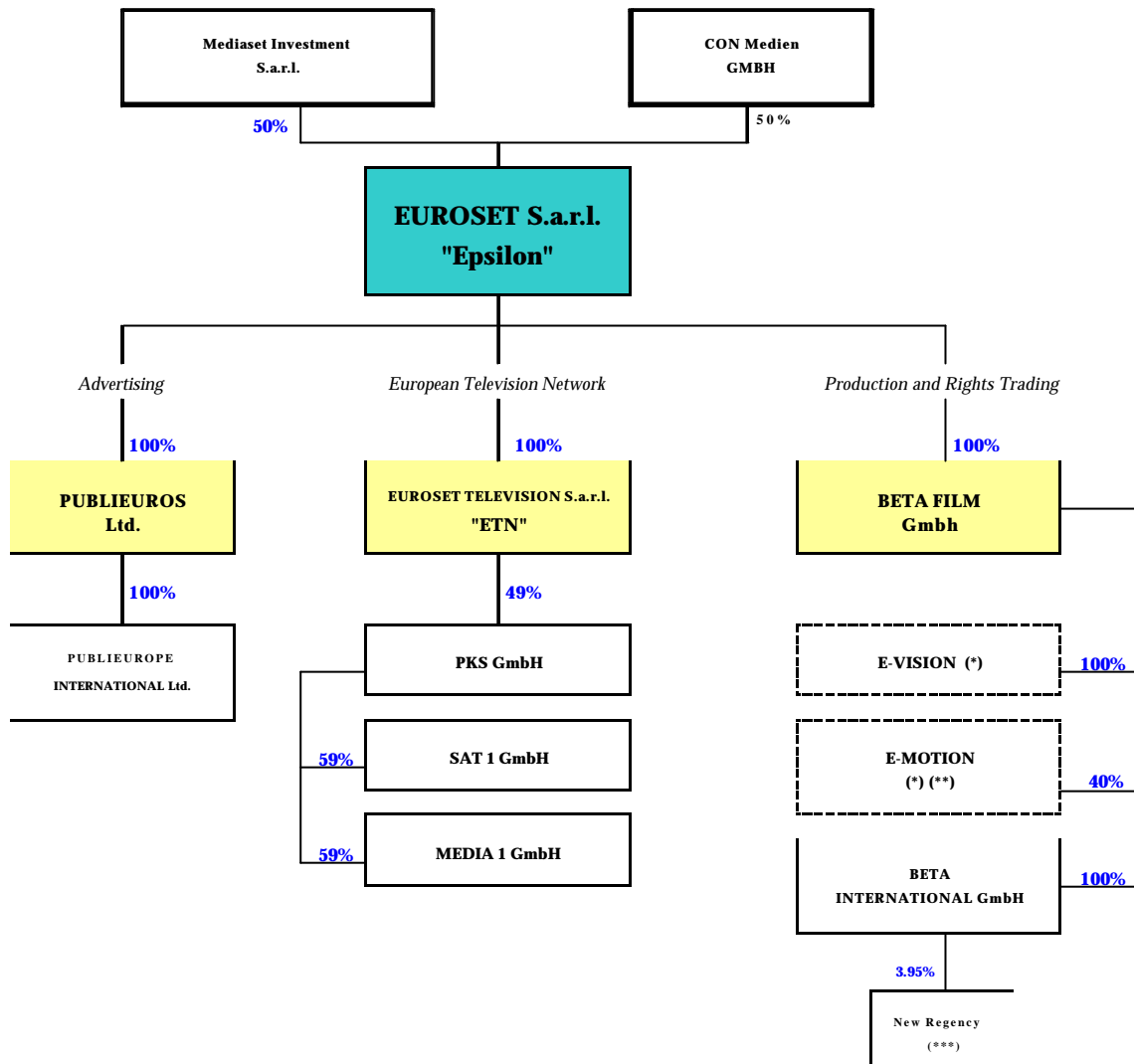
ECONOMIC RESULTS

Here follows the income statement of the Mediaset Group:

31/12/1999	31/12/1999		31/03/2000	31/03/1999	31/03/2000	31/03/1999
Euro millions	ITL billions	Mediaset	ITL billions	ITL billions	Euro millions	Euro millions
2,008.81	3,889.6	Sales of goods and services	1,188.5	1,006.0	613.81	519.56
39.92	77.3	Other revenues and income	10.8	13.1	5.58	6.76
2,048.73	3,966.9	Total consolidated net revenues	1,199.3	1,019.1	619.39	526.32
289.27	560.1	Personnel expenses	133.6	133.9	69.00	69.16
586.39	1,135.4	Purchases, services, other costs	305.9	279.7	157.98	144.45
875.66	1,695.5	Operating costs	439.5	413.6	226.98	213.61
1,173.07	2,271.4	Gross operating profit (loss)	759.8	605.5	392.41	312.71
612.88	1,186.7	Amortisation, depreciation and write-downs	305.9	295.2	158.00	152.46
560.19	1,084.7	Operating profit (loss)	453.9	310.3	234.41	160.25
18.59	36.0	Financial income /(charges)	(10.1)	6.1	(5.22)	3.14
2.43	4.7	Income / (charges) from shareholdings	(3.5)	(2.3)	(1.81)	(1.19)
581.21	1,125.4	Profit (loss) before extraordinary items	440.3	314.1	227.38	162.20
4.91	9.5	Extraordinary and other income /(charges)	0.4	(0.2)	0.18	(0.09)
586.12	1,134.9	Profit before taxation	440.6	313.9	227.56	162.11

It should be pointed out that it is not easy to compare the data regarding the first quarter 2000 with those from the same three months of the previous year. Starting from 2000, the Mediaset Group proportionally includes at 50% the single balance sheet lines of the so called “Epsilon Group”, i.e. the group of companies in joint venture with the Kirch group headed by Euroset S.a.r.l.

Here is the corporate structure of the Epsilon group:



(*) This company has yet to be set up

(**) Other shareholders: 30% Medusa S.p.A., 30% Kirch Media

(***) Indirect shareholding

In order to make a more homogeneous analysis of the results, the effects on the income statement deriving from the 50% consolidation of the Epsilon Group are described below:

Mediaset Group	31/03/2000	31/03/1999	31/03/2000	31/03/1999
(effects arising from the consolidation of the Epsilon Gr.)	ITL billions	ITL billions	Euro millions	Euro millions
Sales of goods and services	20.9	-	10.79	-
Other revenues and income	(0.1)	-	(0.05)	-
Total consolidated net revenues	20.8	-	10.74	-
Personnel expenses	1.0	-	0.52	-
Purchases, services and other costs	17.7	-	9.14	-
Operating costs	18.7	-	9.66	-
Gross operating profit (loss)	2.1	-	1.08	-
Amortisation, depreciation and write-downs	3.9	-	1.99	-
Operating profit (loss)	(1.8)	-	(0.91)	-
Financial income / (charges)	(1.9)	-	(0.96)	-
Income / (charges) from shareholdings	(1.5)	-	(0.77)	-
Profit (loss) before extraordinary items	(5.1)	-	(2.64)	-
Extraordinary and other income / (charges)	-	-	-	-
Profit (loss) before taxation	(5.1)	-	(2.64)	-

It should be noted that the negative effect on the economic profits of the Mediaset Group, deriving from the 50% consolidation of the Epsilon Group, can be mainly attributed to goodwill amortisation. If we did not take into account these items, there would be a positive economic impact deriving from the on-going operations of the Epsilon Group.

In order to fully analyse the economic results of the Epsilon Group, see the specific section of the Report devoted to the analysis of the main Group's international operations.

Here follows the summary of the Mediaset Group's income statement after deducting the effects deriving from the 50% proportional consolidation of the Epsilon Group:

31/12/1999	31/12/1999	Mediaset Group	31/03/2000	31/03/1999	31/03/2000	31/03/1999
Euro	ITL	(net of the effects arising from the consolidation of	ITL	ITL	Euro	Euro
millions	billions	the Epsilon Group)	billions	billions	millions	millions
2,008.81	3,889.6	Sales of goods and services	1,167.6	1,006.0	603.02	519.56
39.92	77.3	Other revenues and income	10.9	13.1	5.63	6.77
2,048.73	3,966.9	Total consolidated net revenues	1,178.5	1,019.1	608.65	526.33
289.27	560.1	Personnel expenses	132.6	133.9	68.48	69.15
586.39	1,135.4	Purchases, services, other costs	288.2	279.7	148.84	144.45
875.66	1,695.5	Operating costs	420.8	413.6	217.32	213.60
1,173.07	2,271.4	Gross operating profit (loss)	757.7	605.5	391.33	312.73
612.88	1,186.7	Amortisation, depreciation and write-downs	302.1	295.2	156.02	152.46
560.19	1,084.7	Operating profit (loss)	455.6	310.3	235.31	160.27
18.59	36.0	Financial income / (charges)	(8.3)	6.1	(4.26)	3.15
2.43	4.7	Income / (charges) from shareholdings	(2.0)	(2.3)	(1.03)	(1.19)
581.21	1,125.4	Profit (loss) before extraordinary items	445.3	314.1	230.02	162.23
4.91	9.5	Extraordinary and other income / (charges)	0.4	(0.2)	0.18	(0.10)
586.12	1,134.9	Profit before taxation	445.7	313.9	230.20	162.13

The percentage of the net revenues held by some of the more important items in the income statement is the following:

31/12/1999		Mediaset Group		Mediaset Group	
		31/03/2000	31/03/1999	31/03/2000	31/03/1999
100.0%	Consolidated net revenues	100.0%	100.0%	100.0%	100.0%
42.7%	Operating costs	36.6%	40.6%	35.7%	40.6%
57.3%	Gross operating profit	63.4%	59.4%	64.3%	59.4%
29.9%	Amortisation, depreciation and write-down	25.5%	29.0%	25.6%	29.0%
27.3%	Operating profit	37.8%	30.4%	38.7%	30.4%
28.4%	Profit before extraordinary items	36.7%	30.8%	37.8%	30.8%
28.6%	Profit before taxation	36.7%	30.8%	37.8%	30.8%

We would stress that, due to the not total alignment between revenues, especially advertising revenues (which are more concentrated in the first months of the year) and the operating costs (more evenly distributed throughout the year), the results of the Mediaset Group are marked by a high level of seasonality. This fact generates a higher contribution of the first months of the year to the year end results.

➤ Net revenues

31-03-00	1,199.3
31-03-99	1,019.1
% var.	17.7%

In the first quarter 2000, Mediaset Group consolidated net revenues recorded an ITL 180.2 billion increase over the first quarter 1999, determined by the growth of the total television revenues and the effects of the 50% consolidation of the Epsilon Group.

The following table shows the revenues breakdown:

31/12/1999	ITL billions	31/03/2000	31/03/1999
3,567.7	Revenues from the sales of commercials	1,086.9	933.3
624.3	Revenues from teleselling/telepromotions/sponsoring	199.9	170.7
4,192.0	Advertising revenues from third parties	1,286.8	1,104.0
49.0	Promoservice revenues	7.0	9.0
177.9	Other revenues from the television	43.2	30.6
(615.2)	Agency discounts	(188.0)	(162.3)
3,803.7	Total net revenues from television	1,149.0	981.3
20.5	Revenues from New Media	5.9	3.4
142.7	Other revenues from non-television activities	23.6	34.4
3,966.9	Total consolidated net revenues from Italy	1,178.5	1,019.1
-	- Revenues 50% Epsilon Group	25.8	-
-	- Write-offs	(5.0)	-
3,966.9	Total consolidated net revenues	1,199.3	1,019.1

Advertising revenues have shown exceptionally high growth, by far larger than the initial forecasts: sales to third parties reached ITL 1,286.8 billion, with an ITL 182.8 billion increase (equal to 16.6%) over the first quarter 1999.

Revenues from the sale of commercials have shown a very high increase, going from ITL 933.3 billion to ITL 1,086.9 billion (+16.5%); revenues from teleselling, telepromotions and sponsoring operations have shown an even higher growth rate, from ITL 170.7 billion to ITL 199.9 billion (+17.1%).

The increase in **other revenues from television** is mainly determined by the growth in Publitalia '80 advertising revenues with respect to companies belonging to the Fininvest Group (Mediolanum Group and Europortal for Jumpy).

The increase in revenues from activities connected to the **new media** can be attributed to the growth of turnover from business started in previous years (Happy Channel and Mediavideo) as well as to the strong development of advertising sales connected to the Internet (Mediaset Online and third party portals under licence), that were not present in the first three months of 1999.

The decrease in the **revenues from non-television activities** results from the following factors:

- the absence in the first quarter 2000 of record industry revenues, following the sales of the group's record company RTI Music S.r.l. and of the shareholding in PDU S.A. which took place in October; in the first quarter of last year these revenues amounted to ITL 7.7 billion;
- a decrease in the revenues of Elettronica Industriale S.p.A for the marketing of TV broadcasting equipment, following the sale to a third party of the equipment design and assembly branch of the subsidiary company Elettronica Industriale, which took place in January 2000;
- increase (ITL 4.1 billion, equal to around 45%) in Publitalia '80 S.p.A. revenues for the sales of permanent advertising spaces, also due to the acquisition of new

concessions in Italian stadiums and the sale of sponsorships for the Italian national football team.

The share belonging to the Mediaset Group (50%) regarding the **revenues of the Epsilon Group** can be analysed as follows:

- revenues deriving from the international sale of television rights generated by Betafilm GmbH, amounting to ITL 12 billion. It should be noted that this is a highly seasonal activity, marked by the concentration of large packages of rights in specific moments of the year: the first quarter of the year traditionally is a time of reduced activity compared to the following months, when significant events take place;
- revenues from the sale of advertising spaces on media managed under licence or sub-licence, partly generated by Publieurope Ltd., amounting to ITL 11 billion. There are also the revenues (ITL 2 billion) generated by the start of operations of Publieuros Ltd., the leading company of the advertising division of the Epsilon Group, whose mission is to carry out investment strategies at the main European industrial and commercial groups.

Write-offs regard services rendered and invoiced between companies belonging to the Mediaset Group and companies belonging to the Euroset Group.

➤ **Operating costs**

31-03-00	439.5
31-03-99	413.6
% var.	6.3%

The operating costs of the Mediaset Group have shown an ITL 25.9 billion increase in the first quarter 2000; this item includes ITL 18.7 billion due to the effects arising from the proportional consolidation of the Epsilon Group.

The main items in the operating costs are personnel expenses and purchases, services and other costs, which are analysed below.

Personnel expenses

31-03-00	133.6
31-03-99	133.9
% var.	0.2%

Personnel expenses of the companies belonging to the Mediaset Group net of the share of the companies belonging to the Epsilon Group (ITL 1.0 billion), show an ITL 1.3 billion decrease, equalling a 1.0% percentage decrease. In homogeneous terms, if we deduct the expenses of the sold companies (RTI Music ed Elettronica Industriale) in the first quarter 1999, personnel expenses of the Mediaset Group are substantially stable.

Number of employees

31/12/1999	Number of employees (including "TDS")	31/03/2000	31/03/1999
267	Managers	262	272
280	Journalists	279	282
612	Middle managers	594	584
3,304	White collars	3,207	3,403
99	Blue collars	73	107
4,562	"Homogeneous" Mediaset group	4,415	4,648
-	- Epsilon Group	61	-
4,562	Total	4,476	4,648

31/12/1999	Average personnel (including "TDS")	31/03/2000	31/03/1999
274.0	Managers	262.7	269.0
274.5	Journalists	275.7	282.3
601.0	Middle managers	592.0	586.7
3,350.5	White collars	3,214.0	3,408.2
100.5	Blue collars	73.0	107.8
4,600.5	"Homogeneous" Mediaset Group	4,417.3	4,654.0
-	- Epsilon group	61.0	-
4,600.5	Total	4,478.3	4,654.0

If we do not take into account the employees of the Epsilon Group, the Mediaset Group shows a significant reduction in employees with respect to 31 December 1999 (-147 specifically, -183.2 on average) mainly due to the sale of the branch of Elettronica Industriale (-114 employees) and to a lower use of temporary employees in the entertainment sector. Compared to 31 March 1999, apart from these variations, there are also the effects deriving from the sale of RTI Music to consider, which took place in October 1999 (-22 employees).

Purchases, services and other costs

31-03-00	305.9
31-03-99	279.7
% var.	9.4%

These cost items have shown an increase of ITL 26.3 billion in the first quarter 2000, mainly attributable to the growth in television costs and the effect arising from the 50% consolidation of the Epsilon Group, as is shown in the following breakdown:

ITL billions	2000	1999
Commercial costs	39.9	36.2
Cost of programmes	190.2	185.7
Broadcasting costs	15.7	17.3
Overheads and other costs	25.3	21.6
Total television costs	271.1	260.8
New Media	4.0	1.5
Other non-television costs	13.1	17.4
Purchases, services and other costs Italy	288.2	279.7
Costs 50% Epsilon Group	22.7	-
Write-offs	(5.0)	-
Total purchases, services and other costs	305.9	279.7

The increase in television costs can be mainly attributed to the increase in “cost of programmes”: the growth has been mainly generated by the variable components, in particular the contributions paid to SIAE (which vary according to advertising revenues) and the pro quota estimate of the charge relating to the new television licence fee (which is related to the 1999 sales of R.T.I. S.p.A.).

The increase in the costs relating to the New Media is mainly due to the start of Internet related activities (costs varying in line with advertising activities and costs for the making of the “Mediaset Online” portal), which were absent in the first months of 1999.

The decrease in other non-television costs has been mainly generated by the sale of the record company and the Elettronica Industriale branch; these effects have been partially made up for by the growth in the variable costs connected to the sale of fixed advertising.

The share (50%) of the Epsilon Group costs pertaining to the Mediaset Group can be analysed as follows:

- costs connected to the international distribution of rights paid by Betafilm amounting to ITL 10 billion; this figure shows the owner’s share of the right distributed by Betafilm;
- advertising licence costs borne by Publieurope Ltd. amounting to ITL 10.3 billion;
- other costs amounting to ITL 2.4 billion.

➤ **Gross Operating Profit**

31-03-00	759.8
31-03-99	605.5
% var.	25.5%

The gross operating profit shows an ITL 154.3 billion increase over the first quarter of the previous year. Net of the effect arising from the 50% consolidation of the Epsilon Group, the variation would amount to ITL 152.2 billion.

➤ **Operating result**

31-03-00	453.9
31-03-99	310.3
% var.	46.3%

The operating result of the first quarter 2000 shows an increase of ITL 143.6 billion.

Net of the effect arising from the 50% consolidation of the Epsilon Group, the Mediaset Group’s operating result shows an increase of ITL 145.3 billion.

In homogeneous terms, there is a significant growth in its percentage on the net revenues, reaching the exceptional level of 38.7%.

The assessment of the period results must however be made in the light of the effect of the seasonality of the Group’s results, which puts the accent on performances in the first part of the year.

➤ **Financial income/ (charges)**

<i>31-03-00</i>	<i>(10.1)</i>
<i>31-03-99</i>	<i>6.1</i>
<i>billion var.</i>	<i>(16.2)</i>

The change to a minus sign of the balance of this item must be fully attributed to the negative effect of the exchange situation, due to the strong appreciation of the U.S. dollar.

➤ **Income/ (charges) from shareholdings**

<i>31-03-00</i>	<i>(3.5)</i>
<i>31-03-99</i>	<i>(2.3)</i>
<i>billion var.</i>	<i>(1.2)</i>

The result of shareholdings shows the economic effect of the equity valuation of Albacom S.p.A. (with a 19.5% shareholding), of the companies operating in the Spanish television market that belong to the so called "Telecinco Group" (with a 40% shareholding) and, since the year 2000, of the Mediaset Group share (50%) of the

result of the shareholding held by the Epsilon Group in PKS (49%).

The ITL 3.5 billion balance can be analysed as follows:

- ITL 13.5 billion net income from the evaluation of Telecinco (ITL 23.2 billion, which is the share of the result and ITL 9.7 billion regarding goodwill amortisation quota);
- a net ITL 14.2 billion charge regarding Albacom (ITL 13.2 billion, which is the share of the result and ITL 1.0 billion for the goodwill amortisation quota);
- write-down of the value of RTI Music Espana for ITL 0.1 billion;
- loss cover in Blu S.p.A. for an amount of ITL 1.2 billion;
- ITL 1.5 billion charge for the equity valuation of the PKS/SAT1 Group.

➤ **Profit before taxation**

31-03-00	440.6
31-03-99	313.9
% var.	40.4%

The percentage on net revenues has grown from 30.8% to 36.7%.

Net of the effect arising from the 50% consolidation of the Epsilon Group the variation of the first quarter 2000 compared to the first quarter of the previous year amounts to ITL 131.8 billion.

BALANCE SHEET AND FINANCIAL STRUCTURE

Here is the balance sheet of the Mediaset Group:

31/12/1999	31/12/1999	Mediaset Group	31/03/2000	31/03/1999	31/03/2000	31/03/1999
Euro	ITL		ITL	ITL	Euro	Euro
millions	billions		billions	billions	millions	millions
BALANCE SHEET						
1,723.11	3,336.4	Television rights	3,483.7	2,547.7	1,799.18	1,315.78
398.65	771.9	Other intangible/tangible fixed assets	975.6	784.9	503.86	405.37
545.33	1,055.9	Shareholdings and financial fixed assets	941.2	335.6	486.09	173.32
(582.36)	(1,127.6)	Net working capital and other assets/liabilities	(1,186.9)	(159.1)	(612.98)	(82.17)
(80.77)	(156.4)	Allocation for severance indemnities	(156.5)	(143.9)	(80.83)	(74.32)
2,003.96	3,880.2	Net investments	4,057.1	3,365.2	2,095.32	1,737.98
175.54	339.9	Net financial position	602.9	835.8	311.37	431.66
*****	*****		*****	*****	*****	*****
2,179.50	4,220.1	Group shareholder's equity and shareholder's equity attributable to minority interests	4,660.0	4,201.0	2,406.69	2,169.64

The effects arising from the proportional consolidation (50%) of the Epsilon Group are highlighted below:

Mediaset Group	31/03/2000	31/03/1999	31/03/2000	31/03/1999
(effects arising from the consolidation of the Epsilon Group)	ITL	ITL	Euro	Euro
	billions	billions	millions	millions
<u>BALANCE SHEET</u>				
Television rights	12.8	-	6.61	-
Other intangible/tangible fixed assets	135.1	-	69.77	-
Shareholdings and financial fixed assets	(112.6)	-	(58.15)	-
Net working capital and other assets/liabilities	(46.2)	-	(23.86)	-
Allocation for severance indemnities	-	-	0.00	-
Net investments	(10.9)	-	(5.63)	-
Net financial position	4.7	-	2.43	-

Group shareholder's equity and shareholder's equity attributable to minority interests	(6.2)	-	(3.20)	-

For a homogeneous analysis of the first quarter 2000 over the first quarter 1999, the balance sheet and the cash flow of the Mediaset Group net of the effects arising from the 50% consolidation of the Epsilon Group are given below:

31/12/1999	31/12/1999	Mediaset Group	31/03/2000	31/03/1999	31/03/2000	31/03/1999
Euro	ITL	(net of the effects of the consolidation of the Epsilon Group)	ITL	ITL	Euro	Euro
millions	billions		billions	billions	millions	millions
<u>BALANCE SHEET</u>						
1,723.11	3,336.4	Television rights	3,470.9	2,547.7	1,792.57	1,315.78
398.65	771.9	Other intangible/tangible fixed assets	840.5	784.9	434.08	405.37
545.33	1,055.9	Shareholdings and financial fixed assets	1,053.8	335.6	544.24	173.32
(582.36)	(1,127.6)	Net working capital and other assets/liabilities	(1,140.7)	(159.1)	(589.12)	(82.17)
(80.77)	(156.4)	Allocation for severance indemnities	(156.5)	(143.9)	(80.83)	(74.32)
2,003.96	3,880.2	Net investments	4,068.0	3,365.2	2,100.94	1,737.98
175.54	339.9	Net financial position	598.2	835.8	308.95	431.66
Group shareholder's equity and shareholder's equity attributable to minority interests						
2,179.50	4,220.1		4,666.2	4,201.0	2,409.89	2,169.64
<u>SOURCES AND USES</u>						
950.44	1,840.3	Operating cash-flow	750.1	611.4	387.39	315.76
(1,384.92)	(2,681.6)	Total investments of which:	(431.5)	(242.1)	(222.84)	(125.03)
(932.82)	(1,806.2)	investments in television rights	(403.6)	(226.1)	(208.44)	(116.77)
(394.26)	(763.4)	investments in shareholdings	(0.9)	0.0	(0.46)	0.00
(16.42)	(31.8)	intangible investments	(1.4)	0.0	(0.72)	0.00
(41.42)	(80.2)	tangible investments	(25.6)	(16.0)	(13.22)	(8.26)
1.96	3.8	Increases in capital	-	-	-	-
(167.07)	(323.5)	Distributed dividends	-	-	-	-
422.14	817.4	Other monetary variations	(55.4)	(217.0)	(28.61)	(112.07)
(177.45)	(343.6)	Net cash flow	263.2	152.3	135.94	78.66

Below are comments to the main items and the variations to 31 December 1999:

➤ **Net investments**

<i>31-03-00</i>	<i>4,057.1</i>
<i>31-12-99</i>	<i>3,880.2</i>
<i>billion var.</i>	<i>176.9</i>

The most significant element of the invested capital of the Mediaset Group is represented by "Television rights", which shows an increase of ITL 147.3 billion over 31 December 1999.

This growth is mainly due to period investments (ITL 403.6 billion) and also shows the different distribution of the investments over the year, which are more concentrated in the first months, with respect to amortisation and depreciation quotas.

"Other tangible/intangible fixed assets": the ITL 203.7 billion increase mainly refers to the net consolidation differences generated following the consolidation of the Epsilon Group.

"Shareholdings and financial fixed assets" decrease by ITL 114.7 billion over 31 December 1999 due to the following main variations:

- ITL 0.9 billion net decrease due to equity valuations;
- ITL 380.0 billion decrease due to the proportional consolidation of the shareholding in Euroset S.a.r.l., consolidated at the cost at 31 December 1999 (the shareholding value was replaced by the single balance sheet items of the subsidiary companies);
- ITL 267.3 billion increase due to the proportional consolidation of the shareholdings of the Epsilon Group valued at equity (PKS) and at cost (New Regency).

➤ **Net group shareholders' equity and shareholders' equity attributable to minority interests**

<i>31-03-00</i>	<i>4,660.0</i>
<i>31-12-99</i>	<i>4,220.1</i>
<i>billion var.</i>	<i>439.9</i>

The net shareholders' equity net of the effect arising from the 50% consolidation of the Epsilon group amounts to ITL 4.666,2 billion.

The increase over 31 December 1999 can be attributed to the period profit.

➤ **Net financial position**

<i>31-03-00</i>	<i>602.9</i>
<i>31-12-99</i>	<i>339.9</i>
<i>billion var.</i>	<i>263.0</i>

The level of liquid funds net of the effect arising from the 50% consolidation of the Epsilon Group amounts to ITL 598.2 billion.

The increase in the level of liquid funds over 31 December 1999 relates mainly to the positive cash flow generated by current operations, partially diminished by the expenses for the purchase of rights, traditionally concentrated in the first months of the year.

Here is the breakdown of the financial position as at 31 March 2000 compared with the previous year:

	31/03/2000	31/12/1999
Liquid funds	548.2	338.5
Securities and financial assets which are not fixed assets	379.7	323
Total financial assets	927.9	661.5
Due to banks	(323.3)	(316.2)
Due to other financial institutions		
Factoring companies	-	(3.8)
Leasing companies	(1.7)	(1.6)
Total financial liabilities	(325.0)	(321.6)
NET FINANCIAL POSITION	602.9	339.9

ANALYSIS OF THE VARIOUS AREAS

ADVERTISING

In the first months of 2000 the television advertising market has confirmed and increased the extraordinary dynamism shown in 1999. The increase in advertising investments, which is ever less affected by seasonal components, is more and more led by the investments in television by the telecommunications and Internet-related industries. The communication strategies of the sectors belonging to the “new economy “, among which there must be included not only the “internet service providers” and portals, but also financial, insurance and service companies that promote business by communicating on the Web, choose television as the main and irreplaceable means for the allocation of the highest shares of their advertising budgets.

In the first quarter 2000 the increase in advertising on the Mediaset networks, broken down below, amounted to 17.3%.

Publitalia '80 - advertising revenues Mediaset network	31/03/2000	31/03/1999
Advertising revenues from third parties	1,286.8	1,104.0
Advertising revenues from Fininvest Group and Mediolanum Group	24.6	12.7
Advertising revenues from Promoservice	1.4	2.0
Advertising revenues from other companies belonging to the Mediaset Group	0.0	0.6
Television advertising revenues Publitalia '80 S.p.A.	1,312.8	1,119.4

COMMERCIAL TV NETWORKS ITALY

In the first quarter 2000, the increase in advertising has been matched by very good results in terms of audience. In the first months of 2000, Mediaset networks have obtained an average daily audience of 42.8%, over one percentage point above the 41.5% achieved in the first three months of 1999.

The most significant increase was in the day time (+1,6 share points), but our three networks have improved on the 1999 results also in the prime time (+0.5 points).

Audience / Total day share	Jan/Mar 2000	Jan/Mar 1999	Variation
Mediaset network	42.8%	41.5%	1.3%
RAI Network	48.0%	48.9%	-0.9%
Others	9.2%	9.6%	-0.4%
Total	100.0%	100.0%	

Mediaset's overall results are mainly due to the very good performance of Canale 5, (+1.9 points over last year); the audience decrease of the state competitor can be attributed especially to the fall of Rai2, which loses 0.9 points.

In particular, the network analysis of Mediaset audience shows the following.

- **Canale 5** has obtained an average share of 22.3%, very close to the result obtained by Rai 1 (23.6 %); in the same period of 1999 the difference with the main competitor was 3.4 share points. This network confirms its leadership in the audience aged 15-64 years (23.9% with respect to Rai1's 21.7%). This result is significant in commercial terms as well as from a publishing viewpoint, due to the high visibility of the strength of its offer.

As is shown in the following table, the audience increase obtained by Canale 5 compared to the first three months of 1999 is evenly distributed between prime time and day time, especially thanks to the results achieved by our main productions (*Uomini e Donne*, *Buona Domenica*, *Maurizio Costanzo Show*, *Striscia la Notizia*, *C'è posta per te*, *Chi ha incastrato Peter Pan*), that have often beaten Rai1's main productions even on a day-to-day basis.

CANALE 5 - TOTAL AUDIENCE	Jan/Mar 2000	Jan/Mar 1999	Variation
Total day share	22.3%	20.4%	1.9%
Day Time	22.4%	20.5%	1.9%
Prime Time	22.0%	20.0%	2.0%

The day time result especially shows the strength of the coupling of the two afternoon soap operas (*Beautiful*, 34.2% and *Vivere*, that reached 31.5%: no less than 10 share points more than when it started last year) with the late afternoon productions (the magazine programme *Verissimo* stays at 24.5% and improves on its good result of last autumn by 1.5 percentage points, and the game show *Passaparola* has achieved its best result ever, 23.4%).

In prime time, besides the movies broadcast on Mondays (23,0%), it is worth mentioning the positive results achieved by several dramas (among which there is an average data of 27.7%, for *Ali della vita*, featuring Sabrina Ferilli), which reward the strong investments made by the network in this genre.

- **Italia 1** has basically maintained last year's results; this network is still the first choice for children aged 4-14 (23.4% share, +1.8% over the same period of 1999) and is the third network for young people aged 15-34, at the same time increasing its attraction to people aged 15-44 (nearly 15% share for this target).

ITALIA 1 - TOTAL AUDIENCE	Jan/Mar 2000	Jan/Mar 1999	Variation
Total day share	10.9%	11.0%	-0.1%
Day Time	10.7%	10.7%	0.0%
Prime Time	11.6%	12.2%	-0.6%

Besides its historic programmes (*Mai dire gol*, *Fuego*, *Sarabanda*), cartoons have confirmed to be a strength in Italia 1's day time schedule, since they are constantly above the network's average; besides well established events (*I Simpson*, close to 16%, and the 'variety' programme *Bim Bum Bam*) the network has further strengthened its supply of this genre by offering this year's phenomenon *Pokemon*, constantly growing from January (13%) to March, when it peaked at 18 %.

The slight decrease in Italia 1's prime time result is due to the reduction of the number of nights devoted to football matches (from 5 F.A. Cup matches in 1999 to 2 Champions League matches played by Fiorentina broadcasted in 2000); this year's schedule has focused on television series instead, in order to optimise the existing inventory, and our own productions, *Angeli* (13.8%), *Tempi Moderni* (12.7%) and *Candid Angels* (12.3%).

- **Retequattro**, in spite of not having a brilliant beginning to the year, has obtained significant results in March in all time brackets, reaching last year's values and being constantly higher than Rai3.

RETEQUATTRO - TOTAL AUDIENCE	Jan/Mar 2000	Jan/Mar 1999	Variation
Total day share	9.6%	10.1%	-0.5%
Day Time	10.3%	10.5%	-0.2%
Prime Time	7.5%	8.4%	-0.9%

During Day Time the strength of the network has still been in its historic productions, among which *Forum* (20.6%), *La ruota della fortuna* (11.6%), *O.K. il prezzo è giusto* (9.1%), *La domenica del villaggio* (15.7%), all improving over the first months of 1999.

During prime time, a careful selection and a careful programming of cinema rights has made it possible for the network to reach a very good 8.2%, with peaks of over 11.0%, while the new drama *Questa casa non è un albergo*, broadcast to counter the drama programme with *Cochi* and *Renato* on Rai1, has achieved an excellent 7.9%. Among our productions, it is worth mentioning *Nel mondo dei dinosauri* (9%), a new chapter of the programme *La Macchina del Tempo*.

It must also be noted that, as part of the rationalisation of domestic activities under RTI S.p.A., a branch of Elettronica Industriale S.p.A. has been sold to a third party. This includes the 114 employees and regards design, assembly and marketing of television signal broadcasting equipment. Following the sale of these operations,

which are no longer considered as strategic for the television core business, from this year the Mediaset Group will be buying the spare parts for its signal broadcasting network that were previously self-manufactured from outside sources.

TELEVISION ABROAD

Telecinco Group

In the first quarter 2000 the Telecinco Group has continued to grow in an exceptional way, and has improved the excellent performance it recorded in 1999. The operating results achieved 33.2%, well over the result obtained in March 1999 (20.9%). The operating profit equalled PTS 7.5 billion (around ITL 88 billion), growing 108% over March 1999 when it amounted to PTS 3.6 billion (around ITL 42 billion). The net profit reached PTS 4.9 billion (around ITL 58 billion) with about a 146% increase compared to the PTS 2 billion (around ITL 24 billion) of the previous year.

The achievement of these results, within the framework of an advertising market marked by huge investments allocated to the television industry, was fostered by the excellent performance recorded by the group's concessionary. Publiespana's advertising sales grew by 23.6% over March 1999, and reached PTS 24 billion (equal to around ITL 279 billion).

The validity of a programme schedule marked by self- and co-produced drama and entertainment programmes is confirmed by the data on advertising sales, the very good audience results, both overall results and on commercial target, that are constantly over 21% and 23% on a daily basis, respectively.

In the first quarter 2000, the equity valuation of the shareholding in the Telecinco group, including the goodwill amortisation quota of ITL 9.7 billion, meant, for the Mediaset Group, a net income of ITL 13.5 billion.

Epsilon Group

The year 2000 is the first year of operation for the Epsilon Media Group, the equal joint venture between Mediaset and Kirch Media, set up in October 1999, by means of which these two groups are endeavouring to follow an international expansion strategy in the field of European commercial television.

The economic and financial situation of the Epsilon Group as of 31 March 2000 results from the full consolidation of the holding Euroset S.a.r.l. and the subholding companies where it has a 100% shareholding: Publieuros Ltd., Betafilm GmbH and Euroset Television S.a.r.l. ("E.T.N."), which assesses in turn by means of the net asset method its 49% shareholding held in the PKS/Sat 1 Group.

The three subholding companies head the following business areas, respectively: international advertising, content production and trading, shareholding management in European television networks.

Here is the summary of the Group's profit and loss account as at 31 March 2000:

	31/03/2000	31/03/2000
	ITL billions	Euro millions
Sales of goods and services	51.6	26.65
Other revenues and income	-	-
Total consolidated net revenues	51.6	26.65
Personnel expenses	2.0	1.03
Purchases, services, other costs	45.4	23.45
Operating costs	47.4	24.48
Gross operating profit (loss)	4.2	2.17
Amortisation, depreciation and write-downs	11.4	5.89
Operating profit (loss)	(7.2)	(3.72)
Financial income / (charges)	(3.6)	(1.86)
Income / (charges) from shareholdings	(2.9)	(1.50)
Profit (loss) before extraordinary items	(13.7)	(7.08)
Extraordinary and other income / (charges)	-	-
Profit before taxation	(13.7)	(7.08)

These results are still significantly marred by the goodwill amortisation quotas, arising from the consolidation of the activities included during the setting up of the group.

Net of these cost items, the positive result generated by the specific operation must be however interpreted in the light of the recent start of operation of these companies within the new framework of the joint-venture. The Group's development potential can be more fully appreciated starting from the next months, when the corporate and organisation structure will be completed by setting up two production companies: E-Vision and E-Motion.

The consolidated **net revenues** of the Epsilon Group, amounting to ITL 51.6 billion, show the two main kinds of operations:

- Marketing of television rights carried out by Betafilm GmbH for ITL 24.5 billion. This business concerns internationally distributing (with the exclusion of the Italian and German markets, directly served by Mediaset and Kirch Media) television and cinema rights. A significant development of this activity will be guaranteed over the first years by the exclusive distribution of property rights of the production companies E-Vision and E-Motion, that are to be set up shortly.
- Revenues from advertising, equal to ITL 25.9 billion, regarding the sale of advertising spaces in European television networks and newspapers, (carried out by Publieurope Ltd for international customers residing outside the country of the licensed medium) as well as the payments received from marketing work carried out by Publieuros Ltd on large European multinational investors.

The **gross operating profit** amounts to ITL 4.2 billion, equal to 8.1% of net revenues. The main cost component is variable according to revenues and is borne by both

Betafilm (as commissions paid to the rights owners on whose behalf it makes international sales) and Publieurope (as commissions paid to publishers or concessionaries from which it acquires the sub-concession to sell advertising spaces abroad). Personnel expenses amount to ITL 2.0 billion, with an average number of 61 employees in the companies belonging to the subholding companies Betafilm and Publieuros.

The **operating loss** amounts to minus ITL 7.2 billion, due to goodwill amortisation quotas (ITL 9.2 billion) mainly arising from consolidating Betafilm (ITL 9 bill.) into Euroset and the amortisation quotas (ITL 2.1 billion) from the intangible activities of ETN developed following “closing” operations (capitalisation of the registration fee on the capital increase received and increase in value of the “put” option acquired by Kirch Media with respect to the shareholding in PKS).

The **charge from shareholdings**, minus ITL 2.9 billion, corresponds to the equity valuation of the 49% shareholding in the PKS Group. This group consists in turn of the holding company PKS GmbH and the shareholdings it has in SAT 1 GmbH (59%), a company holding the second German commercial private television group, and in Media 1 (59%), advertising concessionary of SAT 1.

In the first three months of 2000 the PKS Group achieved a profit, net of the SAT 1 and Media 1 profit share attributed to minority interests, equal to DM 12.1 million (about ITL 12 billion). The share allocated to the Epsilon Group - 49% - is thus equal to ITL 5.9 billion. The result of the equity valuation of the shareholding in PKS also includes a minus ITL 8.8 billion item, regarding the goodwill amortisation quota included in the value of ETN’s shareholding in PKS.

The **loss before taxation** is minus ITL 13.7 billion, due to the negative balance of the financial operations, fully attributable to foreign currency debt appreciation of a few Betafilm subsidiaries.

Here is the balance sheet of the Group as of 31 March 2000:

	31/03/2000	31/03/2000
	ITL billions	Euro millions
<u>BALANCE SHEET</u>		
Television rights	25.6	13.22
Other intangible/tangible fixed assets	413.6	213.61
Shareholdings and financial fixed assets	534.7	276.15
Net working capital and other assets/liabilities	(92.0)	(47.51)
Allocation for severance indemnities	0.0	0.00
Net investments	881.9	455.47
Net financial position	9.3	4.80
*****	*****	*****
Group shareholder's equity and shareholder's equity attributable to minority interests	891.2	460.27

The most significant items are:

- **Shareholdings and financial fixed assets**, whose balance, equal to ITL 534.7 billion, includes:
 - ✓ the 49% shareholding in PKS GmbH, equal to ITL 457.4 billion (ITL 460.3 billion, of which ITL 351.7 billion as goodwill, net of a write-down of ITL 2.9 billion due to the equity valuation);
 - ✓ the 3.95% shareholding in Monarchy Holding BV, a company that controls 100% of New Regency, equal to ITL 76.7 billion.

Other net fixed assets, equal to ITL 413.6 billion, mainly include net consolidation differences, depreciated in 10 years as of 2000, arising from shareholdings of Betafilm (ITL 349 billion) and Publieurope (ITL 8.3 billion). Among the other items, it is worth noting the value (ITL 21.5 billion, net of the depreciation quota) of the “put” right that ETN acquired from Kirch Media relating to the faculty of selling its shareholding in PKS by the 31 December 2002.

The value of the **net equity** of the Epsilon Group, equal to ITL 891.2 billion, shows the subsequent setting up and capital increase operations of Euroset S.a.r.l., carried out in 1999 in order to define the previously described Group structure (contribution of Betafilm and ETN). Following these operations, the Euroset share capital at 31 December 1999 amounted to ITL 100 billion, while the share premium reserve is equal to ITL 806.6 billion.

DIVERSIFICATION AND DEVELOPMENT

Telecommunications

In the field of telecommunications, the two companies in which the Mediaset Group has a shareholding continue with their growth and development in a field marked by constant technological progress and by an evolving regulatory framework in view of a complete liberalisation.

During last year (April 1999 – March 2000), **Albacom** is likely to have nearly doubled its sales over the previous year, reaching a level not too far from the ITL 700 billion threshold. This is a particularly positive item of data, if we consider the fierce competition on prices that is the hallmark of the “corporate” market, where all players are accustomed to an optimisation logic which means acquiring various traffic typologies from the most competitive telecommunications company. As to costs, a negative impact on the result was exerted by high access and fixed/mobile interconnection costs borne during the year, the latter defined by the Authority at the end of 1999.

The Albacom report relating to the year ended at 31 March 2000 is not yet available. The equity valuation carried out in the Mediaset Group balance sheet (an overall loss of ITL 14.2 billion, 1 billion of which for the goodwill amortisation quota) follows from a cautious estimate of the quarterly results.

In the field of mobile telephones, **Blu** S.p.A. – a company in which an investment is held – is actively involved both in the commercial launch of its services, which will take place shortly, and in research started in order to take part in the bid for the allocation of one of the UMTS licences. It was also resolved to cover the losses at 31 December 1999, equal to ITL 13.1 billion (loss to be borne by the Mediaset Group, for its 9% share, equal to ITL 1.2 billion).

New Media

The group’s diversification activities for new media are concentrated in Mediadigit S.r.l., a company that has been active since the end of 1999 and which received in the first months of the year the operations related to the theme channels and the Mediaset Online site.

As to the activities related to the creation of theme channels for digital platforms, Mediadigit stipulated in January an agreement with Stream for the distribution of three new channels, two of which (Comedy Life and Duel) will be active from the beginning of April; the company also acquired 10% of the share capital of Class Financial Network S.p.A., a subsidiary company of Class Editori S.p.A. which produces Cfn, a theme channel on economic and financial information, that will be distributed by Stream from the beginning of April.

As to the Internet, Mediaset Online is progressively achieving popularity with users, and in March it reached over 690,000 page views per day. The development of joint projects with the horizontal portal of the Fininvest Group, Jumpy, for which Publitalia '80 acquired the exclusive advertising management at the beginning of 2000, will be one of the possible leverages of the future development of Mediadigit.

In March, Mediaset S.p.A. and Jumpy S.p.A. signed a draft memorandum according to which Mediaset S.p.A. or one of its subsidiaries would acquire a share equal to 0.5% of the share capital of Jumpy S.p.A. by subscribing an increase of reserve capital. Within the operation of the public offer aimed at the flotation of Jumpy S.p.A. at the Stock Exchange, Mediaset or one of its subsidiaries will also have the faculty of increasing its share to 5% of Jumpy S.p.A., by subscribing an increase of reserve capital at the same flotation price. Mediaset or one of its subsidiaries will also acquire at face value up to 50% of Jumpycast Tv S.p.A., a company to be set up, with an initial indirect 100% shareholding held by Jumpy S.p.A.. This company will work at European level in the field of production and distribution of contents for the Internet.

By the end of 2001, Mediadigit or the company that will be in charge of the “on line” activities and Jumpy S.p.A. may merge. The shareholding belonging to Mediaset in the company resulting from this possible merge will be determined according to the share swap ratio established by an independent appraisal.

Regardless of the implementation of this operation, Mediaset is defining a five year commercial agreement with Jumpy for the non-exclusive sale to Fininvest’s Portal of a part of the audiovisual contents and rights inventory for the Internet owned by the Mediaset Group.

SIGNIFICANT EVENTS AFTER 31 MARCH 2000

- On 28 April 2000 Mediaset Investment S.a.r.l. took part in the setting up of the company TV Breizh S.A. by subscribing a quota equal to 13% of the share capital for a value of ITL 3.8 billion. This company, among whose shareholders are TF1, Artemis and News International Groups, will make a regional television channel for Brittany to be distributed on the main French satellite and cable platforms.
- On 4 May 2000 Mediaset Investment S.a.r.l. acquired 100,000 shares, equal to 0.5% of the capital, in Jumpy S.p.A. for a value of ITL 525 million.
- On 4 May 2000 Mediaset S.p.A. Board of Directors, designated by the Shareholders' Assembly held on 20 April 2000, deliberated appointments, positions and proxies. The new organisation envisages the creation of the position of Executive Vice President, held by Pier Silvio Berlusconi, reporting to the Chairman Fedele Confalonieri, who holds all ordinary and extraordinary administration powers. The Board appointed Giuliano Adreani as Managing Director, with responsibility for coordinating Italy's operations, in order to guarantee the necessary synergies and integrations between R.T.I. and Publitalia '80.

FORESEEABLE DEVELOPMENTS

- Progressive advertising sales on the Mediaset networks at the end of April grew by 16.4% compared to the same period in 1999 confirming the strong expansion that has already marked the first months of the year.
- Considering the specific nature of the operations, the period result may not fully represent the foreseeable yearly trend. In spite of this, for the rest of the year, growth prospects remain highly interesting, with reference to both television and new media advertising, whose expected growth rates are particularly significant.
- The situation of the audience recorded by the Mediaset networks in April was extremely positive. The average share of the total day time in the first four months of the year is at 43.1% compared to a 41.7% share recorded in the same months of the previous year (+1.4%).

The Board of Directors