



*Report
on Operations
as at 30th September 2000*



MEDIASET GROUP

MEDIASET S.p.A. - via Paleocapa, 3 - 20121 Milan
Share Capital ITL 1,181,227,564,000 wholly paid-up
Registered in Milan no. 276785 (Milan Court)
Tax Code – VAT Number: 09032310154

OFFICERS OF THE COMPANY

Board of Directors

Chairman	(*) Fedele Confalonieri
Executive Vice President	(*) Pier Silvio Berlusconi
Managing Director	(*) Giuliano Adreani
Directors	Franco Amigoni Tarak Ben Ammar Marina Berlusconi Pasquale Cannatelli Enzo Concina Maurizio Costa Mauro Crippa Gilberto Doni Adriano Galliani Alfredo Messina Jan Mojto (*) Gina Nieri Roberto Ruozi (*) Claudio Sposito Michel Thoulouze

Board of Statutory Auditors

Chairman	Achille Frattini
Statutory Auditors	Francesco Antonio Giampaolo Riccardo Perotta
Acting Auditors	Gianfranco Polerani Francesco Vittadini

Independent Auditors

Deloitte & Touche S.p.A.

(*) *Members of the Executive Committee*



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MEDIASET GROUP

Report on operations as at 30th September 2000

Dear Shareholders,

The economic situation of the Mediaset Group in the third quarter of 2000 confirms the positive signs shown in the first half of the year and contributes to notably increasing the overall year results compared to 1999.

In the first nine months of 2000, consolidated net revenues amounted to ITL 3,244.6 billion, with a 16.4% increase over the same period in 1999. If, to make this data homogeneous with that of 1999, we do not consider the impact on revenues of the proportional consolidation of the Epsilon joint-venture, the growth in consolidated net revenues is at 13.0%, thus decidedly contributing to a strong increase in operating profits. The operating profit, net of amortisation, depreciation and write-downs for ITL 919.0 billion, amounts to ITL 979.1 billion, growing 34.8% with respect to ITL 726.2 billion at 30 September 1999. Operating results in the first three quarters have therefore grown from 26.1% in the same period of 1999 to 30.2%. Profit before taxation and the quota attributable to minority interests amounted to ITL 931.1 billion, vs. ITL 739.2 billion in the first nine months of 1999, with a 25.9% increase.

The share of the third quarter in these results must be examined keeping in mind the seasonal character which is typical of the television core business. The marked natural concentration of advertising revenues in the first half of the year and in Autumn, while costs remain structurally more evenly distributed throughout the year, causes a notable reduction in absolute terms in the economic profit for the period and a subsequent slowing down in the Group operating results vs. those achieved in the first part of the year. In the third quarter of 2000 the Mediaset Group has recorded consolidated net revenues of ITL 755.4 billion, with a 21.0% increase over the third quarter of 1999; if we do not take into consideration the contribution of the proportional consolidation of the Epsilon Group, the growth in homogeneous terms amounts to 14.2%. The gross operating profit has reached ITL 363.8 billion (+20.0% over 1999), while operating results reached ITL 65.1 billion and profit before taxation amounted to ITL 29.4 billion.

During the third quarter, the growth rate of advertising revenues on the Mediaset networks from third parties (+12.4%) remained basically at the same level of that of the previous quarter. By virtue of this situation, the growth in advertising revenues from third parties in the first nine months of the year amounts to 14.0%. This significant result rewards the commercial effectiveness of the product offered by the Mediaset networks able, as it was, to oppose the broadcasting of extremely popular sports events like the European Football Championships and the Sydney Olympic Games, broadcast by RAI between June and September. However, it must be noticed that in the last part of the year there appears to be a slowing down in the growth rate of advertising investments versus the same period in 1999. The expected lower dynamic of the advertising market is caused by changes in the international macroeconomic framework and a lower advertising pressure from some operators in the new economy; however, this is a development which follows absolutely exceptional growth rates in the first nine months of the year. In spite of the reduction in the advertising market in the last three months of the year, there remains an extremely positive expected overall result in terms of expansion of advertising investments.

The third quarter was also marked by the approval granted on 11 September from the Board of Directors of Mediaset S.p.A. for two major operations regarding the development of the Group's international activities.

The first decision deals with a revision of the participation and industrial agreements between the Mediaset Group and the Kirch Group, included into a draft agreement which envisages, in the year 2001, that the Mediaset Group will acquire a 2.34% stake in Kirch Media KgaA, to date the most important commercial television company in Germany. The investment in Kirch Media, a company which is to be listed at the stock exchange and which currently holds a competitive position similar to Mediaset's, besides consolidating the relationship with the Kirch Media Group (thanks to the mutual shareholding of the two Parent Companies), is a significant value creating opportunity for Mediaset. According to the agreement the industrial project will mainly focus on the development of television and cinema contents, which will be carried out in two jointly-owned companies - E-motion and E-vision – which are to be established shortly.

The second decision regards the further growth (from 40% to 45%) of Mediaset in Gestevisión Telecinco S.A. and Publiespana S.A., according to terms that are being discussed with the Placet Group, current shareholder of the two companies, with a 10% stake.

MEDIASET GROUP – ECONOMIC AND FINANCIAL RESULTS

General Criteria

In line with Consob deliberation no. 11971 dating 14 May 1999, the following economic information refers to the third quarter 2000, the first nine months of 2000 and the same period of 1999. Financial information refers to the periods ended at 30 September 2000, 30 June 2000 and 31 December 1999.

In drafting the accounting situation, the same evaluation criteria were used as for the financial statements at 31 December 1999 and the report on operations in the first six months of 2000. In order to guarantee continuity in the statements and to make them comparable, the financial statements are homogeneous with those included in the 2000 half-year report on operations and in the 1999 annual report.

The quarterly report has not been subject to a certification by the auditing company.

Economic results

Here follows the income statement of the Mediaset Group:

Mediaset Group						
Third quarter 2000			30/09/2000	30/09/1999	30/09/2000	30/09/1999
(Euro mill.)	(ITL bill.)		(ITL bill.)		(Euro mill.)	
381.76	739.2	Sales of goods and services	3,204.5	2,726.9	1,654.99	1,408.35
8.36	16.2	Other revenues and income	40.1	59.6	20.71	30.76
390.12	755.4	Total consolidated net revenues	3,244.6	2,786.5	1,675.70	1,439.11
65.85	127.5	Personnel expenses	421.2	411.8	217.53	212.68
136.40	264.1	Purchases, services, other costs	925.3	802.7	477.87	414.56
202.25	391.6	Operating costs	1,346.5	1,214.5	695.40	627.24
187.87	363.8	Gross operating profit (loss)	1,898.1	1,572.0	980.30	811.87
154.26	298.7	Amortisation, depreciation and write-downs	919.0	845.8	474.62	436.82
33.61	65.1	Operating profit (loss)	979.1	726.2	505.68	375.05
(4.39)	(8.5)	Financial income / (charges)	(30.5)	24.4	(15.75)	12.62
(14.30)	(27.7)	Income / (charges) from shareholdings	(16.0)	(13.6)	(8.27)	(7.02)
14.92	28.9	Profit (loss) before extraordinary items	932.6	737.0	481.66	380.65
0.26	0.5	Extraordinary and other income	(1.5)	2.2	(0.77)	1.16
15.18	29.4	Profit before taxation	931.1	739.2	480.89	381.81

As previously mentioned, in the year 2000 the Epsilon Group is included in the consolidation following the proportional consolidation method. The accounting situations of the group of companies in joint venture with the Kirch Group are therefore included at 50% in the single balance sheet items.

As was the case of the March quarterly report and the half-year report, the impact of this proportional consolidation is described separately, both to directly appreciate this contribution and to make the items regarding the rest of the Mediaset Group more homogeneous with those from 1999:

Mediaset Group - effects arising from the consolidation of the Epsilon Group						
Third quarter 2000			30/09/2000	30/09/1999	30/09/2000	30/09/1999
(Euro mill.)	(ITL bill.)		(ITL bill.)		(Euro mill.)	
23.24	45.0	Sales of goods and services	97.2	-	50.20	-
0.10	0.2	Other revenues and income	-	-	-	-
23.34	45.2	Total consolidated net revenues	97.2	-	50.20	-
0.67	1.3	Personnel expenses	3.1	-	1.60	-
17.61	34.1	Purchases, services, other costs	78.6	-	40.59	-
18.28	35.4	Operating costs	81.7	-	42.19	-
5.06	9.8	Gross operating profit (loss)	15.5	-	8.01	-
2.01	3.9	Amortisation, depreciation and write-down	11.8	-	6.09	-
3.05	5.9	Operating profit (loss)	3.7	-	1.92	-
(2.69)	(5.2)	Financial income / (charges)	(7.4)	-	(3.82)	-
(5.11)	(9.9)	Income / (charges) from shareholdings	(14.3)	-	(7.39)	-
		Profit (loss) before extraordinary items				
(4.75)	(9.2)		(18.0)	-	(9.29)	-
-	-	Extraordinary and other income / (charges)	-	-	-	-
(4.75)	(9.2)	Profit (loss) before taxation	(18.0)	-	(9.29)	-

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 arising from the 50% proportional consolidation of the Epsilon Group:

Mediaset Group net of the effects arising from the consolidation of the Epsilon Group						
Third quarter 2000			30/09/2000	30/09/1999	30/09/2000	30/09/1999
(Euro mill.)	(ITL bill.)		(ITL bill.)		(Euro mill.)	
358.52	694.2	Sales of goods and services	3,107.3	2,726.9	1,604.79	1,408.35
8.26	16.0	Other revenues and income	40.1	59.6	20.71	30.76
366.78	710.2	Total consolidated net revenues	3,147.4	2,786.5	1,625.50	1,439.11
65.18	126.2	Personnel expenses	418.1	411.8	215.93	212.68
118.79	230.0	Purchases, services, other costs	846.7	802.7	437.28	414.56
183.97	356.2	Operating costs	1,264.8	1,214.5	653.21	627.24
182.81	354.0	Gross operating profit (loss)	1,882.6	1,572.0	972.29	811.87
152.25	294.8	Amortisation, depreciation and write-downs	907.2	845.8	468.53	436.82
30.56	59.2	Operating profit (loss)	975.4	726.2	503.76	375.05
(1.70)	(3.3)	Financial income / (charges)	(23.1)	24.4	(11.93)	12.62
(9.19)	(17.8)	Income / (charges) from shareholdings	(1.7)	(13.6)	(0.88)	(7.02)
19.67	38.1	Profit (loss) before extraordinary items	950.6	737.0	490.95	380.65
0.26	0.5	Extraordinary and other income / (charges)	(1.5)	2.2	(0.77)	1.16
19.93	38.6	Profit before taxation	949.1	739.2	490.18	381.81

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 (net of the Epsilon Group)		
	30/09/2000	30/09/1999	30/09/2000	30/09/1999	
100.0%	Consolidated net revenues	100.0%	100.0%	100.0%	100.0%
42.7%	Operating costs	41.5%	43.6%	40.2%	43.6%
57.3%	Gross operating profit	58.5%	56.4%	59.8%	56.4%
29.9%	Amortisation, depreciation and write-downs	28.3%	30.4%	28.8%	30.4%
27.3%	Operating profit	30.2%	26.1%	31.0%	26.1%
28.4%	Profit before extraordinary items	28.7%	26.5%	30.2%	26.5%
28.6%	Profit before taxation	28.7%	26.5%	30.2%	26.5%

It should be stressed 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 (which in the second half of the year are more affected by those operations which are started with the Autumn programme schedule), 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.

Here follows the analysis of the single lines of Mediaset Group's income statement including, in the first nine months of 2000, the Epsilon Group's share.

Net Revenues

30/09/2000	3,244.6
30/09/1999	2,786.5
% var.	16.4%

In the first nine months of 2000, Mediaset Group consolidated net revenues recorded an ITL 458.1 billion increase over the same period of 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:

(ITL billions)

Third quarter 2000		30/09/2000	30/09/1999
619.3	Revenues from the sale of commercials	2,876.1	2,508.1
101.7	Revenues from teleselling, telepromotions, sponsoring activities	486.3	441.4
721.0	Advertising revenues from third parties	3,362.4	2,949.5
9.3	Promoservice revenues	24.5	31.5
52.2	Other revenues from television	138.1	108.5
(105.4)	Agency discounts	(492.9)	(432.4)
677.1	Total net revenues from television	3,032.1	2,657.1
14.2	Revenues from new media	37.9	13.1
19.1	Total net revenues from non-television activities	77.5	116.3
710.4	Total consolidated net revenues from Italy	3,147.4	2,786.5
48.5	Revenues 50% Epsilon Group	112.2	-
(3.4)	Infragroup eliminations	(15.0)	-
755.4	Total consolidated net revenues	3,244.6	2,786.5

Advertising revenues have shown an exceptionally high growth: sales to third parties reached ITL 3,362.4 billion, with an ITL 412.9 billion increase (equal to 14.0%) over the first nine months of 1999.

Revenues from the sale of commercials have shown a very high increase, going from ITL 2,508.1 billion to ITL 2,876.1 billion (+14.7%); revenues from teleselling, telepromotions and sponsoring operations have shown a lower growth rate, from ITL 441.4 billion to ITL 486.3 billion (+10.2%).

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

The increase in **revenues** from operations connected to the **new media** can be attributed to the growth of turnover from business started in previous years (Happy Channel and Mediaset Video), as well as to the strong development of advertising sales connected to the Internet (Mediaset Online and third party portals under licence) and to the revenues granted by Stream with respect to the distribution, which started in April, of two new theme channels (Duel and Comedy Life).

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

- the absence in the first nine months of 2000 of record industry revenues, following the sales of the group's record company RTI Music S.r.l. and of the shareholding in P.D.U. S.A. which took place in October; in the first nine months of 1999 these revenues amounted to ITL 23.3 billion;
- the lack of revenues from 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 S.p.A., which took place in January 2000; in the first nine months of 1999 these revenues amounted to ITL 20.7 billion;
- increase (ITL 7.5 billion) in Publitalia '80 S.p.A. revenues from 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 71.5 billion;
- revenues from the sale of advertising spaces on media managed under licence or sub-licence, generated by Publieurope International Ltd. and revenues generated by the start of operations of Publieuros Ltd., the leading company of the advertising division of the Epsilon Group, amounting to a total of ITL 40.7 billion.

Infragroup eliminations regard services rendered and invoiced between companies belonging to the Mediaset Group and companies belonging to the Epsilon Group.

Operating costs

30/09/2000	1,346.5
30/09/1999	1,214.5
% var.	10.9%

The operating costs of the Mediaset Group have shown an ITL 132.0 billion increase in the first nine months of 2000; this item includes ITL 81.7 billion regarding 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 in detail.

Personnel expenses

30/09/2000	421.2
30/09/1999	411.8
% var.	2.3%

Personnel expenses of the companies belonging to the Mediaset Group in homogeneous terms, net of the share of the companies belonging to the Epsilon Group (ITL 3.1 billion) and after deducting the expenses of the sold companies (the record company and the branch of Elettronica Industriale S.p.A.) in the first nine months of 1999, show a 4.2% increase.

The following table shows the number of employees belonging to the Mediaset Group at 30 September 2000:

31/12/1999	Number of employees - including "t.d.s."	30/09/2000	30/09/1999
267	Managers	264	275
280	Journalists	276	273
612	Middle managers	604	600
3,304	White collars	3,138	3,350
99	Blue collars	69	92
4,562	"Homogeneous" Mediaset Group	4,351	4,590
-	Epsilon Group	63	-
4,562	Total Mediaset Group	4,414	4,590

31/12/1999	Average personnel - including "t.d.s."	30/09/2000	30/09/1999
274.0	Managers	265.8	275.5
274.5	Journalists	275.4	275.4
601.0	Middle managers	600.2	596.6
3,350.5	White collars	3,215.5	3,350.3
100.5	Blue collars	73.1	102.2
4,600.5	"Homogeneous" Mediaset Group	4,430.1	4,599.9
-	Epsilon Group	63.0	-
4,600.5	Total Mediaset Group	4,493.1	4,599.9

The reduction in the overall number of employees, net of the employees of the Epsilon Group, with respect to 31 December 1999 amounted to 211 heads.

The main reason for this reduction is the sale to a third party of the equipment design and assembly branch of TV broadcasting equipment of Elettronica Industriale S.p.A., which caused 113 people to leave the group.

The decrease in the number of employees at 30 September 2000 is also connected to the seasonal reduction in production operation in the summer, which mainly affected the category of temporary jobs in the entertainment industry.

As to the situation of personnel expenses, the increase was due to the contract rules, which envisage an automatic granting of benefits connected to the results achieved for the supplementary contracts of white-collar staff and journalists, as well as the payment of the contract amounts regarding the national contracts for managers in the industrial and trade sectors and the national contract of privately-owned television networks.

Purchases, services and other costs

30/09/2000	925.3
30/09/1999	802.7
% var.	15.3%

Purchases, services and other costs have shown an increase of ITL 122.6 billion in the first nine months of 2000. This situation is 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, net of which the increase amounts to 5.5%:

(ITL billions)

Third quarter 2000		30/09/2000	30/09/1999
37.7	Commercial costs	119.7	116.2
130.1	Cost of programmes	510.0	457.8
15.3	Broadcasting costs	46.7	45.5
27.9	Overheads and other costs	94.5	90.5
211.0	Total television costs	770.9	710.0
9.2	New media	23.0	6.3
9.9	Other non-television costs	52.8	86.3
230.1	Purchases, services, other costs	846.7	802.7
37.4	Costs 50% Epsilon Group	93.6	-
(3.4)	Infragroup eliminations	(15.0)	-
264.1	Total purchases, services, other costs	925.3	802.7

The increase in **television costs** in the first nine months of 2000 with respect to the same period of 1999 can be mainly attributed to the increase in *cost of programmes* which was significantly affected by cost items that were absent in the previous year, such as the cost of Soap operas and the new television licence fee. Net of these items and the contributions paid to SIAE, which vary according to advertising revenues, the cost of programmes shows an extremely small increase, equal to 1.7%.

The increase in the *costs* relating to the *new media* is mainly due to the start of Internet related activities and to the costs for the creation of two new theme channels that have been distributed since April 2000.

The decrease in *other non-television costs* has been mainly generated by the sale of the record company and the Elettronica Industriale S.p.A. branch; these effects have been partially made up for by the growth in the variable costs connected to the sale of permanent 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 GmbH, amounting to ITL 52.8 billion; this figure shows the owner's share of the right distributed by Betafilm GmbH;
- advertising licence costs borne by Publieurope International Ltd. amounting to ITL 32.0 billion;
- other costs regarding the operations of the companies belonging to the Epsilon Group amounting to ITL 8.7 billion.

Gross Operating Profit

30/09/2000	1,898.1
30/09/1999	1,572.0
% var.	20.7%

The gross operating profit shows an ITL 326.1 billion increase over the first nine months of the previous year. Net of the effect arising from the 50% consolidation of the Epsilon Group, the variation would amount to ITL 310.6 billion.

Operating result

30/09/2000	979.1
30/09/1999	726.2
% var.	34.8%

The operating result in the first nine months of 2000 shows an increase of ITL 252.9 billion over the same period in 1999.

Net of the effect arising from the 50% consolidation of the Epsilon Group, the Mediaset Group's operating result shows an increase of ITL 249.2 billion, with a percentage growth of 34.3%.

In homogeneous terms, there is a significant growth in its percentage on the net revenues, reaching the level of 31.0% (26.1% at the end of the first nine months of 1999).

Operating results are influenced by the increase in the depreciation of rights, mainly due to the highest cost incurred into from the beginning of the 1999/2000 season for the new Champions League Tournament.

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)

30/09/2000	(30.5)
30/09/1999	24.4
billion var.	(54.9)

The change to a minus sign of the balance of this item must be fully attributed to the negative effect of the exchange situation, which generates a net negative result of ITL 35.4 billion, 7.4 billions of which regard companies belonging to the Epsilon Group. Most losses regard the value of currency items in the exchange rate at 30 September, most of which has had applied multiyear cover operations, whose economic effect will be shown in future years.

It must also be pointed out that the revenues generated by Group's liquidity, as to the part managed by ABS Finance Fund, are calculated only at year's end.

Income/(Charges) from shareholdings

30/09/2000	(16.0)
30/09/1999	(13.6)
billion var.	(2.4)

This item includes the result of shareholdings and represents 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 belonging to the 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 minus ITL 16.0 billion balance can be analysed as follows:

- ITL 57.0 billion net income from the evaluation of Telecinco and Publispana (ITL 86.3 billion, which is the share of the result for the nine months and ITL 29.3 billion regarding the goodwill amortisation quota);
- a net ITL 57.4 billion change regarding Albacom (ITL 54.3 billion, which is the share of the result for the nine months, and ITL 3.1 billion for the goodwill amortisation quota);
- write-down of R.T.I. Music Espana S.A. for ITL 0.1 billion;
- loss cover at 31 December 1999 in Blu S.p.A. for an amount of ITL 1.2 billion;
- ITL 14.3 billion change for the equity valuation of the PKS Group, which is the share of the result for the nine months, equal to ITL 1.1 billion, and ITL 13.2 billion for the goodwill amortisation quota.

Profit before taxation

30/09/2000	931.1
30/09/1999	739.2
% var.	25.9%

The profit before taxation has increased by ITL 191.9 billion and its percentage of net revenues has grown from 26.5% to 28.7%.

Net of the effect arising from the 50% consolidation of the Epsilon Group, the variation in the first nine months of 2000 compared to the first nine months of the previous year amounts to ITL 209.8 billion, with a growth of 28.4%.

Provision for income taxation

In line with the possibility offered by art. 81 clause 7 of the Regulation approved by CONSOB deliberation no. 11971 of 14 May 1999 and subsequent modifications, the period result has been shown before taxation and, therefore, no deferred taxes owing or paid have been calculated through applying the new accounting principle regarding income taxation.

Balance sheet and financial structure

Here is the balance sheet of the Mediaset Group:

Mediaset Group						
31/12/1999			30/09/2000		30/06/2000	
(Euro mill.)	(ITL bill.)		(ITL bill.)	(Euro mill.)	(ITL bill.)	(Euro mill.)
1,725.90	3,341.8	Television rights	3,437.0	1,775.06	3,495.1	1,811.21
398.08	770.8	Other intangible / tangible fixed assets	893.4	461.40	937.7	476.38
545.33	1,055.9	Shareholdings and financial fixed assets	1,084.4	560.04	939.0	479.89
(584.58)	(1,131.9)	Net working capital and other assets / liabilities	(832.4)	(429.88)	(579.7)	(295.83)
(80.77)	(156.4)	Allocation for severance indemnities	(161.4)	(83.36)	(158.6)	(81.91)
2,003.96	3,880.2	Net investments	4,421.0	2,283.27	4,633.5	2,389.74
175.54	339.9	Net financial position	316.9	163.66	74.3	37.46
2,179.50	4,220.1	Group shareholders' equity and shareholders' equity attributable to minority interests	4,737.9	2,446.93	4,707.8	2,427.20

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

Mediaset Group - effects arising from the consolidation of the Epsilon Group				
	30/09/2000		30/06/2000	
	(ITL bill.)	(Euro mill.)	(ITL bill.)	(Euro mill.)
Television rights	27.0	13.94	15.1	7.80
Other intangible/ tangible fixed assets	114.8	59.29	130.1	67.19
Shareholdings and financial fixed assets	(125.6)	(64.87)	(115.8)	(59.81)
Net working capital and other assets / liabilities	(36.9)	(19.06)	(43.8)	(22.62)
Allocation for severance indemnities	-	-	-	-
Net investments	(20.7)	(10.70)	(14.4)	(7.44)
Net financial position	3.4	1.77	5.2	2.69
Group shareholders' equity and shareholders' equity attributable to minority interests	(17.3)	(8.93)	(9.2)	(4.75)

For a homogeneous analysis of the first nine months of 2000 over the period ended at 31 December 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:

Mediaset Group net of the effects arising from the consolidation of the Epsilon Group						
31/12/1999		Balance sheet	30/09/2000		30/06/2000	
(Euro mill.)	(ITL bill.)		(ITL bill.)	(Euro mill.)	(ITL bill.)	(Euro mill.)
1,725.90	3,341.8	Television rights	3,410.0	1,761.12	3,480.0	1,797.27
398.08	770.8	Other intangible / tangible fixed assets	778.6	402.11	807.6	417.09
545.33	1,055.9	Shareholdings and financial fixed assets	1,210.0	624.91	1,054.8	544.76
(584.58)	(1,131.9)	Net working capital and other assets / liabilities	(795.5)	(410.82)	(535.9)	(276.77)
(80.77)	(156.4)	Allocation for severance indemnities	(161.4)	(83.36)	(158.6)	(81.91)
2,003.96	3,880.2	Net investments	4,441.7	2,293.97	4,647.9	2,400.44
175.54	339.9	Net financial position	313.5	161.89	69.1	35.69
2,179.50	4,220.1	Group shareholders' equity and shareholders' equity attributable to minority interests	4,755.2	2,455.86	4,717.0	2,436.13
31/12/1999		Sources and uses	30/09/2000		30/06/2000	
(Euro mill.)	(ITL bill.)		(ITL bill.)	(Euro mill.)	(ITL bill.)	(Euro mill.)
950.44	1,840.3	Operating cash-flow	1,856.0	958.55	1,519.8	784.91
(1,384.92)	(2,681.6)	Total investments of which:	(1,139.3)	(588.38)	(749.6)	(387.13)
(932.82)	(1,806.2)	investments in television rights	(866.6)	(447.58)	(682.0)	(352.22)
(394.26)	(763.4)	investments in shareholdings	(179.9)	(92.93)	(5.4)	(2.79)
(16.42)	(31.8)	intangible investments	(15.0)	(7.73)	(2.5)	(1.29)
(41.42)	(80.2)	tangible investments	(77.7)	(40.15)	(59.7)	(30.83)
1.96	3.8	Increases in capital	5.2	2.69	5.2	2.69
(167.07)	(323.5)	Distributed dividends	(418.6)	(216.19)	(418.6)	(216.19)
422.15	817.4	Other monetary variations	(329.7)	(170.30)	(627.6)	(324.13)
(177.44)	(343.6)	Net cash flow	(26.4)	(13.63)	(270.8)	(139.85)

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

The analysis refers to the Mediaset Group including, in the first nine months of 2000, the share of results of the Epsilon Group.

Net Investments

30/09/2000	4,421.0
31/12/1999	3,880.2
billion var.	540.8

The most significant element of the invested capital of the Mediaset Group is represented by **television rights**, which shows an increase of ITL 95.2 billion over 31 December 1999.

This growth is mainly due to period investments (ITL 866.6 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.

The increase in **other tangible/intangible fixed assets** equal to ITL 122.6 billion mainly refers to the net consolidation differences generated following the consolidation of the Epsilon Group.

Shareholdings and financial fixed assets increase by ITL 28.5 billion over 31 December 1999 due to the following main variations:

- ITL 23.6 billion net decrease due to variations in Telecinco, Publi-espasa and Albacom equity;

- investments related to shareholdings amounting to ITL 178.8 billion mainly due to the capital increases subscribed in Blu S.p.A. (ITL 108 billion) and Albacom S.p.A. (ITL 54.7 billion) and the purchase of an 11.8% stake in EuroMedia Luxembourg Two S.A. (for a value of ITL 10.7 billion);
- sale of Fivefactor S.p.A. (ITL 2.1 billion);
- ITL 380.0 billion decrease due to the proportional consolidation of the shareholding in Euroset S.a.r.l., consolidated at cost at 31 December 1999 (the shareholding value was replaced by the single balance sheet items of the subsidiary companies);
- ITL 254.6 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

30/09/2000	4,737.9
31/12/1999	4,220.1
billion var.	517.8

The net group shareholders' equity net of the effect arising from the 50% consolidation of the Epsilon Group amounts to ITL 4,755.2 billion. The increase over 31 December 1999 can be attributed to the period result before taxation net of the allocation for dividend distribution.

Net financial position

30/09/2000	316.9
31/12/1999	339.9
billion var.	(23.0)

The level of liquid funds net of the effect arising from the 50% consolidation of the Epsilon Group amounts to ITL 313.5 billion. The decrease in the level of liquid funds over 31 December 1999 (equal to ITL 26.4 billion net of the effects arising from the consolidation of the Epsilon Group), though with a notable cash flow produced by the current operations, must be related to investments connected to shareholdings and the seasonal character of some expenses (dividends for ITL 418.6 billion and taxes for ITL 428.0 billion).

Here is the breakdown of the net financial position:

31/12/1999		Net financial position	30/09/2000		30/06/2000	
(Euro mill.)	(ITL bill.)		(ITL bill.)	(Euro mill.)	(ITL bill.)	(Euro mill.)
174.82	338.5	Liquid funds	269.6	139.21	453.2	234.06
166.82	323.0	Securities and financial assets which are not fixed assets	433.0	223.63	393.1	203.02
341.64	661.5	Total financial assets	702.6	362.84	846.3	437.08
		Due to banks:				
(6.82)	(13.2)	Liable current accounts	(8.0)	(4.13)	(166.7)	(86.09)
(156.49)	(303.0)	Credit lines (*)	(363.0)	(187.47)	(597.5)	(308.58)
-	-	Due to other financial institutions:				
(1.96)	(3.8)	Factoring companies	(13.5)	(6.97)	(6.5)	(3.36)
(0.83)	(1.6)	Leasing companies	(1.2)	(0.62)	(1.3)	(0.67)
(166.09)	(321.6)	Total financial liabilities	(385.7)	(199.19)	(772.0)	(398.70)
175.54	339.9	Net financial position	316.9	163.65	74.3	38.37
(5.70)	(2.9)	(*) of which medium- long-term	(3.7)	(1.91)	(3.7)	(1.91)

ANALYSIS OF THE VARIOUS AREAS

Commercial TV networks Italy

Advertising

Mediaset Group results are largely generated by the sale of television commercials on the Mediaset networks, for which Publitalia '80 S.p.A. holds the exclusive licence.

Here follows the breakdown of Publitalia sales:

(ITL billions)

Third quarter 2000		30/09/2000	30/09/1999
721.0	Advertising revenues from third parties	3,362.4	2,949.5
12.4	Advertising revenues from Fininvest Group and Mediolanum Group	61.3	33.0
2.8	Advertising revenues from Promoservice	5.4	7.9
-	Advertising revenues from other companies belonging to the Group	-	1.4
736.2	Television advertising revenues Publitalia '80 S.p.A.	3,429.1	2,991.8

In the first nine months of 2000 Publitalia '80 S.p.A. has confirmed its leading market position, with television advertising revenues for ITL 3,429.1 billion which, with respect to ITL 2,991.8 billion from the same period of 1999, show a 14.6% increase; this result was mainly due to a careful pricing policy and an increasingly effective placement of commercials.

During the third quarter 2000 advertising sales showed a high growth rate (+13.0% over the first nine months of the previous year), in line with the increase of the previous quarter. In the same period, the strong expansion of the advertising market continues, led by the investments made by the telecommunications, computer, financial services and Internet industries..

Broadcasting and contents

In the first nine months of 2000, the increase in advertising sales was matched by excellent results in terms of audience.

The year 2000 confirms to be an extremely positive year for Mediaset: our networks have obtained an average daily audience of 42.5%, which is the highest level since 1997.

In spite of the effect exerted on the 2000 audience share by major sports events like the European football championships and the Olympics, Mediaset has managed to improve over the excellent 1999 result.

Here is the situation at 30 September for the full day:

Audience/Total day share	2000	1999	Variation Vs. 1999
Mediaset networks	42.5%	42.4%	0.1%
RAI networks	48.0%	47.6%	0.4%
Others	9.5%	10.0%	-0.5%
Total	100.0%	100.0%	

The improvement results from the excellent performance in Day Time viewing (+0.4% share points), while our networks have basically maintained the same Prime Time results of last year.

In particular, Mediaset's results have been led by the very good performance of Canale5 (+0.7 points over last year, 21.4% vs. 20.7%).

Here follows an analysis of the audience of each Mediaset network.

Canale 5

The main Mediaset channel has achieved extremely positive results in the first nine months of 2000: with 21.4% average share on the 24 hours, it grew by 0.7 percentage points over 1999.

This performance was generated by an exceptional first part of the year:

- in January, it grew by 1.5 points over 1999 and came very close to the result obtained by Rai1;
- in Spring it managed to bridge the gap with the main state network (22.4% vs. 22.6%), thanks to a two points increase over the previous year;
- during the football European championships, in spite of the fact that the Italian national team reached the final, Canale5 managed to keep damage to a minimum, reaching a level of 19.3% vs. 19.9% of the 1996 championships, when our national team was beaten in the quarter finals.

These excellent results made it possible for the network to make up for the slight slowing down in its growth in Summer, and conclude the nine months with a definitely positive balance.

Canale 5 - Total audience	2000	1999	Variation Vs. 1999
Total day share	21.4%	20.7%	0.7%
Prime Time	21.0%	20.4%	0.6%
Day Time	21.5%	20.7%	0.8%

As is shown in the table, the audience increase is evenly distributed throughout the day.

In particular:

- In the **Day Time** the network's results are based on two key moments of the day: early and late afternoon.

After lunch, the two programmes *Beautiful* and *Vivere* guarantee record audience levels. *Beautiful* with 34.2% has grown by 2 share points over 1999, well over 5.8 million people while *Vivere* the Italian soap opera reached 31.4% (nearly 8 points more than its start last year) with over 4.6 million people.

In late afternoon, the network gradually reached and overtook Rai 1:

- the growth of *Verissimo* carries on: after its Autumn restyling, the magazine programme is reaching a 25.3% share (with peaks over 30.0%), it is the all-time peak for this programme, now on air for over two years;
- *Passaparola*, which follows it, has also increased its audience share: the game show led by Gerry Scotti now stands at 23.7%, continuing the constant growth it started in Autumn 1999 and, in September, even managed to obtain better result than its competitor *In bocca al lupo!* (23.9% vs. 23.1%);
- the two big events of the year gave a fundamental contribution to definitively overtaking Rai1 in late afternoon: *Chi vuol esser miliardario* achieved an astonishing 34.6%, equal to 3.5 million peo-

ple (with peaks over 5 millions) and contacts for more than 9.5 millions; in September *Grande Fratello* reached 32.2% at 18:30 and 28.5% at 19:50;

– *Buona Domenica sera* also did well, with its highest level in the last few years: a 26.3% share.

Late at night, *il Maurizio Costanzo Show* with 22.4% grew by almost 2 points over the same months in the previous year and clearly beat *Porta a porta* (20.5%).

- In **Prime Time**, *Striscia la notizia* ended the period at 29.2%, above the average of the same period of 1999 (27.5%), with a brilliant recovery at 33.3% in September, after the Summer break.

Positive results have been achieved by all kinds of products.

The cinema programming did well: the number of movies shown at night nearly halved (from 100 to 67) while results improved from 19.7% average in 1999 to 20.1% this year. Besides the excellent result of *Tre uomini e una gamba* (36.7%) broadcast on a Tuesday, we should mention the Monday showing of *Mrs. Winterbourne* (28.8%) and *The Peacemaker* (26.0%), as well as *Ransom*, *Dante's Peak* and *The English Patient*, all over 25.0%.

Italian drama conquered a significant area of the schedule (from 41 to 51 nights), and gave excellent results: the best was the television event *Padre Pio* with 36.9% (its second part reached 39.7% and nearly 11.2 million people); very good results from *Le ali della vita*, featuring Sabrina Ferilli, at 27.7%, and the police drama *Operazione Odissea* with 26.3% and *Valeria Medico Legale* (23.7%), showing the great variety of genres offered.

Among our TV productions, the new programme led by Maria De Filippi *C'è posta per te* proved very successful: after achieving very good results in its initial Wednesday position (from 21.0% in January to 24.4% in February) and in its subsequent Friday placement against Rai1 drama (25.6% vs. 23.5% for *Linda, il brigadiere e...* and 22.1% for *Una donna per amico 2*), in September, on Sundays, it recorded an excellent 24.3%.

In September *Grande Fratello* rapidly proved successful in Prime Time, passing from 21.4% at the start to 30.6% in the last night of the period. Women, in particular, have liked this reality show: 28.0% of the women audience on Thursdays choose Canale 5 (this percentage even grows to 40.0% if we consider women in the 15-44 age range).

Good results were achieved also by *Premiata Teleditta* (23.5%), the new series of *Il grande bluff* (24.5%) and *Buffoni*, the last product of the Compagnia del Bagaglino, with a satisfactory 24.9% against Panariello show on Rai 1 (*Torno Sabato* 31.2%).

On Saturdays *Chi ha incastrato Peter Pan* (24.8%) beat its direct Rai1 competitor *Per tutta la vita*.

Among special programmes, we should mention *Il Galà della televisione* in May (32.3%) and *Ricomincio da 20* (the evening celebrating Canale 5's "birthday") with a remarkable 33.4% share.

It is also worth recalling the first match of the *Under 21 Italian National Football Team* on Mediaset networks: the two matches shown by Canale 5 had an average share of 28.1%, and the final achieved 34.3%.

Italia 1

The first nine months of 2000 proved very positive for Italia 1 as well. In spite of the concentration of major sports events and the strength of Canale 5, this network's data are in line with those of 1999: stable throughout the day and in Day Time, slightly decreasing in Prime Time.

Italia 1 - Total audience	2000	1999	Variation Vs. 1999
Total day share	11.5%	11.6%	-0.1%
Prime Time	11.9%	12.2%	-0.3%
Day Time	11.4%	11.4%	0.0%

As proof of its excellent health, throughout the day Italia 1 strengthened its leadership with children aged 4-14, with 26.7% share (+ 2.2 points over the same period of 1999).

It is still the third network for young people aged 15-44, with a 15.3% share, absolutely not affected by Canale 5's growth among the same target.

In particular:

- In the afternoon's **Day Time** programming, cartoons are constantly above the network's average: after lunch, alongside the now historical *I Simpson* (ending the period at 16.5%, with a growing trend that took it in September, after the Summer break, to 19.4%) we must definitely mention *Dragon Ball*, which reaches a significant 15.3%.

However, this year's phenomenon is *Pokemon*, which has been able to rapidly capture the attention of the audience as shown by the astounding growth from 12.6% in January to an extraordinary 27.4% in the first week of June; the strength of this cartoon among younger people (64.5% of children aged 4-14 and nearly 30.0% of people aged 15-19) has attracted adult people as well: in June this cartoon reached 26.0% on people aged 20-44.

Pokemon has had a knock-on effect on the other items shown in *Bim Bum Bam* (17.1%) permitting this container programme to become further strengthened: in the first part of the year, it was able to defeat the historic rival container programme *Solletico* (16.1% vs. 10.4%). In July and August, as the only offer available to children, it held a 20.2% share, while in September it had a clear victory over the new programme from RAI 2 *WWW rai2 boys and girls* (19% vs. 10.7%).

The afternoon series shown on the network also achieved good results: in the first half of the year *Xena* reached 16.0%; in Summer *Baywatch* continued this trend with a level of 15.1%.

Shown after *Bim Bum Bam*, *Pacific Blue* stays at 12.5%, holding up well against the very strong *Chi vuol essere miliardario*.

As to our production, it is worth remembering *Sarabanda*: constantly growing in the first months of the year (from 11.9% in January to 17.1% in May). With an average of 14.2% it increased by three points over 1999 providing a fundamental contribution to the Prime Time result of the network.

Bigodini also did well, the new lunchtime game of the network: in spite of strong competition, especially the news and *Beautiful*, the new production managed to find an ever wider popularity, as is shown by its growing trend from March to September (from 7.7% to 9.0%).

Late at night, in the first part of the year, the best results were achieved by established productions like *Mai dire gol* on Monday (at 14.0%), *Le Iene* on Tuesday (17.3%), and *Zelig* on Thursday, which ended at 14.5% and stood up well against the direct competition with *Liberio* on Rai 2. In Summer,

the network's late night was successfully devoted to various series of movies: in particular, we should mention *Notte Horror* on Tuesdays (15.9% average with peaks over 20.0%), *Vacanze e risate* on Fridays (12.2%) and *Cult* on Saturdays (12.0%).

- In **Prime Time**, movies gave satisfactory results: with 12.3% average and peaks of 20.3% with *Space Jam*, 19.0% with *Grease* and *Lethal Weapon 3*, *Anaconda* and *Broken Arrow* all over 17.0%.

As to productions, excellent results were achieved in Spring by *Angeli* (13.8%) and *Tempi Moderni* (12.7%); among the new productions *Candid Angels* on Wednesdays (12.3%) and *Strano ma vero* on Thursdays (11.8%) are worth a mention.

The strength of the music programme *Festivalbar*, our only Summer production, was confirmed with a 15.7% level and various peaks at almost 18.0%. Special programmes also performed very well: the *Galà della pubblicità* at 19.5% and *Macchemù* at 14.1%.

In 2000 this network targeted on serials, carefully matching historic series and new proposals. On Saturday, in a difficult competitive situation, *Walker Texas Ranger* achieved 10.9%; on Sunday *X Files* was broadcast on its own at first (and achieved an excellent 10.2% against *Un medico in famiglia*), and then coupled with the new series *Buffy* (the two series achieved 11.0%).

Among new productions, *Dawson's Creek* performed well in the first part of the year (10.9% average for the new programmes). It started slowly and gradually conquered a space for itself among young people (36.8% share in women aged 15-24), and benefited from being shifted from Thursday (10.4%) to Tuesday (11.9%); in Summer, *Gli specialisti* started on Friday with a significant 12.2%.

Football viewing was also positive: the 7 Ch21

ampions League matches broadcast by the network achieved a share of 16.2%.

Retequattro

Retequattro - Total audience	2000	1999	Variation Vs. 1999
Total day share	9.6%	10.1%	-0.5%
Prime Time	8.0%	8.4%	-0.4%
Day Time	10.0%	10.5%	-0.5%

Throughout the day, this network had to face Rai 3's attack in September. It was only by means of the Olympics, exclusively broadcast, that the Rai competitor managed to bridge the gap with Rete 4: leaving out the period of the Olympics, our network stays constantly above Rai 3.

In particular:

- In **Day Time**, the network is based on its historic production: *Forum* does not show any sign of ageing, and on the contrary, has grown since 1999 (20.0% vs. 19.8%); *La ruota della fortuna* achieved 11.3% standing up well to the growth of *Vivere* on Canale 5, while *O.K. il prezzo è giusto*, thanks to the revived attention by adults over 35, is slightly growing (9.1% vs. 8.9%).

Over 1999, there is an increase in audience for *La domenica del villaggio* (15.6% vs. 14.6%) and Saturday productions: *Il trucco c'è* reached 13.2% (vs. 9.8% at its Autumn start last year), while *Chi c'è c'è* achieved 14.5%.

- In **Prime Time** movies are still a precious asset for the network: 160 nights devoted to movies have obtained an average share of 8.1%. In this situation, alongside the performances of single movies (*Nostra Signora di Fatima* at 13.6%, *Iron Eagle*, *Rising Sun*, *Chi trova un amico trova un tesoro*, *Marcellino*

Pane e vino and *Escape from Alcatraz* all above 11.0%), it is worth mentioning the results of a series of cycles: in Spring *Don Camillo e Peppone* at 9.1%; in Summer those devoted to Charles Bronson on Wednesdays (12.2%) and the eternal Totò on Thursdays (9.2%).

Drama data were also satisfactory: in the first part of the year *Questa casa non è un albergo* against the Rai1 drama featuring Cochi and Renato had a good 7.9%; between May and June the short series *Uno sparo nel buio* obtained a share of 9.9%.

As to our productions, *Nel mondo dei dinosauri*, a new chapter of the programme *La Macchina del Tempo*, achieved 9.0%, and *Viva Napoli* recorded an excellent 11.3%. In Summer, results above the network's average were reached by *Ballo, amore e...* at 10.3% and the *Festival di Napoli* (9.4%).

The two *Speciale Miracoli* programmes reached an excellent average of 13.6% and in August *Serenata celeste* achieved a great 13.2%.

Two evenings were devoted to the *European Under 21 Championship*, with 19.9% average.

Commercial TV Networks abroad

Telecinco Group

On 11 September 2000, Mediaset board of directors authorized the conclusion of the negotiation aiming at the acquisition by Mediaset Group of a further 5% stake in Gestevisión Telecinco S.A. and Publiespana S.A., currently held by the Planeta Group, which currently holds a 10 % stake in each of these two companies. The operation, which is under way, will enable Mediaset to further strengthen its position of main shareholder in the most profitable European Television Group, which is now a fundamental point of reference in the international development strategy of the Group.

In 2000, Telecinco is further improving the exceptional results it achieved in 1999. In the first nine months of 2000, the gross sales of Publiespana reached PTS 75.3 billion (equal to ITL 876 billion), growing 23.6% over 1999; in the same period, the expected growth of the Spanish television market was at 13.4%.

Thanks to this increase in sales, operating results grew to 40% over 28% recorded in the same period of the previous year. Operating profit equalled PTS 28.6 billion (ITL 333 billion), growing 83.2% over September 1999; the net profit reached an 82.6% increase, at PTS 18.5 billion (ITL 215 billion).

In the first nine months of the year Telecinco increased its audience share on a daily basis, growing from 20.9% in 1999 to 22.7%, thus confirming its leadership on the reference commercial target, where it reached 25.5% (23.4% in 1999), clearly leaving behind its main national competitors.

At 30 September 2000, the equity valuation of the shareholding in the Telecinco Group (40%), including the goodwill amortisation quota of ITL 29.3 billion, meant, for the Mediaset Group, a net income of ITL 57 billion.

Epsilon Group

The first months of 2000 marked the start of operation for the Epsilon Group, the equal Joint-venture between Mediaset and Kirch Media, set up in October 1999.

The economic and financial situation of the Epsilon Group as of 30 September 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 by the net asset method its 49% shareholding held in the PKS 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 30 September 2000:

Epsilon Group				
Third quarter 2000			30/09/2000	
(ITL bill.)	(Euro mill.)		(ITL bill.)	(Euro mill.)
97.0	50.12	Sales of goods and service	224.3	115.86
-	-	Other revenues and income	-	-
97.0	50.12	Total consolidated net revenues	224.3	115.86
2.5	1.29	Personnel expenses	6.2	3.21
75.0	38.73	Purchases, services, other costs	187.1	96.62
77.5	40.02	Operating costs	193.3	99.83
19.6	10.10	Gross operating profit (loss)	31.1	16.04
11.4	5.90	Amortisation, depreciation and write-downs	34.4	17.77
8.1	4.20	Operating profit (loss)	(3.4)	(1.74)
(10.5)	(5.40)	Financial income / (charges)	(14.9)	(7.68)
(19.6)	(10.13)	Income / (charges) from shareholdings	(28.5)	(14.72)
(21.9)	(11.33)	Profit (loss) before extraordinary items	(46.7)	(24.14)
-	-	Extraordinary and other income / (charges)	-	-
(21.9)	(11.33)	Profit before taxation	(46.7)	(24.14)

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 in the first nine months of the year 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 consolidated **net revenues** of the Epsilon Group, amounting to ITL 224.3 billion, are mainly due to the following operations:

- *marketing of television rights*, carried out by Betafilm GmbH for ITL 142.9 billion. This business concerns the international distribution of television and cinema rights (with the exclusion of the Italian and German markets, directly served by Mediaset and Kirch Media);
- *revenues from advertising* equal to ITL 81.4 billion, regarding the sale of advertising spaces in European television networks and newspapers (carried out by Publieurope International Ltd. for international customers residing outside the country of the licensed medium) as well as the payments received from marketing and blanket coverage work carried out by Publieuros Ltd. on large European multinational investors.

The **gross operating profit** amounts to ITL 31.1 billion, equal to 13.8% of net revenues. The main cost component is variable according to revenues and is borne by both Betafilm (as commission paid to the rights owners on whose behalf it makes international sales) and Publieurope (as commission paid to publishers or concessionaries from which it acquires the sub-concession to sell advertising spaces abroad). Personnel expenses amount to ITL 6.2 billion, with an average number of 63 employees in the companies belonging to the subholding companies Betafilm and Publieuros.

The **operating loss** amounts to minus ITL 3.4 billion, mainly due to the goodwill amortisation quotas (ITL 27.7 billion), mainly arising from consolidating Betafilm into Euroset S.a.r.l.

The **charge from shareholdings**, minus ITL 28.5 billion corresponds to the equity valuation of the 49% shareholding in the PKS Group, includes the goodwill amortisation quota of this shareholding, equal to 26.4 billion.

The **loss before taxation** is ITL 46.7 billion, due to the negative balance of the financial operations, fully attributable to foreign currency debt appreciation of some of the Betafilm subsidiaries.

Here is the balance sheet of the Group:

Epsilon Group				
30/06/2000			30/09/2000	
(ITL bill.)	(Euro mill.)		(ITL bill.)	(Euro mill.)
30.2	15.60	Television rights	54.0	27.88
396.5	204.78	Other intangible/tangible fixed assets	362.3	187.13
528.8	273.10	Shareholdings and financial fixed assets	509.2	262.96
(87.5)	(45.19)	Net working capital and other assets / liabilities	(73.8)	(38.10)
-	-	Allocation for severance indemnities	-	-
868.0	448.28	Net investments	851.7	439.87
10.5	5.42	Net financial position	6.8	3.52
878.5	453.70	Group shareholders' equity and shareholders' equity attributable to minority interests	858.5	443.39

Shareholdings and financial fixed assets, whose balance equals ITL 509.2 billion, mainly includes the 49% shareholding in PKS GmbH, equal to ITL 431.8 billion and the 3.95% shareholding in Monarchy Holding BV, a company that controls 100% of New Regency, equal to ITL 76.7 billion.

Other fixed assets, equal to ITL 362.3 billion, mainly include net consolidation differences, depreciated in 10 years as of 2000, arising from shareholdings of Betafilm GmbH and Publieurope International Ltd.

The value of the **net equity** of the Epsilon Group, equalling ITL 858.5 billion, shows the period result and the subsequent setting up and capital increase operations of Euroset S.a.r.l., carried out in 1999.

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As already widely described in the Six months' report, in the section "Significant events after 30 June", during the third quarter of 2000 the management of Mediaset S.p.A. and the subsidiary company Mediaset Investment S.a.r.l. started a negotiation with the Kirch Group aiming at revising the joint-venture agreements signed on 19 October 1999 and the transfer of the financial resources invested by Mediaset Investment S.a.r.l. in Epsilon corporate structure, in the acquisition of a stake in Kirch Media KgaA.

Kirch Media, Mediaset partner in Epsilon through CON Medien GmbH, a company that holds a 50% stake in Euroset S.a.r.l., can be seen as the "German Mediaset", since besides its traditional activity of the international trading of rights, it owns the three general commercial German networks, Sat 1, Pro 7 and Kabel 1, besides the sports channel DSF and the news specialist network N24. This structure was com-

pleted over the last few months, following the transfer to Kirch Media of a 20.8% stake of Pro 7 held by Rewe, which received a 6.0% stake in Kirch Media (this operation was concluded in September) and the merger of Sat 1 GmbH and Media 1 GmbH television and advertising activities and those owned by Pro 7 into a new holding company (this project was approved by the meeting of the relevant companies on 22 August 2000).

On the basis of the draft agreement, approved by the boards of directors of the relevant companies on 11 September, the Mediaset and Kirch Media Groups will define by 31 March 2001 the detailed agreements which must include the following contents:

- acquisition by each partner of the activities transferred in the Epsilon corporate structure:
 - Mediaset Investment S.a.r.l. will hold again a 100% stake of Publieuros/Publieurope, which remains the European concessionary of Kirch Media and Telecinco;
 - the Kirch Media Group will hold again a 100% stake in Betafilm and PKS. Betafilm however remains the international distributor of television rights for the Mediaset Group;
 - in addition to the new acquisition of the assets transferred, Mediaset Investment S.a.r.l. will receive cash for ITL 391.3 billion (the monetary investment connected to the setting up of the Epsilon corporate structure in 1999 amounted to ITL 361.6 billion); these financial resources will make it possible to finance the acquisition of the above mentioned stake in Kirch Media, without any further debt;
- acquisition by Mediaset Investment S.a.r.l. of a stake in Kirch Media KgaA equal to 2.34% of the capital (i.e. equal to 2.48% before the diluting effect arising from the already mentioned acquisition of a Kirch Media stake by Rewe), for an amount of ITL 391.3 billion. The acquisition of the stake in Kirch Media will be accompanied by the acceptance of a corporate agreement, whose parties are some companies belonging to the Kirch Group, Fininvest S.p.A., the Group of Prince Alwaleed and the Lehman Brothers Group. The acceptance of the mentioned agreement will imply the acquisition of significant rights, among which the one regarding representation in corporate positions, once the consent of other shareholders is obtained;
- setting up of E-Vision and E-Motion respectively in Milan and Munich; the latter will also have an office in Zurich. Mediaset Investment S.a.r.l and Kirch Media KgaA will have an equal stake in E-Vision; Mediaset Investment S.a.r.l will have a 20% stake in E-Motion, Medusa Film S.p.A a 30% stake, and Kirch Media KgaA a 50% stake.

The stipulation of these new agreements will replace the Joint-venture agreement signed on 13/14/15 October 1999.

New media and telecommunications

New media

The Group's diversification activities for new media have been concentrated since the beginning of 2000 in Mediadigit S.r.l. This company was set up at the end of 1999, and has established over the last few months an organisation in line with its three main fields of activity: the Internet, Theme Channels and Teletext.

In particular, as to the Internet, the most recent area of development, these organisational measures are meant to ensure the achievement of the rationalisation and strengthening objective of the Mediasetonline publishing project and the network sites around a pattern of supply which is strongly integrated with television. The original concept and/or adaptation, also in interactive versions, of already existing television contents and brands in the *info-tainment* area (where the Group has distinctive and high quality skills) as well as the development of the ways for exploiting synergies with the general Portal of the Fininvest Group, Jumpy, are the main development drivers that Mediadigit is currently working on.

In September, the Mediaset Online site and the three official sites of Canale 5, Italia1 and Retequattro, have recorded 500,000 page views per day.

In the first nine months of the year, overall revenues from the Group Internet area amounted to ITL 3.4 billion, with the addition of ITL 12.4 billion regarding other portals, among which Jumpy and Excite, for which Publitalia '80 S.p.A. holds the concessions for the sale of advertisements.

As to the activities related to the creation and distribution of theme channels for digital platforms, in the first months of 2001, a new channel is expected to start, which will be distributed by Stream and will be added to Comedy Life and Duel TV, launched by the same digital platform in April. In the first nine months of 2000, the Group revenues generated by the distribution of theme channels amounted to ITL 16.2 billion.

The Group revenues regarding Mediavideo advertising sales amounted in the first nine months to ITL 5.9 billion.

Telecommunications

The Mediaset Group is active in the field of telecommunications by means of shareholdings in Albacom S.p.A. and Blu S.p.A.. The current situation is extremely complex due to regulation uncertainties which still prevent the completion of the liberalization process in the field of fixed telephony, to expectations and uncertainties connected to the rapid development of technology standards on mobile telephones, and the constant concentration process between multimedia players (Wind-Infostrada, Tiscali-WOL, Telecom-Seat/Tin.it). Current disturbances do not prevent Mediaset from still considering diversification in this strategic sector with a view to value creation and the activity of content provider that it may play in future years with the launch of new generation large band mobile devices.

In the field of fixed telephones, **Albacom S.p.A.** has now well established its position of second national player in the business segment. The company is progressively defining the new articulation of its offers, still strongly focused on voice services, towards a greater development in value added services (data/internet). During the first half of the year, starting from 1 April 2000, the top management was re-defined and deep-reaching measures were taken to provide the company with operating facilities appropriate to tackle the growing business complexity and achieve objectives of greater management efficiency. The strengthening of its network and access to end users infrastructures is one of the strategic priorities that the company is pursuing through industrial and partnership agreements with national and local operators. Albacom's economic results are still burdened by strong diseconomies in voice services

because of the strong influence of interconnection costs with Telecom Italia and mobile connections with the current main national companies and the simultaneous price reduction induced by growing competitive pressure. The effect of these burdens has negatively affected the profit and loss account of the company in the first half of the 2001 corporate year (April - September 2000). At 30 September 2000 the equity valuation of the Albacom S.p.A. shareholding meant for the Mediaset Group an overall loss of ITL 57.4 billion, 3.1 billion of which for the goodwill amortisation quota.

As already mentioned in the Report on operations in the first half of 2000, on 26 July 2000, the Extraordinary Shareholders' Meeting of Albacom S.p.A. deliberated the total cancellation of the losses accrued by the mother company at 31 March 2000, equal to ITL 280.7 billion and the re-constitution of the share capital at ITL 543.4 billion. This operation meant an overall cost of ITL 54.7 billion for the Mediaset Group.

In the field of mobile telephones, **Blu S.p.A.** launched the Gsm commercial service in the spring, and during its first months of activity has obtained significant results in terms of customers and traffic, capitalising on the effective and innovative marketing and communication strategy devoted to the reference "consumer" and "business" consumer segments.

After deliberating the cancellation of the losses at 31 December 1999 (equal to ITL 13.1 billion), on 21 July Blu partners subscribed the previously resolved capital increase, from ITL 300 to 1,500 billion, and paid between July and September 5/10 of the amount. ITL 54 billion was paid of the share of Mediaset Investment S.a.r.l., amounting to ITL 108 billion; following this operation, Mediaset Investment S.a.r.l. shareholding in Blu S.p.A. at 30 September 2000 amounted to ITL 135 billion.

On 22 September 2000, following the assessment of technical and commercial plans submitted on 11 September, the company was admitted to take part in the competition for the assignation of one of the five UMTS licences. Blu subsequently abandoned the stage of offering higher bids, as is explained in detail in the section devoted to events after 30 September.

SIGNIFICANT EVENTS AFTER 30 SEPTEMBER 2000

- In early October, Albacom S.p.A. – in which a stake is held – won the competition for the acquisition of a 60% stake in Basicel S.p.A., a company that was recently set up by the Italian Railways with the objective to plan, make and manage for telecommunication purposes a fibre optic infrastructure along the supply lines placed beside a system of around 4,000 kilometres of the railway network owned by the Italian Railways. Through this operation, Albacom will increase and strengthen the existing carrying capability under overall better conditions than the conventional network infrastructure. The financing needed by Albacom over the next few months for this investment amounts to ITL 235 billion. It is expected that this amount will be paid by shareholders in proportion to the stake held, by means of a zero interest loan. The payment of the Mediaset Group will amount to ITL 45.8 billion.
- Following the admission to the competition for the allocation of one of the five UMTS new generation mobile telephone licenses, on 5 October 2000 the Board of Directors of Blu S.p.A. deliberated the granting of the bank guarantee requested by the competition regulation to the benefit of the Ministry for Communications for an amount equal to the bidding base, at ITL 4,000 billion. This guarantee was released on 9 October by a group of banks co-ordinated by the Banca Nazionale del Lavoro, including Montepaschi and Deutsche Bank, which was counter-guaranteed on the same date by Blu S.p.A. shareholders according to the stakes held. On 19 October, the bidding stage started, with the participation of Blu, Tim, Omnitel, Wind, Ipse and Andala. After taking part in the first ten rounds, with a maximum bid of ITL 4,490 billion, on 23 October at 9.45 a.m., before the eleventh round began, the representatives of Blu at the bidding formally communicated that Blu was giving up further bidding. Later, on the same day, at 5 p.m., the Ministers' Committee gave mandate to the person in charge of the stage of competitive improvement to carry out the formal requirements to conclude the bidding and, with reference to Blu, deliberated the exclusion of the company from the competition and the start of the procedures necessary to enforce the ITL 4,000 billion guarantee, in line with art. 6.4 of the competition regulation. On 25, 27 October and 2 November Blu submitted motions to stay to the Regional Administrative Court of Lazio, with a view to obtaining the cancellation of this deliberation. On 3 November, the Ministers' Committee formally announced that the five licences were assigned to the five companies that were still part of the competition. On 7 November, the Banca Nazionale del Lavoro, following a request by the Treasury, Budget and Economic planning Ministry for the enforcement of the ITL 4,000 billion guarantee, sent to Blu (together with a copy to all its shareholders) a request for immediate payment of the amount guaranteed. On 8 November the same warning, following the non fulfilment of the request to pay by Blu, was sent to all the company shareholders. On 9 November, the Regional Administrative Court of Lazio deliberated the temporary suspension of the enforcement of this guarantee, which will however exist until the Court issues a relevant sentence.
- In the framework of the sale of the Elettronica Industriale S.p.A. branch, made on 1 January 2000 to the company Digital Multimedia Technologies - DMT S.r.l. (now S.p.A.), Elettronica Industriale had acquired (for ITL 300 million) a 30% stake in DMT. The main shareholder in DMT had been granted a right of option for the purchase of the stake above, that could be enforced only following the full payment of the purchase price of the branch of Elettronica Industriale. On 8 November 2000, the main shareholder of DMT made the formal payment to Elettronica Industriale of such an amount, equal to ITL 14.2 billion (value date 10 November) and simultaneously enforced the right of option above for a value equal to that originally paid by Elettronica Industriale. The transfer of this stake will be made by mid-November 2000.

FORESEEABLE DEVELOPMENTS

- Advertising sales in the Mediaset networks in October show an increase of 9.6%. In the first ten months of the year, the growth rate of advertising sales is around 13.9%.
- As already shown previously, considering the specific nature of operations (advertising sales are more concentrated in the first half of the year and operation costs which are affected in the second half of the year by the start of activities regarding the Autumn programme schedule), the period results are marked by a highly seasonal character and may not fully represent the foreseeable yearly trend. However, though considering the relative slowing down of the growth rate in the advertising market in the last quarter of the year, the achievement of significantly better yearly economic results than those of the previous year seem possible.
- The average share of the total day time in the first ten months of the year recorded by Mediaset networks is at 42.8%, with a 0.4 point increase over the same months of the previous year.

The Board of Directors