



*Report on operations
in the first quarter
of 2001*



MEDIASET GROUP

MEDIASET S.p.A. - via Paleocapa, 3 - 20121 Milan

Share Capital EUR 614,238,333.28 wholly paid-up

Tax Code, VAT Number and registration number in the
register of companies in Milan: 09032310154

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Deputy Chairman

Managing Director

Directors

Board of Directors

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MEDIASET GROUP

Report on operations in the first quarter of 2001

Dear Shareholders,

In the first quarter of 2001 the Group heading your company achieved the following results: consolidated net revenues amounted to ITL 1,301.4 billion, growing 8.5% with respect to the same quarter of 2000; operating profit amounted to ITL 471.5 billion (with respect to ITL 453.9 billion in the first quarter of 2000), growing 3.9% net of amortisation, depreciation and write-downs of ITL 325.0 billion. Operating results went from 37.8% to 36.2% ; net of the effects arising from the consolidation of the Epsilon Group in the two quarters, operating results amounted to 36.9% with respect to 38.7% in the first quarter 2000. Profit before taxation amounted to ITL 415.3 billion vs. ITL 440.6 billion in the first quarter 2000.

The achievement of operating results in line with period objectives and the confirmed high operating profits, even by comparison to the already exceptional results of the first quarter of 2000, are definitely satisfactory intermediate goals, with a view to achieving, this year, higher profits than those achieved on average by the Group in the last few years and than those of the industry.

In the first months of 2001 the Mediaset Group managed to effectively counter the expected slowdown in the advertising market, and performed better than the main Italian and European media companies that, with respect to the first quarter of 2000, showed extremely limited growth or even, in some cases, a reduction in sales. In the first quarter 2001 advertising revenues of the Mediaset networks grew by 6%, in line with the growth showed in the last quarter of 2000 and against the trends in performances in the Italian reference market.

Constant good results in terms of audience of the Mediaset networks with respect to the latter part of 2000 gave a decisive contribution to the growth in advertising revenues. In the first quarter 2001, Mediaset networks achieved a share of about 45%, some 2 points higher than the first quarter 2000, and confirmed the exceptional level achieved during the Autumn season, which put the company in the lead over the RAI networks, at a time of the year which is traditionally favourable for our public competitor, since it includes a significant television event, the Sanremo Festival. In this period, Canale 5, now a regular point of reference in the choices of Italians, constantly competes with Rai 1 for the absolute leadership in terms of audience.

These results have been achieved by striving for a high level of production commitments aimed at constantly strengthening output, as part of the process that was started last Autumn, mainly focussed on relaunching Italia 1 and Retequattro and introducing new television formats for categories able to retain the public and ensure constant audience levels, like own production soap operas, long-term drama series and international game shows, that were not present in the schedule in early 2000. The trend of costs, compared with the first quarter 2000, must be therefore analysed

in the light of the development of production choices made in 2000, which now ensure that audience level targets are achieved in those scheduling times showing the highest commercial value.

During the first three months of 2001, besides a renewed commitment aimed at maximizing the competitive advantage acquired in the television core business, the Group strengthened the development of its own multimedia operations (theme channels and on line operations) with the strategic objective of gradually acquiring *know how* in making multimedia and interactive contents and services connected to its own television brands. These operations have become particularly significant following the approval as Law of the Decree dated January 23, 2001 no. 5, which took place in March, and regulates the start of domestic digital television broadcasting, with a 2006 deadline for the *switch off* of analogue broadcasting.

A path towards the definition of appropriate business models in the scenario of multi-channel digital television is accompanied in Mediaset, with a view to a gradual coming together of telecommunication sectors, by a new will to be present in this sector. Regarding this strategy, a particular significance has been taken by the start of the project for Albacom's listing at the Stock Exchange, a company where Mediaset owns a 19.5% stake. At Albacom's AGM on March 28, 2001, shareholders unanimously approved the proposed admission to the Stock Exchange, which is expected to take place by next Summer.

ECONOMIC AND FINANCIAL RESULTS OF THE MEDIASET GROUP

Drafting Criteria

According to the CONSOB deliberation no. 11971 of May 14, 1999, the economic information given below refers to the first quarter 2001, the first quarter 2000 and December 31, 2000.

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 December 31, 2000. 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 quarterly report has not been subject to an audit by the independent auditors.

It is worth noting that again in the first three months of 2001, the Epsilon Group is consolidated by means of proportional integration, since the operations have not yet been completed through which the current partners in Epsilon will buy back the business divisions sold to the Joint-venture company and Mediaset Investment S.a.r.l. will acquire a 2.28% stake in KirchMedia GmbH & Co. KgaA. Such operations will be carried out following the definition of the detailed contracts that the parties are drafting after postponing the previous March 31, 2001 deadline.

Let us now analyse the main consolidated results for the first quarter 2001.

Economic results

Here follows the summary income statement of the Mediaset Group:

| Mediaset Group | | | | | | |
|-----------------------|-------------------|---|-------------------|-------------------|-------------------|-------------------|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 2,331.65 | 4,514.7 | Sales of goods and services | 1,290.9 | 1,188.5 | 666.69 | 613.81 |
| 31.92 | 61.8 | Other revenues and income | 10.5 | 10.8 | 5.42 | 5.58 |
| 2,363.57 | 4,576.5 | Total consolidated net revenues | 1,301.4 | 1,199.3 | 672.11 | 619.39 |
| 290.30 | 562.1 | Personnel expenses | 142.3 | 133.6 | 73.49 | 69.00 |
| 716.10 | 1,386.5 | Purchases, services, other costs | 362.6 | 305.9 | 187.27 | 157.98 |
| 1,006.40 | 1,948.6 | Operating costs | 504.9 | 439.5 | 260.76 | 226.98 |
| 1,357.17 | 2,627.9 | Gross operating profit (loss) | 796.5 | 759.8 | 411.35 | 392.41 |
| 665.74 | 1,289.0 | Amortisation, depreciation and write-downs | 325.0 | 305.9 | 167.85 | 158.00 |
| 691.43 | 1,338.9 | Operating profit (loss) | 471.5 | 453.9 | 243.50 | 234.41 |
| (52.41) | (101.5) | Financial income/(charges) | (36.8) | (10.1) | (19.00) | (5.22) |
| 10.02 | 19.4 | Income/(charges) from equity investments | (19.3) | (3.5) | (9.96) | (1.81) |
| 649.04 | 1,256.8 | Profit (loss) before extraordinary items | 415.4 | 440.3 | 214.54 | 227.38 |
| (1.14) | (2.2) | Sundry and extraordinary income/(charges) | (0.1) | 0.4 | (0.05) | 0.18 |
| 647.90 | 1,254.6 | Profit before taxation | 415.3 | 440.6 | 214.49 | 227.56 |

The effects on the income statement for the relevant quarters, deriving from the 50% consolidation of the Epsilon Group are described below:

| Mediaset Group - effects arising from the consolidation of the Epsilon Group | | | | | | |
|--|----------------|---|----------------|--------------|----------------|---------------|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 79.38 | 153.7 | Sales of goods and services | 22.0 | 20.9 | 11.36 | 10.79 |
| (0.26) | (0.5) | Other revenues and income | (0.1) | (0.1) | (0.05) | (0.05) |
| 79.12 | 153.2 | Total consolidated net revenues | 21.9 | 20.8 | 11.31 | 10.74 |
| 2.17 | 4.2 | Personnel expenses | 1.1 | 1.0 | 0.57 | 0.52 |
| 65.28 | 126.4 | Purchases, services and other costs | 18.0 | 17.7 | 9.30 | 9.14 |
| 67.45 | 130.6 | Operating costs | 19.1 | 18.7 | 9.87 | 9.66 |
| 11.67 | 22.6 | Gross operating profit (loss) | 2.8 | 2.1 | 1.44 | 1.08 |
| 8.21 | 15.9 | Amortisation, depreciation and write-downs | 4.0 | 3.9 | 2.07 | 1.99 |
| 3.46 | 6.7 | Operating profit (loss) | (1.2) | (1.8) | (0.63) | (0.91) |
| (2.43) | (4.7) | Financial income/(charges) | (4.5) | (1.9) | (2.32) | (0.96) |
| (5.27) | (10.2) | Income/(charges) from equity investments | (2.1) | (1.5) | (1.08) | (0.77) |
| (4.24) | (8.2) | Profit (loss) before extraordinary items | (7.8) | (5.1) | (4.03) | (2.64) |
| - | - | Sundry and extraordinary income/(charges) | - | - | - | - |
| (4.24) | (8.2) | Profit (loss) before taxation | (7.8) | (5.1) | (4.03) | (2.64) |

The negative effect on the economic profits of the Mediaset Group, deriving from the 50% consolidation of the Epsilon Group, can be mainly attributed, in both quarters, to goodwill amortisation and negative exchange rate differences. 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:

| Mediaset Group net of the effects arising from the consolidation of the Epsilon Group | | | | | | |
|---|----------------|---|----------------|----------------|----------------|---------------|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 2,252.27 | 4,361.0 | Sales of goods and services | 1,268.9 | 1,167.6 | 655.33 | 603.02 |
| 32.18 | 62.3 | Other revenues and income | 10.6 | 10.9 | 5.47 | 5.63 |
| 2,284.45 | 4,423.3 | Total consolidated net revenues | 1,279.5 | 1,178.5 | 660.80 | 608.65 |
| 288.13 | 557.9 | Personnel expenses | 141.2 | 132.6 | 72.92 | 68.48 |
| 650.82 | 1,260.1 | Purchases, services, other costs | 344.6 | 288.2 | 177.97 | 148.84 |
| 938.95 | 1,818.0 | Operating costs | 485.8 | 420.8 | 250.89 | 217.32 |
| 1,345.50 | 2,605.3 | Gross operating profit (loss) | 793.7 | 757.7 | 409.91 | 391.33 |
| 657.53 | 1,273.1 | Amortisation, depreciation and write-downs | 321.0 | 302.1 | 165.78 | 156.02 |
| 687.97 | 1,332.2 | Operating profit (loss) | 472.7 | 455.6 | 244.13 | 235.31 |
| (49.98) | (96.8) | Financial income/(charges) | (32.3) | (8.3) | (16.68) | (4.26) |
| 15.29 | 29.6 | Income/(charges) from equity investments | (17.2) | (2.0) | (8.88) | (1.03) |
| 653.28 | 1,265.0 | Profit (loss) before extraordinary items | 423.2 | 445.3 | 218.57 | 230.02 |
| (1.14) | (2.2) | Sundry and extraordinary income/(charges) | (0.1) | 0.4 | (0.05) | 0.18 |
| 652.14 | 1,262.8 | Profit before taxation | 423.1 | 445.7 | 218.52 | 230.20 |

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

| Mediaset Group (net of the Epsilon Group) | | Mediaset Group | Mediaset Group | | Mediaset Group (net of the Epsilon Group) | |
|--|------------|--|-------------------|------------|--|------------|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| 100.0% | 100.0% | Consolidated net revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| 41.1% | 42.6% | Operating costs | 38.8% | 36.6% | 38.0% | 35.7% |
| 58.9% | 57.4% | Gross operating profit | 61.2% | 63.4% | 62.0% | 64.3% |
| 28.8% | 28.2% | Amortisation, depreciation and write-downs | 25.0% | 25.5% | 25.1% | 25.6% |
| 30.1% | 29.3% | Operating profit | 36.2% | 37.8% | 36.9% | 38.7% |
| 28.6% | 27.5% | Profit before extraordinary items | 31.9% | 36.7% | 33.1% | 37.8% |
| 28.5% | 27.4% | Profit before taxation | 31.9% | 36.7% | 33.1% | 37.8% |

We would stress that, due to the non 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.

The single items of the Mediaset Group income statement are analysed below, including the share of results attributable to the Epsilon Group.

Net revenues

| | |
|----------|---------|
| 31/03/01 | 1,301.4 |
| 31/03/00 | 1,199.3 |
| % change | 8.5% |

In the first quarter 2001, Mediaset Group consolidated net revenues recorded an ITL 102.1 billion increase over the first quarter 2000.

The following table shows the revenues breakdown:

(billions)

| 31/12/2000 | | 31/03/2001 | 31/03/2000 |
|----------------|--|----------------|----------------|
| 4,004.3 | Revenues from the sales of advertising slots | 1,151.5 | 1,086.9 |
| 686.2 | Revenues from television sales, promotions, sponsorships | 214.2 | 199.9 |
| 4,690.5 | Advertising revenues from third parties | 1,365.7 | 1,286.8 |
| 41.0 | Promoservice revenues | 13.1 | 7.0 |
| 215.5 | Other revenues from television operations | 62.9 | 43.2 |
| (683.7) | Agency discounts | (202.7) | (187.7) |
| 4,263.3 | Total net revenues from television operations | 1,239.0 | 1,149.3 |
| 53.1 | Net revenues from multimedia operations | 15.6 | 5.6 |
| 106.9 | Total net revenues from non-television operations | 24.9 | 23.6 |
| 4,423.3 | Total consolidated net revenues from Italy | 1,279.5 | 1,178.5 |
| 172.2 | Revenues 50% Epsilon Group | 27.6 | 25.8 |
| (18.9) | Write-offs | (5.7) | (5.0) |
| 4,576.5 | Total consolidated net revenues | 1,301.4 | 1,199.3 |

In the first quarter 2001, the increase in the Group's net revenues is mainly to be attributed to the growth in **revenues from television** (+7.8%).

In particular:

- **advertising revenues** from **third parties** amounted to ITL 1,365.7 billion, with an ITL 78.9 billion increase (equal to +6.1%) over the first quarter 2000. *Revenues from the sale of advertising slots* have shown a 5.9% increase with respect to the first quarter 2000. This growth was due to a higher percentage increase in average revenues despite the lower quantity of advertising slots sold; *revenues from television sales, promotions and sponsorships* have shown a higher growth rate, equal to 7.2% compared to the first quarter 2000;
- higher **Promoservice revenues** (equal to ITL 6.1 billion with respect to the first quarter 2000) mainly refer to advertising sales bartered for goods;
- **other revenues from television operations** showed an ITL 19.7 billion increase, mainly attributable to the reselling to Stream of television rights for some of the *Champions League* matches.

A significant increase (+ITL 10.0 billion with respect to the first three months of 2000) was also recorded by **net revenues** generated by **multimedia operations**, which can be mainly attributed to higher revenues connected to theme channels. Specifically :

- revenues from theme channels were ITL 9.5 billion (ITL 2.7 billion in the first quarter 2000) and concerned *Happy Channel*, *Comedy Life* and *Duel TV* (the last two were distributed starting from April 2000) and *MT Channel* (the latter distributed starting from January 2001);
- net advertising revenues connected to the Internet amounted to ITL 2.7 billion (ITL 1.1 billion in the first quarter 2000);
- revenues connected to Mediavideo reached ITL 2.1 billion (ITL 1.1 billion in the same quarter of the previous year);
- in the first quarter 2001 revenues (equal to ITL 1.3 billion) were generated by the publishing operations connected to the monthly magazine *MT-La macchina del tempo*, distributed starting from November 2000.

Net revenues from non-television operations were mainly in line with those of the first quarter 2000; the ITL 1.3 billion increase is mainly attributable to Publitalia '80 S.p.A. revenues, for the sales of advertising space on billboards and posters.

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 19.8 billion;
- revenues from the sale of advertising spaces on media managed under licence or sub-licence, partly generated by Publieurope International Ltd., amounting to ITL 7.8 billion.

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

Operating costs

| | |
|----------|-------|
| 31/03/01 | 504.9 |
| 31/03/00 | 439.5 |
| % change | 14.9% |

The operating costs of the Mediaset Group have shown an ITL 65.4 billion increase in the first quarter 2001 with respect to the first quarter 2000.

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

Personnel expenses

| | |
|----------|-------|
| 31/03/01 | 142.3 |
| 31/03/00 | 133.6 |
| % change | 6.5% |

Personnel expenses of the companies belonging to the Mediaset Group show an ITL 8.7 billion increase over the first quarter 2000 and include the costs regarding new media operations headed by Mediadigit, at ITL 2.5 billion (ITL 0.9 billion in the first quarter 2000), those regarding non-television operations headed by Elettronica Industriale, at ITL 2.3 billion (ITL 2.1 billion in the first quarter 2000) and those regarding the Epsilon Group, at ITL 1.1 billion.

Number of employees

The following table shows the number of employees of the Mediaset Group at March 31, 2001, without including the number of employees of the Epsilon Group which, at the same date, amounted to 64 people.

| 31/12/2000 | Number of employees including temporary staff | 31/03/2001 | 31/03/2000 |
|--------------|---|--------------|--------------|
| 270 | Managers | 272 | 262 |
| 294 | Journalists | 307 | 279 |
| 609 | Middle managers | 607 | 594 |
| 3,141 | Office staff | 3,150 | 3,207 |
| 70 | Manual workers | 67 | 73 |
| 4,384 | Mediaset Group | 4,403 | 4,415 |

| 31/12/2000 | Average workforce including temporary staff | 31/03/2001 | 31/03/2000 |
|--------------|---|--------------|--------------|
| 268 | Managers | 271 | 263 |
| 279 | Journalists | 305 | 275 |
| 600 | Middle managers | 607 | 592 |
| 3,165 | Office staff | 3,144 | 3,214 |
| 70 | Manual workers | 69 | 73 |
| 4,382 | Mediaset Group | 4,396 | 4,417 |

Purchases, services and other costs

| | |
|----------|-------|
| 31/03/01 | 362.6 |
| 31/03/00 | 305.9 |
| % change | 18.5% |

Purchases, services and other costs have shown an increase of ITL 56.7 billion in the first quarter 2001 with respect to the first quarter 2000. This growth is mainly attributable to the trend in television costs, as is shown in the following breakdown:

(billions)

| 31/12/2000 | | 31/03/2001 | 31/03/2000 |
|----------------|--|--------------|--------------|
| 170.3 | Selling costs | 47.2 | 39.1 |
| 743.3 | Television scheduling costs | 228.3 | 190.2 |
| 68.2 | Broadcasting costs | 14.6 | 15.7 |
| 165.9 | Overheads and other costs | 29.5 | 25.7 |
| 1,147.7 | Total television costs | 319.6 | 270.7 |
| 36.1 | Multimedia costs | 9.6 | 3.8 |
| 76.3 | Other non-television costs | 15.4 | 13.8 |
| 1,260.1 | Purchases, services and other costs | 344.6 | 288.2 |
| 145.4 | 50% Epsilon Group costs | 23.7 | 22.7 |
| (19.0) | Write-offs | (5.7) | (5.0) |
| 1,386.5 | Total purchases, services and other costs | 362.6 | 305.9 |

The increase in **television costs**, besides including the variable component of *selling costs* connected to higher Promoservice sales (+ITL 6.1 billion over the first quarter 2000), can be mainly attributed to the increase in *television scheduling costs* (+ITL 38.1 billion with respect to the first quarter 2000). This change is connected to both the presence of new production formats in the schedule of the Mediaset networks in the first quarter 2001, such as the daily soap opera *Cent'anni Vetrine* and the game show *Chi vuole essere miliardario* (broadcast also in its Prime Time version), and to the effect linked to the Italia 1 strengthening process which was already underway last Autumn.

In order to better appreciate the trends in period costs, it should be noted that the entire television costs, including personnel expenses and the amortisation of rights and other fixed assets, in the first quarter 2001 showed a limited (7.2%) increase, net of the revenues generated by reselling television rights, as described above.

The increase in **multimedia costs** is mainly due to the expenses incurred for the creation of the theme channels *Comedy Life*, *Duel TV* and *MT Channel*, that were not present in the first quarter 2000, the monthly magazine *MT-La macchina del tempo* distributed starting from November 2000 and the higher costs paid for the making of the Mediaset Online portal which, in the first three months of 2001, fully defined its publishing identity.

Other non-television costs remained substantially unchanged with respect to the first quarter 2000; the slight increase can be mainly attributed to the growth in the variable costs connected to the sale of advertising space on billboards and posters.

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 14.2 billion; this figure shows the owner's share of the rights distributed by Betafilm GmbH;
- advertising licence costs borne by Publieurope International Ltd. amounting to ITL 6.8 billion;
- other operating costs regarding companies belonging to the Epsilon Group, amounting to ITL 2.7 billion (ITL 2.4 billion in the first quarter 2000).

Gross Operating Profit

| | |
|----------|-------|
| 31/03/01 | 796.5 |
| 31/03/00 | 759.8 |
| % change | 4.8% |

In the first quarter 2001, the gross operating profit showed an ITL 36.7 billion increase over the first quarter of the previous year. As a percentage of consolidated net revenues it was equal to 61.2% with respect to 63.4% in the first quarter 2000.

Operating Result

| | |
|----------|-------|
| 31/03/01 | 471.5 |
| 31/03/00 | 453.9 |
| % change | 3.9% |

The operating result of the first quarter 2001 showed an increase of ITL 17.6 billion with respect to the same quarter of 2000, net of amortisation, depreciation and write-downs equal to ITL 325.0 billion. This item includes ITL 287.3 billion regarding the amortisation of television rights (ITL 2.8 billion of which regarding theme channels) and ITL 37.7 billion regarding amortisation and depreciation of other fixed assets.

With respect to the same quarter of the previous year, there is higher amortisation of television rights (+ ITL 25.1 billion). This change was completely offset in the quarter by the revenues generated from the resale of part of Champions League rights.

The percentage ratio of the operating result on consolidated net revenues was equal to 36.2% with respect to 37.8% for the same quarter of the previous year. Net of the effect arising from the 50% consolidation of the Epsilon Group, its percentage on consolidated net revenues was equal to 36.9% , an extremely high level, also considering the exceptional profitability showed in the same quarter of 2000 (38.7%).

The assessment of 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)

| | |
|----------------|--------|
| 31/03/01 | (36.8) |
| 31/03/00 | (10.1) |
| billion change | (26.7) |

The deterioration in the balance of this item with respect to the first quarter 2000 is mainly attributable to the higher charges connected to the adjustment of the book value of securities and of 4,110,000 own shares, at market value, as well as to the higher charges connected to the calculation of Epsilon Group dollar items according to the exchange rates at the end of the quarter.

It should also be noted that revenues generated from Group's liquid funds, for the part managed by SICAV ABS Finance Fund, are calculated only at year end.

Income/(charges) from equity investments

| | | |
|----------------|--------|---|
| 31/03/01 | (19.3) | This item 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 Telecinco Group (with a 40% shareholding) and of the Mediaset Group share |
| 31/03/00 | (3.5) | |
| billion change | (15.8) | |

(50%) of the result of the shareholding (49%) held by the Epsilon Group in PKS GmbH, a holding company which indirectly owns a 16.53% stake in ProSiebenSAT1MediaAG. The negative balance of ITL 19.3 billion can be analysed as follows:

- ITL 5.8 billion net income from the evaluation of Telecinco (ITL 15.5 billion, which is the share of the result, and ITL 9.7 billion regarding goodwill amortisation quota), with respect ITL 13.5 billion net income in the same quarter of the previous year;
- a net ITL 23.0 billion charge regarding Albacom S.p.A. (ITL 22.0 billion, which is the share of the result, and ITL 1.0 billion for the goodwill amortisation quota), with respect to a net ITL 14.2 billion charge in the same quarter of the previous year;
- an ITL 2.1 billion charge for the equity valuation of the PKS Group, net of the goodwill amortisation quota, equal to ITL 4.4 billion, with respect to a net ITL 1.5 billion charge in the same quarter of 2000.

Profit before taxation

| | |
|----------|-------|
| 31/03/01 | 415.3 |
| 31/03/00 | 440.6 |
| % change | -5.7% |

There was an ITL 25.3 billion decrease in profit before taxation; net of the effect arising from the 50% consolidation of the Epsilon Group, a lower profit level, equal to minus ITL 22.6 billion, was recorded, which can be mainly attributed, with a higher operating result, to a lower result generated by equity investments and to higher financial charges.

Balance sheet and financial position

Here are the balance sheet summary and the cash flow statement of the Mediaset Group:

| Mediaset Group | | | | | | |
|---|----------------|--|----------------|----------------|-----------------|-----------------|
| 31/12/2000 | 31/12/2000 | Balance sheet summary | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | (EUR millions) | (EUR millions) | (EUR millions) |
| 1,763.94 | 3,415.5 | Television rights | 3,588.6 | 3,483.7 | 1,853.33 | 1,799.18 |
| 449.99 | 871.3 | Other intangible/tangible fixed assets | 881.1 | 975.6 | 455.02 | 503.86 |
| 585.53 | 1,133.8 | Equity investments and financial fixed assets | 1,114.3 | 941.2 | 575.49 | 486.09 |
| (450.67) | (872.6) | Net working capital and other assets/liabilities | (757.8) | (1,186.9) | (391.40) | (612.98) |
| (85.06) | (164.7) | Allocation for severance indemnities | (169.3) | (156.5) | (87.44) | (80.83) |
| 2,263.73 | 4,383.3 | Net investments | 4,656.8 | 4,057.1 | 2,405.00 | 2,095.32 |
| 125.32 | 242.7 | Net financial position | 384.7 | 602.9 | 198.68 | 311.37 |
| Group shareholders' equity and shareholders' equity attributable to minority interests | | | | | | |
| 2,389.15 | 4,626.0 | | 5,041.5 | 4,660.0 | 2,603.70 | 2,406.69 |
| 31/12/2000 | 31/12/2000 | Sources and uses | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | (EUR millions) | (EUR millions) | (EUR millions) |
| 1,146.64 | 2,220.2 | Operating cash-flow | 755.7 | 751.2 | 390.29 | 387.96 |
| (806.09) | (1,560.8) | Total investments of which: | (494.1) | (431.5) | (255.17) | (222.84) |
| (612.52) | (1,186.0) | investments in television rights | (469.9) | (403.6) | (242.68) | (208.44) |
| (116.67) | (225.9) | equity investments | - | (0.9) | - | (0.46) |
| (13.89) | (26.9) | intangible investments | (3.9) | (1.4) | (2.01) | (0.72) |
| (63.01) | (122.0) | tangible investments | (20.3) | (25.6) | (10.48) | (13.22) |
| 2.69 | 5.2 | Share capital increases | - | - | - | - |
| (216.19) | (418.6) | Dividends paid | - | - | - | - |
| (177.25) | (343.2) | Other monetary variations | (119.6) | (56.7) | (61.75) | (29.28) |
| (50.20) | (97.2) | Net cash flow | 142.0 | 263.0 | 73.37 | 135.84 |

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

| Mediaset Group - effects arising from the consolidation of the Epsilon Group | | | | | | |
|---|----------------|--|----------------|----------------|----------------|----------------|
| 31/12/2000 | 31/12/2000 | Balance sheet summary | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | (EUR millions) | (EUR millions) | (EUR millions) |
| 13.94 | 27.0 | Television rights | 27.0 | 12.8 | 13.94 | 6.61 |
| 56.97 | 110.3 | Other intangible/tangible fixed assets | 106.6 | 135.1 | 55.05 | 69.77 |
| (62.75) | (121.5) | Equity investments and financial fixed assets | (123.6) | (112.6) | (63.83) | (58.15) |
| (21.69) | (42.0) | Net working capital and other assets/liabilities | (45.3) | (46.2) | (23.40) | (23.86) |
| - | - | Allocation for severance indemnities | - | - | - | - |
| (13.53) | (26.2) | Net investments | (35.3) | (10.9) | (18.23) | (5.63) |
| 4.34 | 8.4 | Net financial position | 9.8 | 4.7 | 5.06 | 2.43 |
| Group shareholders' equity and shareholders' equity attributable to minority interests | | | | | | |
| (9.19) | (17.8) | | (25.5) | (6.2) | (13.17) | (3.20) |

The balance sheet and the cash flow statement 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 | | | | | | |
|---|----------------|---|----------------|----------------|-----------------|-----------------|
| 31/12/2000 | 31/12/2000 | Balance sheet summary | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 1,749.99 | 3,388.5 | Television rights | 3,561.6 | 3,470.9 | 1,839.39 | 1,792.57 |
| 393.03 | 761.0 | Other intangible/tangible fixed assets | 774.5 | 840.5 | 399.97 | 434.08 |
| 648.28 | 1,255.3 | Equity investments and financial fixed assets | 1,237.9 | 1,053.8 | 639.32 | 544.24 |
| (428.97) | (830.6) | Net working capital and other assets/liabilities | (712.5) | (1,140.7) | (368.00) | (589.12) |
| (85.06) | (164.7) | Allocation for severance indemnities | (169.3) | (156.5) | (87.44) | (80.83) |
| 2,277.27 | 4,409.5 | Net investments | 4,692.1 | 4,068.0 | 2,423.24 | 2,100.94 |
| 120.98 | 234.3 | Net financial position | 374.9 | 598.2 | 193.62 | 308.95 |
| 2,398.33 | 4,643.8 | Group shareholders' equity and shareholders' equity attributable to minority interests | 5,067.0 | 4,666.2 | 2,616.86 | 2,409.89 |
| Sources and uses | | | | | | |
| 31/12/2000 | 31/12/2000 | Sources and uses | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 1,142.35 | 2,211.9 | Operating cash-flow | 757.5 | 750.1 | 391.22 | 387.39 |
| (799.32) | (1,547.7) | Total investments of which: | (494.1) | (431.5) | (255.17) | (222.84) |
| (605.18) | (1,171.8) | investments in television rights | (469.9) | (403.6) | (242.68) | (208.44) |
| (116.67) | (225.9) | equity investments | - | (0.9) | - | (0.46) |
| (14.46) | (28.0) | intangible investments | (3.9) | (1.4) | (2.01) | (0.72) |
| (63.01) | (122.0) | tangible investments | (20.3) | (25.6) | (10.48) | (13.22) |
| 2.69 | 5.2 | Share capital increases | - | - | - | - |
| (216.19) | (418.6) | Dividends paid | - | - | - | - |
| (184.08) | (356.4) | Other monetary variations | (122.8) | (60.3) | (63.42) | (31.14) |
| (54.56) | (105.6) | Net cash flow | 140.6 | 258.3 | 72.63 | 133.41 |

Below are comments to the main items and the variations to December 31, 2000. The analysis is carried out with reference to the Mediaset Group including the share of results of the Epsilon Group.

Net investments

| | |
|----------------|---------|
| 31/03/01 | 4,656.8 |
| 31/12/00 | 4,383.3 |
| billion change | 273.4 |

The most significant element of the invested capital of the Mediaset Group is represented by **television rights**, which showed an increase of ITL 173.1 billion over December 31, 2000.

This growth is mainly due to period investments (ITL 469.9 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.

Equity investments and other financial fixed assets decreased by ITL 19.5 billion with respect to December 31, 2000 because of the equity valuation of shareholdings in Telecinco, Albacom and PKS.

The reduction in **working capital and other assets and liabilities** amounted to ITL 114.8 billion with respect to December 31, 2000, and is mainly connected to the reduction in payables (equal to ITL 27 billion) due to

associated company Blu, regarding the unpaid part of the capital increase subscribed in 2000, the payment of ITL 11.7 billion for the granting of a non-interest bearing loan (which will be repaid after the listing at the Stock Exchange) provided in proportion to the stake owned to the associated company Albacom and the reduction of

multi-annual trade falling due in the quarter, regarding the Champions payables, for the amount League.

Group shareholders' equity and shareholders' equity attributable to minority interests

| | |
|----------------|---------|
| 31/03/01 | 5,041.5 |
| 31/12/00 | 4,626.0 |
| billion change | 415.5 |

The increase over December 31, 2000 can be attributed to the period profit.

Net financial position

| | |
|----------------|-------|
| 31/03/01 | 384.7 |
| 31/12/00 | 242.7 |
| billion change | 142.0 |

The level of liquid funds net of the effect arising from the 50% consolidation of the Epsilon Group (ITL 9.8 billion), amounted to ITL 374.9 billion. The increase over December 31, 2000, 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 March 31, 2001, compared with that at December 31, 2000:

(billions)

| | 31/03/2001 | 31/12/2000 |
|--|----------------|----------------|
| Liquid funds | 513.9 | 470.7 |
| Financial income and securities (which are not fixed assets) | 498.2 | 442.0 |
| Total financial assets | 1,012.1 | 912.7 |
| Due to banks | (607.3) | (653.2) |
| Due to other financial institutions | | |
| Factoring companies | - | (5.1) |
| Leasing companies | (1.0) | (1.2) |
| Other | (19.0) | (10.5) |
| Total financial liabilities | (627.4) | (670.0) |
| Net financial position | 384.7 | 242.7 |

ANALYSIS OF THE VARIOUS AREAS

Commercial television - Italy

Advertising

In the first quarter of 2001, the increase in advertising on the Mediaset networks, broken down below, amounted to 6%:

(billions)

| | 31/3/2001 | 31/3/2000 |
|--|----------------|----------------|
| Advertising revenues from third parties | 1,365.7 | 1,286.8 |
| Advertising revenues from Fininvest Group and Mediolanum Group | 23.6 | 24.6 |
| Advertising revenues from Promoservice | 3.0 | 1.4 |
| Television advertising revenues Publitalia '80 S.p.A. | 1,392.3 | 1,312.8 |

It should be pointed out that the increase in sales achieved by Publitalia '80 with respect to the first three months of 2000, was obtained by means of a higher growth in average revenues, in spite of a reduction in the number of commercials broadcast. In the current market situation, the ability to keep sustaining the growth of the unitary value is a significant signal of the strong differentiation perceived by the market with respect to the commercial value generated by the offer of Mediaset networks, and is the best guarantee for the achievement of annual goals.

In the first months of 2001, the television advertising market confirmed the slow down in the growth rate that could already be seen in the last months of 2000. Still existing uncertainties connected to the development of the international economic framework, mainly connected to the weakening of U.S. economy, have brought about the postponing of advertising campaigns that had been planned by some main companies for the same quarter of the previous year, and generated a sharp reduction in investments in the telecommunications/informatics industry (mainly attributable to the element represented by dot.com companies), i.e. the industry that sustained the exceptional boom in advertising investments especially in early 2000. In the first months of 2001 a strong recovery of investments has been recorded by the automotive and consumption goods industries, while a strong growth in investments from the financial industry is to be noted in the field of emerging industries.

The performance of Publitalia '80, in line with period objectives, should therefore be seen as particularly positive, both in the light of the overall market situation, and with respect to the exceptionally high result achieved in the first quarter 2000.

Broadcasting and contents

Mediaset achieved a very good performance in the first three months of 2001; 44.8% obtained on the whole by our three networks in the full day was an extremely positive result, a good 2 points higher than the result achieved in the same quarter of 2000.

The most significant increase was in the Prime Time (+4 share points), but also our Day Time results are better than in 2000 (+1.2 points).

Here is the situation over the full day:

| Full day share | Jan/Mar 2001 | Jan/Mar 2000 | Change |
|-------------------|---------------|---------------|--------|
| Mediaset networks | 44.8% | 42.8% | 2.0% |
| RAI networks | 46.7% | 48.0% | -1.3% |
| Others | 8.5% | 9.2% | -0.7% |
| Total | 100.0% | 100.0% | |

Mediaset's good overall results are mainly due to the very good performance of Canale 5 (+2.6 points over the same period of last year); the audience decrease of RAI can be attributed especially to the fall of RAI 2, which loses 2.7 points.

Here follows the network analysis of Mediaset audience.

It should be noted that Prime Time audience data refer to the times 20.30-22.30.



The Mediaset flagship started 2001 in the best possible way, showing two excellent results:

- last year, in the full day, Rai 1 was still above Canale 5 by 1.3 points, but the over 2 point increase recorded in the first three months of the year by Canale 5 has almost cancelled out the distance between these two networks (24.9% for Canale 5 vs. 25% for Rai 1);
- in the audience aged 15 - 64 years, the network had a 4.5 point increase with respect to 2000, and confirmed its absolute leadership in this commercial target (27.1% with respect to Rai 1's 22.6%).

As is shown in the following table, the audience increase obtained by Canale 5 is higher in Prime Time, but still considerable in Day Time.

| Canale 5 - Total audience | Jan/Mar 2001 | Jan/Mar 2000 | Change |
|---------------------------|--------------|--------------|--------|
| Full day | 24.9% | 22.3% | 2.6% |
| Prime Time | 26.1% | 22.0% | 4.1% |
| Day Time | 24.5% | 22.4% | 2.1% |

More specifically:

- Day Time results are especially characterized by soap operas: in its new time placement, *Vivere* managed to obtain a good 20.2%, this way granting the network an almost 6 point increase with respect to the same quarter of 2000 in the 12.30-13.00 time (19.5% vs. 13.6%); *Beautiful* confirmed to be a strong attraction and remained stable at 31.7% and finally *Cento Vetrine*, the new soap opera by Canale 5, proved its potential and achieved a 25.4% audience share in the first three

months of broadcasting, a good 4 points higher than the result obtained by Vivere in its first three months in Spring 1999 (21.1%).

Uomini & Donne achieved another good result thanks to its great innovative ability, reaching 25.8%.

Very positive results were obtained by late afternoon productions: *Verissimo* continued to grow, and improved its audience share by one point with respect to the same quarter of 2000, at the level of 25.5%. The best result ever was achieved by the game show presented by Gerry Scotti: *Passaparola* achieved, in the first quarter 2001, 26.7, increasing its audience share by a good 3.3 points over the previous year.

Sunday afternoons provided top audience shares as well: *Buona Domenica* systematically defeated not only Rai 1, but also Rai 2 with *Quelli che il calcio*, achieving 31.4 in the first part and 30.0% in the second part.

Late at night, *Maurizio Costanzo Show* with 24.0% gained almost two points over the same period of the previous year (22.3%) and defeated again *Porta a porta* (23.0%);

- in Prime Time, *Striscia la notizia* (32.6% compared to 30.0% in the same quarter of previous year, with peaks above 36%) continues to ensure visibility to the start of Prime Time, and was not negatively affected by the change of presenters in March, from Greggio-Iacchetti to the couple Bonolis-Laurenti.

A very good result was achieved by *I Filmissimi* on Mondays (27.2%) among which there were excellent results from *Il matrimonio del mio migliore amico* (34.4%) and *Così è la vita* (36.4%).

Investments in dramas continue to give good returns: in particular, *La uno bianca* performed particularly well with an average of 31.1% (the second part of this police drama even reached 33.2%); a good 26.0% was achieved by the first five shows of *Il bello delle donne*.

Canale 5 productions were extremely successful: *C'è posta per te* achieved an excellent 31.5% and managed to withstand competition from the new Rai1 Saturday production with Fiorello; *Paperissima* remained very popular, with a 28.5 audience share; the new production by Pingitore, *Saloon*, reached 29.2, improving of 1.6 points over the result achieved by the *Bagaglino* show in the same quarter of 2000. Great success was reached by the game show of Sunday night: *Chi vuol essere miliardario* with Gerry Scotti peaked at 27.4.



Italia 1

| Italia 1 - Total audience | Jan/Mar 2001 | Jan/Mar 2000 | Change |
|---------------------------|--------------|--------------|--------|
| Full day | 10.1% | 10.9% | -0.8% |
| Prime Time | 10.6% | 11.6% | -1.0% |
| Day Time | 9.9% | 10.7% | -0.8% |

In the first quarter of 2001 Italia 1's results in terms of audience are slightly lower than in the same quarter of 2000. In fact, in the full day, this network is still the first choice for children aged 4-14 – with a 24.0% share (+0.6 compared to the same quarter of 2000) – and was the third network for people aged 15-34.

In particular:

- during the Day Time, in the afternoon, cartoons always achieve very positive results: both *Dragon Ball* and *The Simpsons* almost reached 16%, the “variety” programme *Bim Bum Bam* kept achieving very good results thanks to the cartoon *Mila e Shiro* (14.4%), but especially thanks to the new *Pokemon* series, which reached 17.2% this year, almost two points more than in the same period of 2000.

As to productions, a specific mention must be given to the new programme *Popstar* that reached 15.3% with peaks above 17%; even *Wozzup* performed well (10.7%) gaining over one point from January to March;

- in Prime Time, as to productions, *Survivor* did not establish itself as trans-generational event, but managed to win the hearts of the audience of Italia 1: it reached 14.5% among people aged 15-34 and even 16.8% on children. *Matricole* gave good results, and reached 13.6%.

Much space was devoted to films, which made it possible to exploit at best the available library and achieved 11.3%; in particular, good results were achieved by *Il Maggiore Payne* and *Double Team*, at almost 15%.

Champions League obtained a very good result with the match Galatasaray - Milan (18.3%).



This network was up to expectations and kept the same levels as last year in the full day, while growing almost one point in Prime Time.

| Retequattro - Total audience | Jan/Mar 2001 | Jan/Mar 2000 | Change |
|------------------------------|--------------|--------------|--------|
| Full day | 9.8% | 9.6% | 0.2% |
| Prime Time | 8.4% | 7.5% | 0.9% |
| Day Time | 10.2% | 10.3% | -0.1% |

In particular:

- data regarding productions were confirmed in the Day Time: *Forum* kept a very good 18.4%, in spite of the strength of Rai counter-programmes and the repositioning of *Vivere* at lunch time. *La ruota della fortuna* remained stable at 10.9%, while *O.K. il prezzo è giusto* reached 8.7%. As to Sundays, *La Domenica del Villaggio* performed very well with 17.1%, 1.4 points more than in the previous year; a 1.6 point growth was achieved by *Melaverde* (8.5% compared to 6.9%). Saturday productions were also above average: *Sabato vip* reached 18.0% and *Il trucco c'è* 15.7%.

Positive news from the late afternoon: the event *Terra Nostra* and subsequently *Vento di passioni*, able to exploit its legacy, make it possible for the network to improve by 4 points in the time 19.30-20.30 (5.0% in 2000 compared to 9.0% in 2001);

- in Prime Time, films confirmed to be a precious resource and a careful programming of cinema rights made it possible for the network to reach a very good result. In particular, there were very good performances by evergreen films like *Nati con la camicia* (13.3%) and *Non c'è due senza quattro* (12.6%) besides the films *L'incarico* and *Malice il sospetto*, both over 10%.

Also in Prime Time, the already mentioned *Terra nostra* confirmed its success, and managed to obtain 11.2%, a by far above average result.

Finally, among productions, it should be noted that *Divieto d'entrata* achieved 8.5%.

Commercial Television – International

Telecinco Group

In the first quarter 2001, the Spanish advertising market basically remained stable, at a level of around PTS 86 billion (around ITL 1,000 billion) that was reached in the same quarter of last year. The slow down in advertising investments that has hit the main European countries has been accompanied in Spain by a consolidation stage of the market, after three years of exceptional expansion.

In this context, Publiespana advertising sales for Telecinco amounted to PTS 23.1 billion (around ITL 270 billion), compared to PTS 23.9 billion achieved in the same quarter of 2000, when advertising sales had grown by almost 24% with respect to 1999. The result achieved by Telecinco was obtained without affecting unitary revenues, by keeping the audience-share on the commercial target. In the same period, the main private competitor, Antena 3, recorded a decrease of 6.4% in advertising sales, while the first state television, TVE1, obtained a 6.5% increase, but only thanks to a greater availability of space and an extremely aggressive pricing policy.

In the first three months of 2001 Telecinco substantially maintained the full day audience share recorded in the first quarter 2000 (20.9% compared to 21.2%), while Antena 3, at 20.6%, showed a 2 points decrease to the benefit of the state television, which grew from 24.7% to 25.7% and independent networks. Audience results on the commercial target confirm in the first quarter 2001 the unquestioned leadership of Telecinco, maintaining the audience share of the same quarter of the previous year (over 23%), followed by Antena 3 (which fell from 23.7% to 22%) and TVE1, stable at 20.5%.

At the end of the first quarter 2001, the Telecinco Group had an operating result of PTS 5.7 billion (equal to operating profits of 25%), while period gross result amounted to PTS 3.3 billion, in line with forecasts. 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 5.8 billion.

Epsilon Group

The economic and financial situation of the Epsilon Group as of March 31, 2001 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 equity method its 49% shareholding held in PKS GmbH. This company, which held 59% of the share capital in SAT 1 GmbH and Media 1 GmbH at the moment of establishing the joint-venture company, acquired in 2000 an indirect 16.53% stake in the new company ProSiebenSat1MediaAg, established from merging the operations of Sat1 and Media 1, that merged with the ProSieben Group. The new company, that has been producing results with an accounting effect since January 1, 2000, is valued at equity within the PKS Group.

Here is the summary of the Epsilon Group's profit and loss account as at March 31, 2001:

| Epsilon Group | | | | | | | |
|----------------|----------------|---|----------------|---------------|----------------|---------------|--|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 | |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | | |
| 177.87 | 344.4 | Sales of goods and services | 55.2 | 51.6 | 28.51 | 26.65 | |
| - | - | Other revenues and income | - | - | - | - | |
| 177.87 | 344.4 | Total consolidated net revenues | 55.2 | 51.6 | 28.51 | 26.65 | |
| 4.44 | 8.6 | Personnel expenses | 2.1 | 2.0 | 1.08 | 1.03 | |
| 150.19 | 290.8 | Purchases, services, other costs | 47.5 | 45.4 | 24.53 | 23.45 | |
| 154.63 | 299.4 | Operating costs | 49.6 | 47.4 | 25.61 | 24.48 | |
| 23.24 | 45.0 | Gross operating profit | 5.6 | 4.2 | 2.90 | 2.17 | |
| 23.86 | 46.2 | Amortisation, depreciation and write-downs | 11.5 | 11.4 | 5.94 | 5.89 | |
| (0.62) | (1.2) | Operating profit (loss) | (5.9) | (7.2) | (3.05) | (3.72) | |
| (6.09) | (11.8) | Financial income/(charges) | (9.1) | (3.6) | (4.71) | (1.86) | |
| (10.54) | (20.4) | Income/(charges) from shareholdings | (4.1) | (2.9) | (2.12) | (1.50) | |
| (17.25) | (33.4) | Profit (loss) before extraordinary items | (19.1) | (13.7) | (9.87) | (7.08) | |
| - | - | Extraordinary and other income/(charges) | - | - | - | - | |
| (17.25) | (33.4) | Profit before taxation | (19.1) | (13.7) | (9.87) | (7.08) | |

It should be noted that figures, in spite of a positive result generated by the specific operation, are significantly marred by the goodwill amortisation quotas, arising from the consolidation of the activities included during the setting up of the Group.

Consolidated net revenues of the Epsilon Group, amounting to ITL 55.2 billion, growing 6.7% compared to the same quarter of the previous year, were mainly generated by the following operations:

- *marketing of television rights* carried out by Betafilm GmbH for ITL 39.6 billion;
- *advertising sales* for ITL 15.6 billion, regarding the sale of advertising space of European television networks and newspapers, carried out by Publieurope International Ltd. for international customers residing outside the country of the licensed medium.

The **gross operating profit** amounted to ITL 5.6 billion, equal to 10.1% of net revenues, and grew by 2 percentage points with respect to the same quarter of the previous year. 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 amounted to ITL 2.1 billion, with an average number of 64 employees (61 at March 31, 2000) in the companies belonging to the subholding companies Betafilm GmbH and Publieuros Ltd.

The **operating loss** amounted to minus ITL billion, due to goodwill amortisation quotas (ITL 9.2 billion) mainly arising from consolidating Betafilm into Euroset and the setting up costs of ETN.

Charges from equity investments, amounted to minus billion, and corresponds to the equity valuation of the 49% stake held in the PKS Group. The quarterly loss includes:

- the goodwill amortisation quota included in the value of ETN's shareholding in PKS, equal to ITL 8.8 billion;
- the share of profit generated in the quarter by the PKS group, equal to ITL 4.7 billion, mainly attributable to the consolidation of ProSiebenSat1MediaAg. In the first quarter 2000 the share of profit, equal to ITL 5.9 billion, had been directly generated by Sat1 and Media 1, which are no longer operating and have become financial holding companies.

The **result before taxation** is a loss of ITL 19.1 billion, due to the negative balance of financial operations, mainly attributable to losses on exchange rates and due to the foreign currency debt appreciation of Betafilm and a few of its subsidiaries.

Here follows the balance sheet summary of the Epsilon Group at March 31, 2001:

| Epsilon Group | | | | | | |
|----------------|----------------|---|----------------|--------------|----------------|---------------|
| 31/12/2000 | 31/12/2000 | | 31/03/2001 | 31/03/2000 | 31/03/2001 | 31/03/2000 |
| (EUR millions) | (ITL billions) | | (ITL billions) | | (EUR millions) | |
| 27.89 | 54.0 | Television rights | 54.0 | 25.6 | 27.89 | 13.22 |
| 180.86 | 350.2 | Other intangible/tangible fixed assets | 338.8 | 413.6 | 174.98 | 213.61 |
| 267.11 | 517.2 | Equity investments and financial fixed assets | 513.1 | 534.7 | 264.99 | 276.15 |
| (44.93) | (87.0) | Net working capital and other assets/liabilities | (93.1) | (92.0) | (48.08) | (47.51) |
| - | - | Allocation for severance indemnities | - | - | - | - |
| 430.93 | 834.4 | Net investments | 812.8 | 881.9 | 419.78 | 455.47 |
| 8.68 | 16.8 | Net financial position | 19.6 | 9.3 | 10.12 | 4.80 |
| | | Group shareholders' equity and shareholders' equity attributable to minority interests | | | | |
| 439.61 | 851.2 | | 832.4 | 891.2 | 429.90 | 460.27 |

The increase in *Television rights* relates to the stipulation of agreements that last year had been registered as advance payments.

Equity investments and other financial fixed assets, whose balance is equal to ITL 513.1 billion, mainly include the 49% shareholding in PKS GmbH (at March 31, 2001 equal to ITL 435.8 billion) and the 3.95% stake held in Monarchy Holding BV, a company that controls 100% of New Regency (equal to ITL 76.6 billion). The change in the first quarter 2001, and the difference from March 31, 2000 can be fully attributed to the equity valuation of PKS.

Other intangible and tangible fixed assets, equal to ITL 338.8 billion, mainly include net consolidation differences, depreciated in 10 years, arising from shareholdings of Betafilm GmbH and Publieurope International Ltd.

The **net financial position** equal to ITL 812.8 billion increased in the first quarter 2001, because of higher revenues from advertising customers.

The value of **shareholders' equity** in the Epsilon Group, which at March 31, 2001 stood at ITL 832.4 billion, reflects the series of establishment and capital increase operations carried out by Euroset S.a.r.l. in 1999 and the consolidated results achieved in the years 1999, 2000 and in the first quarter 2001.

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Detailed agreements are currently being stipulated for the company operations aimed at replacing joint-venture agreements and at converting the financial resources invested by Mediaset Investment in the Epsilon Group, for the acquisition of a stake in KirchMedia GmbH & Co. KgaA., as is established in the preliminary agreement reached in 2000 between the Mediaset Group and the Kirch Media Group. The deadline for the definition of the repurchase operations of the business divisions, originally established at March 31, 2001 was further postponed, by mutual agreement.

It should also be noted that in the first quarter 2001, the agreement was signed according to which KirchMedia GmbH & Co. KgaA acquired from News German Television Holding, a subsidiary company of News Corporation Limited, the operations of the German television network Tm3. In exchange for this contribution, News German Television Holding received a stake in KirchMedia GmbH & Co. KgaA share capital, besides a balance in cash. KirchMedia GmbH & Co. KgaA shareholders, in the light of this operation and once Mediaset has entered the company, will be the following: KirchHolding GmbH & Co. KG 72.62%, Thomas Kirch 6.54%, Rewe 5.71%, Capital Research Management Funds 2.93%, Trefinance S.A. (Fininvest Group) 2.48%, Kingdom Holdings 8 B.V. 2.48%, Lehman Brothers Merchant Banking 2.48%, News German Television Holding 2.48%, Mediaset Investment S.a.r.l. 2.28%.

Multimedia and telecommunications

Multimedia operations

The Mediaset Group is present in New Media (theme channels, Internet and teletext) through Mediadigit S.r.l., a company that started operations in 2000, with the objective of developing the synergy and *brand extension* opportunities regarding the traditional *core business* focussed on television products, by making services and contents that can be broadcast on various platforms (digital Pay Tv, Internet and Telecoms). These operations are supported by Publitalia '80 S.p.A. in terms of Internet related advertising sales.

In the first quarter 2001, Mediadigit started broadcasting *MT Channel*, a channel devoted to scientific dissemination within the *brand extension* policy of the television programme bearing the same name, from which a specialist magazine had already been conceived, and whose first issue was distributed in November 2000. Overall revenues generated from **theme channels** operations in the first quarter 2001 amounted to ITL 9.5 billion.

As to **Internet** based operations, the graphical improvement of Mediaset Online carried on, the vertical portal which includes all the Group's information and entertainment contents, both by reformatting television contents (TG5.it) and by means of contents specifically developed for the Net, such as *games* or *Tgcom* news, the site that has been representing the new version of Mediaset Online web information since March 5, with real time updates around the clock, debates, articles with videos, polls and forums that will make it possible to interact with users. *Tgcom* is made within the new journalist department of the Mediaset Group, set up with the objective to develop journalistic contents that can be channelled through various platforms, among which the Internet, Mediavideo and mobile terminals.

Mediaset Online aims at acquiring a leading position in the industry of *infotainment* on line and in March 2001 it recorded over 21 millions of pages view, corresponding to 860,000 single visitors. Advertising sales of Publitalia '80 regarding Group Internet operations in the first quarter 2001 amounted to ITL 1.3 billion, compared to ITL 300 million in the same quarter of the previous year. ITL 1.9 billion (ITL 1.2 billion at March 2000) must be added, regarding revenues generated by Publitalia '80 as exclusive concessionary of Jumpy and other third party portals.

Telecommunications

The Mediaset Group is currently present in the field of telecommunications through the 19.5% stake held by Mediaset S.p.A. in Albacom S.p.A., active in the field of fixed telephony, and through the 9% shareholding held by Mediaset Investment S.a.r.l. in Blu S.p.A., the fourth mobile telephony company in Italy.

In the field of fixed telephony, **Albacom S.p.A.**, now one of the main companies with domestic coverage in the field of fixed telecommunications for the business market, started in the first months of 2001 the project for the admission of the company to be listed at the Stock Exchange by next summer, with the objective of finding the financial resources necessary on the market to support the further development of the company according to the guidelines included in the Five Year Strategic Plan approved by the Board of Directors of the company on March 28, 2001.

On the same date, the General Meeting of Albacom S.p.A. shareholders unanimously approved the request to be admitted to the official listing of Albacom shares on the Telematic Market organised and managed by Borsa Italiana S.p.A. This operation, whose structure will be defined in detail nearer the offering date, will be carried out by means of Global Offering which will include, in order to guarantee in the first place to the company the financial resources envisaged in the Strategic Plan, a placement to Italian professional investors and foreign institutional investors and a public offering in Italy of newly issued shares within the framework of the capital increase decided on April 2, 2001 (see the following section of the Report on operations devoted to Events after March 31, 2001) and possibly also a public sale offering by current shareholders. The placement is managed by the following banks: BNL, Mediobanca and Schroder Salomon Smith Barney, the last two of these being also sponsors of this operation.

In the light of this operation, Albacom shareholders undertook to guarantee (as a proportion of each stake owned) the coverage of the financial needs of the company,

for the amount determined by the Board of Directors of Albacom, until July 31, 2001, by granting a no-interest bearing loan that will be repaid after the listing. At March 31, 2001 shareholders thus paid an overall amount of ITL 60 billion; Mediaset S.p.A.'s share paid in the period amounted to ITL 11.7 billion.

The main events regarding company operations in the first quarter 2001 relate to the execution, on January 10, 2001, of the purchase of a 60% stake in Basicel S.p.A., a company whose remaining 40% stake is held by Ferrovie dello Stato, following the authorisation of the Competition and Market authority and the stipulation with Telecom Italia of the agreement for the offer of wide band Internet access *Wholesale* services, which took place on March 23, 2001.

Based on the last available estimate regarding the profit and loss and balance sheet situation of Albacom for the financial year ended at March 31, 2001, the consolidated net result showed in the first three months of 2001 a loss of around ITL 113 billion, mainly attributable to prudential allocations made at the end of the year, with a positive contribution margin, net of amortisation and depreciation. Albacom sales reached ITL 900 billion at the end of the year, with a 35% increase over the previous year, and the number of customers increasing from 26,500 at March 31, 2000 to 66,000 at March 31, 2001.

Because of this result, the equity valuation of the stake in Albacom S.p.A. meant for the Mediaset Group at March 31, 2001 an overall loss of ITL 23 billion, ITL 1 billion of which for the goodwill amortisation quota.

In the field of mobile telephones, **Blu S.p.A.** at the end of March 2001 had more than one million customers, an amount exceeding period objectives. The company is working to define agreements with qualified partners in order to have the necessary infrastructures available for the introduction, expected on July 1, 2001 of the transferability of the number, and continues to consolidate its competitive position by aiming at the development of GPRS technology based services, by means of renegotiating current roaming agreements.

In the first quarter 2001 the company's economic results were in line with estimates. In the same period, Blu S.p.A. shareholders made a payment of ITL 300 billion for the capital increase decided on April 7, 2000; Mediaset Investment S.a.r.l. made a payment of ITL 27 billion, in line with its stake. Following these payments, Blu S.p.A. share capital (subscribed for ITL 1,500 billion) was paid-up for ITL 1,200 billion at March 31, 2001.

With reference to the litigation started arising from the decision taken in October 2000 by the Committee of Ministers, regarding the request to cash the ITL 4,000 billion guarantee issued by Blu S.p.A. to take part in the bid for the allocation of UMTS licences, it should be noted that, on January 24, 2001, the Lazio Regional Administrative Court issued the memorandum decision which accepted the appeal of Blu S.p.A. and as a consequence annulled the decision taken by the Committee of Ministers. On February 19, 2001, the reasons for the decision were made public which ascertain the correct and legitimate behaviour of Blu S.p.A. during the bid and in its previous stages. The procedure of the Authority for the Guarantee of Competition and

Market, which so far has not communicated any breach to Blu, should come to an end by June 30, 2001.

SIGNIFICANT EVENTS AFTER MARCH 31, 2001

- With respect to the approval of the application for the admission at the official listing of Albacom S.p.A. on the Telematic Market by the General Meeting of March 28, 2001, on April 2, 2001 the Extraordinary Meeting of Albacom S.p.A. approved the share capital increase reserved to the market for a maximum amount of around 30% of capital after the increase. This capital increase will help finance the further development of the company according to the guidelines of the Five Year Strategic Plan. The placement price and the actual quantity of shares to be issued will be defined by the Board of Directors of Albacom S.p.A. towards the offer which is likely to take place by next summer.
- In April 2001, Mediaset S.p.A. carried out the purchase of a 0.5% stake in the ordinary share capital of Olivetti S.p.A., thus executing the equity swap agreement stipulated with a major banking institution during the last quarter of 2000. For Mediaset, this operation implied an overall payment of EUR 142.7 million (around ITL 277 billion), EUR 103.2 million of which regards the value of the stake acquired and EUR 39.5 million regards the price difference paid to the bank on the basis of the market value of the share at the moment of signing the contract. The latter amount was already included in the financial statements as at December 31, 2000, based on the precise market assessment of the shares, in the charges for the assessment of financial operations on securities, with the allocation of an appropriate provision for risks.
- In April, Blu S.p.A. shareholders made payments for an overall amount of ITL 200 billion regarding the capital increase approved on April 7, 2000; Mediaset Investment S.a.r.l. made a payment of ITL 18 billion, in line with the amount of its stake. Following these payments, Blu S.p.A. share capital (subscribed for ITL 1,500 billion) was paid-up to ITL 1,400 billion. The remaining ITL 100 billion regarding the capital increase will be paid in May 2001 before the Extraordinary Meeting called for May 30, 2001, which will discuss resolutions about the recapitalisation of the company according to article 2446 of the Italian Civil Code, with respect to the losses incurred by Blu at December 31, 2000.
- It should also be noted that on May 9, 2001 the Attorney General gave notice to Blu S.p.A., of the appeal filed at the State Council for the annulment of the decision taken by the Lazio Regional Administrative Court. The decision, made public on February 19, 2001, had accepted the request of Blu S.p.A. for the annulment of the decision to cash the ITL 4,000 billion guarantee, issued in order to take part in the Umts bid, as previously requested by the Committee of Ministers.

FORSEEABLE DEVELOPMENTS

- Advertising sales on Mediaset networks in the first four months of 2001 showed a 5.7% increase, and confirmed, even in April, a decidedly higher performance than the reference market.
- In the first four months of 2001, Mediaset networks recorded an average audience share on the full day of 44.8% compared to 43.1% recorded in the same period of the previous year.
- Based on currently available evidence, we hope that the trend already recorded in the first part of 2001 will continue to be confirmed in the next months, though the market is less favourable than in the previous year.

for the Board of Directors
the Chairman