



*Report on Operations
in the third 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

BOARD MEMBERS

Board of Directors

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Deputy Chairman	(*) Pier Silvio Berlusconi
Managing Director	(*) Giuliano Adreani
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Statutory Auditors	Francesco Antonio Giampaolo Riccardo Perotta
Supplementary 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 of September 30, 2001

Dear Shareholders,

as of September 30, 2001 the Group heading your company achieved the following results: consolidated net revenues amounted to EUR 1,725.6 million, growing 3.0% on the same period in 2000 (+4.3% net of the effects of the consolidation of the Epsilon Group in both periods); gross operating profit amounted to EUR 1,004.7 million, growing 2.5% over the same period of 2000 and operating profit registered EUR 491.2 million (with respect to EUR 505.7 million in the same period of 2000) net of amortisation, depreciation and write-downs of EUR 513.5 million. Operating results amounted to 28.5% with respect to 30.2% in the same period of 2000. Profit before taxation amounted to EUR 436.7 million vs. EUR 480.8 million in the same period 2000. This decrease is mainly due to the economic impact caused by the write-down of the associated company Blu S.p.A. (EUR 39.3 million).

Though the results obtained in the first nine months of the year confirmed remarkably high levels in operating profits, they registered a decrease in the operating results of the period compared to the exceptionally high performance registered a year earlier. This change reflected the progressive slow-down in the growth rate of advertising revenues, with costs attributable to the television core business which, at least until the beginning of autumn were influenced by the strategy aimed at effectively fighting competitors through the acquisition of a long-term competitive advantage.

The overall financial evolution of the Mediaset Group as of September 30, 2001 was influenced – compared to the same period of 2000 – by the negative contribution of the third quarter to the operating results of the period. The operating results of the quarter – which registered a EUR 9.1 million loss – must be analysed taking into account the traditionally low advertising investments in the summer season and of costs more uniformly distributed throughout the year, especially as far as the amortisation component is concerned. Last year's reversal of this trend in the third quarter because of an increase in revenues (14.2% higher than in the same quarter '99) was exceptional, this year seeing a normalisation in revenue performance in line with the corresponding quarters of past years. During the third quarter of 2001, the Mediaset Group registered a 3% decrease in revenues which was caused – though limitedly – by a reduction in television advertising revenues from third parties (- 1.2%), though the trend was significantly better than that of other companies in the same market. The increase in operating costs registered in the same quarter, net of the effects arising from the consolidation of the Epsilon Group, amounted to EUR 13.9 million (+7.6%). This variation is less significant than that registered in 2000 from the same period of 1999 (+ EUR 27 million, equalling 11%).

Throughout 2001, the progressive deterioration of the international macro-economic situation had a major impact on the communication strategies of most economic operators. This caused a sharp downturn in the advertising market at an international

level. In particular, in Italy, the investments of telecommunication operators – who were the main promoters of the expansion of the advertising market in the past two years – brusquely dropped. Following the terrorist attacks of September 11, 2001 the generalised feeling of uncertainty about a possible world economic recovery further increased due to the potential negative impact on consumption induced by the ever more accentuated political instability at an international level. Despite an extremely weak demand, the advertising revenues of Publitalia '80 from the Mediaset networks registered a positive performance in the period (+ 3.3% from third parties over the same period of 2000). This result was particularly appreciable because it bucked the generally negative trends in performance registered in the Italian reference market (- 1,1%) and by the main European companies, but especially because it was obtained through a higher percentage increase in the unit price of sold slots. This development is even more remarkable considering that this year's figures are compared with the exceptional figures for 2000 which was characterised by an extraordinary expansion in advertising investments.

Also Publitalia '80 was able to effectively contrast the negative economic climate by providing its constant support through a schedule characterised by strong continuity. The ability of the Mediaset networks in 2001 to reach an audience share constantly higher than 43% contributed – in this period – to guarantee the targeted commercial returns, both for the companies promoting the strongest and most well known brands and for the less known brands, which seize the opportunity of gaining television slots that in other periods would be more inaccessible to them.

The dramatic events which took place in the quarter under examination had obviously a great impact on television schedules and – both qualitatively and quantitatively – on the consumption of television programmes. They further proved the incredible effectiveness and superiority of television as a top information and investigation medium, apart from entertainment. In particular, the news programmes and the specials that the Mediaset networks devoted to these events obtained high audience levels also in the on-line extension of TG.com, which is now acknowledged as an authoritative source of information on the Net.

Drafting Criteria

According to CONSOB Resolution 11971 of May 14, 1999, the economic information given below refers to the third quarter 2001 and to the nine months of 2001 and is compared to the corresponding periods of 2000. Balance sheet information refers to the periods ended at 30 September 2001, 30 June 2001 and 31 December 2000.

In drafting the accounting situation, the same evaluation criteria were used as for the year's financial statements and in the report on operations in the first six months of 2001. In order to guarantee continuity in the statements and to make them comparable, the financial statements are homogeneous with those included in the 2001 half-year report on operations and in the 2000 annual report.

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

In line with the adoption of Euro for accounts by Mediaset S.p.A. and its subsidiary companies – which took place in the first six-months of 2001 – the economic and financial figures of this Report were expressed in EUR millions, rounded to the first decimal place.

It should also be noted that, following the conclusion of the operation for converting the Epsilon equity investment into KirchMedia (fully described in the specific section), the financial statements as of September 2001 registered a change in the consolidation area and in the relative economic effects arising from the corporate operations through which the Group acquired 2.28% in KirchMedia and bought back 100% of Publieuros (100% holding of Publieurope), by selling its stake in the joint-venture Epsilon.

The economic situation of the Group also includes the contribution of the Epsilon Group's first half-year operations, even though its companies – consolidated by means of proportional integration until June 30, 2001 – were excluded from the consolidation area of the Group on September 30 and were replaced by the posting at cost of the Kirch Media and Publieuros equity investments.

Publieuros, which currently is not operational, was entered at cost since the business assumptions on which the company had been created in 1999 and included in the joint-venture do no longer exist.

In the same way, the choice of not integrally consolidating Publieurope – though the company is indirectly 100% controlled by the Group – was made in order to make balance sheets comparable in time since the same criteria were adopted which had been in use before entering the company into the Epsilon joint-venture.

The advertising activities managed under sub-licence and the international operations promoted by the company mainly generated intragroup income which, in any case, was not considered significant for correctly and fully representing the Mediaset Group's assets.

As with the previous period's report, in order to guarantee better comparable economic reports in the same periods, the income statement of the Mediaset Group

shown below presents the economic contribution of the Epsilon Group in the consolidated half-year period separately. The positive economic effect arising from the above corporate operations – generated by the difference between the value totally acknowledged from the counterpart and the value consolidated as of June 30, 2001 for the net transferred assets – was reported in the income statement of the group as an extraordinary item.

Economic Results

Here follows the summary income statement of the Mediaset Group:

(EUR millions)

Mediaset Group				
	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Sales of goods and services	1,701.5	1,655.0	351.7	381.7
Other revenues and income	24.1	20.7	4.2	8.4
Total consolidated net revenues	1,725.6	1,675.7	355.9	390.1
Personnel expenses	218.2	217.5	68.4	65.9
Purchases, services, other costs	502.7	477.9	129.5	136.4
Operating costs	720.9	695.4	197.9	202.3
Gross operating profit (loss)	1,004.7	980.3	158.0	187.8
Amortisation, depreciation and write-downs	513.5	474.6	167.1	154.3
Operating profit (loss)	491.2	505.7	(9.1)	33.5
Financial income / (charges)	(24.5)	(15.8)	(19.0)	(4.4)
Income / (charges) from equity investments	(55.8)	(8.3)	(12.0)	(14.3)
Profit (loss) before extraordinary items	410.9	481.6	(40.1)	14.8
Sundry and extraordinary income / (charges)	25.8	(0.8)	26.5	0.3
Profit before taxation	436.7	480.8	(13.6)	15.1

The effects on the income statement, deriving (in the periods under examination and, regarding 2001, just the first six months) from the 50% consolidation of the Epsilon Group are described below; the economic effect registered in 2001 on every single item of the income statement is totally reabsorbed if we consider the period results of the Group as of September 30, 2001 with reference to the above-mentioned capital gain originating from the difference between the book value of the net assets of the Epsilon Group consolidated up to June 30, 2001 (inclusive of the share of these results) and the transfer value applied by the Kirch Group to these assets.

(EUR millions)

Mediaset Group - effects arising from the consolidation of the Epsilon Group				
	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Sales of goods and services	29.6	50.2		23.2
Other revenues and income	(0.2)			0.1
Total consolidated net revenues	29.4	50.2	-	23.3
Personnel expenses	1.2	1.6		0.7
Purchases, services and other costs	23.2	40.6		17.6
Operating costs	24.4	42.2	-	18.3
Gross operating profit (loss)	5.0	8.0	-	5.0
Amortisation, depreciation and write-downs	4.0	6.1		2.0
Operating profit (loss)	1.0	1.9	-	3.0
Financial income / (charges)	(2.1)	(3.8)		(2.7)
Income / (charges) from equity investments	(2.1)	(7.4)		(5.1)
Profit (loss) before extraordinary items	(3.2)	(9.3)	-	(4.8)
Sundry and extraordinary income / (charges)	-	-		
Profit (loss) before taxation	(3.2)	(9.3)	-	(4.8)

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:

(EUR millions)

Mediaset Group net of the effects arising from the consolidation of the Epsilon Group				
	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Sales of goods and services	1,671.9	1,604.8	351.7	358.5
Other revenues and income	24.3	20.7	4.2	8.3
Total consolidated net revenues	1,696.2	1,625.5	355.9	366.8
Personnel expenses	217.0	215.9	68.4	65.2
Purchases, services, other costs	479.5	437.3	129.5	118.8
Operating costs	696.5	653.2	197.9	184.0
Gross operating profit (loss)	999.7	972.3	158.0	182.8
Amortisation, depreciation and write-downs	509.5	468.5	167.1	152.3
Operating profit (loss)	490.2	503.8	(9.1)	30.5
Financial income / (charges)	(22.4)	(12.0)	(19.0)	(1.7)
Income / (Charges) from equity investment	(53.7)	(0.9)	(12.0)	(9.2)
Profit (loss) before extraordinary items	414.1	490.9	(40.1)	19.6
Sundry and extraordinary income / (charges)	25.8	(0.8)	26.5	0.3
Profit before taxation	439.9	490.1	(13.6)	19.9

The percentage of the net revenues held by some of the main items in the income statement is as follows:

Mediaset Group (net of Epsilon Group)			Mediaset Group		Mediaset Group (net of Epsilon Group)	
31/12/2000	31/12/2000		30/09/2001	30/09/2000	30/09/2001	30/09/2000
100.0%	100.0%	Consolidated net revenues	100.0%	100.0%	100.0%	100.0%
41.1%	42.6%	Operating costs	41.8%	41.5%	41.1%	40.2%
58.9%	57.4%	Gross operating profit	58.2%	58.5%	58.9%	59.8%
28.8%	28.2%	Amortisation, depreciation and write-downs	29.8%	28.3%	30.0%	28.8%
30.1%	29.3%	Operating profit	28.5%	30.2%	28.9%	31.0%
28.6%	27.5%	Profit before extraordinary items	23.8%	28.7%	24.4%	30.2%
28.5%	27.4%	Profit before taxation	25.3%	28.7%	25.9%	30.2%

We would stress that, since there is not total alignment between revenues, especially the 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 influenced by the launch of programmes of the Autumn schedule), the results of the Mediaset Group are marked by a high level of seasonality. This fact leads to the first months of the year having a higher contribution to the full year results. The gross operating profit in 2000 as a percentage of net revenues stood at 58.5% as of September 30 compared to 57.4% for the year total, whereas the operating result totalled 30.2% as of September 30 compared to 29.3% as of December 31.

The single items of the Mediaset Group's income statement are analysed below, including the share of results attributable to the Epsilon Group (in 2001 referring to the first half-year only).

Net Revenues

30/09/2001	1,725.6
30/09/2000	1,675.7
% change	3.0%

The consolidated net revenues of the Mediaset Group recorded an EUR 49.9 million increase as of September 30, 2001 over the same period in 2000; net of the effects of the consolidation of the Epsilon

Group, the increase in net revenues amounted to EUR 70.7 million, equal to a 4.3% increase.

The following table shows the revenues breakdown:

(EUR millions)

	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Revenues from the sales of advertising slots	1,514.8	1,485.4	312.1	319.9
Revenues from television sales, promotions, sponsorships	276.8	251.1	55.9	52.5
Advertising revenues from third parties	1,791.6	1,736.5	368.0	372.4
Promoservice revenues	17.1	12.7	3.2	4.9
Other revenues from television operations	92.6	71.3	21.5	26.8
Agency discounts	(267.8)	(254.1)	(55.5)	(54.6)
Total net revenues from television operations	1,633.5	1,566.4	337.2	349.5
Net revenues from multimedia operations	26.2	19.1	8.2	7.5
Total net revenues from non-television operations	36.5	40.0	10.5	9.8
Total consolidated net revenues from Italy	1,696.2	1,625.5	355.9	366.8
Revenues 50% Epsilon Group	35.9	57.9	-	25.1
Write-offs	(6.5)	(7.7)	-	(1.8)
Total consolidated net revenues	1,725.6	1,675.7	355.9	390.1

The increase in Group's net revenues is mainly to be attributed to the overall performance of **revenues from television** (+ EUR 67.1 million, equal to + 4.3%). Specifically:

- consolidated **advertising revenues** from **third parties** amounted to EUR1,791.6 million, with an EUR 55.1 million increase (+ 3.2%) with respect to September 30, 2000;
- higher **Promoservice revenues** (equal to EUR 4.4 million with respect to September 30, 2000) mainly refer to advertising sales bartered for goods;
- **other revenues from television operations** showed an EUR 21.4 million increase, mainly attributable to the reselling to Stream of television rights for some of the *Champions League* matches (+ EUR 21.9 million in the same period of 2000).

As of September 30, 2001, a significant increase (+ EUR 7.1 million in the same period of 2000) was recorded in **net revenues** generated by **multimedia operations**, which can be mainly attributed to higher revenues connected to the theme channels and to the magazine *MT-La macchina del tempo*, distributed since November 2000. Specifically:

- revenues from theme channels were EUR 14.7 million (EUR 8.4 million in the same period of 2000) and concerned *Happy Channel*, *Comedy Life* and *Duel TV* (the last two were distributed starting from April 2000) and *MT Channel* (distributed starting from January 2001);
- net revenues connected to the proprietary Internet services amounted to EUR 3.4 million (EUR 1.8 million as of September 30, 2000); a decrease was recorded in net advertising revenues from third parties' portals under licence for EUR 4.5 million;
- revenues connected to Mediavideo reached EUR 3.7 million (EUR 3.0 million in the same period of 2000);
- revenues from the monthly magazine *MT-La macchina del tempo* amounted to EUR 3.3 million.

The decrease in **net revenues from non-television operations** (equal to EUR 3.5 million in the same period of 2000) – in spite of the increase (equal to EUR 3.3 million) in revenues from Publitalia '80 S.p.A. for the sale of advertising space on billboards and posters – is attributable to the absence in 2001 of revenues from the trading of international rights.

The decrease in the item **revenues of the Epsilon Group**, equal to EUR 20.8 million, is mainly attributable to the absence of revenues – which started during the third quarter of 2001 – following the change in the consolidation area.

Operating Costs

30/09/2001	720.9
30/09/2000	695.4
% change	3.7 %

The operating costs of the Mediaset Group showed an EUR 25.5 million increase as of September 30, 2001 with respect to the same period of 2000.

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

Personnel Expenses

30/09/2001	218.2
30/09/2000	217.5
% change	0.3 %

The personnel expenses of the Mediaset Group recorded a slight increase of EUR 0.7 million. It should be noted that the personnel expenses referring to the multimedia operations headed by Mediadigit – due to the completion during 2001 of the operating structures of the company – amounted to EUR 4.0 million (EUR 1.9 million in the same period of 2000), those regarding non-television operations headed by Elettronica Industriale amounted to EUR 3.5 million (EUR 3.7 million in the same period of 2000) and those regarding the Epsilon Group – in the first half-year of 2001 – amounted to EUR 1.2 million (EUR 1.6 million as of September 30, 2000).

The following table shows the number of employees of the Mediaset Group as of September 30, 2001:

31/12/2000	Number of employees including temporary staff	30/09/2001	30/09/2000
270	Managers	281	264
294	Journalists	301	276
609	Middle managers	613	604
3,141	Office staff	3,113	3,138
70	Manual workers	62	69
4,384	Mediaset Group	4,370	4,351
64	Epsilon Group	-	63
4,448	Total Mediaset Group	4,370	4,414

31/12/2000	Average workforce including temporary staff	30/09/2001	30/09/2000
268	Managers	275	266
600	Journalists	303	275
3,165	Middle managers	613	600
70	Office staff	3,129	3,216
279	Manual workers	65	73
4,382	Mediaset Group	4,385	4,430
64	Epsilon Group	42	63
4,446	Total Mediaset Group	4,427	4,493

The decrease in the total number of employees since December 31, 2000 – excluding the employees of the Epsilon Group – amounted to 14 people; this evolution was mainly due to the decrease in the resources belonging to the category “temporary staff” which reflects the production drop typical of the summer season. This decrease was counterbalanced by an increase in human resources following the transfer of employees working in the Jumpy corporate branch which was taken over by Mediadigit starting from August 2001.

In the period under examination, the evolution in personnel expenses has shown particularly limited dynamics also with reference to the decrease in the average number of staff.

Purchases, Services And Other Costs

30/09/2001	502.7
30/09/2000	477.9
% change	5.2%

The item Purchases, services and other costs showed an increase of EUR 24.8 million as of September 30, 2001. This growth is mainly attributable to the trend in television costs, as is shown in the following breakdown:

(EUR millions)

	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Selling costs	62.6	61.8	16.0	19.5
Television scheduling costs	305.5	263.4	76.5	67.2
Broadcasting costs	21.7	24.1	7.0	7.9
Overheads and other costs	47.8	48.8	15.7	14.3
Total television costs	437.6	398.1	115.2	108.9
Multimedia costs	17.8	11.9	6.1	4.7
Other non-television costs	24.1	27.3	8.2	5.2
Purchases, services and other costs	479.5	437.3	129.5	118.8
50% Epsilon Group costs	29.7	48.3	-	19.3
Write-offs	(6.5)	(7.7)	-	(1.7)
Total purchases, services and other costs	502.7	477.9	129.5	136.4

The increase in **television costs** is mainly attributable to the increase in *television scheduling costs* (+ EUR 42.1 million over the same period of 2000). This change is connected to the different composition of the networks schedules with respect to the same period of 2000 and to the fact that the main new publications proposed starting from Autumn 2000 have been maintained in 2001. Apart from the higher cost for scheduling the new daily soap opera *Cento Vetrine* (which, starting from 2001, has been added to *Vivere*, also broadcast by Canale 5 in the afternoon and produced starting from February 2000), during the first nine months of 2001, the main television scheduling costs are attributable to the greater production commitment in successful game shows broadcast in Prime Time or early evening time brackets (*Passaparola*, *Chi vuole essere miliardario*, *Sarabanda*, *Facce da quiz*) and in major entertainment productions (*Italiani*, *Saloon* and *Survivor*). It should be noted that, in the third quarter of 2001, television scheduling costs recorded an increase (corresponding to the higher cost of the different components of television products over the previous year) lower than the percentage registered in the first half-year of 2001 both in absolute value and as a percentage. This trend makes schedules progressively more comparable during

the year (in terms of volumes and types of programmes produced) with respect to the schedules of the corresponding television seasons of 2000.

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, net of the revenues generated by reselling television rights (principally due to the *Champions League*), as described above, showed a limited increase (5.1%) as of September 30, 2001.

The increase in **multimedia costs** is mainly due to the greater expenses for creating the theme channels (*Mr Channel* has been operational since the beginning of 2001, *ComedyLife* and *Duel* were launched in April 2000) and the monthly magazine *MT-La macchina del tempo* (distributed since November 2000), apart from the higher costs paid for the making and the development of the Internet sites regarding on-line information (*TgCom*) and the costs attributable to the takeover of the Jumpy corporate branch which took place in the third quarter 2001.

The decrease in **other non-television costs** – in spite of the growth of variable costs connected to the sale of advertising space on billboards and posters – is mainly attributable to the end of trading operations on international rights in 2001 (according to this practice, the owners of rights were paid commissions deriving from trading).

The decrease in the share of the **Epsilon Group costs** – equal to EUR 17.4 million – can be mainly attributed to the change in the consolidation area which occurred in the third quarter of 2001.

Gross Operating Profit

30/09/2001	1,004.7
30/09/2000	980.3
% change	2.5 %

The gross operating profit recorded an EUR 24.4 million increase compared to September 30, 2000. As a percentage of consolidated net revenues it was equal to 58.2% with respect to 58.5% in the same period of 2000.

Operating Result

30/09/2001	491.2
30/09/2000	505.7
% change	-2.9 %

The operating result as of September 30, 2001 showed a decrease of EUR 14.5 million with respect to the same period of 2000, net of amortisation, depreciation and write-downs equal to EUR 513.5 million (EUR 474.6 million in the same period of 2000).

The increase in this item is mainly attributable to the higher amortisation of television rights (EUR 451.1 million as of September 30, 2001 with respect to EUR 408.6 million in the same period of 2000); the theme channels item amounted to EUR 4.6 million (EUR 2.6 million in the same period of 2000).

The percentage ratio of the operating result on consolidated net revenues was equal to 28.5% with respect to 30.2% for the same period of the previous year.

Financial Income/(Charges)

30/09/2001	(24.5)
30/09/2000	(15.8)
million EUR change	(8.7)

The deterioration in the balance of this item can be mainly attributed to the higher charges connected to the adjustment (EUR 15.3 million as of September 30, 2001 with respect to EUR 1.1 million as of September 30, 2000) to the book value of 6,947,400 own shares in the portfolio and to the higher net charges in line with the evolution of the financial position of the Group. It should also be noted that the revenues generated from the Group's liquid funds, for the part managed by SICAV ABS Finance Fund, are calculated, as usual, only at year end.

With respect to the same period of 2000, a positive result is recorded between income and charges on foreign currencies (+ EUR 1.1 million

as of September 30, 2001 over –EUR 18.3 million as of September 30, 2000).

Income / (Charges) From Equity Investments

30/09/2001	(55.8)
30/09/2000	(8.3)
Million EUR change	(47.5)

This item shows the economic effect of the equity valuation of Albacom S.p.A. (a 19.5% shareholding), of the companies operating in the Spanish television market that belong to the Telecinco Group (40% shareholding), of the Mediaset Group share (24.5%) held, up to June 30, 2001, in PKS (a holding company which indirectly owns a 16.53% share in ProSiebenSAT1MediaAG) and of the write-down of the share (9%) held by Mediaset Investment S.a.r.l. in Blu S.p.A.

The negative balance of EUR 55.8 million as of September 30, 2001, can be analysed as follows:

- EUR 14.1 million net income from the evaluation of the companies that belong to the Telecinco Group (EUR 29.2 million, which is the share of the result, and EUR 15.1 million relating to the portion of goodwill amortisation);
- a net EUR 28.3 million charge regarding Albacom S.p.A. (EUR 26.7 million, which is the share of the result, and EUR 1.6 million for the portion of goodwill amortisation);
- write-down of the equity investment in Blu S.p.A. for EUR 39.3 million, equal to the share of loss recorded by the company up to March 31, 2001 as part of the loss reducing operation deliberated according to art. 2446 of the Italian Civil Code by the Extraordinary Meeting of Blu S.p.A. on June 7, 2001; it was considered as not appropriate to record a further write-down of the investment following the loss registered by Blu S.p.A. in the period April – September 2001, because this loss was judged recoverable thanks to a stock transfer project, whose implementation is now under investigation;
- an EUR 2.1 million charge regarding the equity valuation of the PKS Group up to June 30, 2001.

Profit Before Taxation

30/09/2001	436.7
30/09/2000	480.8
% change	-9.2%

The decrease in profit before taxation, with respect to September 30, 2000, amounts to EUR 44.1 million; this variation is basically attributable – with a lower operating result of EUR 14.5 million – to the effect of results from

equity investments, mainly due to the write-down of Blu S.p.A. and the valuation at this date of own shares in the portfolio. These variations are partially compensated by the positive economic effect produced by the conversion operation of investment into Kirch Media (EUR 26.3 million) which – at a consolidated level –

resulted from the the Epsilon Group - including the change in the difference between the consolidation area as of June 30, 2001 - and the value book value of the (equal to EUR 212.1 million) acknowledged by the Kirch consolidated net assets of Group during the transaction.

Provision for income taxation

In line with the possibility offered by art. 81 clause 7 of the Regulation approved by CONSOB Resolution 11971 of 14 May 1999 and subsequent amendments, 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 Position

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

(EUR millions)

31/12/2000	Balance sheet summary	30/09/2001	30/06/2001
1,763.9	Television rights	1,861.1	1,895.0
450.0	Other intangible / tangible fixed assets	425.2	462.5
585.5	Equity investments and financial fixed assets	730.3	623.5
(450.4)	Net working capital and other assets / liabilities	(324.4)	(60.8)
(85.1)	Allocation for severance indemnities	(91.3)	(89.3)
2,263.9	Net investments	2,600.9	2,830.9
125.3	Net financial position	(58.0)	(274.1)
2,389.2	Group shareholders' equity and shareholders' equity attributable to minority interests	2,542.9	2,556.8
31/12/2000	Sources and uses	30/09/2001	30/06/2001
1,136.3	Operating cash-flow	945.6	814.1
(806.1)	Total investments of which:	(993.0)	(574.7)
(612.5)	investments in television rights	(562.2)	(435.2)
(116.7)	equity investments	(353.5)	(103.2)
(13.9)	intangible investments	(39.1)	(8.7)
(63.0)	tangible investments	(38.2)	(27.6)
2.7	Share capital increases	-	-
(216.2)	Dividends paid	(283.2)	(283.2)
(166.9)	Other monetary variations	(60.4)	(355.7)
-	Change in consolidation area	207.7	-
(50.2)	Net cash-flow	(183.3)	(399.5)

The main items of the balance sheet and the relative variations over December 31, 2000 are analysed below. For each variation, the effects arising from the exclusion from the consolidation area of the assets connected to the Epsilon joint-venture are detailed. A summary of the overall effect – totalling EUR 207.7 million – is shown in the item **change in consolidation area** of the cash flow statement, in order to present the Group's financial dynamics in the period on a more homogeneous basis.

Net Investments

30/09/2001	2,600.9
31/12/2000	2,263.9
Million eur change	337.0

The most significant element of the invested capital of the Mediaset Group is represented by **television rights**, which showed an increase of EUR 97.2 million since December 31, 2000.

This growth – net of the EUR 13.9 million decrease due to the exclusion of the net assets of the Epsilon Group from the consolidation area – is attributable to higher investments registered in the period (EUR 562.2 million) with respect to the amortisation quotas (EUR 451.1 million). This evolution shows the different distribution of investments over the year, which are more concentrated in the

first months, with respect to the amortisation which varies according to the effective starting dates. It should be noted that – starting from the third quarter of 2001 – investments were slightly lower than the amortisation quota registered in the quarter.

Compared to the same quarter of 2000, more investments were made in rights, also for purchases made to seize market opportunities, with the strategic objective of further consolidating the Group's competitive advantage through more cinema products available for television broadcasting.

The item **other tangible /intangible fixed assets**

decreased by EUR 24.8 million. This drop is mainly attributable to the effect of the exclusion of Epsilon from the consolidation area (an EUR 57.1 million decrease mainly deriving from net differences in consolidation), in spite of the increase (EUR 25.7 million) regarding the intangible assets (trademarks and goodwill) connected with the corporate branch of the Jumpy portal, acquired during the third quarter 2001.

Equity investments and financial fixed assets recorded an EUR 144.8 million increase as of December 31, 2000 mainly because of the following variations:

purchase of a share (nearly 0.5%) of Olivetti S.p.A.'s ordinary share capital for an amount of EUR 103.2 million;

subscription of its share – equal to EUR 32.5 million (of which EUR 13.9 million had already been paid-up as of September 30, 2001) – in the capital increase of Blu S.p.A. which occurred in the third quarter of 2001;

net variation equal to EUR 80.8 million due to the addition of a 2.28% quota in Kirch Media GmbH & Co KgaA (EUR 203.8 million) and 100% in Publieuros Ltd. (equal to EUR 8.5 million) and to a total decrease of EUR 131.5 million deriving from the investments held as of December 31, 2000 in PKS GmbH and Monarchy Holding within the Epsilon Group, which were excluded as of September 30, 2001 from the consolidation area of the Group;

- purchase of a 30% share in Fascino S.r.l. amounting to EUR 5.5 million, which occurred in the third quarter of 2001;
- net decrease totalling EUR 79.0 million arising from the equity valuation of the companies belonging to the Telecinco Group and Albacom S.p.A. as well as the depreciation for Blu S.p.A. losses.

The negative result of the item **working capital and other assets and liabilities** – equal to EUR 324.4 million – was reduced – with respect to December 31, 2000 – by EUR 126.0 million, of which EUR 21.2 million derived from the exclusion of the net assets of the Epsilon Group from the consolidation area. This variation – associated with a reduction in commercial credits and the dynamics of the advertising revenues in the quarter – is mainly attributable to:

- a variation in tax credits and debts due to the payment of taxes for EUR 169.8 million, of which EUR 34.9 million for the substitute tax due for the revaluation of the trademarks of Mediaset networks, performed by R.T.I. S.p.A. in 2000 according to Law no. 342/2000;

- a decrease of EUR 9.3 million in amounts due to the subsidiary company Blu S.p.A.. These debts, which totalled EUR 27.9 million as of December 31, 2000, referred to the share of capital increase subscribed in 2000 and paid-up in the first quarter of this year. As of September 30, 2001, they amounted to EUR 18.6 million and referred to the portion of the capital increase subscribed in July 2001 and not yet paid;
- payment of EUR 24.3 million for an interest-free loan granted pro-quota by the shareholders of the subsidiary company Albacom S.p.A.

Group Shareholders' Equity And Shareholders' Equity Attributable to Minority Interests

30/09/2001	2,542.9
31/12/2000	2,389.2
Million EUR change	153.7

The increase over December 31, 2000 is attributable to the gross profit of the first nine months of 2001, net of the amount for the dividends paid (totalling EUR 283.2 million).

Net Financial Position

30/09/2001	(58.0)
31/12/2000	125.3
Million EUR change	(183.3)

The variation in the net financial position as of December 31, 2000 – in spite of the strong cash flow generated by current operations – is due not only to the expenses for financing Albacom S.p.A. and Blu S.p.A., but also to the equity investment in Olivetti S.p.A., the takeover of the corporate branch of Jumpy portal and the taxes and dividends which are typical of the first months of the year.

Here is the breakdown of the net financial position:

(EUR millions)

31/12/2000		30/09/2001	30/06/2001
243.1	Liquid funds	138.4	150.1
228.3	Financial income and securities (which are not fixed assets)	243.2	227.2
471.4	Total financial assets	381.6	377.3
(337.4)	Due to banks	(438.2)	(644.2)
	Due to other financial institutions:		
(2.7)	Factoring companies	-	-
(0.6)	Leasing companies	(0.4)	(0.5)
(5.4)	Other	(0.9)	(6.7)
(346.1)	Total financial liabilities	(439.5)	(651.4)
125.3	Net financial position	(58.0)	(274.1)

ANALYSIS OF THE VARIOUS OPERATING AREAS

Commercial Television – Italy

Advertising

A large part of the revenues of the Mediaset Group come from the sale of television advertising on the Mediaset Networks, of which Publitalia '80 S.p.A. is the exclusive licensee.

Here follows a breakdown of the licensee's revenues in the period under investigation:

(EUR millions)

	Year to Sept. 30		Third quarter	
	2001	2000	2001	2000
Advertising revenues from third parties	1,791.6	1,736.5	368.0	372.4
Advertising revenues from Fininvest Group and Mediolanum Group	29.5	31.7	8.2	6.4
Advertising revenues from Promoservice	4.3	2.8	0.8	1.5
Advertising revenues from other companies of the Mediaset Group	0.2	-	-	-
Television advertising revenues Publitalia '80 S.p.A.	1,825.6	1,771.0	377.0	380.3

In spite of a slight decrease recorded in the third quarter of 2001, mainly attributable to the advertising trend in August 2001, Publitalia '80 confirms its leadership in the Italian reference market as of September 30, 2001, generally going against the market trend. The increase in total sales over the same quarter of 2000 amounted to EUR 54.6 million (+ 3.1%). In the same quarter, advertising sales – excluding the amounts from companies of the Fininvest Group – registered a 3.3% growth.

As a whole, the *revenues from the sales of advertising slots* recorded a 2.0% increase through a higher growth in percentage of average revenues despite lower quantities of slots sold; the *revenues from television sales, promotions, sponsorships* went much higher with a 10.2% increase.

Broadcasting and contents

Mediaset achieved a very good performance in the first nine months of 2001. In the full day, the three Mediaset networks recorded a 0.8% increase compared to the same period of 2000, entirely to the detriment of RAI; La 7 and the other channels remained substantially steady. Furthermore, achieving 43.3% in the full day, Mediaset set a new record which enabled the Group to obtain the best result of the past five years and to confirm its growth trend.

Full day share	2001	2000	Change
Mediaset networks	43.3%	42.5%	0.8%
RAI networks	47.0%	47.9%	-0.9%
Others	9.7%	9.6%	0.1%
Total	100.0%	100.0%	

Mediaset's good results are mainly due to the very good performance of Canale 5 (+1.7 share points in Day Time and +2.6 in Prime Time).

Among Rai networks, Rai2 is the one which lost most points over the same period of 2000 (-1.5 in Day Time and -1.0 in Prime Time).

Here follows the network analysis of Mediaset audience.



Excellent results for Canale 5 in the first nine months of 2001: achieving 23.3% in the full day, it gained 1.9 points over the same period of 2000.

As is shown in the following table, the audience increase obtained by Canale 5 is evenly distributed throughout the day:

Canale 5 - Total audience	2001	2000	Change
Full day	23.3%	21.4%	1.9%
Prime Time	23.6%	21.0%	2.6%
Day Time	23.2%	21.5%	1.7%

More specifically, in **Day Time**:

the **soap operas** – *Vivere*, *Beautiful* and *Cento Vetrine* – continue to grow, thus making the midday hours one of the crucial periods in the schedule. The results – which were already positive in Spring (*Vivere* 20.5%, *Beautiful* 32.2% and *Cento Vetrine* 26.3%) have not only been maintained, but have further improved in Autumn (in September 2001, the three soap operas achieved an average audience share of 22%, 33.9% and 29.8% respectively). The extraordinary audience shares recorded in Summer are worth mentioning: in that period *Vivere* reached 23.9%, *Beautiful* 35.3% and *Cento Vetrine* 30.3%;

- in September 2001 the afternoon **talk show** *Uomini e Donne* - which in the first half-year of 2001 had already achieved 26.5% - succeeded in contrasting the Rai2 competitor *Al posto tuo* and in becoming the first choice for the public of women (28.0% vs. 19.2%);
- the **game shows** presented by Gerry Scotti still have the leadership in the early evening schedule: *Chi vuol essere miliardario* (broadcast in Day Time from 23/4 to 12/5) went up to almost 30%; *Passaparola*, after recording excellent results in the first half of 2001 (26.9% vs. 23.6% in the same period of 2000), outperformed *Quiz Show* by 2.7 points in September 2001 (23.7% vs. 21% in the same period of 2000);

- a growing trend over 2000 also for **Tg5**: at 1.00 p.m. it recorded 24.9% vs. 21.2% in the same period of 2000; at 8.00 p.m. it reached 28.5% vs. 25.6% in the same period of 2000. In particular, in the weeks following the dramatic events of the Twin Towers, between September 12 and 19, the evening news of *Tg5* were seen by over 6 million 800 thousand TV viewers reaching a 29.5% audience share.

In **Prime Time**:

- After closing the first half of 2001 with an average share of 32%, *Striscia la Notizia* peaked 34% – corresponding to 10 million TV viewers – when it was back on schedule on September 24, 2001;
- Monday evenings' films **Filmissimi** recorded a 24.6% share at the end of the third quarter with peaks above 30%: *Titanic* (41.9%), *Così è la vita* (36.4%), *Il matrimonio del mio migliore amico* (34.4%), to mention but a few;
- Positive results also for **dramas**. *La uno bianca* reached 31.1%, *Il bello delle donne* 25.2%, *Sei forte maestro 2* increased by nearly 3 points the already excellent share it had achieved with the first series (22.2% vs. 19.3% in the same period of 2000). In September 2001, the first episode of *Distretto di Polizia 2* reached 26.2%, thus gaining 5 points more with respect to the first series broadcast last year;
- Canale 5 productions were very successful: *Stranamore* achieved 29.7%, *Chi vuol essere miliardario* steadily obtained an average share of 26.8%. A record start for *Grande Fratello*: the first two broadcasts peaked at 28.4%, an extraordinary 5 points more than the first two broadcasts of 2000.



Italia 1

In the first nine months of 2001, Italia 1's results in terms of audience were slightly lower than the same quarter of 2000. In fact, in the full day, this network is still the first choice for children aged 4-14 and for teenagers aged 15-19. It is the third choice – after Canale 5 and Rai 1 – for the people aged 15-34.

Italia 1 - Total audience	2001	2000	Change
Full day	10.5%	11.5%	-1.0%
Prime Time	11.0%	11.9%	-0.9%
Day Time	10.4%	11.4%	-1.0%

More specifically, in **Day Time**:

- in the midday hours, **cartoons** were still one of the strong points of the network: *I Simpson* achieved 15.4% and *Dragon Ball* 15.2%, touching on 50% and 55% respectively as among children in the 4-14 age bracket. In the afternoon, in September 2001, *Bim Bum Bam* recorded a 14.8% share with peaks above 17.5%;
- as to **productions**, after the success of *Popstar* (15.3%) broadcast in the first months of 2001, mention should be made – in September 2001 – of the successful programme *Non era la Rai*. The nine broadcasts with scenes and interviews with the

girls of the variety show launched in 1991 by Gianni Boncompagni, totalled a 13.7% share among adults and a 33.5% share among teenagers aged 15-19;

- among **telefilms**, *VIP*, the latest arrival on Italia 1, conquered young TV viewers, achieving 32.2% among children and 28.4% among teenagers aged 15-19;
- in Italia 1 too, the **news** performed well. At 12.25 p.m. *Studio Aperto* closed the third quarter 2001 with an average share of 14.8%; the evening news, broadcast in a different time slot since 25/6 (18:30 vs. 19:30), registered a growing trend, thus going from 11% the first week to 12.7% at the end of Summer. Furthermore, in the immediate days following the events of September 11, 2001, *Studio Aperto* achieved 15.6%, with peaks at 22%;
- in September 2001, the **game show** *Sarabanda* reached a 9.9% share, a good performance (though slightly on the decrease over the first months of the year), if you consider that it was broadcast at the same time as the news programmes on which, following the recent international events, TV viewers concentrated their full attention;
- in late evening schedules, a good start for Italia 1's **productions**: On Thursdays, *Le Iene*, after achieving 14.1% in the first half of 2001, was back on September 27, 2001 with 16.8%, being now presented by Alessia Marcuzzi, Luca Bizzarri and Paolo Kessisoglu; once again on Thursdays, immediately after *Le Iene*, *Mai dire grande fratello* reached 19.8% since the first time it was broadcast. Also the Summer programmes broadcast late in the evening performed well: on Tuesdays, the **cycle** *Notte Horror* achieved an average share of 13.7% , and an extraordinary result with *Giovani Streghe*, 20.5%, broadcast on July 3, 2001. The **special report** *Tutto in un giorno*, an in-depth report on the events which occurred in Genoa during the G8 meeting, was broadcast on July 26 2001 achieving nearly 16%.

In **Prime Time** :

- satisfying performances for **film** schedules: *Mars Attack* reached 13.3%, *Bulletproof* 12.7%, *Virus* 13.4%, to mention but a few of the films which have been recently broadcast;
- as to **productions**, the *Festivalbar* was still considered as a rendezvous that young TV viewers would not miss: the 10 broadcasts of 2001 reached 15% among adults and 30% among both children and teenagers aged 15-19. An overall good performance for the four Summer **football matches** which recorded an average share of 11.6%: among these, *Ajax-Milan* (14.4%) did best within the Amsterdam Tournament.



Retequattro

As far as audience shares are concerned, at the end of the third quarter of 2001, Rete 4 kept the same levels as last year.

In the first nine months of 2001, the network confirmed its ability to attract women and adults (more than 10% among women and more than 12% among people over 55 in the full day).

Retequattro - Total audience	2001	2000	Change
Full day	9.5%	9.6%	-0.1%
Prime Time	8.2%	8.0%	0.2%
Day Time	9.8%	10.0%	-0.2%

More specifically, in **Day Time**:

- *Forum*, one of Retequattro's historic **productions**, started the Autumn season recording a 16% average share, a result that enabled it to outperform its competitor *I Fatti Vostri* (14.5%) and prove its strength. The "legal battles" fought by Paola Perego managed to obtain a significant share though *Forum* was broadcast at the same time as news programmes that, after September 11, 2001, gained greater interest from the audience. *Sembra Ieri*, the new early evening programme which was launched on September 10, 2001, achieved 12.1% and was particularly appreciated by adults (19.1% among people over 55). The audience share of Saturdays' productions grew: in the first nine months of 2001, *Il trucco c'è* gained 1 point (14% vs. 13%) over the same period of last year; in Summer 2001 *Sabato Vip Estate* closed at 15.1% against 11.6% of *Sabato Vip in Vacanza* in 2000. The performance of *La Domenica del Villaggio* improved: compared to 2000, the programme went up from 15.6% to 16.8%;
- special mention should be made of **Tg4**: it was the first news programme which – with an extra edition – was on air on September 11, 2001. The news directed by Emilio Fede achieved an average share of 8.8% in midday hours whereas the evening news went from 7.9% in the first nine months of 2000 to 9.1% in the same period of 2001 recording an over 1 point increase.

In **Prime Time**:

- **films** confirmed to be a precious resource for the network: 135 evenings devoted to the cinema achieved an average share of 8.1%. Among the film recently broadcast: *Potere Assoluto* (10.9%) and *Nessuna Pietà* (10.3%); a good performance also for the Summer **cycle** *Poker d'Hitchcock* on Saturday evenings with an average of 9.3%;
- among **productions**, both *Ballo amore e fantasia* and *Viva Napoli*, two music shows which have become a traditional rendezvous in Retequattro's Summer schedule, went above 9%. Finally, as to **football**, the performance of the ten matches of the *Champions' League* was in line with the network average share (8.1%) whereas the UEFA Cup football match *Milan-Bate Borisov* achieved a remarkable 8.8% on September 27, 2001.

Commercial Television - International

Telecinco Group

In a period characterized by a pronounced shrinkage of the Spanish advertising market – which hit most European countries – Publiespana advertising sales for Telecinco as of September 30, 2001, amounted to EUR 409.1 million with respect to EUR 451.7 million in the same period of 2000. This trend – to be considered without forgetting the exceptional growth rate recorded in 2000 – was influenced by the extremely aggressive price policy carried out by its two main competitors in 2001.

In the first nine months of 2001, Telecinco achieved an audience share of 21.4% in the full day (over 22.7 in the same period of 2000) while its main private competitor Antena 3, which used to reach 20.5%, recorded a decrease of 1.1 points. The decrease in audience share experienced by the two main private broadcasters was counterbalanced by a slight increase in audience share for state television (from 24.4% to 24.5%) and especially for local and pay networks. Telecinco confirmed to be a leader in the audience share on the commercial target which reached 24.4% before Antena 3 (from 22.6% to 22.0%) and TVE1 with 19.5%.

The decrease recorded in advertising revenues – associated with growing television scheduling costs (but limited to 6%) – gave an operating revenue of EUR 109.6 million for the period (with respect to EUR 169.6 million in 2000). Operating income for the period maintained high levels (28%). The period net result totalled EUR 73.0 million vs. EUR 108.4 million in the same period of 2000.

The equity valuation of the shareholding, including the goodwill amortisation quota of EUR 15.1 million, meant, for the Mediaset Group, a net income of EUR 14.1 million.

Shareholding in KirchMedia

On August 8, 2001, Mediaset S.p.A., Mediaset Investment S.a.r.l. and Medusa Film S.p.A. (a company belonging to the Fininvest Group), on the one hand, and Kirch Media GmbH & Co. KgaA and a few companies belonging to the Kirch Group, on the other, signed a Joint-venture Termination Agreement, that is, a final agreement reflecting the

main principles contained in the preliminary agreement approved by the Boards of Directors of the concerned companies on September 11, 2000 and going beyond the Joint-venture Agreement signed on October 13/14/15, 1999, when the Epsilon Group was established.

On September 13, 2001, the Parties fulfilled the implementation of the Joint Venture Termination Agreement, by executing the specific agreements it contained and implementing the corporate operations as follows:

- repurchase by Mediaset and Kirch Media of the assets originally put into the Epsilon Joint-venture and, more specifically, 100% of Publieuros Limited (which holds 100% of Publieurope International Limited) as far as Mediaset Investment S.a.r.l. is concerned and 49% of PKS GmbH and 100% of Betafilm GmbH (the latter indirectly through the purchase of a 50% share in Euroset S.a.r.l. held Mediaset Investment S.a.r.l.) as far as CON Medien GmbH is concerned, a company belonging to the Kirch Media Group which owns 50% of Euroset S.a.r.l.;
- takeover by Mediaset Investment S.a.r.l. of a 2.28% share in the capital of Kirch Media GmbH & Co. KgaA (equal to share of 2.48%, originally negotiated before the dilution arising from the entry of Rewe and Newscorp into Kirch Media's capital) for a shareholding value agreed between the Parties at EUR 202.1 million. Mediaset's takeover entitles the Group to the relevant profits starting from January 1, 2001.

The share in Kirch Media was purchased by subscribing a reserved capital increase and was made in exchange of the payment by Mediaset Investment S.a.r.l. to Kirch Media of a net credit of EUR 202.1 million accrued from CON Medien GmbH, after unfreezing the share in Euroset, net of the amount due for the repurchase of the net assets of Publieuros. From a financial point of view, the operation required no cash flow movements, thus enabling the Mediaset Group to repurchase the share in Publieuros/Publieurope and finance the equity investment in Kirch Media by reinvesting the financial resources used in 1999 (EUR 186.6 million) to set up the Epsilon Joint-venture, with no more financial requirements.

At the same time as acquiring this share in Kirch Media, Mediaset Investment S.a.r.l. signed the partnership agreement currently in force among a few companies of the Kirch Group, Fininvest S.p.A., the Group of prince Al Waleed and Lehman Brothers. With this agreement, Mediaset is granted important rights, among which the right to appoint one of its representatives to become a member of the Supervisory Board, the supervisory body of the company which now consists of 12 members.

After Mediaset's entry into the share capital of Kirch Media, the Group's shareholdings are as follows: Kirch Holding 72.62%; Thomas Kirch 6.55%; Rewe 5.71%; Capital Research 2.93%; Lehman Brothers 2.48%; Kingdom Holdings (Al Waaleed) 2.48%; Treefinance S.A. (Fininvest Group) 2.48%; News Corporation 2.48%; Mediaset Investment S.a.r.l. 2.28%.

Taking a share in KirchMedia represents for the Mediaset Group a good investment opportunity into one of the main media operators at a European level, a company which has a similar competitive positioning to that of Mediaset.

After rationalizing the operations of the Kirch Group launched in 1999, Kirch Media currently heads solid operations for the acquisition, co-production (partly through 50% of the capital of Epsilon Tv Production S.r.l., the joint-venture with the Mediaset Group which was launched in the second half of 2001) and international distribution of fiction and sports television rights as well as broadcasting and commercial television activities

concentrated in the ProSiebenSAT1Media AG Group of which Kirch Media holds a 52.5% capital share and a 88.5% share of voting rights.

This Group, listed at the Frankfurt Stock-Exchange among medium-capitalized companies, holds the three German general commercial networks, ProSieben, SAT 1 and Kabel 1, as well as the sports channel DSF and the news network N24. It is the leader of the German advertising market with a market share of around 47%.

On September 7, 2001, the management representatives of Kirch Media and ProSiebenSAT1Media AG announced they had reached an agreement on the merger of the two companies with a view to listing the new Group resulting from the operation at the Stock-Exchange starting from 2002. This project, to be approved by the shareholders of both companies and be granted a permission from the competent anti-trust authorities, aims at implementing a vertical integration of commercial television, production and right trading activities, thus assuring important cost synergies and a greater diversification of revenue sources since new revenues arising from the ownership rights portfolio would add to advertising revenues.

In the financial year that closed as of December 31, 2000, the Kirch Media Group generated consolidated sales for DM 6.5 billion, gross operating profit for DM 923 million and net results for DM 276 million. At the end of the first half of 2001, the pro-forma consolidated figures of the KirchMedia/Prosieben Group recorded an 15% increase in revenues over the same period of 2000 and a 42% growth of gross operating profit, with an increase in gross operating income from 13% in the first half of 2000 to 16%.

Multimedia And Telecommunications

Multimedia Operations

The Mediaset Group is present in New Media (theme channels, the Internet and teletext) through Mediadigit S.p.A., a company that started operations in 2000, with the objective of developing the synergies and *brand extension* opportunities on the traditional *core business* of television products, by making services and contents that can be broadcast on various platforms (Pay TV, the Internet and Telecoms). Among multimedia operations, it also includes the specialist magazine *MT La Macchina del Tempo*, published by R.T.I. S.p.A. which began distribution in November 2000. The multimedia operations are supported by Publitalia '80 S.p.A. in terms of Internet related advertising sales.

As to **theme channels** operations, the channels *Duel TV*, *Comedy Life* (both starting from April 2000) and *MT Channel* (starting from January 2001) are distributed on Stream, whereas *Happy Channel* has been distributed by D+ since March 1998. As of September 30, 2001, the total number of subscribers to Mediadigit satellite channels amounted to 1,616,000, of which 731,000 subscribed to the three channels distributed on the Stream platform and 885,000 subscribed to Telepiù's Basic package which includes *Happy Channel*. In the first nine months of 2001, overall revenues generated from theme channels distributed on the two digital platforms amounted to EUR 14.7 million (against EUR 8.7 million in the same period of 2000).

As to **Internet** based operations, in the third quarter of 2001, the operations integration process for the Jumpy portal was launched after an agreement was signed on June 9, 2001 for the acquisition of the corporate branch Jumpy S.p.A.. (now Logilab S.p.A.) by Mediadigit S.p.A.

With this transaction Mediadigit acquired the Jumpy trademark, the editorial contents and software applications of the Jumpy.it Portal as well as the company's e-commerce related operations and client database, together with the relative staff. The amount paid for this corporate branch totalled EUR 16 million, equal to the difference between the value acknowledged for the operations (EUR 26.3 million) and debts (EUR 10.3 million). A *fairness opinion* was drafted by JP Morgan in order to assess whether the price agreed for the transaction was reasonable. In the framework of the same operation, Mediadigit also signed a three-year outsourcing agreement with Logilab for a yearly value of EUR 6.2 million (a value which was decided following an appraisal by a primary evaluation company specialized in Information Technology) in order to be guaranteed the necessary technological services to support and develop the portal.

Through the purchase of the Jumpy portal, Mediadigit will be enabled to speed up its development plans in the on-line sector, thus completing the current editorial profile and significantly increasing its market share. Jumpy is confirmed as one of the most visited portals in Italy, achieving about 120 million page views in September, of which 37 million were generated by the second *Grande Fratello* after September 21, 2001. This year too, the Internet version of the TV *reality show* available in Jumpy is very successful and has significantly increased the number of page views for the whole Internet related operations of the Group.

In September 2001, the sites owned by the Group recorded over 150 million page views as a whole. The sites referring to the vertical Portal MOL and to the networks contributed with 12 million page views whereas the News area (Tgcom and TG5.it) considerably increased their hits, partly because of the events of September 11, 2001, thus totalling 20 million page views.

In the first nine months of 2001, net advertising revenues from Publitalia '80 regarding the Internet based operations of the Group amounted to EUR 3.4 million against EUR 1.8 million in the same period of 2000.

As to **Teletext** operations (Mediavideo and interactive service), the revenues in the first nine months of 2001 amounted to EUR 3.7 million against EUR 3.0 million in the same period of 2000.

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 first half of 2001, Mediaset S.p.A. also acquired close on 0.5% in Olivetti S.p.A.'s share capital, with the objective of entering into a sector that, in the near future, with the advent of terrestrial digital television, will play a major role in crucial segments of the television core business (distribution, interactivity and access to clients).

In the field of fixed telephony, **Albacom S.p.A.**, which aims at strengthening its role as an alternative leader in the business segment of the Italian telecommunications industry, started to implement its new strategy in the first half (April – September) of the financial year which will close on March 31, 2002. According to this strategy – which was worked out in the five-year plan drafted in view of being listed at the Stock Exchange – Albacom shall have to progressively reposition its offer in high added value industries intended for corporate clients. An example of advanced services through proprietary optical fibre networks is the agreement signed with Mediadigit S.p.A. in order to broadcast the second *Grande Fratello* with on-line *streaming video in multicast*, 24 hours a day, as well as the agreement with MTV to produce the first broad-band TV programme in Europe. As to the development of new facilities, the project for the construction of the Basicnet network is already under way and its completion is expected by the end of 2002.

The consolidated figures for the first half of the financial year, which will close on March 31, 2002, confirm the remarkable improvement in operations which had already been noted in the first quarter, with a view to reaching a breakeven in gross operating profit by the end of the financial year. In particular, sales reached EUR 245 million (+22% over the same period of 2000) while the gross operating profit significantly improved (+65% over the same period of 2000) reducing losses to EUR 16 million. Period net losses amounted to EUR 72.3 million against EUR 89.3 million in the same period of last year.

As a consequence of this result together with the results recorded in the last three months of the financial year which closed on March 31 (first quarter 2001) and the portion of amortised goodwill (EUR 1.6 million), the equity valuation of the shareholding in Albacom S.p.A. represents overall charges of EUR 29.2 million for the Mediaset Group.

As regards the company's Stock Exchange listing, this operation had already been unanimously approved by Albacom's shareholders last March 28, 2001. On October 29, 2001, Albacom's Board of Directors considered that – given the current macroeconomic situation, the highly unstable international market and the negative climate of financial markets especially with reference to the industry concerned – it was not the right moment to implement this project, since the company's proper embedded value would not emerge. Nevertheless, the project to get the company listed at the Stock Exchange remains a strategic priority both for Albacom's shareholders and the company's management. Therefore, this project will be hopefully implemented in the months to come, as soon as market conditions make it possible.

In the field of mobile telephones, **Blu S.p.A.**, as of September 30, 2001, had more than 1,650,000 customers (with an increase of about 850,000 customers since December 31, 2000) and about 3,500 indirect sales points and 49 direct sales points under the Blu trademark. In the third quarter of 2001, a few important regulatory measures regarding the company were taken. Among these: on July 25, 2001, Blu obtained from the Ministry of Telecommunications an "individual licence for the installation of a telecommunication network aimed at providing vocal fixed telephony services"; the regulations about the portability of mobile numbers were also completed according to

the deliberation of the Authority for Communication Guarantees published on August 7, 2001.

Proposing new offers and fee options and beginning marketing to the corporate segment in the first nine months of 2001, Blu totalled revenues of about EUR 223 million and recorded net losses for EUR 332 million, more or less in line with corporate targets. In the same period, the company made network investments for about EUR 90 million in order to guarantee nationwide network coverage. These investments were made both in the extension of the GSM network and its adjustment in order to make the GPRS service accessible and exploitable. As of September 30, 2001, the company employed 1,918 staff.

On June 7, 2001, the Shareholder's Meeting approved a share capital decrease in order to – according to art. 2446 of the Italian Civil Code – redress the losses regarding the first quarter of 2001 (of EUR 102.1 million) together with the losses as of December 31, 2000 (EUR 335 million). In 2001, Blu S.p.A.'s shareholders paid EUR 310 million as a residual decimal amount of the capital increase decided on April 7, 2000. Following the above share capital decrease due to losses and given the financial requirements of the company in the second part of the financial year, Blu Shareholding's Meeting approved a capital increase of EUR 361.5 million which was subscribed pro-quota by Blu's shareholders on July 16, 2001. As of September 2001, Mediaset Investment S.a.r.l. had totally paid its own portion for EUR 41.8 million.

Finally, it should be noted that – following the judgement pronounced by the Council of State on July 4, 2001 in favour of Blu about the appeal to the State Legal Advisory Office for the enforcement of the ITL 4,000 billion guarantee paid for participating in the bid for UMTS licences – the guarantee, maintained pro-quota by Blu's shareholders, was returned to Blu's shareholders in July 2001.

SIGNIFICANT EVENTS AFTER SEPTEMBER 30, 2001

- On October 13, 2001, the Extraordinary Meeting of Olivetti S.p.A. approved (with the favourable vote of the shareholder Mediaset S.p.A.) a capital operation aiming at reducing the company's debts according to the guidelines of the Industrial and Strategic Plan presented by the new reference shareholder of the Olivetti/Telecom Group. This operation- with a maximum counter-value of EUR 3.9 billion – has already been guaranteed by a pool of first-rate banks which will take care of the investment which will consist – to the discretion of the entities entitled – in the issuing of new stocks (up to a maximum of 3,915,916,285 ordinary shares at par value 1 euro) and/or convertible bonds (up to a maximum of 3,915,916,285 bonds at par value 1 euro) which will guarantee a gross annual maturity yield of 3.5% and with the possibility of being converted in a proportion of 1 share for each bond starting from the 60th day after issuing. The new stocks and/or bonds will be offered as an option to buy to current shareholders and/or to the owners of still circulating convertible financial documents, in a proportion of 1 new share and/or bond for every 2 held, from 5 to 15 November 2001.
- On October 17, 2001, Mediaset Investment S.a.r.l. paid EUR 11.6 million following the subscription – dated July 16, 2001- of a quota in the capital increase of Blu S.p.A. Of the total amount due for the capital increase, the company still has EUR 7 million left which will be paid on November 16.
- In October 2001, Mediaset S.p.A. paid the last amount due (EUR 5.9 million) to its subsidiary company Albacom S.p.A. for the interest free loan granted by the shareholders in 2001 in order to cover the financial requirements of the company.

FORESEEABLE DEVELOPMENTS

- Advertising sales on Mediaset networks in September 2001 amounted to EUR203 million, in line with the sales recorded in September 2000. Advertising sales on Mediaset networks in October totalled EUR 246 million (- EUR 15.5 million in the same month of 2000). Given the above results, in the first ten months of 2001, advertising sales grew by 2% over the same period of last year. The trend in advertising sales in October was strongly influenced not only by the pronounced and progressive slowing down of the advertising market caused by the uncertain outlook for the macroeconomic situation, but also by the greater uncertainties in the international political scene after the attacks which occurred last September in the United States. In spite of the further unfavourable evolution of the economic situation, currently available evidence on advertising sales in the last two months of the year confirms that, by the end of the ongoing financial year, television advertising sales by Publitalia '80 will be slightly higher than sales in 2000. This result – going against market trends and with no parallel among the results expected for the entire Media industry at a European level – can be regarded as exceptional, especially considering the sharp drop expected for the Italian reference market.
- In the first ten months of 2001, the Mediaset networks obtained audience shares in the full day equal to 43.3%, with a growth of 0.4 points over the same period of 2000.
- Regarding the nature of the operations, the economic results of the first nine months of the year, influenced by the high seasonability of the business, do not fully represent the presumed annual trend. The recent evolution of competition in the television industry and the effects on audience share and the advertising market produced by the international crisis suggested a change in the offers initially scheduled for Autumn on Mediaset networks. Such actions will contribute to a lower growth of television costs in the last part of the year with respect to the levels of the last quarter of 2000 and the third quarter of 2001, but they will not counterbalance the advertising sales in the period. Advertising sales will be significantly higher than the negative results expected for the reference market. Based on this evidence and with the negative contribution from equity investments – especially in the telephony industry – the ongoing financial year is expected to end with a net profit, although lower than the exceptional results achieved in 2000.

for the Board of Directors
the Chairman