

## **“PRICE SENSITIVE” PRESS RELEASE IN COMPLIANCE WITH THE FINANCE ACT AND THE CONSOB REGULATIONS**

**The Espresso Group: the Board of Directors approves the consolidated financial statement of the first quarter 2005: net profit increasing from €21.7 millions to €27.9 millions**

### **SUMMARY**

#### **The consolidated financial statement in the first quarter 2005**

The Board of Directors of the Gruppo Editoriale L'Espresso S.p.A. met today in Rome under the Chairmanship of Carlo Caracciolo and approved the consolidated financial statement of the first quarter 2005, drafted according to the Italian accounting principles. In synthesis, the main data, compared with the previous year, are as follows:

(€millions) consolidated data	1st Quarter 2004	1st Quarter 2005	%
Revenues	282.6	275.8	-2.4%
Of which:			
• Circulation	150.7	142.2	-5.6%
• Advertising	121.9	126.5	+3.8%
Gross Operating Profit	59,2	59,9	+1,1%
Operating Profit	45,9	46,1	+0,6%
Financial Income/(Expense)	(3.0)	3.0	
Net Profit	21.7	27.9	
	12/31/2004	03/31/2005	
Net Financial Position	(131.1)	(46.8)	
Employees	3,271	3,281	

#### **Acquisition of RETE A S.r.l.**

The Company has finalized the acquisition of the television broadcasting network Rete A – All Music on April 14, 2005, having received all the authorizations required by the Competent Authorities, and paid the price amounting to €115 million making use of part of the proceeds made available by the bond of €300 millions issued in October 2004.

The new organizational structure, the new programmes, which will, however, be kept as mainly music programmes addressed to young people, will be defined during next months, together with the investment to complete the coverage of the television signal, both analogue and digital.

## **Information relevant to the state of art of the transition to the new International Financial Reporting Standards**

The Company has informed the market that it will apply the new International Financial Reporting Standards for the first time in the first half financial statements 2005 and has prepared an information document on the state of art of the transition process, where the main choices made are specified.

### **PRESS RELEASE**

#### **Consolidated financial statement of the first quarter 2005**

In the first quarter 2005, the Espresso Group, even in the presence of consolidated revenues slightly decreasing in comparison with the corresponding period in 2004, from €282.6 millions to €275.8 millions, improved its operating profit and margin, increasing from €45.9 millions (16.2% on revenues) to €46.1 millions (16.7%), and its consolidated net profit increased from €21.7 millions to €27.9 millions. The good performance and the control of the working capital determined also a significant reduction of the net financial debts from €131.1 millions as of December 31, 2004, to €46.8 millions as of March 31, 2005.

In the first three months of the year, the Group had a further confirmation that the public has, by now, consolidated the habit to buy quality optional products coupled with its titles. The wide range of the proposed initiatives in this first period of the year allowed to nearly repeat the results obtained with the Enciclopedia (*Encyclopaedia*) of la Repubblica in the first three months in 2004.

The gross advertising revenues on the Group's media increased by 4.6% in comparison with the first quarter in 2004, favoured, in particular, by the greater and growing approval of advertisers to the offer of colour space in all pages of la Repubblica. Not only national commercial advertising (+5% in comparison with the same period in 2004, with a 28.2% increase in the colour advertising) benefited from this new opportunity, but also the local editions, which registered a total increase by 17.5%.

The circulation of dailies and periodicals was almost stable: la Repubblica, 626 thousand average copies per issue, local dailies, 481 thousand average copies and L'espresso, 457 average weekly copies.

The Group's radios confirmed to be leaders in their audiences among the private Italian radios with over 8.7 millions listeners in an average day and 22.1 millions per week (Audiradio, 1° semestre 2005, mobile). Radio DeeJay, 13.2 millions listeners, continues to be the most listened network in the seven days and with 5.7 million average daily listeners, it is second only to the public station RadioRaiUno; m2o registered an increase by 30% in comparison with the same period in 2004, exceeding 1 million listeners on the average day, while Radio Capital kept its position with about two millions listeners on the average day. As concerns the advertising collection, the Group's broadcasting stations grew by 6%, increasing their share in a market which, after a great growth in 2004, has suffered from a decrease in investments around 20% in the first months in 2005.

In March, the network Kataweb/Espresso Group has, for the first time, exceeded 6.5 millions of unique users according to the Nielsen Net Ratings Census data. The most significant result was registered by Repubblica.it, which was visited by 3.9 millions users (+25% in comparison with the same period in 2004 and over 64% of users more than in March 2003). Over one million and a half new users chose the daily's site as their main source of information in the Internet in two years, consolidating its leadership among the information sites. Also Kataweb.it portal registered its record with 3.1 millions unique users in March.

The first months in the year have, furthermore, registered the implementation of some new projects, among which the beginning of the experimental programmes of the new radio of la Repubblica, broadcasted only via web. It received a very good acknowledgement: over 128 thousand unique users and 451 thousand pages visited in March.

### **Main events following the end of the quarter and expected subsequent events**

The performance expected for the advertising investments in April and May shows a further improvement of the collection as concerns all the Group's media and confirms the progressive replacement of the black-and-white advertisement with the colour one. All the editorial and multimedia initiatives coupled with the Group's titles continue as well, keeping their high levels of revenues and margin.

### **Information relevant to the state of art of the transition to the new International Financial Reporting Standards**

The Gruppo Editoriale L'Espresso, making use of the authorization awarded by Consob in its deliberation n. 14990, 14 April 2005, decided that the first application of the International Accounting Standards (IAS/IFRS) in the drafting of its consolidated financial statements, of the yearly financial statements of the Parent company and of the subsidiaries will occur from the first semester 2005.

The first stage was completed and the main differences among the accounting standards presently used and the new IAS/IFRS ones were identified. It was, afterwards, designed and implemented an intervention plan to adapt the reporting processes and systems to re-classify the economical and financial data in 2004. The auditing company PricewaterhouseCoopers SpA will verify the data resulting from the transition process.

While re-processing the consolidated Balance Sheet as of January 1, 2004 and the consolidated Financial Statements as of December 31, 2004, the Group decided to make use of the following options:

- **PRESENTATION OF THE FINANCIAL STATEMENT:** The Espresso Group decided to adopt the classification according to the "current/non-current" criterion as concerns the Balance Sheet and the classification by nature as concerns the Income Statement.
- **ENTERPRISES AGGREGATIONS, ACQUISITION OF INTEREST IN SUBSIDIARIES AND UNDER JOINT CONTROL:** the Group decided to make use of the possibility of derogation relevant to the retro-active application for the enterprises' aggregation implemented before January 1, 2004.
- **BOOK VALUE OF THE TANGIBLE AND INTANGIBLE ASSETS AND REAL ESTATE INVESTMENTS:** the Group, making use of one of the facilitations provided for by IFRS1, decided to apply the criterion of the "estimated cost" with reference to the fixed assets. The evaluation for the following periods will depend on the cost criterion too.

- EMPLOYEES BENEFITS (SEVERANCE INDEMNITIES AND SIMILAR): the Group will integrally take over the cumulative actuarial differences at the date of transition. The “metodo del corridoio” (“passageway method”) option will not be used for the following periods.
- DESIGNATION OF FINANCIAL INSTRUMENTS: The Group decided to apply IAS 32 and IAS 39 from January 1, 2005 and to make use of the derogation in the reconstruction of the comparative data.
- STOCK OPTIONS: the Group will apply IFRS2 to the issues following November 7, 2002 not matured within January 1, 2004.
- INVENTORIES: the Group opted for the method of the continuous average weighted cost, method already used in compliance with the Italian accounting principles.

### *Main differences resulting from the application of IAS/IFRS on the consolidated financial statements*

The most significant differences in comparison with the Italian accounting principles relevant to the re-elaboration, according to IAS/IFRS, of the consolidated balance sheet as of January 1, 2004 and of the consolidated financial statements as of December 31, 2004 are summarized here after. The economic-financial effects resulting from the first application of IAS/IFRS will be quantified and commented in details in the half year report, which will register the first consolidated balance sheet in 2005 drafted according to those standards.

### CONSOLIDATION AREA

The transition to the new accounting standards will not impact on the consolidation area of the Espresso Group.

### INTANGIBLE ASSETS – (GOODWILL ON TITLES AND CONSOLIDATION DIFFERENCES)

The Group's intangible assets are highly represented by goodwill on titles and consolidation differences, which, according to the presently used accounting principles are depreciated in a period of 40 years from the date of the acquisition, in function of their residual possibility of use. The new international accounting standards provide that the goodwill acquired for a consideration can no longer be depreciated, because they are considered life indefinite intangible assets, but shall be subject to an impairment test with an at least annual frequency.

To exclude the depreciations from the income statement will result into a significant improvement of the net profit, while the value of the intangible assets is significantly higher than what registered in the balance sheet according to the first results of the impairment test, implemented using the method of the discounted cash flow. No value reduction will be, therefore, done.

### INCORPORATION AND START UP COSTS

The application of the new standards will not imply any significant change for the Espresso Group as the items at issue represent a marginal element of the consolidated financial statements.

### TANGIBLE ASSETS

IAS16 provides that the depreciable value of assets, established deducting the residual value, shall be allotted during the useful life of the asset itself (the expected period in which

the asset will be utilizable in the production activity). The useful life of an asset and the depreciation method shall be periodically reviewed and, under the circumstances of significant changes, the depreciation cost shall be modified for the year in which the change occurs and for the following ones.

The revision of the useful life of assets did not result into significant impacts considering that the previous accounting standards already provided for depreciation rates in line with the useful life of the assets. The main difference between the old and the new accounting standards relates to land and buildings. The Italian accounting principles enabled to record land and buildings indistinctly with the subsequent depreciation of the land; according to IAS16, instead, the value of buildings shall be identified and separated from the land on which they stand from an accounting point of view and only the building will be subject to depreciation. The Espresso Group analyzed these cases and the depreciation of land will be cancelled from the income statement and posted to the value of the land. Values are not significant also in this case.

#### ASSETS ACQUIRED WITH FINANCIAL LEASING

In compliance with IAS 17, all the financial leasing shall be evaluated applying the financial methods providing for the registration of the interests on the funded capital and of the depreciation rates on the value of the assets acquired in leasing in the income statement, beyond the registration of the assets themselves in the assets, net of the cumulated depreciation, and of the residual debts in the liabilities of the balance sheet.

The Group will verify the conditions of the contracts relevant to all the existing leasing/rent contracts still in force.

#### OWN SHARES

In compliance with what provided for by the new accounting standards, the Group will write-off the value given to own shares from the financial assets with the corresponding reduction of the share capital and the reserve for own shares in portfolio will be reclassified in the specific reserves.

#### DERIVATIVE INSTRUMENTS

IAS 39 regulates the modes of classification and the criteria of evaluation of the financial instruments differentiating the derivatives designated as speculative from those designated as hedging instruments. The first ones are registered at their fair values per contra in the income statement, the second ones according to the principle of the hedge accounting enabling to register simultaneously and to compensate the economic and financial effects ascribable to the covered instrument and to the coverage instrument.

The Espresso Group will apply IAS 32/39 only from January 1, 2005; therefore, as concerns the opening balance sheet and the 2004 financial statements no change will be made.

The Espresso Group was implementing four operations on January 1, 2005:

- a "paper swap" contract, establishing the cost of the paper supply on part of needs up to September 2005;
- three "interest rate swap" contracts, fixed/variable for a total notional amount equal to € 300 millions expiring in October 2014, with which the Gruppo Editoriale L'Espresso paid a variable rate linked to Euribor and received a 5.125% fixed rate. Through these operations, the fixed rate of the bond issue of €300 millions expiring in October 2014 was "*de facto*" converted into a variable rate. These contracts were closed generating a financial income during the first quarter 2005.



#### EMPLOYEE SEVERANCE INDEMNITY

The Italian accounting principles require to register the liability for the severance indemnity on the base of nominal debts matured according to the civil provisions in force at the close of the financial statements. According to IAS 19, the severance indemnity institution falls under the typology of the benefit plans subject to the evaluation of actuarial nature to express the present value of the benefit employees have matured at the date of the financial statements, payable at the end of the working relationship.

The Espresso Group entrusted an independent actuary to re-determine the severance indemnity according to the new modes. The first calculation showed that the impact will be marginal in reference to what already registered in the financial statements.

#### PROVISIONS FOR RISKS AND CHARGES

The new international accounting standards provide that provisions may be registered in the financial statements if relevant to a present obligation resulting from a past event and which will require the use of financial resources to be fulfilled, as well as the availability of a reliable evaluation of the amount required to fulfil the obligation.

The adoption of the new regulations will have on the Espresso Group a non-significant impact.

#### STOCK OPTIONS

IFRS 2 classifies the stock options within the “payment based on shares”, that is to say “goods or services acquired through the payment of representative instruments of capital stock”. On the basis of this principle, the stock options shall be evaluated at the fair value when they are allotted, registering a cost in the income statement having its counter part in an increase of the reserves of the shareholders’ equity.

The Espresso Group entrusted an independent actuary to evaluate the stock options, evaluation still to be finalized.

#### EXTRAORDINARY ITEMS

According to IAS/IFRS, it will no longer be possible to register the extraordinary items in the income statement separately, but they shall be reclassified among the ordinary items by their nature.

#### NET FINANCIAL POSITION

The main impact on the net financial position relates to the reclassification of the leasing contracts, with a marginal impact.

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#### **Company's Contacts.**

The text of this release is also readable on the company's site [www.gruppoespresso.it](http://www.gruppoespresso.it).

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Rome, April 20, 2005

# Espresso Group

## RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€million)	1 <sup>st</sup> QUARTER 2004	1 <sup>st</sup> QUARTER 2005
REVENUES		
Circulation	150,7	142,2
Advertising	121,9	126,5
Other revenues	10,0	7,1
<b>TOTAL REVENUES</b>	<b>282,6</b>	<b>275,8</b>
PRODUCTION COSTS		
Paper	(23,2)	(19,6)
Printing and other supplies	(21,0)	(17,3)
Maintenance and technological costs	(6,1)	(6,8)
Other production costs	(29,7)	(23,8)
<b>TOTAL PRODUCTION COSTS</b>	<b>(80,0)</b>	<b>(67,5)</b>
OPERATING COSTS		
Promotion	(11,5)	(13,6)
Distribution	(7,9)	(7,5)
Publisher fees	(5,0)	(4,4)
Agent/agency fees	(6,3)	(6,9)
Copyrights	(10,6)	(12,3)
Other operating costs	(37,6)	(34,4)
<b>TOTAL OPERATING COSTS</b>	<b>(79,0)</b>	<b>(79,1)</b>
Labor costs	(64,4)	(69,3)
<b>Gross operating profit</b>	<b>59,2</b>	<b>59,9</b>
Depreciation of fixed assets	(9,6)	(10,0)
Amortization of goodwill	(3,8)	(3,7)
<b>Operating profit</b>	<b>45,9</b>	<b>46,1</b>
Financial income (expense)	(3,0)	3,0
Leasing payments	(0,4)	(0,4)
Income (expense) on investments	0,2	0,3
Extraordinary income (charges)	(0,8)	(0,1)
<b>Profit before taxes</b>	<b>41,8</b>	<b>49,0</b>
Taxes	(20,1)	(21,0)
<b>Profit before minority interests</b>	<b>21,8</b>	<b>27,9</b>
Minority interests	(0,1)	(0,1)
<b>NET PROFIT</b>	<b>21,7</b>	<b>27,9</b>

## CONSOLIDATED NET FINANCIAL POSITION

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(€million)	Dec. 31, 2004	March 31, 2005
Short-term financial investments	403,5	490,0
Short-term financial debt	(12,4)	(14,6)
Bonds	(500,0)	(500,0)
Medium- and long-term loans	(22,2)	(22,2)
<b>POSIZIONE FINANZIARIA NETTA</b>	<b>(131,1)</b>	<b>(46,8)</b>