CALTAGIRONE EDITORE

annual report 2005
sixth fiscal year

Caltagirone Editore SpA

Head office Via Barberini, 28 - 00187 Roma
Share capital Euro 125,000,000
Internal Revenue Code and VAT n. 05897851001
Registered with the C.C.I.A.A. of Rome REG 935017

ordinary shareholders' meeting of April 27th, 2006

AGENDA

1. Presentation of the Parent Company and Consolidated Financial Statements for the year ended December 31st, 2005, together with the Directors' Report, Board of Statutory Auditors' Report and the Independent Auditors' Report; deliberations therein.

2. Appoint the Board of Directors for the three-years period 2006-2007 and 2008, determining the number of Board members and their relative remuneration and any deliberations thereon in accordance with article 2390 of the civil code.

3. Appoint the Board of Statutory Auditors for the three-years period 2006-2007 and 2008 and determination of the relative remuneration.

4. Appointment of the independent auditors for the audit of the parent company and consolidated financial statements for the period 2006-2011, verification of the accounting records and the correct recording of the underlying accounting records and half year reports at June 30th for the period 2006-2011.

extract of the ordinary shareholders' meeting of April 27th, 2006

The shareholders' meeting held in first convocation
and chaired by Francesco Gaetano Caltagirone,
with 27 shareholders
present representing 88,388,564 shares,
in summary, deliberated:

- the approval of the Board of Directors' Report and the Financial Statements for the year ended December 31st , 2005;
- the distribution of a dividend of euro 0.30 for each share outstanding to the shareholders;
- the appointment of a new Board of Directors and Board of Statutory Auditors for the three-year period 2006, 2007 and 2008;
- the appointment of the independent audit firm KPMG SpA as independent auditors of the Parent Company and Consolidated Financial Statements for the years 2006-2011.

corporate board

Board of Directors

Chairman

Francesco Gaetano Caltagirone

Deputy Chairman

Gaetano Caltagirone

Deputy Chairman

Azzurra Caltagirone

Director

Francesco Caltagirone Jr
Massimo Confortini *
Mario Delfini *
Massimo Garzilli *
Albino Majore *
Giampietro Nattino *

Board of Auditors

Chairman

Giampiero Tasco

Auditor

Carlo Schiavone
Maria Assunta Coluccia

Indipendent audit firm

KPMG SpA

** Members of the executive committee*

summary

Consolidated balance sheet for the financial year ended December 31st, 2005

Balance sheet for the financial year ended December 31st, 2005

Subsidiaries financial statements

CALTAGIRONE EDITORE

consolidated balance sheet for the financial year ended December 31st, 2005

directors' report on operations for the year ended December 31st, 2005

Dear Shareholders,

The Caltagirone Editore Group for the year 2005 reported a net profit of euro 94.31 million, tripling the net profit compared to the previous year (euro 31.37 million), partially due to the significant gains realised on the sale of equity investments (RCS Media Group SpA and Banca Nazionale del Lavoro).
The Ebitda amounted to euro 62.68 million, an increase of 8.7% compared to euro 57.64 million in the previous year.
There was a strong improvement in the Ebit, increasing from euro 38.20 million to euro 46.03 million (+20.5%) and in sales, increasing by 2.6%, from euro 270.61 million to euro 277.63 million.
The Ebitda margin on revenues was 22.6%, an increase compared to 21.3% recorded in 2004.
The Caltagirone Editore Group recorded significant growth in both turnover and Ebitda compared to the previous year. The growth in sales was recorded thanks to the increase in advertising revenues in the free daily newspaper *Leggo* and to the success of joint promotional initiatives with the normal daily newspapers, and to the inclusion of revenues from the *Quotidiano di Puglia* for the entire year, considered only partially relating to advertising revenues in 2004, and the inclusion of *Corriere Adriatico*, which in 2004 was only present in the second half of the year.
The advertising market was impacted by the general depression in consumption which was reflected in both advertising sectors (national and local).
In this context, the Group's newspapers strongly defended their leadership positions within local advertising market.
Circulation figures registered a slight increase compared to the previous year, in line with the mainly stable daily newspaper market.
The Ebitda was impacted by the international price of paper, which resulted in an average increase in 2005 of approximately 5.4% compared to the previous year.

The result was also impacted by the renewal of the national wage contract in the printing sector, which includes an increase of 2% in pension costs from 2005, increasing to 4% in 2006.
The most important results are shown in the table below compared to the previous year: The results were determined in accordance with IAS/IFRS adopted from January 1, 2005; consequently, for comparison purposes, the results for 2004 were adjusted in accordance with these standards.

	2005	2004	Change %
Circulation revenues	85,231	83,367	2.2%
Advertising revenues	177,692	174,939	1.6%
Other income and revenues	14,706	12,305	19.5%
VALUE OF PRODUCTION	**277,629**	**270,611**	**2.6%**
Raw materials, supplies and consumable stores	(28,148)	(25,484)	10.5%
Personnel costs	(85,611)	(80,966)	5.7%
Services	(89,924)	(91,072)	-1.3%
Rent, lease and similar costs	(7,771)	(7,050)	10.2%
Provisions and write downs	(2,103)	(2,012)	4.5%
Other operating charges	(1,396)	(6,390)	-78.2%
Total costs	**(214,953)**	**(212,974)**	**0.9%**
EBITDA	**62,676**	**57,637**	**8.7%**
Amortisation and depreciation	(10,405)	(11,504)	-9.6%
Other (costs)/income	(6,238)	(7,928)	-21.3%
EBIT	**46,033**	**38,205**	**20.5%**
Financial income	78,769	13,269	493.6%
Financial charges	(3,740)	(9,416)	-60.3%
Financial result	**75,029**	**3,853**	**1,847.3%**
PROFIT BEFORE TAXES	**121,062**	**42,058**	**187.8%**
Income taxes	(26,495)	(6,723)	294.1%
PROFIT BEFORE MINORITY SHARE	**94,567**	**35,335**	**167.6%**
Minority interest (profit)/loss	(260)	(3,959)	-93.4%
NET PROFIT	**94,307**	**31,376**	**200.6%**

In thousands of euros

As already reported, the revenues from sales increased thanks to the joint promotional initiatives with the daily newspapers, while the increase from advertising revenues is due to the expansion of the free newspaper *Leggo* and to the consolidation for the entire year of *Corriere Adriatico* and *Quotidiano di Puglia*.
The increase in raw, ancillary and consumable materials was 10.5%, partially due to the changed consolidation scope.
A similar consideration is made in relation to the increase in personnel costs.
The financial result recorded a significant increase due to the gains realised on the sale of shares in Rcs Media Group SpA and Banca Nazionale del Lavoro SpA.
Income taxes include the estimate for current income taxes and deferred tax income and charges.

Net Financial Position	12.31.2005	12.31.2004
Non-current financial assets	25	25
Current financial assets	1,416	90,337
Cash and cash equivalents	567,616	282,296
Non-current financial liabilities	(67,277)	(73,735)
Current financial liabilities	(20,025)	(18,588)
Total	**481,755**	**280,335**

In thousands of euros

The Net Financial Position at December 31st, 2005 was euro 481.75 million, a considerable improvement compared to euro 280.33 million at December 31st, 2004, due to the positive operating cash flow and the sale of shares in Rcs Media Group SpA and Banca Nazionale del Lavoro SpA. Dividends were distributed in the year of euro 25 million.

Operating performance

Publishing activities

Circulation revenues	2005	2004	Change %
Sales of newspapers	**68,968**	**68,061**	**1.3%**
Promotions	**16,263**	**15,306**	**6.2%**
Il Messaggero	10,390	9,079	14.4%
Il Mattino	4,795	5,794	-24.6%
Corriere Adriatico	816	433	n.a.
Quotidiano di Puglia	262	–	n.a.
Total	**85,231**	**83,367**	**2.2%**

In thousands of euros

All of the Group newspapers maintained their leadership positions in their respective markets.
Sales in conjunction with other newspapers and other differential price editorial initiatives are ongoing.
The revenues from newspaper sales increased from euro 83.37 million to euro 85.23 million (+2.2%).
The reasons for this positive performance have already been highlighted within Group results; newspaper sales revenues have also been positively impacted by the products sold in conjunction with the newspapers, whose contribution to the Ebtida was approximately euro 2.6 million, equal to 16% of sales. The most successful initiatives were: the *BBC English course*, the *Roman Library*, and the stamps and DVD relating to the late Pope John Paul II and *Italian Cinema* in DVD.

Advertising revenues

Advertising revenues	**2005**	**2004**	**Change %**
Advertising			
Il Messaggero	102,733	103,924	-1.1%
Il Mattino	37,808	38,454	-1.7%
Leggo	23,539	20,736	13.5%
Quotidiano di Puglia	6,851	6,701	2.2%
Others	3,007	3,142	-4.3%
Total	**173,938**	**172,957**	**0.6%**
Corriere Adriatico	3,754	1,982	n.a
Total	**177,692**	**174,939**	**1.6%**

In thousands of euros

In the full year at similar consolidation scope, the advertising revenues increased by approximately 0.6% compared to the previous year, substantially due to the positive contribution registered by the free newspaper *Leggo*.
However, the above figures should be viewed positively, given the aforementioned ongoing unfavourable national advertising market, also impacted in 2005 by the reduced investments by the primary investors, by the slow-down in new business initiatives and by the performance of the economy on both a national and international level.
The local advertising market however remained firm, especially in the large department stores, durable goods (such as white goods and home appliances) and food sectors. This resulted in an increase in advertising revenues in *Leggo*, which strengthened its national presence launching new editions in 2005 in the cities of Bari, Genoa, Bergamo, Brescia, Como and Varese, thus bringing to 15 the number of

cities where the newspaper is distributed. Sales registered under other media largely relate to Radio stations.

Other activities

	2005	2004	Change %
Services and internet	6,269	3,632	72.6%
Other revenues	8,437	8,673	-2.7%
Total	**14,706**	**12,305**	**19.5%**

In thousands of euros

B2Win SpA, operating in the management of call centres and advance computer services, ended 2005 with sales of euro 5.8 million, a strong increase compared to the previous year of euro 3.3 million.
Caltanet SpA continued its activities in the web area maintaining close control on operational costs. Other revenues derive from the recharge of costs, prior year income and other minor income.

Business outlook and Group strategies

All group newspapers were actively involved in maintaining their respective market share, without however renouncing the expansion policy in the areas close to traditional distribution, through partnerships with local newspapers and the differentiation of sales prices.
This strategy was confirmed by the excellent readership results recorded by the 2nd Audipress survey of 2005, which reported the following results:

Number of readers daily/average (x 1000)	2005/II	2005/I	Change %
Newspaper			
Il Messaggero	1,366	1,251	9.2%
Il Mattino	862	765	12.7%
Corriere Adriatico	265	233	13.7%
Quotidiano di Puglia	220	199	10.6%

In the free-press, *Leggo* saw growing appreciation among readers in all distribution areas and is recognised as an excellent communications channel. Business activity is, as always, linked to advertising performance, which is closely connected to the general economy. In 2005, this performance was not particularly favourable.
2005 saw the full market effects of the *full-colour* editions, already utilised in 2004 by the main daily newspapers.

In order to strengthen its leadership position both in terms of newspaper circulation and advertising, *Il Messaggero* has began the expansion of its printing centre at Rome, which will allow, as from February 2007, the publication of a colour version of up to 72 pages, with a maximum of 4 pull-out sections.
The investment in printing equipment will cost approximately euro 12 million.
A much more contained investment (approximately euro 700 thousand) has been made to provide the *Corriere Adriatico* with the minimum number of colour pages (16) required for it to be included in the 'national advertising sector', which are all in colour.

Transactions with related parties

The transactions with "related parties" in accordance with IAS No. 24 are disclosed in the notes to the financial statements at paragraph 28.

Other information

For the financial statements as at December 31st, 2005, the Caltagiorne Editore Group has applied the IFRS international accounting standards, obligatory from 2005 for the preparation of consolidated financial statements of companies listed on European regulated markets. To ensure comparability of data, the balance sheet and income statement at December 31st, 2004 were adjusted in accordance with IFRS standards.
In accordance with article 10 of the Self Regulation Code, the Board of Directors of Caltagirone Editore SpA, in the meeting of September 10th, 2001, constituted the Internal Control Committee composed of five Directors chosen from the six non-executive members, as well as appointing the person responsible for internal control with the necessary requisites of independence, in order to perform a constant and complete monitoring of the systems and control procedures present in the different subsidiary companies.
Finally, it is reported that the Parent Company directly holds 31,040 treasury shares for a total nominal value of euro 31,040.
During the year, the company did not carry out any research and development activity.
At December 31st, 2005, the number of employees in the group amounted to 1,009 (1,020 at December 31st, 2004), in addition to 481 consultants on short-term contracts.
The reconciliation schedules of the shareholders' equity at December 31st, 2005 and 2004 and of the results for the year of the Caltagirone Editore SpA Group prepared in accordance with Italian GAAP and IFRS are attached to the present report.

Subsequent events

There were no significant events in the first months of 2006 to report. The activities of the Group continued in line with expectations in the markets in which they operate.

Of great importance to the advertising market is the inclusion of free newspaper distribution data in the Audipress market survey. The initial information will be available in the spring of next year.

Rome, March 20th, 2006

RECONCILIATION BETWEEN THE NET RESULT AND NET EQUITY OF THE PARENT COMPANY AND THE CONSOLIDATED NET RESULT AND NET EQUITY

	RESULT FOR THE YEAR
Net equity and net result as per the financial statements of the parent company	**38,201**
Contribution of subsidiary companies	49,849
Consolidation differences	–
IAS conversion effect	6,257
Minority interest share of net equity	260
NET EQUITY AND NET RESULT AS PER CONSOLIDATED FINANCIAL STATEMENTS	**94,567**

In thousands of euros

DECEMBER 31ST, 2005

NET EQITY
713,046
(5,982)
118,772
21,862
896
848,594

LIST OF SIGNIFICANT INVESTMENTS AT 12.31.2005 AS PER ART. 38

COMPANY	HEAD OFFICE	SHARE CAPITAL	CURRENCY
Companies included in the consolidation under the full integration method			
Il Messaggero SpA	Rome	36,900,000	Euro
Il Mattino SpA	Rome	500,000	Euro
Piemme SpA	Rome	104,000	Euro
S.E.M. SpA	Rome	2,481,600	Euro
Caltanet SpA	Rome	5,414,463	Euro
Leggo SpA	Rome	1,000,000	Euro
Cedfin Srl	Rome	10,200	Euro
B2WIN SpA	Rome	1,000,000	Euro
Emera SpA	Rome	2,496,000	Euro
Finced Srl	Rome	10,000	Euro
Corriere Adriatico SpA	Ancona	102,000	Euro
Quotidiano di Puglia SpA	Rome	1,020,000	Euro
Other investments in subsidiary companies			
Edi.Me. Sport Srl	Naples	10,200	Euro
Noisette Servicos de Consultoria Lda	Portugal	5,000	Euro

OF LEGS. DECREE NO. 127/1991

OWNERSHIP		
Held direct	**Indirectly through**	
99.999%	Cedfin Srl	0.001%
99.999%	Cedfin Srl	0.001%
–	Il Messaggero SpA	100%
0.001%	Emera SpA	99.999%
98.778%	Cedfin Srl	1.222%
90.00%	–	–
99.995%	S.E.M. SpA	0.005%
–	Caltanet SpA	99.00%
	Leggo SpA	1.00%
–	Il Messaggero SpA	100%
99.99%	Cedfin Srl	0.01%
51.00%	Cedfin Srl	49.00%
85.00%	–	–
–	Il Mattino SpA	99.50%
–	Cedfin Srl	98.00%
	Leggo SpA	2.00%

assets

	Notes	12.31.2005	12.31.2004
Intangible assets with definite life	1	693	685
Goodwill and other indefinite intangible assets	2	274,954	274,954
Property, plant and equipment	3	82,467	92,263
Equity investments measured at cost	4	4,319	4,597
Equity investments and non-current securities	5	43,394	148,206
Non-current financial assets	6	25	25
Other non-current assets	7	977	1,228
Deferred tax assets	8	16,605	29,352
TOTAL NON-CURRENT ASSETS		**423,434**	**551,310**
Inventories	9	2,588	2,672
Trade receivables	10	77,655	85,336
Investments and current securities	5	–	2
Current financial assets	11	1,416	90,337
Receivables for current taxes	8	4,578	4,696
Other current assets	12	3,819	2,905
Cash and cash equivalents	13	567,617	282,297
TOTAL CURRENT ASSETS		**657,673**	**468,245**
TOTAL ASSETS		**1,081,107**	**1,019,555**

In thousands of euros

liabilities

	Notes	12.31.2005	12.31.2004
Share capital		125,000	125,000
Share capital issue costs		(18,865)	(18,865)
Treasury shares		(164)	(164)
Other reserves		647,420	650,033
Profit/(loss) for the year		94,307	31,376
Group shareholders' equity		**847,698**	**787,380**
Minority interest shareholders' equity		**896**	**531**
SHAREHOLDERS´ EQUITY	14	**848,594**	**787,911**
Employee provisions	16	39,071	38,217
Other non-current provisions	17	9,028	7,393
Non-current financial liabilities	15	67,278	73,735
Other non-current liabilities	20	3,235	3,939
Deferred tax liability	8	31,087	26,907
NON-CURRENT LIABILITIES		**149,699**	**150,191**
Current provisions	17	661	–
Trade payables	18	32,257	31,431
Current financial liabilities	15	20,025	18,588
Payables for current taxes	19	1,500	–
Other current liabilities	20	28,371	31,434
CURRENT LIABILITIES		**82,814**	**81,453**
TOTAL LIABILITIES		**1,081,107**	**1,019,555**

In thousands of euros

profit and loss account

	Note	12.31.2005	12.31.2004
Revenues from sales and supply of services	21	269,192	261,939
Other operating revenues	22	8,437	8,673
TOTAL REVENUES		**277,629**	**270,612**
Raw material costs	23	28,148	25,484
Personnel costs	16	85,611	80,966
Other operating charges	24	101,194	106,525
TOTAL COSTS		**214,953**	**212,975**
EBITDA		**62,676**	**57,637**
Depreciation, amortisation, provisions & write-downs	25	16,643	19,432
EBIT		**46,033**	**38,205**
Net financial result	26	75,029	3,853
PROFIT BEFORE TAXES		**121,062**	**42,058**
Income taxes	8	(26,495)	(6,723)
PROFIT FROM NORMAL OPERATIONS		**94,567**	**35,335**
NET PROFIT FOR THE YEAR		**94,567**	**35,335**
Group net profit		94,307	31,376
Minority interest share of profit		260	3,959

In thousands of euros

Earnings per share (euro per 1,000 shares)	27	755	251
Diluted earnings per share (euro per 1,000 shares)	27	755	251

other statements

INCOME AND CHARGES RECORDED IN THE FINANCIAL STATEMENTS

	Notes	12.31.2005	12.31.2004
Change in fair value of securities held for sale		(8,483)	36,298
NET PROFIT RECORDED DIRECTLY TO NET EQUITY		**(8,483)**	**36,298**
NET PROFIT		**94,567**	**35,335**
TOTAL INCOME AND CHARGES RECORDED IN THE FINANCIAL STATEMENTS	14	**86,084**	**71,633**
Attributable to:			
Shareholders of the Parent Company		85,824	67,674
Minority interest		260	3,959
TOTAL INCOME AND CHARGES RECORDED IN THE FINANCIAL STATEMENTS		**86,084**	**71,633**

In thousands of euros

CASH FLOW STATEMENT

	Notes	2005	2004
LIQUIDITY AT BEGINNING OF YEAR		**282,297**	**545,509**
Profit for the year		94,567	35,335
Amortisation and depreciation	25	10,405	11,504
(Revaluations) and write-downs	25-27	2,715	6,962
Net financial result		(16,179)	(5,754)
(Gains) Losses on disposals	26	(59,948)	(1,225)
Income Taxes	8	26,495	6,723
Changes in employee provisions	16	854	5,906
Changes in current and non-current provisions	17	2,295	616
OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL		**61,204**	**60,067**
(Increase) Decrease in inventories	9	83	(545)
(Increase) Decrease in Trade receivables	10	5,257	(10,050)
Increase (Decrease) in Trade Payables	18	826	2,227
Change in other non-current and current liabilities		(4,898)	6,718
Change in deferred and current income taxes		(340)	19,165
OPERATING CASH FLOW		**62,132**	**77,582**
Dividends received	26	2,355	1,960
Interest received		10,503	10,257
Interest paid		(2,982)	(3,274)
Other income (charges) received/paid		197	5
Income tax paid		(7,609)	(8,709)
A. CASH FLOW FROM OPERATING ACTIVITIES IN THE YEAR		**64,596**	**77,821**

	Notes	2005	2004
Investments in intangible fixed assets		(429)	(122,072)
Investments in tangible fixed assets	1	(3,826)	(5,981)
Investments in equity holdings and securities	3	–	(68,961)
Sale of intangible, tangible and financial assets	5	157,934	21,613
(Increase) Decrease in equity investments and current securities		2	(2)
Other changes in investment activities		1,564	(36,434)
B. CASH FLOW FROM INVESTING ACTIVITIES		**155,245**	**(211,837)**
Change in non-current financial assets and liabilities		(6,458)	(8,610)
Change in current financial assets and liabilities		90,358	(92,649)
Dividends distributed	14	(24,995)	(24,995)
C. CASH FLOW FROM FINANCING ACTIVITIES		**58,905**	**(126,254)**
D. EFFECT OF EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**6,574**	**(2,942)**
Change in net liquidity		**285,320**	**(263,212)**
LIQUIDITY AT END OF YEAR		**567,617**	**282,297**

In thousands of euros

notes to the consolidated financial statements for the financial year ended December 31st, 2005

Introduction

Caltagirone Editore SpA (Parent Company) is a limited liability company with its registered office at Rome (Italy), Via Barberini, No. 28.
The shareholders with holdings above 2% of the share capital, as per the shareholder registry, the communications received in accordance with article 120 of Legislative Decree No. 58 of February 24, 1998, and other information available are:

1. Francesco Gaetano Caltagirone: 81,955,300 shares (65.56%).
   This investment is held:
   - Directly for 22,500,000 shares (18.0%);
   - Indirectly through the Companies:
     - Capitolium SpA (29.08%);
     - Gamma Immobiliare Srl (12.00%);
     - Viafin Srl (3.60%);
     - Ind 2004 Srl (2.88%);
2. Gaetano Caltagirone 3,000,000 shares (2.40%);
3. Edizioni Holding SpA 2,799,000 shares (2.24%).

Following the enactment of European Regulation No. 1606 of July 2002, the Caltagirone Editore Group has adopted the International Accounting Standards from January 1st, 2005 and, therefore, presents the first full consolidated financial statements prepared in accordance with these standards as at December 31st, 2005.
The present consolidated financial statements were authorised for publication by the directors on March 20th, 2006.
The Parent Company has opted to apply the International Accounting Standards for the preparation of the parent company financial statements from the year 2006. The reconciliation schedules of the shareholders' equity at December 31st, 2005 and 2004 and of the results for the year of the Caltagirone Editore SpA Group prepared in accordance with Italian GAAP and IFRS are attached to the Directors' report on operations.

Compliance with international accounting standards approved by the European Commission

The present Group consolidated financial statements for the year ended December 31st, 2005 were prepared in accordance with international accounting standards (International Accounting Standards - IAS or International Financial Reporting Standards - IFRS) and the relative Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC), approved by the European Commission (hereinafter "IFRS").
As required by IFRS 1 - First-time Adoption of the International Financial Reporting Standards, in order to illustrate the impact of the transition to the international accounting standards on the balance sheet, financial position and results of the Group, the following schedules are attached as an appendix to the notes:

- IFRS consolidated balance sheet at January 1st, 2004 (transition date) and at December 31st, 2004 (date of the last consolidated financial statements prepared in accordance with Italian GAAP);
- IFRS consolidated income statement for the year 2004;
- Notes to the above financial statements;
- Reconciliation of the Shareholders' Equity at January 1st, 2004 and at December 31st, 2004 in accordance with Italian GAAP and IFRS;
- Reconciliation of the consolidated Net Result for the year 2004 in accordance with Italian GAAP and IFRS.

Presentation basis

The Consolidated Financial Statements consist of the Balance Sheet, Income Statement, Cash Flow Statement, Statement of changes in Shareholders' Equity and the notes to the financial statements.
The Income Statement is classified based on the nature of the costs, while the Cash Flow Statement is presented using the indirect method.
The Consolidated Financial Statements are presented in euro and the amounts are shown in thousands, except where indicated otherwise.
The consolidation and accounting principles are in accordance with those utilised in the preparation of the transition schedules to IFRS at January 1st, 2004 and at December 31st, 2004 and are reported below.

Consolidation principles

Consolidation scope

The consolidation scope includes the parent company and all of its subsidiaries, directly or indirectly held (hereinafter the "Group").
The list of subsidiaries included in the consolidation scope is as follows:

	Location	2005	2004
Caltagirone Editore SpA	Rome	Parent Com.	Parent Com.
Il Messaggero SpA	Rome	100%	100%
Il Mattino SpA	Rome	100%	100%
Piemme SpA[1]	Rome	100%	100%
S.E.M. Società Editrice Meridionale SpA[2]	Rome	100%	100%
Caltanet SpA	Rome	100%	100%
Leggo SpA	Rome	90%	90%
Cedfin Srl	Rome	100%	100%
B2WIN SpA[3]	Rome	100%	100%
Finced Srl	Rome	100%	100%
Emera SpA[1]	Rome	100%	100%
Corriere Adriatico SpA[4]	Ancona	100%	100%
Quotidiano di Puglia SpA	Rome	85%	85%

[1] *Held through Il Messaggero SpA*
[2] *Held through Emera SpA*
[3] *Held through Caltanet SpA*
[4] *Held directly for 51% and through Cedfin Srl for 49%*

Subsidiary companies

All the companies in which the Group has the power to determine, directly or indirectly, the financial and operating policies of an entity, so as to obtain benefits from its activities are considered as subsidiary companies. In the evaluation of control, consideration is also taken of the potential voting rights that are effectively exercisable or convertible. The financial statements of subsidiaries are consolidated from the date in which the parent company acquires control and until the moment in which this control terminates.

Associated companies

Associated companies, which are the companies in which the Group exercises a significant influence, but not the control or joint control, on the financial and operating policies, are measured under the equity method. The profits and losses pertaining to the Group are recorded in the consolidated income statement at the date when such significant influence begins and until the date of termination.
Where the loss pertaining to the Group exceeds the book value of the investment, the value is written down to zero and where the holding is committed to comply with legal or implicit obligations of the company or in any case to cover the losses, the excess is recorded in a specific provision.

Consolidation procedure

All of the financial statements used for the preparation of the consolidated financial statements were prepared at December 31st and adjusted, where necessary, in accordance with the accounting standards applied by the Parent Company.
The assets and the liabilities, the charges and the income of the companies consolidated under the line-by-line method are fully included in the consolidated financial statements; the book value of the investments is eliminated against the corresponding fraction of the net equity of the subsidiaries, allocating to the individual assets and liabilities their current value at the date of acquisition of control. Any residual difference deriving from this elimination is recorded in the account Goodwill if positive, or charged to the Income Statement, if negative.
The share of net equity and result for the period relating to minority shareholders are recorded in specific accounts in the balance sheet and income statement.
All infragroup balances and transactions, including any non realised gains or losses deriving from transactions between Group companies, are eliminated net of their theoretical fiscal effect, if significant. The gains and losses not realised with associated companies are eliminated for the part pertaining to the Group.
The losses not realised are not eliminated when they represent a permanent impairment in value.

Conversion criteria of foreign currencies

The operational and presentation currency of the Group is the euro, which is also the operational currency of all of the companies included in the financial statements.
All transactions in currencies other than the euro are recorded at the exchange rate at the date of the transaction. The assets and liabilities denominated in foreign currencies other than the operational currencies are subsequently adjusted to the exchange rate at the end of the reporting period. The positive or negative differences between the values converted at the period end exchange rate and the original exchange rate are recorded in the income statement.
The non monetary assets and liabilities denominated in foreign currencies and recorded at historical cost are converted utilising the exchange rate at the initial date of recording of the operation.

Business combinations

All the business combinations are recorded using the purchase method, which is the purchase cost equal to the fair value at the date of the exchange of the assets sold, liabilities incurred or assumed, plus directly attributable purchase costs. This cost is allocated recording the identifiable assets, liabilities and contingent liabilities of the purchase, at their fair value. Any positive difference between the purchase price and the fair value of the share of net assets acquired relating to the Group is recorded as goodwill. Any negative difference (*negative goodwill*) is recorded in the income statement at the moment of the acquisition.
The acquisition of shares in investments after the acquiring of the control by the group, in the absence of specific requirements by IFRS, are recorded allocating to goodwill the entire difference between the purchase cost and the book value of the shares acquired.

On the first-time adoption of IFRS, the Group has chosen not to apply IFRS 3 (Business combinations) in retrospective manner for the acquisitions made prior to January 1st, 2004. Therefore the goodwill deriving from the acquisitions prior to the transition date to IFRS is maintained at the values recorded in the last consolidated financial statements prepared in accordance with the previous accounting standards (December 31st, 2003).

Accounting principles

Intangible assets with definite life

The Intangible assets with a definite life, which include patents, concessions, licences, trademarks and similar rights and software, are recorded at cost, including direct accessory costs necessary in order to render the asset available for use.
The intangible assets with a definite life are recorded net of the relative accumulated amortisation and any loss in value in accordance with the procedures described below. Amortisation is calculated on a straight line basis over the estimated useful life of the asset which is reviewed on an annual basis and any changes, where necessary, are made in accordance with future estimates. Considering the uniformity of the assets contained in the individual categories, it is considered, with the exception of specific cases, that the useful life of these assets is approximately 3-5 years.
At the moment of sale or when no expected future economic benefits exist from the use of an intangible asset, it is eliminated from the financial statements and any loss or gain (calculated as the difference between the sales value and the net book value) is recorded in the income statement in the year of the above mentioned elimination.

Goodwill

The Goodwill deriving from business combinations is allocated to the cash-generating unit identified which will benefit from these operations. The goodwill relating to investments in associated companies is included in the carrying value of these companies.
After the initial recording, goodwill is not amortised but is adjusted for any loss in value, determined in accordance with the procedures described below. Any write-downs may not be subsequently restated.

Intangible assets with an indefinite life

Intangible assets with an infinite life are those activities for which, on the basis of analysis of all of the relevant factors, there is no perceivable limit to the period in which the cash flow generated is limited for the Group. The newspaper titles are considered assets with indefinite useful lives.
The intangible assets with an indefinite life are initially recorded at purchase cost, determined in accordance with the same procedures indicated for intangible assets with a definite life, but are not amortised subsequently. The recovery of their value is verified adopting the same criteria for Goodwill. The write-downs are reinstated if the reasons for their write down no longer exist.

Property, plant and equipment

Property, plant and equipment is recorded at cost, including directly allocated accessory costs and necessary for the asset being in the condition for use for which it was acquired, and increased, in the presence of legal or implicit obligations, by the current value of the estimated cost for the disposal of the asset. The corresponding liability is recorded in a liability provision in the balance sheet under provisions for risks and charges.

The costs incurred after acquisition are recorded as an increase in the book value of the asset to which it refers when it is probable that the Group will receive the future benefits deriving from the cost incurred for the replacement of a part of property, plant and equipment and this cost can be reliably determined. All the other costs are recorded in the income statement when incurred.

When significant parts of property, plant and equipment have different useful lives, these components are recorded separately.

On the first-time application, as permitted by IFRS1, the group has decided to record some assets, revalued as of January 1, 2004 (the transition date) or in previous periods, on the basis of the revalued cost (fair value), considered as the replacement cost at the revaluation date (deemed cost).

Property, plant and equipment is recorded net of the relative accumulated depreciation and any loss in value determined in accordance with the procedures described below. Depreciation is calculated on a straight line basis on the estimated useful life of the asset for the company, that is reviewed on an annual basis and any changes, where necessary, are recorded in accordance with future estimates. Land, both constructible and annexes to buildings, is not depreciated in that it has an unlimited useful life.

The property, plant and equipment acquired through finance lease contracts, where the majority of the risks and rewards related to the ownership of an asset have been transferred to the Group, are recognised as assets of the Group at their fair value or, if lower, at the current value of the minimum lease payments, including any redemption amounts to be paid. The corresponding liability due to the lessor is recorded under financial payables. The leased assets are amortised based on the useful life of the asset. When there is no reasonable certainty that the Group will acquire ownership at the end of the lease, the asset is amortised over the shorter period of the duration of the lease and the useful life of the asset. The leased assets where the lessor bears the majority of the risks and rewards related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

The principal depreciation rates applied are as follows:

	Useful life	Economic technical rate
Industrial buildings	30 years	3.33%
Light structures	10 years	10%
Non automated machines and general plant	10 years	10%
Rotating press for paper in rolls	10 - 12 years	10% - 8.33%
Equipment	4 years	25%
Office furniture and equipment	8 years	12%
Transport vehicles	5 years	20%
Motor vehicles and similar	4 years	25%

At the moment of sale or when there are no expected future economic benefits from the use of property, plant and equipment, they are eliminated from the financial statements and any loss or gain (calculated as the difference between the sales value and the book value) is recorded in the income statement in the year of the above mentioned elimination.

Assets and liabilities held for sale and discontinued operations

The assets or group of assets and liabilities whose book value will be recovered principally through sale rather than continual usage, are presented separately from the other assets and liabilities in the balance sheet.
The assets classified as held for sale are measured at the lower between their book value and the current realisable value, less costs to sell, determined at the reclassification date. Losses in value are recognised directly in the income statement. The corresponding balance sheet values of the previous year are not reclassified.
The results of the activities terminated or in the course of disposal (discontinued operations) are recorded separately in the income statement, net of the tax effect. The corresponding values relating to the previous year are reclassified and are shown separately in the income statement, net of the tax effect, for comparative purposes.

Loss in value

At each period end, the book value of the property, plant and equipment and of intangible assets with a definite life are reviewed, in order to verify the existence of events or changes which indicate that the carrying value may not be recovered. If an indication of this type exists, their recoverable value must be determined and, where the book value exceeds the recoverable value, these assets are written down to reflect their recoverable value.
The recoverable value of goodwill, of other intangible assets with an indefinite life and intangible assets not available for use are, however, estimated annually or, when there is a change in circumstances or specific events occur.
The recoverable value is represented by the higher value between the current value less costs to sell and their value in use.

In defining the value in use, the expected future cash flows are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks of the activity. When an asset does not generate sufficient independent cash flows, the recoverable value is determined in relation to the cash-generating unit to which the asset belongs.
A loss in value is recognised in the income statement under amortisation, depreciation and write-downs, when the carrying value of the asset, or of the relative cash-generating unit to which it is allocated, is higher than the recoverable value. The losses in value of cash-generating units are firstly attributed to the reduction in the carrying value of any goodwill allocated and, thereafter, to a reduction of other assets, in proportion to their carrying value.
With the exception of goodwill, a loss in value of an asset is restated, up to the amount of the previous write-downs made, when the recoverable value exceeds the written down carrying value.

Inventories

Raw materials, semi-finished and finished products are measured at the lower of cost and market value. The cost is calculated on the basis of the weighted average cost method, which includes related accessory costs.

Financial Instruments

Investments in other companies and debt instruments
The Investments in other companies are measured at fair value with the recording of any gain or loss directly to shareholders' equity until the financial asset is sold or written down; at that moment the accumulated gains and losses are recorded in the income statement of the period. The fair value of the securities traded on a regulated market is based on the quotation price at the balance sheet date.
When the fair value cannot be reasonably determined, these investments are measured at adjusted cost for reductions in value, whose effects are recorded in the income statement. Any write-downs may not be subsequently restated.

Trade receivables
Trade receivables are recorded at amortised cost, net of any loss in value. The losses in value are determined on the basis of the fair value of the estimated future cash flows, discounted on the basis of the original effective interest rate.
The trade receivables which mature within the normal commercial terms are not discounted.

Cash and cash equivalents
The Cash and cash equivalents include bank deposits and cash in hand, or rather those values that are available on demand at short notice, certain in nature and with no payment expenses.

Financial liabilities and trade payables
The Financial liabilities and trade payables are initially recorded at fair value net of directly allocated transaction costs.
Thereafter, they are measured under the amortised cost criteria, using the original effective interest rate method.

Shareholders' Equity

Treasury Shares
The costs incurred for the purchase of treasury shares are recorded as a reduction of shareholders' equity. The gains or losses deriving from a subsequent sale are recorded as net equity movements.

Costs for share capital increases
The costs incurred for the stock exchange listing of the Parent Company Caltagirone Editore SpA, net of the relative tax effect, are recorded as a reduction of the shareholders' equity in a separate negative reserve.

Employee benefits

The liabilities relating to the benefits recognised to employees and paid on or after the termination of employment and relating to defined benefit programmes (Employee Leaving Indemnity), net of any assets serving the plan, are determined on the basis of actuarial assumptions estimating the amount of the future benefits that the employees have matured at the balance sheet date. The liability is recorded on an accruals basis over the period of maturity of the right. The valuation of the liability is made by independent professional actuaries.

Provision for risks and charges

The Provisions for risks and charges are recorded when a legal or implicit obligation exists towards a third party that derives from a past event, and a payment of resources is probable in order to satisfy the obligation and this amount can be reliably estimated. When the financial effect of the time value of money is significant and the payment dates of the obligations can be estimated reliably, the provision is discounted using the estimated future cash flows at a pre-tax rate that reflects the current market assessment of the cost of money and, if appropriate, the specific risks of the obligation; the increase of the provision due to the passing of time is recorded as a financial charge.

Grants

The Grants, from public entities and private third parties, are recorded at fair value when there is reasonable certainty that they will be received and that they will satisfy the conditions for their attainment.

The grants received against specific expenses are recorded under other liabilities and credited to the income statement over the period to which the related costs mature.
The grants received against specific assets whose value is recorded under fixed assets are recorded under other liabilities and credited to the income statement in relation to the depreciation period to which the asset refers.
The operating grants are fully charged to the income statement at the moment in which they satisfy the conditions for their recording.

Revenues

The Revenues are recorded in accordance with the probability that the Group will receive economic benefits and the amount can be determined reliably. Revenues are recorded net of returns, discounts and allowances.
In particular, the revenues from the sale of goods are recorded when the significant risks and benefits of the ownership of the assets are transferred to the purchaser.
The revenues for services are recorded when the services are provided, with reference to the progress of completion of the activities.

Interest

The financial income and charges are recorded on an accruals basis of the interest matured on the net value of the relative financial assets and liabilities utilising the effective interest rate.

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises.

Income taxes

Current Income taxes for the period are determined on the basis of the fiscal assessable income and in compliance with current fiscal law; in addition, the effects deriving from the implementation of some companies of the Group's national fiscal consolidation is applied.
Deferred tax assets and liabilities are calculated on temporary differences between the balance sheet values and the corresponding values recognised for tax purposes, applying the expected tax rates when the differences are reversed, determined on the basis of the current tax rates in force and in consideration of any expected changes relating to future years.
The recording of deferred tax assets is made when their recovery is probable, that is when it is expected that there will be future assessable fiscal income sufficient to recover the asset.
The recovery of the deferred tax asset is reviewed at each balance sheet date.

Use of estimates

The preparation of the financial statements require the Directors to apply accounting principles and methods that, in some circumstances, are based on difficulties and subjective valuations and estimates based on the historical experience and assumptions which are from time to time considered reasonable and realistic based on the relative circumstances. The application of these estimates and assumptions impact upon the amounts reported in the financial statements, such as the balance sheet, the income statement and the cash flow statement, and on the disclosures in the notes to the accounts. The final outcome of the accounts in the financial statements, which use the above-mentioned estimates and assumptions, may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and conditions upon which the estimates are based.

The accounting standards and accounts in the financial statements which require greater subjectivity in the preparation of the estimates and for which a change in the underlying conditions of the assumptions used may have a significant impact on the consolidated financial statements of the Group are as follows:

- Goodwill and other indefinite intangible assets;
- Write-down of fixed assets;
- Amortisation and depreciation of fixed assets;
- Deferred income taxes;
- Provision for risks and charges;
- Allowance for doubtful accounts;
- Other write-down provisions;
- Employee benefits.

The estimates and assumptions are reviewed periodically and the effects of all variations recorded in the income statement, when they relate only to that year. When the revision relates to both current and future periods (for example the revision of the useful life of fixed assets), the changes are recorded in the period in which the revision is made and in the relative future periods.

Management of risks

The Group is exposed to different market risks and in particular to raw material price risk, credit risk, risk of changes in interest rates, liquidity risk, risk of change in the prices of quoted financial investments and foreign exchange risk.

Price risk (paper)

The Group is exposed to fluctuations in the price of paper, principal raw material; the risk is managed through supply contracts with Italian and foreign companies with fixed prices and quantities for a maximum period of approximately one year, and through the provision from suppliers based in different geographic areas in order to obtain the most competitively priced supplies.

Credit risk

The Group does not have particularly significant Credit risks. The operating procedures permit a control of the risk connected to the receivable, limiting the sales of products and/or services to clients without an adequate level of credit lines or guarantees.

Liquidity risk

The Liquidity risk is managed by the Group through the investment of liquidity in short term operations (generally between one and three months) or readily liquid investments.

Interest rate risk

The exposure of the Group to interest rate changes is not particularly significant as this risk is principally related to medium/long-term loans with variable interest rates. The Group operations of this kind relate to bank loans.

Foreign currency risks

The Group, operating exclusively in the eurozone, is normally not exposed to foreign exchange currency movements. In some circumstances, however, foreign currency operations are undertaken which expose the Group to contained foreign currency risk.

Assets *1. Intangible assets with definite life*

	Research and development	Patents	Trademarks	Assets in progress	Others	Total
Historical cost 01.01.2004	**731**	**41**	**873**	**4**	**2,047**	**3,696**
Increases	20	15	85	–	320	440
Decreases	–	–	–	(4)	–	(4)
Change in consolidation scope	–	–	–	–	312	312
12.31.2004	**751**	**56**	**958**	**–**	**2,679**	**4,444**
Historical cost 01.01.2005	**751**	**56**	**958**	**–**	**2,679**	**4,444**
Increases	–	3	147	–	279	429
12.31.2005	**751**	**59**	**1,105**	**–**	**2,958**	**4,873**

In thousands of euros

	Research and development	Patents	Trademarks	Assets in progress	Others	Total
Amortisation and loss in value 01.01.2004	**603**	**40**	**820**	**–**	**1,566**	**3,029**
Increases	124	6	69	–	280	479
Change in consolidation scope	–	–	–	–	251	251
12.31.2004	727	46	889	–	2,097	3,759
Amortisation and loss in value 01.01.2005	**727**	**46**	**889**	**–**	**2,097**	**3,759**
Increases	22	6	90	–	313	431
Decreases	(10)	–	–	–	–	(10)
12.31.2005	**739**	**52**	**979**	**–**	**2,411**	**4,180**
Net value 01.01.2004	**128**	**1**	**53**	**4**	**481**	**667**
12.31.2004	**24**	**10**	**69**	**–**	**582**	**685**
12.31.2005	**12**	**7**	**126**	**–**	**547**	**693**

In thousands of euros

The values of intangible assets fully amortised and still in use are as follows:

- Development costs euro 941 thousand;
- Industrial patents and intellectual property rights: euro 1.55 million;
- Other: euro 1.69 million;

The average amortisation rates used are shown below:

Category	Average rate
Development costs	20.0%
Industrial patents and intel. property rights	29.0%
Trademarks, concessions and licenses	18.5%
Others	28.0%

2. Goodwill and other indefinite intangible assets

The indefinite intangible assets, comprising of goodwill and newspaper titles, are not amortised, but subject annually to verifications to determine the existence of any loss in value.

The table below shows the movements in the indefinite intangible assets:

	Goodwill	Newspaper titles	Total
Historical cost			
01.01.2004	**7,521**	**119,049**	**126,570**
Increases	–	–	–
Decreases	–	–	–
Change in consolidation scope	81,333	67,051	148,384
Write-downs	–	–	–
Reclassifications	–	–	–
12.31.2004	**88,854**	**186,100**	**274,954**
Historical cost			
01.01.2005	**88,854**	**186,100**	**274,954**
Increases	–	–	–
Decreases	–	–	–
Change in consolidation scope	–	–	–
Write-downs	–	–	–
Reclassifications	–	–	–
12.31.2005	**88,854**	**186,100**	**274,954**

In thousands of euros

The goodwill is allocated to the following cash-generating units:

	12.31.2005	12.31.2004
Il Messaggero SpA	51,613	51,613
Piemme SpA (*Advertising agency*)	27,521	27,521
Il Mattino SpA	9,720	9,720
Total	**88,854**	**88,854**

In thousands of euros

The increases recorded in 2004 refer to the acquisition of a further 10% of Il Messaggero SpA, which in turn holds 100% of Piemme SpA, and of Il Mattino SpA.
The goodwill arising on the purchase of 10% of Il Messaggero SpA, amounting to euro 71.51 million, was allocated to the cash-generating unit relating to the advertising agency (Piemme) for euro 20 million.
The breakdown of the balance relating to the newspaper titles is shown below:

	01.01.2004	Increases	Decreases	Change in consolidation scope	Write-downs	12.31.2004
Il Messaggero	90,808	–	–	–	–	90,808
Il Mattino	28,232	–	–	16,264	–	44,496
Il Quotidiano di Puglia	–	–	–	26,131	–	26,131
Corriere Adriatico	–	–	–	24,656	–	24,656
Other minor newspaper titles	9	–	–	–	–	9
Total	**119,049**	**–**	**–**	**67,051**	**–**	**186,100**

In thousands of euros

	01.01.2005	Increases	Decreases	Change in consolidation scope	Write-downs	12.31.2005
Il Messaggero	90,808	–	–	–	–	90,808
Il Mattino	44,496	–	–	–	–	44,496
Il Quotidiano di Puglia	26,131	–	–	–	–	26,131
Corriere Adriatico	24,656	–	–	–	–	24,656
Other minor newspaper titles	9	–	–	–	–	9
Total	**186,100**	**–**	**–**	**–**	**–**	**186,100**

In thousands of euros

The estimate of the recoverable value of the goodwill and of the newspaper titles is based on the value in use, in accordance with IAS 36. The value in use is determined through the Discounted Cash Flow method, which is the discounting of the future operating cash flows generated by the Cash Generating Unit (CGU). In particular, the cash flows are estimated for a specific period and then discounted based on the cost of capital of the single CGU's. A "terminal value" representing the infinite projections of the CGU's revenue capacity, which is also discounted at an appropriate discount rate, is added to this value.
The principal parameters used in the determination of the value in use (separately for each "Cash Generating Unit") is shown below:

	Amount[1] at 12.31.2005	Tax rate	Growth rate terminal value	WACC[2]	Explicit period cash flows
Il Messaggero	142,421	37.25%	2.8%	8.5%	4 years
Il Mattino	54,216	37.25%	2.8%	7.5%	4 years
Piemme SpA (*Advertising agency*)	27,521	37.25%	1.5%	8.8%	4 years
Il Quotidiano di Puglia	26,131	37.25%	2.8%	8.5%	4 years
Il Corriere Adriatico	24,656	37.25%	2.8%	8.5%	4 years

[1] Represents the sum of the goodwill and of the newspaper titles allocated to the individual Cash Generating Unit
[2] The WACC represents the average weighted cost of capital of the company

In thousands of euros

3. Property, plant and equipment

	Land	Buildings	Plant and machinery	Commercial and industrial equipment	Other assets	Assets in progress	Total
Historical cost 01.01.2004	**4,783**	**41,062**	**114,763**	**1,828**	**21,550**	**1,402**	**185,388**
Increases	–	119	4,518	25	1,494	138	6,294
Decreases	–	(11,629)	(22,935)	(478)	(8,313)	(1,540)	(44,895)
Change in consolidation scope	–	–	50	–	368	–	418
Revaluations/(Write-downs)	–	–	(1,681)	–	–	–	(1,681)
Reclassifications	–	898	1,208	64	479	–	2,649
12.31.2004	**4,783**	**30,450**	**95,923**	**1,439**	**15,578**	**–**	**148,173**
Historical cost 01.01.2005	**4,783**	**30,450**	**95,923**	**1,439**	**15,578**	**–**	**148,173**
Increases	–	13	921	61	1,106	1,725	3,826
Decreases	–	–	(18,396)	–	(259)	–	(18,655)
12.31.2005	**4,783**	**30,463**	**78,448**	**1,500**	**16,425**	**1,725**	**133,344**

In thousands of euros

	Land	Buildings	Plant and machinery	Commercial and industrial equipment	Other assets	Assets in progress	Total
Depreciation and loss in value 01.01.2004	**–**	**3,531**	**52,240**	**1,643**	**16,804**	**–**	**74,218**
Increases	–	1,234	8,932	109	1,672	–	11,947
Decreases	–	(1,961)	(22,308)	(475)	(7,545)	–	(32,289)
Change in consolidation scope	–	–	39	–	262	–	301
Reclassifications	–	325	888	54	467	–	1,734
12.31.2004	**–**	**3,129**	**39,791**	**1,331**	**11,660**	**–**	**55,911**
Depreciation and loss in value 01.01.2005	**–**	**3,129**	**39,791**	**1,331**	**11,660**	**–**	**55,911**
Increases	–	909	7,369	77	1,628	–	9,983
Decreases	–	–	(14,772)	–	(245)	–	(15,017)
12.31.2005	**–**	**4,038**	**32,388**	**1,408**	**13,043**	**–**	**50,877**
Net value							
01.01.2004	**4,783**	**37,531**	**62,523**	**185**	**4,746**	**1,402**	**111,170**
12.31.2004	**4,783**	**27,321**	**56,132**	**108**	**3,918**	**–**	**92,262**
12.31.2005	**4,783**	**26,425**	**46,060**	**92**	**3,382**	**1,725**	**82,467**

In thousands of euros

The decrease in the historical cost and accumulated depreciation of the Plant and machinery is due to the sale of a rotating press no longer used following the construction of the Torrespaccata printing centre.

The account Other assets includes, in addition to computers, servers and network appliances, leasehold improvements and restructuring relating to rented offices. Depreciation is calculating based on the duration of the contract which is lower than the useful life of the asset.

The values of property, plant and equipment fully depreciated and still in use are as follows:

- Buildings: euro 394 thousand;
- Plant and machinery: euro 3.40 million;
- Other plant and equipment: euro 175 thousand;
- Rotary and printing presses: euro 340 thousand;
- Industrial and commercial equipment: euro 75 thousand;
- EDP: euro 2.42 million;
- Furniture, furnishings and office equipment: euro 1.27 million;
- Motor vehicles and internal transport: euro 257 thousand;
- Leasehold improvements: euro 2.58 million;
- Other minor assets: euro 1.10 million.

The book value of buildings provided as guarantees on liabilities amounts to euro 7.03 million. For further information, reference should be made to Note 15.

4. Equity investments valued at cost

The movements in the account are as follows:

Equity investments in other companies	%	01.01.2004	Increases/ (Decreases)	Change in consolidation scope	Write-downs	12.31.2004
Euroqube SA	14.82%	6,552	–	–	(2,798)	3,754
Ansa Scarl	6.71%	777	–	–	–	777
Casaclick SpA	0.227%	14	–	–	–	14
Sviluppo Quotidiani Srl	16.66%	7	–	–	–	7
Other minor	–	45	–	–	–	45
Total	**–**	**7,395**	**–**	**–**	**(2,798)**	**4,597**

In thousands of euros

Equity investments in other companies	%	01.01.2005	Increases/ (Decreases)	Change in consolidation scope	Write-downs	12.31.2005
Euroqube SA	14.82%	3,754	–	–	(272)	3,482
Ansa Scarl	6.71%	777	–	–	–	777
Casaclick SpA	0.227%	14	–	–	–	14
Sviluppo Quotidiani Srl	16.66%	7	–	–	–	7
Other minor	–	45	–	–	(6)	39
Total	**–**	**4,597**	**–**	**–**	**(278)**	**4,319**

In thousands of euros

The investments in other companies are recorded at purchase cost, as the fair value cannot be reliably determined, as no plans on the development of the activities are available.
The investment in Euroqube was written down against the losses recorded in 2004 and 2005.

5. Equity investments and non-current and current securities

The breakdown of the Equity investments and non-current securities is as follows:

Equity investments available for sale	%	01.01.2004	Purchases/ (sales)	Change in consolidation scope	Valuation at fair value	12.31.2004
Banca Nazionale del Lavoro SpA	0.809	–	41,508	–	11,733	53,241
Banca Monte dei Paschi di Siena SpA	0.365	12,525	15,876	–	264	28,665
Rcs MediaGroup SpA	2.047	42,000	–	–	24,300	66,300
Total	**–**	**54,525**	**57,384**	**–**	**36,297**	**148,206**

	01.01.2005	Purchases/ (sales)	Change in consolidation scope	Valuation at fair value	12.31.2005
Banca Nazionale del Lavoro SpA	53,241	(53,241)	–	–	–
Banca Monte dei Paschi di Siena SpA	28,665	–	–	14,729	43,394
Rcs MediaGroup SpA	66,300	(66,300)	–	–	–
Total	**148,206**	**(119,541)**	**–**	**14,729**	**43,394**

In thousands of euros

The holding in Rcs Media Group SpA, consisting of 15,000,000 ordinary shares, was sold for a total value of approximately euro 90 million and generated a gain of approximately euro 35 million. The reserve created in previous years following the fair value valuation of the shares, of a positive amount of euro 11.01 million, was recognised in the income statement.
The holding in Banca Nazionale del Lavoro SpA, consisting of 24,300,000 ordinary shares, was sold for a total value of approximately euro 65.5 million and generated a gain of approximately euro 24 million. The reserve created in previous years following the fair value valuation of the shares, of a positive amount of euro 11.73 million, was recognised in the income statement.
The holding in Banca Monte dei Paschi Siena SpA consists of 11,000,000 shares held by the subsidiary Emera SpA.

6. Non-current financial assets

The account, amounting to euro 25 thousand, principally relates to receivables for deposits due within five years.

7. Other non-current assets

The account mainly relates to advance tax paid relating to the employee leaving indemnity for the employees of Il Messaggero SpA and of Il Mattino SpA (euro 922 thousand) and other receivables (euro 55 thousand).

8. Deferred and current income taxes

The deferred tax assets refer to temporary differences between the values recorded in the financial statements and the corresponding values recognised for tax purposes.
The movements are shown below of the deferred tax assets and liabilities:

	01.01.2005	Provisions	Utilisations	Other changes	12.31.2005
Deferred tax assets					
Fiscal losses carried forward	11,500	516	(8,350)	–	3,666
Provisions for risks and charges	2,064	226	(78)	–	2,212
Maintenance	295	69	(246)	–	118
Write down of equity investments	14,177	–	(5,491)	–	8,686
Others	1,316	968	(361)	–	1,923
Total	**29,352**	**1,779**	**(14,525)**	**-**	**16,605**
Deferred tax liabilities					
Differences fiscal depreciation rates	7,319	2,926	(4,592)	–	5,653
Gains	2,980	279	(856)	–	2,403
Goodwill amortisation	16,236	4,251	–	–	20,487
Others	372	1,699	–	473	2,544
Total	**26,907**	**9,155**	**(5,448)**	**473**	**31,087**
Net deferred tax liabilities	**2,445**	**(7,376)**	**(9.077)**	**(473)**	**(14.481)**

In thousands of euros

The utilisation of the deferred taxes relating to the differences between the depreciation for tax purposes and those recorded in the accounts, includes the effect of the revaluation of the printing plant at Rome held by S.E.M. SpA.
The account Other changes includes the tax provisions on the fair value valuation of the investments in Banca Monte dei Paschi di Siena SpA.
The assets include the receivable for current taxes, which shows the net position for income taxes, represented by the payments on account and other tax credits, net of income taxes payable:

	12.31.2005	12.31.2004
Receivables for direct taxes	1,975	4,415
Reimbursement request of direct taxes	4,754	4,696
Other receivables	2,228	1,955
Payables for Ires/Irap/substitute taxes	(4,379)	(6,370)
Total	**4,578**	**4,696**

In thousands of euros

The income taxes for the year consist of:

	2005	2004
Current taxes	10,042	11,220
Current taxes	**10,042**	**11,220**
Provision for deferred tax liabilities	9,155	16,160
Utilisation of deferred tax liabilities	(5,448)	(18,412)
Deferred tax charge	**3,707**	**(2,252)**
Recording of deferred tax assets	(1,779)	(11,557)
Utilisation of deferred tax assets	14,525	9,312
Deferred tax income	**12,746**	**(2,245)**
Total income taxes	**26,495**	**6,723**

In thousands of euros

The analysis of the difference between the theoretical and actual tax rates are as follows:

Ires tax	**2005**	
	Amount	**Tax**
Profit (loss) before taxes	**121,062**	**33%**
Theoretical tax charge	**–**	**39,950**
Permanent differences increase (decrease):		
Dividends	(2,355)	–
Exempt revenues	(47,893)	–
Utilisation of previous years tax losses	(23,005)	–
Fiscal losses carried forward	7,598	–
Others	5,999	–
Total assessable Ires tax	**61,406**	
Effective tax charge	**20,264**	**17%**

In thousands of euros

Irap tax	**2005**	
	Amount	**Tax**
Difference between value and cost of production	**39,676**	**4.25%**
Personnel costs - not deductible for Irap purposes	88,486	
Other changes for Irap purposes	18,450	
Total assessable Irap	**146,612**	
Current and deferred Irap tax	**6,231**	

In thousands of euros

9. Inventories

The inventories at December 31[th], 2005 amount to euro 2.58 million (euro 2.67 million at December 31[th], 2004) and consist exclusively of raw materials, ancillary and consumables. Raw materials consist prevalently of paper and ink and relate for euro 1.76 million to Il Messaggero SpA, for euro 662 thousand to Il Mattino SpA, and for euro 99 thousand and euro 63 thousand respectively to Corriere Adriatico SpA and to Quotidiano di Puglia SpA.
The cost of inventory recorded in the income statement amounts to euro 84 thousand and is included in the account Raw material costs (see Note 23).
Inventories are measured at the lower of the purchase price, calculated using the weighed average cost method, and the realisable value.
The net realisable value of inventories amounts to euro 2.58 million.
There is no inventory provided as a guarantee on liabilities.

10. Trade receivables

This account can be broken down as follows:

	12.31.2005	12.31.2004
Trade receivables	87,497	92,364
Provisions for doubtful debts	(10,035)	(9,608)
Trade receivables	**77,462**	**82,756**
Receivables from other Group companies	130	2,546
Advances to suppliers	57	28
Receivables from related parties	6	6
Total trade receivables	**77,655**	**85,336**

In thousands of euros

Trade receivables principally relate to Group advertising revenues of Piemme SpA.
The doubtful debt provision was utilised in the year for euro 1.99 million and increased by euro 2.42 million for the provisions made in the year.
There are no receivables due over 12 months.

11. Current financial assets

This account can be broken down as follows:

	12.31.2005	12.31.2004
Subsidiaries	19	27
Third parties	–	90,254
Accrued interest	1,397	56
Total current financial assets	**1,416**	**90,337**

In thousands of euros

The decrease in the financial assets from third parties is due to the decrease of forward contracts on Italian government bonds.
The accrued interest refers to the interest income matured on bank deposit accounts.
The average interest rate on third party financial receivables was 2.3%.

12. Other current assets

This account can be broken down as follows:

	12.31.2005	12.31.2004
Receivables from employees	391	352
VAT receivables	504	–
Other receivables	1,108	642
Accrued income	59	80
Prepaid expenses	1,757	1,831
Total other current assets	**3,819**	**2,905**

In thousands of euros

Other receivables consist of deposits given of euro 237 thousand, withholding tax on interest of euro 272 thousand and various other receivables of euro 599 thousand.
The prepaid expenses relate to rental (euro 846 thousand), insurance (euro 166 thousand) and others (euro 804 thousand).

13. Cash and cash equivalents

This account can be broken down as follows:

	12.31.2005	12.31.2004
Bank and postal deposits	567,250	282,037
Cash and cash equivalent	367	259
Total liquid funds and cash equivalents	**567,617**	**282,296**

In thousands of euros

The increase in the bank deposits in the year results from the positive cash flow from operating activities, the receipt from a short-term forward contract on Italian government bonds and the sale of the investment in Rcs Media Group SpA and Banca Nazionale del Lavoro SpA, net of the distribution of a dividend of euro 25 million.
At December 31th, 2005, the Parent Company held USD 32.47 million (equal to euro 27.53 million) in an overseas bank deposit. This deposit generated an exchange gain of euro 6.57 million.
The average interest rate on bank deposits in euro was equal to 1.3%, while that on deposit in US Dollars was 3.3%.

Liabilities and shareholders'equity

14. Shareholders' equity

Reconciliation of capital and reserve movements

	Share Capital	Quotation charges	Treasury shares	Fair value reserve	Other reserves
Balance at January 1st, 2004	**125,000**	**(18,865)**	**(164)**	**(3,720)**	**616,292**
Treasury shares operations	–	–	–	–	–
Dividends distributed	–	–	–	–	(24,995)
Result of previous years	–	–	–	–	25,992
Valuation at fair value	–	–	–	36,018	–
Change in consolidation scope	–	–	–	–	–
Other changes	–	–	–	–	446
Profit for the year	–	–	–	–	–
Balance at December 31st, 2004	**125,000**	**(18,865)**	**(164)**	**32,298**	**617,735**
Balance at January 1st, 2005	**125,000**	**(18,865)**	**(164)**	**32,298**	**617,735**
Treasury shares operations	–	–	–	–	–
Dividends distributed	–	–	–	–	(24,994)
Result of previous years	–	–	–	–	31,376
Valuation at fair value	–	–	–	(8,483)	–
Change in consolidation scope	–	–	–	–	–
Other changes	–	–	–	–	(512)
Profit for the year	–	–	–	–	–
Balance at December 31st, 2005	**125,000**	**(18,865)**	**(164)**	**23,815**	**623,605**

In thousands of euros

Result for the year	Group net equity	Minority interest N.E.	Total net equity
25,992	**744,535**	**9,742**	**754,277**
–	–	–	–
–	(24,995)	–	(24,995)
(25,992)	–	–	–
–	36,018	–	36,018
–	–	(13,170)	(13,170)
–	446	–	446
31,376	31,376	3,959	35,335
31,376	**787,380**	**531**	**787,911**
31,376	**787,380**	**531**	**787.911**
–	–	–	–
–	(24,994)	–	(24,994)
(31,376)	–	–	–
–	(8,483)	–	(8,483)
–	–	–	–
–	(512)	105	(407)
94,307	94,307	260	94,567
94,307	**847,698**	**896**	**848,594**

Share capital
The Share capital amounts to euro 125 million, consisting of 125 million ordinary shares at a nominal value of euro 1 each. The number of ordinary shares outstanding did not change during the year.
All of the ordinary shares issued are fully paid-in. There are no restrictions on the distribution of dividends, with the exception of the requirements of article 2357 of the Civil Code in relation to treasury shares.

Other reserves
Other reserves include the Share premium reserve of euro 494.85 million, the Legal Reserve of the Parent Company of euro 25 million created as per article 2430 of the Civil Code and the reserve for the purchase of treasury shares (euro 29.84 million), to be utilised as per article 2357 of the Civil Code, in accordance with the shareholders' meeting resolution of April 19, 2005. This reserve is non-distributable until the end of the period granted to purchase and sell treasury shares which is 18 months from the date of the resolution. The consolidation reserve, consisting of the higher value of the Group's share of net equity compared to the cost of some equity investments and retained earnings are also included in this account.

Fair value reserve
The Fair value reserve includes all the market value changes of the investments in other companies available-for-sale until these investments are maintained in the accounts.

Dividend per share
After the balance sheet date, the directors of the parent company Caltagirone Editore SpA proposed the payment of a dividend of euro 0.20 per ordinary share outstanding and an additional dividend of euro 0.10 per ordinary share outstanding.

15. Financial liabilities

	12.31.2005	12.31.2004
Non-current financial liabilities		
Bank payables	54,559	58,401
Other lenders	12,719	15,334
Total	**67,278**	**73,735**
Current financial liabilities		
Bank payables	13,577	14,480
Short-term portion of non-current loans	3,833	1,599
Other lenders	2,615	2,509
Total	**20,025**	**18,588**

In thousands of euros

The due date of the non-current liabilities is as follows:

	12.31.2005	12.31.2004
Between 1 and 5 years	67,278	73,735
Over 5 years	–	–
Total	**67,278**	**73,735**

In thousands of euros

The interest rates at the balance sheet date on the non-current liabilities are as follows:

	2005	2004
Non-current financial liabilities		
Bank payables	2.9	2.9
Other financial payables	2.8	2.8
Current financial liabilities		
Bank payables	4.1	4.1
Short-term portion of non-current loans	2.9	2.9
Other financial payables	2.1	2.9

Values in %

The non-current bank payables are represented by a loan to finance the construction of a printing centre located at Torrespaccata in Rome. The loan is at a variable interest rate (Euribor at 6 months + spread 0.5%) amounting to euro 60 million, granted by San Paolo - IMI to the company S.E.M. SpA. The first capital repayment

was made in December 2005, while the final repayment is due in June 2018. The loan is secured by a mortgage on a building owned by the company S.E.M. SpA for a total amount of euro 60 million. In addition, a special privileged guarantee was given on the factory assets amounting to euro 43.40 million.
The non-current financial payables to other lenders consists of two loans provided by Mediocredito Lombardo to the parent company Caltagirone Editore SpA and Il Mattino SpA, respectively of euro 11.62 million and euro 9.81 million and a loan at subsidised interest rates as per law 416 of August 5, 1981, received by Il Messaggero SpA from Mediocredito Lombardo for a total original value of euro 4.03 million.
The first instalment was due on June 30, 2002, while the final instalment is due in 2011 for the loans received by the Parent Company and Il Mattino SpA. The interest rate applied on these loans is a variable Euribor at 6 months + spread 0.70%.
As guarantee on these loans, mortgages were provided on the land and buildings of the factory of Il Mattino SpA at Caivano amounting to euro 37.51 million and special privileges on the factory assets amounting to euro 17.17 million.
The subsidised loan granted to Messaggero SpA is at a fixed rate of 3.15% over 10 years, with final repayment due in June 2008. This loan is secured by pledges on the printing presses of the newspaper.

16. Personnel

Employee leaving indemnity and employee provisions
The Employee leaving indemnity represents a liability relating to the benefits recognised to employees and paid either on termination or after employment service. This liability is a defined benefit plan and therefore is determined applying the actuarial method.
The assumptions relating to the determination of the plan are summarised in the table below:

	12.31.2005	12.31.2004
Annual technical discount rate	2.78%	2.37%
Annual inflation rate	2.44%	2.44%
Annual increase in employee leaving indemnity	2.96%	2.96%
Annual increase in salaries	2.10%	2.10%

Values in %

The discounting was made using the IRS curve corresponding to the duration of the period under examination (50 years).

The movements were as follows:

	2005	2004
Net liability at January 1st	**38,217**	**32,311**
Current cost for the year	3,097	3,422
Interest charge (income), net	903	668
Actuarial profits/(losses)	(246)	1,784
Change in consolidation scope	–	2,876
(Services paid)	(2,900)	(2,844)
Net liability at December 31st	**39,071**	**38,217**

In thousands of euros

The comparison with the liability in accordance with Italian regulations as follows:

	01.01.2004	12.31.2004	12.31.2005
Nominal value of the provision	33,736	38,309	40,412
Actuarial adjustment	(1,425)	(92)	(1,341)
Total employee leaving indemnity	**32,311**	**38,217**	**39,071**

In thousands of euros

As illustrated in the movement, the change between the liability determined in accordance with Italian regulations and IFRS was principally impacted by the interest rates.

Cost and personnel numbers

	2005	2004
Salaries and wages	59,279	55,040
Social security charges	19,582	17,650
Employee leaving indemnity provision	3,754	5,874
Other costs	2,996	2,402
Total personnel costs	**85,611**	**80,966**

In thousands of euros

The following table shows the average number of employees by category:

	12.31.2005	12.31.2004	Average 2005	Average 2004
Executives	22	20	22	22
Managers & white-collar	347	349	345	347
Journalists and consultants	512	526	515	528
Print workers	128	125	128	128
Total	**1,009**	**1,020**	**1,010**	**1,025**

17. Provision for risks and charges

	Legal disputes	Agents' indemnity	Other risks	Total
Balance at January 1st, 2004	**6,355**	**303**	**119**	**6,777**
Provisions	3,671	82	10	3,763
Utilisation	(3,866)	(9)	(64)	(3,939)
Other changes	107	–	685	792
Balance at December 31st, 2004	**6,267**	**376**	**750**	**7,393**
Of which:				
current portion	–	–	–	–
non-current portion	6,267	376	750	7,393
Total	**6,267**	**376**	**750**	**7,393**
Balance at January 1st, 2005	**6,267**	**376**	**750**	**7,393**
Provisions	3,384	64	364	3,812
Utilisation	(1,227)	–	(289)	(1,516)
Balance at December 31st, 2005	**8,424**	**440**	**825**	**9,689**
Of which:				
current portion	–	–	661	661
non-current portion	8,424	440	164	9,028
Total	**8,424**	**440**	**825**	**9,689**

In thousands of euros

The provision for legal disputes refers principally to the provisions made by the companies Il Messaggero SpA and Il Mattino SpA against liabilities prevalently deriving from damages requested for slander and from employees. The provision was estimated taking into account the nature of the business, based on experience in similar cases and all of the information available at the date of the preparation of the consolidated financial statements, considering the difficulty in estimating charges connected to each single case.
The agent's indemnity provision, which reflects the prudent increase in the risk connected to the termination of the mandate conferred to agents in accordance with law, principally refers to the company Piemme SpA.
The other provisions include charges relating to some minor disputes.

18. Trade payables

	12.31.2005	12.31.2004
Trade payables - suppliers	31,705	31,200
Payables to Group companies	552	231
Total	**32,257**	**31,431**

In thousands of euros

Trade payables principally refer to operating subsidiaries in the publishing sector, Il Messaggero SpA, Il Mattino SpA, Piemme SpA and Leggo SpA, and relate to the purchase of raw materials and capital expenditures.
There are no payables due over 12 months.

19. Payables for current taxes

The Payables for current taxes refer entirely to the substitute tax calculated on the revaluation of the rotating press owned by S.E.M. SpA.

20. Other liabilities

	12.31.2005	12.31.2004
Other non-current liabilities		
Other payables	6	7
Deferred income	3,229	3,932
Total	**3,235**	**3,939**
Other current liabilities		
Social sec. institutions	5,726	5,660
Employee payables	8,638	7,520
VAT payables	709	3,921
Payables for withholding taxes	3,190	2,550
Payables to associated companies	166	151
Payables to other third parties	7,140	7,401
Other payables	2,109	3,561
Deferred income	693	670
Total	**28,371**	**31,434**

In thousands of euros

The other non-current liabilities include deferred income principally relating to the grants received by Il Mattino SpA, in accordance with Law No. 488/92.

income statement

COMMENT ON THE MAIN ITEMS

21. Revenues from sales and supply of services

	2005	2004
Newspaper sales	68,968	68,061
Promotions	16,263	15,306
Advertising	177,692	174,939
Services and Internet	6,269	3,631
Total	**269,192**	**261,937**

In thousands of euros

The sales and services relating to the principal newspapers and the revenues from advertising are commented upon in the Directors' Report on operations.

22. Other operating revenues

	2005	2004
Operating grants	1,398	1,302
Recovery of expenses from third parties	2,137	1,346
Capital grant contributions	1,325	1,400
Gains on disposal of assets	814	350
Concession rights	752	788
Reimbursements and claims	444	1,425
Other income	1,567	2,062
Total other operating revenues	**8,437**	**8,673**

In thousands of euros

23. Raw material costs

	2005	2004
Paper	23,607	22,027
Other publishing materials	4,407	3,835
Other	51	40
Change in inventory of raw materials and goods	83	(418)
Total raw materials costs	**28,148**	**25,484**

In thousands of euros

The increase in the costs of raw material is mainly due to the increase in the price of paper.

24. Other operating charges

	2005	2004
Editorial services	14,575	13,626
Transport and delivery	14,802	14,406
Outside contractors	10,243	8,212
Editorial promotions	13,658	12,213
Advertising & promotions	1,194	1,692
Commissions and agent costs	8,390	8,309
Utilities and power	3,282	2,851
Maintenance and repair costs	3,142	3,098
Consultants fees	2,734	2,994
Purchase of advertising space from third parties	1,953	1,996
Directors and statutory auditors fees	1,716	2,288
Insurance, postal and telephone	1,394	1,532
Other costs	12,841	17,855
Total service costs	**89,924**	**91,072**
Rental	5,306	4,661
Hire	2,360	2,164
Royalties	23	23
Others	82	202
Total rent, lease and hire costs	**7,771**	**7,050**
Losses on asset disposals	6	22
Taxes relating to prior periods	48	790
Other operating charges	2,096	2,009
Others	1,349	5,582
Total other costs	**3,499**	**8,403**
Total other operating costs	**101,194**	**106,525**

In thousands of euros

25. Depreciation, amortisation, provisions & write-downs

	2005	2004
Amortisation of intangible assets	422	542
Depreciation of tangible assets	9,983	10,962
Provisions for risks and charges	3,813	3,763
Write-down of fixed assets	–	1,681
Write-down of receivables	2,425	2,484
Total	**16,643**	**19,432**

In thousands of euros

The depreciation of the tangible fixed assets principally relates to the depreciation on printing and rotary plant.
The provisions for risks and charges mainly refer to provisions for legal disputes and amount to euro 3.63 million.

26. Net financial result

	2005	2004
Financial income		
Dividends	2,355	1,650
Other income from equity investments	59,141	1,207
Interest income from bank deposits	10,289	10,235
Exchange gains	6,574	–
Other financial income	410	177
Total financial income	**78,769**	**13,269**
Financial charges		
Exchange losses	–	2,942
Write-down of equity investments and securities	290	2,798
Loan interest	2,214	2,300
Interest on current accounts	733	1,004
Bank commissions and charges	327	320
Others	176	52
Total financial charges	**3,740**	**9,416**
Net financial result	**75,029**	**3,853**

In thousands of euros

The dividends were received in relation to the shares held in Rcs Media Group SpA (euro 1.41 million) and Banca Monte dei Paschi di Siena SpA (euro 946 thousand).

The other income from equity investments relate to the gains realised on the sale of the entire shareholdings held in Rcs Media Group SpA (euro 35.15 million) and Banca Nazionale del Lavoro SpA (euro 23.99 million).
The exchange gains relate to the difference emerging from the conversion of a deposit in US Dollars at the year end exchange rate.

27. Earning per share

The basic earning per share is calculated by dividing the Group net result for the year by the weighed average number of ordinary shares outstanding in the year.

	2005	2004
Net profit	94,307	31,376
Number of ordinary shares outstanding (,000)	124,969	124,969
Basic earnings per share (euro per 1,000 shares)	**755**	**251**

The diluted earning per share is identical to the basic earnings per share as Caltagirone Editore SpA has only issued ordinary shares.

28. Transactions with related parties

Transactions with companies under common control
The transactions of Group companies with related parties, including intra-group operations, generally relate to normal operations and are regulated at market conditions and principally relate to the exchange of goods, the provision of services, the provision and use of financial resources of associated companies and subsidiaries excluded from the consolidation scope as well as with other companies belonging to the Caltagirone Group or under common control.
There are no atypical or unusual transactions which are not within the normal business operations. Where such operations exist detailed information would be provided in the present paragraph.
The table below shows the operations considered significant, or rather those above euro 100 thousand:

	Receivables	Payables	Operating revenues	Operating costs	Financial income	Financial costs
Caltagirone Editore SpA	–	–	–	320	–	–
B2WIN SpA	–	453	–	328	–	–
Caltanet SpA	–	162	–	–	–	–
Il Messaggero SpA	–	–	–	1,822	–	–
Piemme SpA	–	–	–	287	–	–
Leggo SpA	–	–	–	108	–	–
Total	**–**	**615**	**–**	**2,865**	**–**	**–**

In thousands of euros

Caltanet SpA and B2Win SpA are debtors of Cementir SpA for rental fees on a building at Rome, based on a contract agreed at market conditions.
The account Operating costs consists exclusively of rental costs of B2Win SpA for buildings from Cementir SpA and of the Parent Company, of Messaggero SpA, of Piemme SpA and of Leggo SpA for property owned by companies under common control.

Transactions with directors, statutory auditors and the management of Group companies
The table below shows the payments made to the members of the Board of Directors and Board of Statutory Auditors relating to 2005 and in accordance with article 78 of Consob Resolution No. 11971/99.

Surname	Name	Office held	Period in which office held	Expiry of office	Emoluments for office held	Other remuneration
Caltagirone	Azzurra	Vice Chairman	1.1./12.31.2005	12.31.2005	100,000.00	250,000.00
Delfini	Mario	Director	1.1./12.31.2005	12.31.2005	105,000.00	–
Majore	Albino	Director	1.1./12.31.2005	12.31.2005	5,000.00	921,646.00
Garzilli	Massimo	Director	1.1./12.31.2005	12.31.2005	5,000.00	324,811.00
Muzii	Michele	Director	1.1./12.31.2005	12.31.2005	4,000.00	460,000.00
Nattino	Giampietro	Director	1.1./12.31.2005	12.31.2005	9,000.00	–
Confortini	Massimo	Director	1.1./12.31.2005	12.31.2005	30,000.00	–
Tasco	Giampiero	Chairman Board Stat. Aud.	1.1./12.31.2005	12.31.2005	14,500.00	9,900.00
Schiavone	Carlo	Statutory Auditor	1.1./12.31.2005	12.31.2005	12,000.00	38,088.62
Sica	Mario	Statutory Auditor	1.1./12.31.2005	12.31.2005	12,000.00	–
Total					**296,500.00**	**2,004,445.62**
Total						**2,300,945.62**

The emoluments for the office held include the remuneration deliberated by the Shareholders' Meeting of Caltagirone Editore SpA.
Included in other remuneration are the emoluments for offices held in subsidiary companies and salaries.
There are no stock option plans for the directors of the company.

29. Segment information

The disclosures required in accordance with IAS 14 on the Segment information are provided below. The Caltagirone Editore Group has adopted the sector of activity as the primary disclosure of information, defined as a separate and distinctly identifiable part of the Group, which provides related products and services and that is subject to risks and benefits different than those of the other sectors of activity of the Group.
The Group operates exclusively in Italy and therefore no geographic sectors were identified as defined by IAS 14.

2004	**Newspapers**	**Advertising revenues**	**Other activities**	**Consol. Adjustments**	**Consolidated presegment eliminations**	**Segment eliminations**	**Consolidated**
Segment revenues	221,484	174,106	4,008	73	399,671	–	–
Intra-segment revenues	129,031	–	28	–	–	(129,059)	–
Revenues from third parties	**92,453**	**174,106**	**3,980**	**73**	**–**	**–**	**270,612**
Segment Ebitda	47,630	12,141	(2,160)	26	57,637	–	57,637
Amortisation, depreciation, write-downs and provisions	16,404	3,201	514	(687)	19,432	–	19,432
Segment assets	250,724	27,487	729,138	12,206	1,019,555	–	1,019,555
Segment liabilities	213,026	18,747	17,255	(17,384)	231,644	–	231,644
Investments in intangible and tangible fixed assets	199,149	225	167	25,261	224,802	–	224,802

In thousands of euros

2005	**Newspapers**	**Advertising revenues**	**Other activities**	**Consol. Adjustments**	**Consolidated presegment eliminations**	**Segment eliminations**	**Consolidated**
Segment revenues	229,810	175,254	7,334	(55)	412,343	–	–
Intra-segment revenues	134,694	–	20	–	–	(134,714)	–
Revenues from third parties	**95,116**	**175,254**	**7,314**	**(55)**	**–**	**–**	**277,629**
Segment Ebitda	49,466	13,290	(63)	(17)	62,676	–	62,676
Amortisation, depreciation, write-downs and provisions	13,304	2,862	477	–	16,643	–	16,643
Segment assets	219,250	30,798	809,329	20,230	1,079,607	–	1,081,107
Segment liabilities	201,486	17,235	19,162	(6,871)	231,012	–	232,513
Investments in intangible and tangible fixed assets	3,717	426	112	–	4,255	–	4,255

In thousands of euros

transition to international accounting standards (IFRS)

Introduction

As required by IFRS 1 - First-time Adoption of the International Financial Reporting Standard and in order to illustrate the impact of the transition to the international accounting standards on the balance sheet, financial position and results of the Group, the following schedules are attached:

- IFRS consolidated balance sheet at January 1st, 2004 (transition date) and at December 31st, 2004 (date of the last consolidated financial statements prepared in accordance with Italian GAAP);
- IFRS consolidated income statement for the year 2004;
- Notes on the above financial statements;
- Reconciliation of the Shareholders' Equity at January 1st, 2004 and at December 31st, 2004 in accordance with Italian GAAP and IFRS;
- Reconciliation of the Net Result for the year 2004 in accordance with Italian GAAP and IFRS.

In the preparation of these schedules, the values of the consolidated balance sheet at January 1st, 2004 and at December 31st, 2004 and those of the consolidated income statement at December 31st, 2004 in accordance with Italian GAAP were appropriately reclassified in order to reflect the new financial statement format adopted by the Group.

The schedules were prepared utilising the same accounting standards for the preparation of the consolidated financial statements as at December 31st, 2005, illustrated at the beginning of the present notes.

The information reported below is the same as that included in the document Transition to IFRS, previously approved and published together with the half-year report at June 30th, 2005.

Adoption of IFRS 1

The adoption of international accounting standards was made in accordance with the provisions contained in IFRS 1 - First-time adoption of International Financial Reporting Standards.

The principal options contained in IFRS 1 utilised in the opening balance sheet are the following:

- Business Combinations: the Group did **not** apply IFRS 3 in retrospective manner for the acquisition of companies before the transition date to IFRS;
- The measurement of property, plant and machinery and of intangible assets at fair value at the transition date or, alternatively, at revalued cost as replacement value of the cost: the Group has recorded some fixed assets at fair value at the transition date to IFRS.

IAS/IFRS CONSOLIDATED BALANCE SHEET AT JANUARY 1ST, 2004

The balance sheet at January 1st, 2004 is shown below and illustrates:

- the values in accordance with Italian GAAP reclassified according to the IAS/IFRS format;
- the adjustments in order to apply IAS/IFRS standards.

ASSETS	**Notes**	**Italian GAAP IAS reclassified**	**IAS/IFRS adjustments**	**IAS/IFRS**
Intangible assets with definite life	a.	11,350	(10,077)	1,273
Goodwill and other indefinite intangible assets		126,561	–	126,561
Property, plant and equipment	b.	101,896	8,677	110,573
Investment property		–	–	–
Equity investments valued at cost		12	–	12
Equity investments valued at net equity		–	–	–
Investments and other non-current securities	c.	74,426	(12,511)	61,915
Non-current financial assets		39	–	39
Other non-current assets		1,355	–	1,355
Deferred tax asset	d.	27,700	3,753	31,453
TOTAL NON-CURRENT ASSETS		**343,339**	**(10,158)**	**333,181**
Inventories		2,127	–	2,127
Work-in-progress			–	– –
Trade receivables		77,770	–	77,770
Equity investments and current securities		–	–	–
Current financial assets		288	–	288
Tax receivables		7,828	–	7,828
Other current assets	e.	3,139	(1,050)	2,089
Cash and cash equivalents		545,509	–	545,509
Assets available-for-sale		–	–	–
TOTAL CURRENT ASSETS		**636,661**	**(1,050)**	**635,611**
TOTAL ASSETS		**980,000**	**(11,208)**	**968,792**

In thousands of euros

LIABILITIES AND SHAREHOLDERS´ EQUITY	Notes	Italian GAAP IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
Share capital		125,000	–	125,000
Treasury shares		–	(164)	(164)
Quotation charges		–	(18,865)	(18,865)
Other reserves		604,757	7,906	612,663
Retained earnings/(accumulated losses)		–	–	–
Profit for the year		25,992	–	25,992
Group shareholders' equity		**755,749**	**(11,123)**	**744,626**
Minority interest shareholders' equity		8,722	929	9,651
SHAREHOLDERS´ EQUITY		**764,471**	**(10,194)**	**754,277**
Employee provision	f.	33,736	(1,514)	32,222
Other non-current provisions		6,777	–	6,777
Non-current financial liabilities		82,358		82,358
Other non-current liabilities		4,588	–	4,588
Deferred tax liability	g.	13,296	500	13,796
LIABILITIES AND NON-CURRENT PROVISIONS		**140,755**	**(1,014)**	**139,741**
Current provisions		–	–	–
Trade payables		29,204	–	29,204
Current financial liabilities		21,188	–	21,188
Tax payables		4,351	–	4,351
Other current liabilities		20,031	–	20,031
Liabilities related to activities available-for-sale		–	–	–
CURRENT LIABILITIES AND PROVISIONS		**74,774**	**–**	**74,774**
TOTAL LIABILITIES		**215,529**	**(1,014)**	**214,515**
TOTAL LIABILITIES AND NET EQUITY		**980,000**	**(11,208)**	**968,792**

In thousands of euros

comments to the main IAS/IFRS adjustments to the balance sheet accounts as at January 1st, 2004

Brief comments to the adjustments on the balance sheet at January 1st, 2004 are provided below.
The effect of these adjustments, net of the applicable tax effects, on shareholders' equity is reported in the reconciliation schedule at page 22.

a. Intangible assets with definite life

The account decreased by euro 10.08 million due to the following adjustments:

- **Quotation charges** (euro -9.02 million): intangible assets include charges for the Caltagirone Editore stock exchange quotation of euro 9.02 million, net of accumulated amortisation (original quotation costs of euro 30.06 million, accumulated amortisation at January 1st, 2004 of euro 21.04 million). In accordance with IFRS, the quotation charges may not be capitalised under intangible assets but must be recorded as a reduction of Shareholders' Equity, net of the tax effect.
- **Formation, start-up and advertising expenses** (euro -1.06 million): intangible assets included costs for formation, start-up and advertising costs totalling euro 1.06 million, net of accumulated amortisation. These charges were fully eliminated as under IFRS they may not be capitalised.

b. Property, plant and equipment

The account increased by euro 8.68 million, deriving from two adjustments:

- **Buildings** (euro +8.63 million): the building at via Chiatamone owned by the company SEM SpA was recorded at fair value at January 1st, 2004, on the basis of an independent expert's evaluation;
- **Land** (euro +50 thousand): the value of the land at Torrespaccata owned by SEM SpA was separated from the relative buildings and the depreciation made in previous years was eliminated from the value of the land.

c. Investments and other non-current securities

The account decreased by euro 12.51 million, due to the following adjustments:

- **Investments in other companies** (euro -12.35 million): in accordance with IFRS, the equity investments in other companies must be measured at their fair value, whenever possible. The market value at December 31st, 2003 of the investments in Monte dei Paschi di Siena SpA and in Rcs Mediagroup SpA result respectively in an increase of euro 948 thousand and a decrease of euro 13,295 thousand;
- **Treasury shares** (euro -164 thousand): treasury shares, previously recorded under financial assets, were reclassified as a direct reduction of Shareholders' Equity, as required by IFRS.

d. Deferred tax assets

The account increased by euro 3.75 million, following the tax effects on the adjustments made.

e. Other current assets

The account included the dividend relating to the companies Rcs Media Group SpA (euro 1.05 million) recorded at December 31st, 2003 in accordance with the accruals criteria. In accordance with IFRS, the dividends must be recorded only at the moment of the Shareholders' Meeting resolution of the company; as a consequence, the relative receivable was eliminated as a reduction of Shareholders' Equity.

f. Employee provision

The valuation of the employee provision in accordance with IFRS results in a decrease of euro 1.51 million.

g. Deferred tax liabilities

The account increased by euro 500 thousand, following the tax effects of the adjustments made.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31ST, 2004.
IAS/IFRS CONSOLIDATED INCOME STATEMENT AS AT DECEMBER 31ST, 2004

The balance sheet and income statement at December 31st, 2004 is shown below and illustrates:

- the values in accordance with Italian GAAP reclassified according to the IAS/IFRS format;
- the adjustments in order to apply IAS/IFRS standards.

ASSETS	**Notes**	**Italian GAAP IAS reclassified**	**IAS/IFRS adjustments**	**IAS/IFRS**
Intangible assets with definite life	h.	4,536	(3,326)	1,210
Goodwill and other indefinite intangible assets	i.	268,903	6,050	274,953
Property, plant and equipment	j.	91,569	170	91,739
Investment property		–	–	–
Equity investments at cost		12	–	12
Equity investments measured at equity		–	–	–
Investments and other non-current securities	k.	129,005	23,787	152,792
Non-current financial assets		25	–	25
Other non-current assets		1,228	–	1,228
Deferred tax assets	l.	28,113	1,238	29,351
TOTAL NON-CURRENT ASSETS		**523,391**	**27,919**	**551,310**
Inventories		2,672	–	2,672
Work-in-progress		–	–	–
Trade receivables		85,336	–	85,336
Equity investments and current securities		2	–	2
Current financial assets		90,337	–	90,337
Tax receivables		4,710	–	4,710
Other current assets		2,892	–	2,892
Cash and cash equivalents		282,296	–	282,296
Assets available-for-sale		–	–	–
TOTAL CURRENT ASSETS		**468,245**	**–**	**468,245**
TOTAL ASSETS		**991,636**	**27,919**	**1,019,555**

In thousands of euros

LIABILITIES AND SHAREHOLDERS´ EQUITY	Notes	Italian GAAP IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
Share capital		125,000	–	125,000
Quotation charges		–	(18,865)	(18,865)
Treasury shares		–	(164)	(164)
Other reserves		605,754	44,285	650,039
Retained earnings/(accumulated losses)		–	–	–
Profit for the year		30,628	742	31,370
Group shareholders' equity		**761,382**	**25,998**	**787,380**
Minority interest shareholders' equity		546	(15)	531
SHAREHOLDERS´ EQUITY		**761,928**	**25,983**	**787,911**
Employee provision	m.	38,310	(93)	38,217
Other non-current provisions		7,393	–	7,393
Non-current financial liabilities		73,735	–	73,735
Other non-current liabilities		3,939	–	3,939
Deferred tax liabilities	n.	24,878	2,029	26,907
NON CURRENT LIABILITIES AND PROVISIONS		**148,255**	**1,936**	**150,191**
Current provisions		–	–	–
Trade payables		31,431	–	31,431
Current financial liabilities		18,588	–	18,588
Tax payables		6,470	–	6,470
Other current liabilities		24,964	–	24,964
Liabilities related to activities available-for-sale		–	–	–
CURRENT LIABILITIES AND PROVISIONS		**81,453**	**–**	**81,453**
TOTAL LIABILITIES		**229,708**	**1.936**	**231,644**
TOTAL LIABILITIES AND NET EQUITY		**991,636**	**27,919**	**1,019,555**

In thousands of euros

INCOME STATEMENT	Notes	Italian GAAP IAS reclassified	IAS/IFRS adjustments	IAS/IFRS
Revenues from sales of goods and services		261,937	–	261,937
Change in work in process, semi-finished and finished products		–	–	–
Changes in contract work-in-progress		–	–	–
Increases for internal work		–	–	–
Other operating revenues	o.	16,177	(7,503)	8,674
TOTAL OPERATING REVENUES		**278,114**	**(7,503)**	**270,611**
Raw material costs		(25,484)	–	(25,484)
Personnel costs	p.	(79,545)	(1,421)	(80,966)
Other operating charges		(108,995)	–	(108,995)
TOTAL OPERATING COSTS		**(214,024)**	**(1,421)**	**(215,445)**
EBITDA		**64,090**	**(8,924)**	**55,166**
Depreciation, amortisation, provisions and write-downs	q.	(29,630)	12,667	(16,963)
EBIT		**34,460**	**3,743**	**38,203**
Net result of the share of associates		–	–	–
Net financial result	r.	2,804	1,050	3,854
PROFIT BEFORE TAXES		**37,264**	**4,793**	**42,057**
Income taxes	s.	(2,679)	(4,044)	(6,723)
NET PROFIT FROM NORMAL OPERATIONS		**34,585**	**749**	**35,334**
RESULT OF DISCONTINUED OPERATIONS		**–**	**–**	**–**
NET PROFIT FOR THE YEAR		**34,585**	**749**	**35,334**
MINORITY INTEREST SHARE OF PROFIT		**(3,957)**	**(7)**	**(3,964)**
GROUP PROFIT		**30,628**	**742**	**31,370**

In thousands of euros

comments to the main IAS/IFRS adjustments on the balance sheet and income statement as at December 31st, 2004

Brief comments to the adjustments on the balance sheet and income statement as at December 31st, 2004 are provided below.
The effect of these adjustments, net of the applicable tax effects, on shareholders' equity is reported in the reconciliation schedule at page 81.

h. Intangible assets with definite life

The account decreased by euro 3.33 million due to the following adjustments:

- **Quotation charges** (euro -3.01 million): the intangible assets include charges for the stock exchange quotation of Caltagirone Editore of euro 3.01 million, net of accumulated amortisation (original quotation costs of euro 30.06 million, accumulated amortisation of euro 27.05 million). In accordance with IFRS, the quotation charges may not be capitalised under intangible assets but must be recorded in a separate account of Shareholders' Equity, net of the tax effect.
- **Formation, start-up and advertising expenses** (euro -320 thousand): intangible assets include costs for formation, start-up and advertising costs totalling euro 320 thousand, net of the accumulated amortisation. These charges were fully eliminated as under IFRS they may not to be capitalised;

i. Goodwill and other infinite intangible assets

In accordance with IFRS, the goodwill and the indefinite intangible assets, such as the newspaper titles, must not be amortised, but subject annually to verifications to determine the existence of any reduction in permanent value. The account therefore increases for an amount of euro 6.05 million following the reversal of the amortisation calculated in 2004 on the goodwill (euro 3.63 million), on the consolidation difference (euro 687 thousand) and on the newspaper titles (euro 1.73 million).

j. Property, plant and equipment

The account increases by euro 170 thousand. As required by IFRS, the value of the land at Torrespaccata owned by the Company SEM SpA was separated from the relative building and the depreciation on the land up to December 31st, 2004 was eliminated (euro +170 thousand).

k. Investments and other non-current securities

The account increased by euro 23.79 million, due to the following adjustments:

- **Investments in other companies** (euro +23.95 million): the market valuation at December 31st, 2004 of the equity investments in the companies Monte dei Paschi di Siena SpA, Banca Nazionale del Lavoro SpA and Rcs MediaGroup SpA result in an increase respectively of euro 1.21 million, euro 11.73 million and euro 11.01 million;
- **Treasury shares** (euro -164 thousand): treasury shares, previously recorded under financial assets, were reclassified as a direct reduction of Shareholders' Equity, as required by IFRS;

l. Deferred tax assets

The account increased by euro 1.24 million, due to the tax effects of the adjustments made.

m. Employee provision

The valuation of the employee provision in accordance with IFRS results in a decrease of euro 93 thousand.

n. Deferred tax liabilities

The account increased by an amount of euro 2.03 million, due to the tax effects of the adjustments made.

o. Other operating revenues

The account decreases by euro 7.50 million, against the elimination of the gain recorded in the consolidated financial statements on the building at Via Chiatamone sold in 2004 and subject, as previously indicated, to its recording at fair value in the opening balance sheet at January 1st, 2004 (transition date to IFRS).

p. Personnel costs

The account increased by euro 1.42 million following the determination on the basis of the criteria established by IFRS of the employee provision for the year 2004.

q. Amortisation and depreciation

The account decreased by 12.67 million, following the higher depreciation calculated on the building at Via Chiatamone, recorded at fair value on January 1st, 2004 (euro +254 thousand) and the elimination of amortisation on the intangible assets (quotation charges, formation and start-up charges, advertising expenses) reversed in the opening IFRS balance sheet (euro -6.75 million), on the goodwill and on the indefinite intangible assets (euro -6.05 million) and on land (euro -120 thousand).

r. Net financial result

The account increased by euro 1.05 million, following the recording of the dividend relating to the investment in the company Rcs MediaGroup SpA This dividend was recorded in accordance with the accruals principle in the financial statements at December 31st, 2003, prepared on the basis of Italian GAAP. In accordance with IFRS, the dividends must be recorded only at the moment of the Shareholders' Meeting resolution of the company and therefore in the IFRS financial statements prepared at January 1st, 2004 this dividend was reversed from the shareholders' equity to be recorded in the IFRS income statement for the year 2004.

s. Income taxes

The account increased by an amount of euro 4.04 million, due to the tax effects of the adjustments made.

RECONCILIATION OF SHAREHOLDERS' EQUITY AND INCOME STATEMENT

	Notes	Shareholders' equity 01.01.2004*	Shareholders' equity 12.31.2004*	Income statement 2004*
Italian GAAP		**764.471**	**761.928**	**34.585**
Adjustments:				
Intangible assets with definite life	a.1	(10,077)	(3,326)	6,751
Goodwill and other assets with indefinite life	a.2	–	6,050	6,050
Property, plant and equipment	a.3	8,677	170	(7,637)
Financial instruments	a.4	(13,397)	23,951	1,050
Treasury shares	a.5	(164)	(164)	–
Employee provisions	a.6	1,514	93	(1,421)
Tax effects of the adjustments		3,253	(791)	(4,044)
Total adjustments net of tax effect		**(10,194)**	**25,983**	**749**
IAS/IFRS		**754,277**	**787,911**	**35,334**

In thousands of euros

* *Group and minority interests*

a.1. Intangible assets with definite life

The capitalisation of some intangible assets is no longer permitted by IFRS; therefore the values recorded by Caltagirone Editore for the admission of the Stock Exchange quotation and research and advertising costs were reversed.
This adjustment results in a decrease of the shareholders' equity at January 1st, 2004 and at December 31st, 2004, respectively of euro 10.08 million and euro 3.33 million.
The income statement in 2004, prepared based on IFRS benefits from the elimination of the amortisation calculated on the intangible assets reversed in the opening IFRS balance sheet (January 1st, 2004), equal to euro 6.75 million.

a.2. Goodwill and other assets with definite life

In accordance with IFRS No. 1, goodwill is no longer amortised, but periodically subject to an Impairment test.
The new valuation criteria have a positive effect on the income statement and on the shareholders' equity at December 31st, 2004 of euro 6.05 million.

a.3. Property, plant and equipment

In accordance with the option permitted by IFRS No. 1, a building not held for operational purposes was recorded at fair value at the transition date to IFRS.
The IFRS also require that land is recorded in a separate asset category and is not depreciated. Therefore, the land was separated from the buildings, previously recorded and depreciated together, and the relative depreciation was eliminated.
The effect of these adjustments on the shareholders' equity at January 1st, 2004 and December 31st, 2004 were approx. euro 8.68 million and euro 170 thousand respectively.
The effect on the income statement of 2004 was negative for euro 7.64 million, in that the building recorded at fair value at January 1st, 2004 (transition date to IFRS) was sold in the year; this resulted in a reduction of the gain realised recorded in accordance with Italian GAAP.

a.4. Financial instruments

As required by IFRS, the equity investments in other companies available-for-sale must be measured at fair value where possible, with the recording of any gain or loss directly to shareholders' equity until the financial asset is sold or written down.
The dividends are recorded when the right of the shareholders to receive the payment arises.
These adjustments result in a decrease of the shareholders' equity at January 1st, 2004 of euro 13.40 million, an increase in the shareholders' equity at December 31st, 2004 of euro 23.95 million and an increase in the income statement of 2004 of euro 1.05 million.

a.5. Treasury shares

The Treasury shares are recorded as a reduction of shareholders' equity, as required by IFRS.
This adjustment results in a decrease in the shareholders equity at January 1st, 2004 and December 31st, 2004 of euro 164 thousand.

a.6. Employee provisions

The IFRS identifies among the various kind of benefits for employees, Post-employment benefits. These represent the benefits due to employees after the termination of employment. In the defined benefit programmes, the discounted risk (where the benefits are lower than those expected) and the investment risk (where the assets invested are insufficient to satisfy the benefits expected) are the responsibility of the company and not the employee. Therefore, it is necessary to record the current financial discounted value of the expected liabilities and the relative cost and income, including financial charges and discounted profits and losses.
This adjustment results in an increase of the shareholders' equity at January 1st, 2004 and at December 31st, 2004, of euro 1.51 million and euro 93 thousand respectively.
The effect on the result for the year of 2004 was a negative amount of euro 1.42 million.

Effects on the cash flow statement at December 31st, 2004

The consolidated cash flow statement reconciliation is not presented in that the effects deriving from the application of the IAS/IFRS accounting standards do not result in a significant impact.

CALTAGIRONE EDITORE

balance sheet for the financial year ended December 31st, 2005

directors' report on operations for the year ended December 31st, 2005

Dear Shareholders,

for the year 2005 Caltagirone Editore SpA reports total revenues and income of euro 50.30 million, and a net profit of 38.20 million, after amortisation of intangible assets of euro 3.22 million. The principal results in the year compared to the previous year, reclassified in accordance with the Consob communication No. 94001437 of February 23th, 1994 (in thousands of euro) are shown in the table below.

	12.31.2005	12.31.2004
Dividends from equity holdings	1,409	–
Gains on sale of equity investments	37,719	–
Total income from equity investments	**39,128**	**–**
Other financial income	**11,090**	**10,131**
Interest and financial charges from subsidiaries	(277)	–
Interest and financial charges from third parties	(482)	(3,475)
Total interest and financial charges	**(759)**	**(3,475)**
TOTAL FINANCIAL INCOME AND CHARGES	**49,459**	**6,656**
Write-downs	(19)	(4,032)
Result from normal operations	(4,710)	(7,995)
Result from extraordinary operations	–	23,998
PROFIT BEFORE TAXES	**44,730**	**18,627**
Income taxes for the year	(6,529)	424
NET PROFIT FOR THE YEAR	**38,201**	**19,051**

In thousands of euros

The financial income derives from the gain realised from the sale of the shares in RCS Media Group SpA during the year (euro 37.72 million), dividends from investments (euro 1.41 million), interest on liquidity held (euro 4.5 million) and foreign exchange gains (euro 6.57 million).
The shareholders' equity of the Company at December 31st, 2005 was euro 713 million. Caltagirone Editore SpA, holding company of the Group, manages the equity investments held in the operating companies.
The Company directly controls "Il Messaggero SpA", "Il Mattino SpA", "Quotidiano di Puglia SpA", "Corriere Adriatico SpA", "Caltanet SpA", "Leggo SpA", "Cedfin Srl" and Finced Srl and indirectly "S.E.M. Società Editrice Meridionale SpA", "Piemme SpA", "Emera SpA" and "B2WIN SpA".

Principal equity investments

The principal information and results relating to the subsidiary companies, which are reflected in the consolidated financial statements of the Group, are reported below.

Il Messaggero SpA
The Company, which publishes the newspaper *Il Messaggero* of Rome, for the year ended December 31st, 2005 recorded a net profit of euro 10.57 million and a value of production of euro 139.51 million. The Ebitda was euro 25.05 million.
At December 31st, 2005, the net equity of Il Messaggero SpA was euro 113.76 million.
The newspaper substantially maintained its market share. The decrease in the value of production in the year of 2.3% was principally due to a reduction in advertising revenues (-1.1%) and to a 7 day strike by journalists in relation to contract renewal. The contribution of publishing promotions to sales was euro 10.39 million.

Il Mattino SpA
The Company, which publishes the newspaper *Il Mattino*, ended the year 2005 with a value of production of euro 53.96 million (euro 56.66 million in 2004) and a net profit of euro 756 thousand (euro 1.30 million in 2004).
The Ebitda of the Company was euro 8.69 million, in line with 2004 (euro 8.31 million).
For Il Mattino SpA, in order for a full evaluation of the data, the same considerations are to be taken into consideration as for Il Messaggero SpA.
The contribution of publishing promotions to sales was euro 4.79 million.

Leggo SpA
The Company, which publishes the daily newspaper *Leggo*, ended 2005 with a value of production of euro 19.49 million, an increase of approximately 14% compared to the previous year.
The Company continued its expansion programme of the newspaper, with two new editions in 2005 in Lombardy and in Liguria, in the provinces of Como, Varese, Bergamo, Brescia and Genova, strengthening the leadership position of *Leggo* in the free press sector.
The Company recorded a net profit of euro 284 thousand for the year, while the Ebitda, for the first time and five years since the commencement of the publications and distribution, recorded a positive result of euro 411 thousand.

Piemme SpA
Piemme SpA, a subsidiary of Il Messaggero SpA, exclusive agency for advertising in the newspapers *Il Messaggero*, *Il Mattino*, il *Nuovo Quotidiano di Puglia* and *Leggo*, for the year ended December 31st, 2005 recorded a net profit of euro 5.44 million (euro 4.28 million in 2004) and total revenues of euro 175.14 million (euro 173.95 million in 2004).
The improved result is due to the greater local advertising in the newspapers *Il Messaggero, Il Mattino* and *Il Quotidiano di Puglia*, in addition to the consolidation of the free newspaper Leggo and the good results in the radio sector.

Corriere Adriatico SpA
The Company publishes the newspaper of the same name, an historic newspaper founded in 1860 and with one of the longest traditions in Italy and deep roots in the region.
The *Corriere Adriatico* is the main newspaper in the Marche region for local news, with an average publication of approximately 20,000 copies sold daily and a readership of 265 thousand, with the highest ratio between number of readers and copies sold among Italian daily newspapers.
The Company in 2005 recorded a net loss of euro 1.36 million and a value of production of euro 9.90 million, substantially in line with the previous year (euro 9.73 million).

Quotidiano di Puglia SpA
The Company publishes the newspaper of the same name with an average publication of approximately 20,000 copies per day and the weekly title *Tuttomercato*.
The daily coverage is mainly in the provinces of Lecce, Brindisi and Taranto.
In 2005, the Company recorded a net profit of euro 1.33 million, substantially in line with the previous year (euro 1.39 million) and a value of production of euro 9.69 million (euro 9.74 million in 2004).

Other equity investments

Caltanet SpA ended the year with a negative Ebitda of euro 52.9 thousand compared to euro 837 thousand in 2004, continuing its activities with a close control of operating costs.
S.E.M. Società Editrice Meridionale SpA ended the year 2005 with a net profit of euro 5.6 million.
B2WIN SpA, operating in the provision of added value services, through a multi-channel call centre, recorded excellent results with sales of euro 6.16 million (euro 3.81 million in 2004), important growth compared to the previous year thanks to greater affirmation in the market with the acquisition of new contracts, and recording a net profit of euro 364 thousand.
Emera SpA, which holds the investment in S.E.M. Società Editrice Meridionale SpA, ended the year ended December 31st, 2005 with a net profit of euro 41.3 million, mainly represented by the dividend received from this investment.
Finced Srl recorded a net profit of over euro 24 million for the year, represented by the gain on the sale of its investment in Banca Nazionale del Lavoro SpA.
Cedfin Srl recorded a net profit of euro 345 thousand deriving from the management of its liquidity.
For information relating to the market trends and performances of the principal subsidiaries and the business strategies, reference should be made to the Directors' Report accompanying the consolidated financial statements.

Transactions with related parties

For the transactions between the Companies of the Group and other related entities not belonging to the Caltagirone Editore Group, reference should be made to notes to the financial statements.

Other information

At December 31st, 2005, the Company had 3 employees.
In accordance with article 79 of Consob Resolution No. 11971 that adopts Legislative Decree 58/98, the investments held in the Company by the members of the Board of Directors and Board of Statutory Auditors are provided as an attachment.
Availing of the right permitted by Legislative Decree No. 38 of February 20th, 2005, the Company will adopt the international accounting standards IAS/IFRS for the parent company financial statements from 2006, while these standards were adopted for the consolidated financial statements for the year ended December 31st, 2005, to which reference should be made for information on the different sectors of activity.
The transition date to IAS/IFRS of the parent company financial statements of Caltagirone Editore SpA will be December 31st, 2003 (January 1st, 2004).
Based on the work already performed for the conversion to the international accounting standards of the consolidated financial statements of the Caltagirone Editore Group, the principal impact on the parent company financial statements expected from the transition are summarised as follows:

- decrease of shareholders' equity at December 31st, 2004, due to the elimination of intangible assets (quotation charges and advertising expenses) which may not be recorded in accordance with IAS/IFRS. This negative effect will substantially be absorbed in the shareholders' equity at December 31st, 2005 due to the completion of the amortisation period;
- decrease of the shareholders' equity at December 31st, 2004 and at December 31st, 2005 due to the reversal of treasury shares recorded under assets;
- increase in the shareholders' equity at December 31st, 2004 due to the recording at fair value of listed securities recorded under current assets. This positive effect will be absorbed in the shareholders' equity at December 31st, 2005 due to the sale of these securities during the year.

The governance model in place by the Company, although reflecting the reduced necessity of a holding company such as Caltagirone Editore SpA and also taking into account the specific control systems already introduced in the subsidiary companies, has the objective of controlling and managing the business risks and the correct and transparent communication to the market.
The current Board of Directors, which will remain in office until the Shareholders' Meeting to be called to approve the financial statements relating to 2005, is composed of three executive directors, the Chairman and two Vice Chairmen, and six non-executive directors. Among the non-executive directors, two are independent directors as they do not have economic relationships with the Company.
Caltagirone Editore SpA, in adherence with the current legislative provisions, is the Titleholder of the treatment of personal data.
The Board of Directors of the Company, in the meeting of March 23st, 2004, appointed a person Responsible for the treatment of personal data.
Finally, it is noted that the Company directly holds 31,040 treasury shares for a total nominal value of euro 31,040 and acquired in the previous year.
The Company did not undertake research and development activity in the year and does not have any secondary offices.
In accordance with point 19 of the Technical Regulations in relation to minimum security (Attachment B of Legislative Decree No. 196 of 30.06.2003), the Company has prepared the programmed security document.

Subsequent events and business outlook

In the first part of the current year, no significant events took place.
The operations continued in line with normal operational activity.

Renewal of the appointment for the audit of the company and consolidated financial statements

With the auditors' report on the company and consolidated financial statements for the year ended December 31st, 2005, the mandate of the audit firm KPMG SpA appointed by the Shareholders' Meeting of June 24th, 2003 terminates.
In compliance with the provisions of the Finance Act in relation to financial brokers (Legislative Decree No 58 of February 24th, 1998), as amended by Law No. 262 of December 28th, 2005 (so-called *Savings Law*), the Board of Directors deliberated to propose to the Shareholders' Meeting the audit appointment of the company and consolidated financial statements for the six-year period 2006-2011, of the limited audit at June 30th for the same period and the verification of the accounting records and underlying accounting entries of Caltagirone Editore SpA, to KPMG SpA, based on the proposal received on March 13th, 2006, taking into consideration the proposals for the execution of the assignment, the phases in which the work will be carried out on the financial statements of the subsidiaries and the fees requested.
The Shareholders' Meeting is therefore invited to deliberate on the proposal to assign to the audit firm KPMG SpA relating to the years ended December 31st, 2006, 2007, 2008, 2009, 2010 and 2011 the following appointments, with a total fee of euro 30,600, divided as follows:

		Hours	Fees
1)	Audit of the financial statements of Caltagirone Editore SpA, including the accounting entries of the subsidiary companies	120	10,200
2)	Audit of the Group consolidated financial statements	110	9,350
3)	Audit of the half-year report of Caltagirone Editore SpA	90	7,650
4)	Verify the statutory accounting records	40	3,400
Total		**360**	**30,600**

The fees indicated may be adjusted on an annual basis from July 1st, 2006 within the Istat indices relating to the cost of living compared to the previous year.
There are also audit assignments from the subsidiary companies, whose financial statements will be audited in accordance with article 165 of Legislative Decree No. 58/98, for a total fee of euro 149,500.

Proposal to the shareholders' meeting

In consideration of the results of the financial statements presented to the Shareholders' Meeting, the Board of Directors propose to allocate the net profit of euro 38,201,293.00 as follows:

- euro 764,026.00 as 2% available to the Board of Directors in accordance with article 24 of the By-Laws of the Company;

- euro 3,770,408.00, equal to the value of the net exchange gains deriving from the valuation of the assets and liabilities in foreign currencies at December 31st, 2005, in a separate non-distributable reserve until their realisation in accordance with article 2426, paragraph 8-bis of the Civil Code;
- euro 33,666,859.00 available to the Shareholders' Meeting.

The Board proposes to the Shareholders' Meeting to confirm the distribution of a dividend similar to previous years and therefore an amount of euro 24,993,792 corresponding to euro 0.20 for each of the euro 124,968,960 shares outstanding, through the partial utilisation of the above amount.

In consideration of the extraordinary results of the financial management for the year just ended, the Board of Directors propose the further distribution of an additional dividend totalling euro 12,496,896 amounting to euro 0.10 for each share outstanding, utilising the residual amount available to the Shareholders' Meeting, from the net profit for the year, of euro 8,673,067 and the share premium reserve for the difference of euro 3,823,829.

As previously mentioned, the Company holds 31,040 treasury shares; should the number of treasury shares in portfolio have changed at the date of the Shareholders' Meeting, the proposals relating to the dividends will be appropriately adjusted.

The Board also recalls that the mandate of the Board of Directors and Board of Statutory Auditors has expired, and therefore the Shareholders' Meeting is invited to deliberate on renewing the boards.

SHARES HELD IN PARENT COMPANY AND ITS SUBSIDIARIES

(Published in accordance with article 79 of the Consob Resolution 11971/99)

NAME	COMPANY	TYPE OF SHARE	TYPE OF HOLDING
Caltagirone Francesco Gaetano	Caltagirone Editore SpA	Ordin.	Held directly
		Ordin.	Indirect through company controlled
Caltagirone Gaetano	Caltagirone Editore SpA	Ordin.	Held directly
		Ordin.	Indirect through spouse
Caltagirone Azzurra	Caltagirone Editore SpA	Ordin.	Held directly
Delfini Mario	Caltagirone Editore SpA	Ordin.	Held directly
		Ordin.	Indirect through spouse
Majore Albino	Caltagirone Editore SpA	Ordin.	Held directly
Muzii Michele	Caltagirone Editore SpA	Ordin.	Held directly
Tasco Giampiero	Caltagirone Editore SpA	Ordin.	Held directly

N. OF SHARES HELD AT 12.31.2004	OPERATION CODE	N. OF SHARES PURCHASED	N. OF SHARES SOLD	N. OF SHARES HELD AT 12.31.2005
22,500,000				22,500,000
59,486,340				59,486,340
				81,986,340
3,000,000				3,000,000
60,000				60,000
				3,060,000
1,869,901				1,869,901
150				150
150				150
				300
15,000				15,000
450				450
15,600				15,600

assets

	12.31.2005	12.31.2004
A. RECEIVABLES DUE FROM SHAREHOLDERS FOR UNPAID SHARE CAPITAL	**–**	**–**
B. FIXED ASSETS		
I. Intangible fixed assets		
1) Formation, start-up and similar costs	–	3,169,075
7) Other	176,330	232,385
Total intangible fixed assets	**176,330**	**3,401,460**
II. Tangible fixed assets		
3) Industrial and commercial equipment	786	1,180
4) Other fixed assets	11,410	7,264
Total tangible fixed assets	**12,196**	**8,444**
III. Financial fixed assets		
1) Equity investments in:		
a) subsidiary companies	231,405,614	231,299,705
d) other companies	–	52,724,214
Total equity investments	231,405,614	284,023,919
4) Treasury shares	164,169	164,169
Total financial fixed assets	**231,569,783**	**284,188,088**
TOTAL B. FIXED ASSETS	**231,758,309**	**287,597,992**

	12.31.2005	12.31.2004
C. CURRENT ASSETS		
I. Inventories	**–**	**–**
II. Receivables		
1) Trade receivables:		
– due within one year	–	6,000
Total trade receivables	–	6,000
2) Subsidiary companies:		
– due within one year	478,887,851	301,434,680
Total subsidiary companies	478,887,851	301,434,680
4 bis) Tax receivables:		
– due within one year	923,367	2,478,630
Total tax receivables	923,367	2,478,630
4 ter) Deferred tax assets:		
– due within one year	6,045,116	12,261,582
Total deferred tax assets	6,045,116	12,261,582
5) Other:		
– Due within one year	8,221	31,332
Total other	8,221	31,332
Total receivables	**485,864,555**	**316,212,224**
III. Current financial assets	**–**	**–**
IV. Cash and cash equivalents		
1) Bank and postal accounts	35,189,654	109,309,853
3) Cash and cash equivalents	726	97
Total cash and cash equivalents	**35,190,380**	**109,309,950**
TOTAL C. CURRENT ASSETS	**521,054,935**	**425,522,174**
D. PREPAYMENTS AND ACCRUED INCOME	**131,183**	**102,154**
TOTAL ASSETS	**752,944,427**	**713,222,320**

In euros

liabilities

	12.31.2005	12.31.2004
A. SHAREHOLDERS´ EQUITY		
I. Share capital	**125,000,000**	**125,000,000**
II. Share premium reserve	**494,845,510**	**501,169,126**
III Revaluation reserve	**–**	**–**
IV. Legal reserve	**25,000,000**	**25,000,000**
VI. Reserve for treasury shares in portfolio	**164,169**	**164,169**
V. Statutory reserves	**–**	**–**
VII. Other reserves		
Extraordinary reserve	–	–
Reserve for the acquisition of treasury shares	29,835,831	29,835,831
VIII. Retained earnings	**–**	**–**
IX. Net profit for the year	**38,201,293**	**19,051,200**
TOTAL A. SHAREHOLDERS´ EQUITY	**713,046,803**	**700,220,326**
B. PROVISIONS FOR RISKS AND CHARGES		
2) Taxation, including deferred tax liabilities	1,244,234	–
TOTAL B. PROVISIONS FOR RISKS AND CHARGES	**1,244,234**	**–**
C. EMPLOYEE LEAVING INDEMNITY PROVISIONS	**56,350**	**70,235**

	12.31.2005	12.31.2004
D. PAYABLES		
4) Bank payables	–	–
– due within one year	–	–
Total bank payables	–	–
5) Other lenders:		
– due within one year	1,127,893	1,079,460
– due beyond one year	6,444,057	7,571,950
Total other lenders	**7,571,950**	**8,651,410**
7) Trade payables:		
– due within one year	344,671	425,403
Total trade payables	**344,671**	**425,403**
9) Payables to subsidiary companies:		
– due within one year	27,765,953	1,876,338
Total payables to subsidiary companies	**27,765,953**	**1,876,338**
12) Tax payables:		
– due within one year	163,275	34,636
Total tax payables	**163,275**	**34,636**
13) Payables to social security institutions:		
– due within one year	13,189	18,381
Total payables to social security institutions	**13,189**	**18,381**
14) Other payables:		
– due within one year	2,738,002	1,925,591
Total other payables	**2,738,002**	**1,925,591**
TOTAL D. PAYABLES	**38,597,040**	**12,931,759**
E. ACCRUALS AND DEFERRED INCOME	**–**	**–**
TOTAL LIABILITIES	**751,700,193**	**713,222,320**
MEMORANDUM ACCOUNTS		
Other guarantees given on behalf of subsidiary companies	18,726,076	18,726,076
TOTAL MEMORANDUM ACCOUNTS	**18,726,076**	**18,726,076**

In euros

profit and loss account

	2005	2004
A. VALUE OF PRODUCTION		
1) Revenues from sales and supply of services	–	–
5) Other revenues and income	85,316	45,247
TOTAL A. VALUE OF PRODUCTION	**85,316**	**45,247**
B. COSTS OF PRODUCTION		
7) Services	(697,701)	(545,543)
8) Rent, lease and similar costs	(322,420)	(326,963)
9) Personnel costs:		
a) salaries and wages	(214,467)	(380,347)
b) social security contributions	(38,029)	(95,920)
c) employee leaving indemnity	(15,249)	(15,284)
e) other costs	(202,908)	(205,419)
Total personnel cost	(470,653)	(696,970)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(3,225,130)	(6,406,496)
b) depreciation of tangible fixed assets	(1,839)	(1,208)
Total amortisation, depreciation and write-downs	(3,226,969)	(6,407,704)
14) Other operating costs	(77,402)	(63,239)
TOTAL B. COSTS OF PRODUCTION	**(4,795,145)**	**(8,040,419)**
TOTALE (A-B) DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION	**(4,709,829)**	**(7,995,172)**

	2005	2004
C. FINANCIAL INCOME AND CHARGES		
15) Income from equity investments:		
– in subsidiary and associated companies	85	–
– in other companies	39,128,222	–
Total income from equity investments	**39,128,307**	**–**
16) Other financial income:		
d) income other than the above:		
– from subsidiary and associated companies	747,938	1,210,814
– from others	3,768,518	8,920,437
Total other financial income	**4,516,456**	**10,131,251**
17) Interest and other financial charges:		
– from subsidiary and associated companies	(277,230)	–
– from others	(481,894)	(533,133)
Total interest and other financial charges	**(759,124)**	**(533,133)**
17 bis) Exchange gains and losses	**6,573,846**	**(2,941,794)**
TOTAL C. FINANCIAL INCOME AND CHARGES	**49,459,485**	**6,656,324**
D. ADJUSTMENT TO FINANCIAL ASSETS		
19) Write-downs:		
a) of equity investments	(19,521)	(4,032,980)
Total write-downs	**(19,521)**	**(4,032,980)**
TOTAL D. ADJUSTMENT TO FINANCIAL ASSETS	**(19,521)**	**(4,032,980)**
E. EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
– other income	–	24,015,536
Total income	**–**	**24,015,536**
21) Charges:		
– taxes relating to prior years	–	(17,066)
Total charges	**–**	**(17,066)**
TOTAL E. EXTRAORDINARY INCOME AND CHARGES	**–**	**23,998,470**
PROFIT BEFORE TAXES	**44,730,135**	**18,626,642**
22) Income taxes		
– Current taxes	(131,456)	–
– Deferred tax charge	(1,244,234)	–
– Deferred tax income	(5,153,152)	424,558
Total income taxes	**(6,528,842)**	**424,558**
NET PROFIT FOR THE YEAR	**38,201,293**	**19,051,200**

In euros

notes to the financial statements for the financial year ended December 31st, 2005

Structure and contents

The Financial Statements as at December 31st, 2005, as illustrated in the attached notes, were prepared in accordance with the provisions and valuation criteria contained in article 2426 of the Civil Code, integrated and interpreted by the accounting principles issued by the Italian Accounting Profession. They have been prepared in accordance with the general principles of prudence and accruals, on a going concern basis without any change upon those adopted in the preparation of the financial statements in the previous year.

The notes to the financial statements, prepared in accordance with the provisions of articles 2423 and 2427 of the Civil Code, refer to the activities performed directly by Caltagirone Editore SpA and, therefore, comment upon and detail the accounts of the Balance Sheet and Income Statement. The Cash flow statement is also presented with the financial statements.

In addition to the parent company financial statements for the year ended December 31st, 2005, the Group consolidated financial statements were prepared which, in accordance with Legislative Decree No. 38/2005, were prepared in accordance with IAS/IFRS. The consolidated financial statements of the Group report shareholders' equity of euro 847.69 million and a net profit of euro 94.31 million.

In relation to the activities of the company and to the subsequent events after the year end, reference should be made to the Directors' Report on Operations.

Accounting principles

The main accounting principles are as follows:

Intangible assets

Intangible assets are recorded at acquisition or production cost, including directly attributable accessory costs and are amortised on a straight-line basis over the period of their expected useful life.

The formation and start-up costs are recorded under assets with the approval of the

Statutory Auditors. These costs are amortised over a period of five years.
Advertising and promotional costs, where they do not provide long-term benefit, are expensed as incurred.
Leasehold improvements are amortised based on the residual duration of the rights.

Financial fixed assets

The equity investments in subsidiaries and in other companies and the treasury shares are valued under the cost method, reduced in the case of permanent loss where the investment has suffered losses and no recovery is foreseen in the immediate future, or sufficient profits may be generated to absorb the losses; the original value is restated when the reasons for the write-down no longer exist.

Receivables

Receivable are stated at their nominal value, adjusted in order to reflect their realisable value by provisions for doubtful accounts.
Receivables and payables in foreign currencies are recorded at the year end exchange rate.
The positive or negative differences between the values converted at the period end exchange rate and the original exchange rate are recorded in the income statement in the account exchange gains and losses.
Any net gain is included as a non-distributable reserve until the gain is realised.

Prepayments and accruals

Prepayments and accruals relate to income and costs of the period which will be settled in future periods and income and costs received before the end of the period but that relate to future periods, the size of which varies over time.

Deferred and current taxes

The current income taxes for the year are based on a realistic estimate of the fiscal charge to be paid, in accordance with the current fiscal regulations; the tax payables are recorded net of withholding taxes and payments on account. Where the taxes accrued are less than the withholding taxes and payments on account, the net receivable is recorded in the account Tax receivables.
Deferred tax assets and liabilities are calculated on the timing differences between the book value of assets and liabilities for statutory purposes and their corresponding value for fiscal purposes. Deferred tax liabilities are not recorded when only a small probability that the payable will materialise exists.
The deferred tax assets are only recorded, in accordance with the prudence principle, if there is reasonable certainty that the temporary differences will reverse in future years resulting from an assessable income not lower that the differences that will reverse.

Payables

Payables are recorded at their nominal value, representative of their realisable value.

Commitments and guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual values.

Recognition of revenues and costs

The positive and negative elements of the income statement are recognised in accordance with the principles of prudence and accruals. The dividends from equity investments are recorded under financial income in the period in which the distribution is deliberated.

Adhesion to fiscal consolidation

In compliance with the Finance Act (Legislative Decree No. 344 of December 12th, 2003), Caltagirone Editore SpA has formalised as the holding company the "tax consolidation" with Mattino SpA and Piemme SpA, in relation to the National Consolidation Tax regime for the three year period 2004-2006 and from the year 2005 with Emera SpA, S.E.M. SpA and Finced Srl.
As a consequence, the Company recorded the balances relating to Ires income tax balances with subsidiary companies in the accounts Subsidiary receivables and Subsidiary payables instead of in the accounts Tax receivables, Deferred tax assets and Tax payables.

Fixed assets

Intangible fixed assets

Intangible fixed assets consist of the following:

Intangible fixed assets	12.31.2004	Increases	Amortisation	12.31.2005
Formation and start-up costs	3,006,369	–	(3,006,369)	–
Advertising expenses	162,706	–	(162,706)	–
Other intangible assets	232,385	–	(56,055)	176,330
Total	**3,401,460**	**–**	**(3,225,130)**	**176,330**

In thousands of euros

Formation, start-up and advertising expenses are almost entirely attributable to charges incurred by the Company in relation to its Stock exchange listing in 2000 and totally amortised in the year.
The account Other intangible assets relates to leasehold improvements made in previous years owned by companies under common control where the head office is located. The account also includes charges incurred in relation to financing received in 2000 from Mediocredito Lombardo.

Tangible fixed assets

Tangible assets, shown net of the relative accumulated depreciation fund, equal to euro 12,196, includes furniture and office machines, depreciated over three years.

Financial assets

The total amounts to euro 231,569,783 (euro 284,188,088 at December 31st, 2004), a net decrease of euro 52,618,305 as shown in the table below:

	12.31.2004	Changes	12.31.2005
Investments in subsidiaries	231,299,705	105,909	231,405,614
Investments in other companies	52,724,214	(52,724,214)	–
Treasury shares	164,169	–	164,169
Total	**284,188,088**	**(52,618,305)**	**231,569,783**

In thousands of euros

Investments in subsidiary companies

	12.31.2004	Increases	Decreases	12.31.2005
Il Messaggero SpA	127,580,886	–	–	127,580,886
Il Mattino SpA	22,890,823	–	–	22,890,823
Caltanet SpA	40,663,011	–	–	40,663,011
Leggo SpA	662,869	–	–	662,869
Cedfin Srl	10,200	–	–	10,200
S.E.M. SpA	97	–	–	97
Corriere Adriatico SpA	12,281,820	293,250	(187,341)	12,387,729
Quotidiano di Puglia SpA	27,200,000	–	–	27,200,000
Finced Srl	9,999	–	–	9,999
Total	**231,299,705**	**293,250**	**(187,341)**	**231,405,614**

In thousands of euros

During the year the following subsidiaries changed their name:
- Edi.Me. SpA to Il Mattino SpA;
- Sigma Editoriale SpA to Leggo SpA;
- Società Editoriale Adriatica SpA to Corriere Adriatico SpA;
- Il Mattino S.E.M. SpA to S.E.M. Società Editrice Meridionale SpA;
- Alfa Editoriale Srl to Quotidiano di Puglia SpA, also changing its legal form.

The increase in the investment in Corriere Adriatico SpA, equal to euro 105,909, relates to a share capital payment of euro 293,250, net of euro 187,341 as the adjustment price for the purchase of the subsidiary by Caltagirone Editore SpA.

Further information on the subsidiaries and the results from the latest financial statements approved is shown below (in thousands of euro):

Company	Location	Share capital	% held		Net equity	Result	Book value 12.31.2005	Value as per art. 2426 no. 4 C.C.	Difference
			Direct	Indirect					
Il Messaggero SpA	Rome	36,900	100.00	–	113,765	10,568	127,581	207,427	(79,846)
Il Mattino SpA	Rome	500	100.00	–	14,544	756	22,891	24,265	(1,374)
Caltanet SpA	Rome	5,414	98.78	1.22	46,003	4,838	40,663	45,620	(4,957)
Leggo SpA	Rome	1,000	90.00	–	2,324	284	662	2,093	(1,431)
Cedfin Srl	Rome	10	99.99	0.01	1,391	346	10	751	(741)
S.E.M. SpA	Rome	2,482	0.01	99.99	22,337	5,601	–	–	–
Quotidiano di Puglia SpA	Rome	1,020	85.00	–	3,608	1,327	27,200	28,328	(1,128)
Corriere Adriatico SpA	Ancona	102	51.00	49.00	(1,209)	(1,357)	12,388	11,559	829
Finced Srl	Rome	10	99.99	0.01	24,025	24,015	10	24,025	(24,015)
Total							**231,405**	**344,068**	**(112,663)**

In thousands of euros

The other companies controlled indirectly with indication of the net equity and results from the latest financial statements approved are as follows:

Company	Location	Share capital	% held by the Group	Net equity	Result
Piemme SpA	Rome	104	100.00	10,830	5,442
Emera SpA	Rome	2,496	100.00	92,552	41,391
B2WIN SpA	Rome	1,000	100.00	1,474	364

Investments in other companies

The change in this account is due to the sale in the year of the entire holding of the investment in Rcs Media Group SpA, which resulted in a gain of euro 37.72 million.

Treasury shares

The account amounting to euro 164,169, unchanged compared to the previous year, is represented by 31,040 treasury shares held in portfolio.

Current assets

Due from subsidiary companies

The amount of euro 478,887,851 (euro 301,434,680 at December 31st, 2004) has increased by euro 177,453,171 and includes the non-interest bearing loans provided to the subsidiaries Cedfin Srl (euro 11,000,603) and Caltanet SpA (euro 463,687,223). The balance relates to the transfer of the Ires tax credit to the subsidiaries B2WIN SpA (euro 32,000), Il Mattino SpA (euro 190,000) and Cedfin Srl (euro 60,000), in addition to invoices to issue for commissions on sureties for euro 75,188. Also included are the receivables from Piemme SpA (euro 3,444,688), Finced Srl (euro 70,435) and S.E.M. SpA (euro 296,299), following the fiscal consolidation (as per Legislative Decree No. 344 of December 12th, 2003) and the receivable from the subsidiary Il Mattino SpA (euro 31,328) for invoices issued.

Tax receivables

The balance, equal to euro 923,367, relates to income tax receivables (euro 791,208), withholding tax on bank interest (euro 128,022) and Vat (euro 4,137).

Deferred tax assets

The deferred tax assets, equal to euro 6,045,116, refer for euro 5,334,548 to the quota of the write-down on equity investments made solely for fiscal purposes in previous years and whose deductibility is deferred and for euro 710,567 calculated on the future fiscal benefits connected to fiscal losses recorded in the year.
The deferred tax assets on fiscal losses are net of the utilisation of the Fiscal Consolidation in accordance with the Finance Act (Legislative Decree No. 344 of December 12th, 2003). Following this utilisation, a receivable was recorded from subsidiaries for a similar amount.
As already described in the first part of the notes, the Company has formalised with some subsidiaries the agreement relating to the national tax consolidation.

	12.31.2004		12.31.2005	
	Amount of temporary differences	Fiscal effect (rate 33%)	Amount of temporary differences	Fiscal effect (rate 33%)
Deferred tax asset:				
Write-downs of investments	26,462,863	8,732,745	16,165,406	5,334,548
Total	**26,462,863**	**8,732,745**	**16,165,406**	**5,334,548**
Deferred tax asset relating to fiscal losses for the year	10,693,448	3,528,837	2,153,123	710,567
Net total	**37,156,311**	**12,261,582**	**18,318,529**	**6,045,115**

The receivables relate entirely to Italy and are all due within 5 years.

Cash and cash equivalents

The table below shows the details of these accounts:

	12.31.2005	13.31.2004
Bank current accounts	1,124,011	480,082
Bank time deposits	34,065,643	108,829,771
Cash and cash equivalents	726	97
Total	**35,190,380**	**109,309,950**

The reduction of the liquidity compared to the previous year relates to the increase in the loans provided in the year to subsidiaries as commented in the relative accounts. The short-term deposits include an amount of USD 32 million (equal to euro 27,527,618 at the exchange rate at December 31st, 2005).

Prepayments and accrued income

These amount to euro 131,183 (euro 102,154 at December 31st, 2004) and principally relate to accrued interest on bank deposits.

Shareholders' equity

The share capital at December 31st, 2005 of euro 125 million, fully subscribed and paid in, consists of 125 million ordinary shares at a nominal value of euro 1 each and has not changed from the previous year.

The reserves amount to euro 549,845,510 (euro 556,169,126 at December 31st, 2004), with a net decrease of euro 6,323,616 deriving from the Shareholders' Meeting resolution of April 19th, 2005 relating to the utilisation of the Share Premium reserve for the distribution of the dividends.

The movements in the year are shown in the relative schedules of shareholder's equity movements at December 31st, 2004 and December 31st, 2005.

	Balance at 12.31.2003	Covering of losses at 12.31.2003	Dividends as per AGM of 04.30.04	Amounts available to Board	Result at 12.31.2004	Balance at 12.31.2004
Share capital	125,000,000	–	–	–	–	125,000,000
Share premium reserve	527,811,877	(1,648,959)	(24,993,792)	–	–	501,169,126
Legal reserves	25,000,000	–	–	–	–	25,000,000
Reserve for treasury shares in portfolio	164,169	–	–	–	–	164,169
Extra reserve	5,549,470	(5,549,470)	–	–	–	–
Reserve for purchase of treasury shares	29,835,831	–	–	–	–	29,835,831
Result for the year	(7,198,429)	7,198,429	–	–	19,051,200	19,051,200
Total shareholders' equity	**706,162,918**	**–**	**(24,993,792)**	**–**	**19,051,200**	**700,220,326**

In thousands of euros

	Balance at 12.31.2004	Dividends as per AGM of 04.19.05	Amounts available to Board	Profit/ (loss) 12.31.2005	Balance at 12.31.2005
Share capital	125,000,000	–	–	–	125,000,000
Share premium reserve	501,169,126	(6,323,616)	–	–	494,845,510
Legal reserves	25,000,000	–	–	–	25,000,000
Reserve for treasury shares in portfolio	164,169	–	–	–	164,169
Extra reserve	–	–	–	–	–
Reserve for purchase of treasury shares	29,835,831	–	–	–	29,835,831
Result for the year	19,051,200	(18,670,176)	(381,024)	38,201,293	38,201,293
Total shareholders' equity	**700,220,326**	**(24,993,792)**	**(381,024)**	**38,201,293**	**713,046,803**

In thousands of euros

The analysis of the individual equity accounts indicating whether they are distributable and their utilisation in the previous years is shown in the table below:

				Summary of utilisation made in the three previous years	
	Amount	Possibility of utilisation	Quota distrib.	For covering of losses	For other reasons
Share capital	125,000	–	–	–	–
Share premium reserve	494,845	A-B-C	494,845	1,649	68,315*
Legal reserves	25,000	B	–	–	–
Reserve for treasury shares in portfolio	164	–	–	–	–
Extra. reserve	–	–	–	5,549	2,751
Reserve for purchase of treasury shares	29,836	–	–	–	164
Total	**674,845**	**–**	**494,845**	**7,198**	**64,906**

* *Utilised euro 23,248,043 for the integration of the legal reserve, euro 45,066,787 for dividends and euro 1,648,959 for the covering of losses*

A For share capital increase
B For covering of losses
C For distribution to shareholders

Taxation

The account Provision for risks and charges (euro 1,244,234) refers to the provision made for deferred tax liabilities on the foreign exchange differences not realised.

Employee leaving indemnities

The relative amount of euro 56,350 (euro 70,235 at December 31st, 2004) is representative of the amount matured to employees at the year end, consisting of three white collar workers. The average number of employees in the year was 4. The decrease in the provisions is due to one departure during the year.

Payables

The payables at December 31st, 2005 amount to euro 38,597,040 (euro 12,931,759 at December 31st, 2004) with a net increase of euro 25,665,281, as described below:

	12.31.2004	Changes	12.31.2005
Payables to other lenders	8,651,410	(1,079,460)	7.571,950
Trade payables – suppliers	425,403	(80,732)	344,671
Payables to subsidiary companies	1,876,338	25,889,615	27,765,953
Tax payables	34,636	128,639	163,275
Social security institutions	18,381	(5,192)	13,189
Other payables	1,925,591	812,411	2,738,002
Total	**12,931,759**	**25,665,281**	**38,597,040**

In thousands of euros

Payables to other lenders

The amount is represented by a loan from Mediocredito Lombardo equal to euro 7,571,950 with expiry in 2011, of which euro 1,127,893 due within one year. As guarantee on this loan, a mortgage was provided on the buildings of the subsidiary Il Mattino SpA at Caivano for a total amount of euro 20,335,490. The amount of the loan payable over five years is euro 1,404,153.

Trade payables – suppliers

At December 31st, 2005, trade payables amounted to euro 344,671 (euro 425,403 at December 31st, 2004) and fully payable within one year, of which euro 247,010 for invoices to receive principally relating to emoluments for corporate offices held.

Subsidiaries

The payables to subsidiaries, due within one year, amount to euro 27,765,953 (euro 1,876,338 at December 31st, 2004) and relate for euro 3,691,237 to the tax consolidation of which euro 1,031,725 with Il Mattino SpA and euro 2,659,512 with Emera SpA, and for euro 24,063,316 to a loan received from the subsidiary Finced Srl, including interest at market conditions. The balance also includes euro 11,400 relating to invoices received from Piemme SpA and Caltanet SpA for services provided.

Tax payables

The account Tax payables, for euro 163,275, relates to the provision for Irap regional tax in the year and payables for employee and consultant withholding taxes.

Other payables

The amount equal to euro 2,738,002 (euro 1,925,591 at December 31st, 2004) includes euro 2,035,020 as amounts available to the Board of Directors in accordance with article 24 of the Company By-Laws, which provides for the allocation of 2% of the net profits to this account.
The other amounts represent the emoluments due to the directors, services provided by the group companies Vianini Lavori SpA and Mantegna '87 Srl as well as accruals in relation to employees for vacation days matured but not taken.
All payables are in Italy.

Memorandum accounts

The memorandum accounts are represented by two comfort letters given in favour of the subsidiaries Leggo SpA and Caltanet SpA and sureties given in favour of the Tax Office guaranteeing the reimbursement of the excess tax paid by the subsidiaries S.E.M. SpA, Emera SpA and Caltanet SpA.

income statement

COMMENT ON THE MAIN ITEMS

Value of production

Other income and revenues

The other revenues and income in 2005 amount to euro 85,316 and relate to commissions on sureties given to third parties as guarantee of subsidiaries.

Costs of production

The operating costs of the company relate to:

	2005	2004
Services rendered	697,701	545,543
Rent, lease and similar costs	322,420	326,963
Personnel expenses	470,653	696,970
Amortisation, depreciation and provisions	3,226,969	6,407,704
Operating charges	77,402	63,239
Total costs of production	**4,795,145**	**8,040,419**

Services

The account Services includes the remuneration of the Board of Statutory Auditors for euro 39,020, the Board of Directors for euro 156,940 and the audit firm for euro 62,160. Also included are costs of euro 90,664 relating to services provided by companies of the Caltagirone Group at market conditions.
The details of the remuneration paid by the Group to members of the corporate boards, in accordance with attachment 3C required by article 78 of the Consob No. 11971 resolution are as follows:

Surname	Name	Office	Period in which office held	Expiry	Emoluments for office	Other renumeration
Caltagirone	Azzurra	Vice Chairman	1.1./12.31.2005	12.31.2005	100,000.00	250,000.00
Delfini	Mario	Director	1.1./12.31.2005	12.31.2005	105,000.00	–
Majore	Albino	Director	1.1./12.31.2005	12.31.2005	5,000.00	921,646.00
Garzilli	Massimo	Director	1.1./12.31.2005	12.31.2005	5,000.00	324,811.00
Muzii	Michele	Director	1.1./12.31.2005	12.31.2005	4,000.00	460,000.00
Nattino	Giampiero	Director	1.1./12.31.2005	12.31.2005	9,000.00	–
Confortini	Massimo	Director	1.1./12.31.2005	12.31.2005	30,000.00	–
Tasco	Giampiero	Chairman Board Stat. Aud.	1.1./12.31.2005	12.31.2005	14,500.00	9,900.00
Schiavone	Carlo	Statutory Auditor	1.1./12.31.2005	12.31.2005	12,000.00	38,088.62
Sica	Mario	Statutory Auditor	1.1./12.31.2005	12.31.2005	12,000.00	–

Rent, lease and similar costs

This account relates to the utilisation of offices for the head office of the company for an amount of euro 322,420 (euro 326,963 at December 31st, 2004).
The offices used by the Company are provided by a company under common control at market rents.

Personnel costs

The total costs at December 31st, 2005 relate to personnel for euro 470,653 (euro 696,970 in 2004), of which euro 214,467 for salaries, euro 38,029 for social security costs, euro 15,249 for employee leaving indemnity and euro 202,908 for consultants.

Amortisation, depreciation and provisions

The account refers to amortisation relating to the costs incurred for the stock exchange quotation.

Financial income and charges

The details of financial income are as follows:

	2005	2004
Investment income		
subsidiary and associated companies	85	–
other companies	39,128,222	–
Interest income subsidiary and associated companies	747,938	1,210,814
Interest income from bank deposits	3,768,518	8,920,437
Exchange gains	6,573,846	–
Financial income	**50,218,609**	**10,131,251**

The investment income in other companies relates to the gain realised on the sale of the shares in Rcs Media Group SpA for euro 37,719,122 as well as the dividend received for euro 1,409,100.
The amount of euro 747,938 for interest income from subsidiaries and associated companies relates to the loans provided to the subsidiaries Piemme SpA (euro 249,830) and Emera SpA (euro 498,108). These loans were fully repaid at the end of the year.
The interest income on bank deposits equal to euro 3,768,518 is representative of the return on the liquidity invested.
The exchange gains equal to euro 6,573,846 relate to the conversion of a foreign currency deposit at the end of the year, of which euro 3,770,408 not realised.
The details of financial charges are as follows:

	2005	2004
Interest payable to subsidiaries	277,230	–
Interest on current accounts	106	17,010
Interest payable to other lenders	238,751	271,724
Bank commissions and charges	243,038	244,399
Losses on exchange	–	2,941,794
Financial charges	**759,125**	**3,474,927**

The interest expense from subsidiaries relates for euro 142,643 to S.E.M. SpA and for euro 134,587 to Finced Srl for interest bearing loans.
The interest to other lenders relates to a loan with Mediocredito Lombardo.
The account Bank commissions and charges includes euro 235,000 for fixed brokerage rights (banks and brokerage firms) relating to operations for the payment of dividends.

Adjustments to the value of financial assets

The write-down of euro 19,521 refers to the covering of losses at December 31st, 2004 of the subsidiary Finced Srl.

Income taxes

The balance of the income taxes, equal to euro 6,528,842, consists of:

- utilisation of deferred tax assets of euro 3,395,163 relating to the write-downs made in previous years;
- utilisation of deferred tax assets on tax losses from previous years of euro 2,766,710;
- recognition of deferred tax assets of euro 1,008,720 relating to the future benefits related to the utilisation of tax losses transferred by subsidiary companies in the tax consolidation;
- deferred tax liability provision of euro 1,244,234 on the exchange differences not realised;
- Irap regional tax current year of euro 131,455.

Reconciliation between theoretical and actual fiscal charge (Ires)

	Assessable	Income taxes	Rate
Pre-tax profit	44,730	14,761	33
Temporary differences assessable in future years	(3,770)	(1,244)	–
Reversal of prior years' temporary differences	(10,297)	(3,398)	–
Temporary differences deductible in future years	110	36	–
Permanent differences	(27,384)	(9,037)	–
Utilisation of previous years tax losses	(3,389)	(1,118)	–
Total	**–**	**–**	

In thousands of euros

Transactions with related parties

In relation to the positions at December 31st, 2005 of the transactions with related parties and already commented upon in the accounts to the financial statements.
The receivables from subsidiaries include non interest bearing shareholder loans granted to Cedfin Srl (euro 11,000,603) and to Caltanet SpA (euro 463,687,223), the transfer of income tax receivables to the subsidiaries Il Mattino SpA, B2WIN SpA and Cedfin Srl, and receivables from Piemme SpA (euro 3,444,688), Finced Srl (euro 70,435) and S.E.M. SpA (euro 296,299) for the tax consolidation. The balance also includes euro 75,188 for invoices to issue for commissions on guarantees given to tax authorities as the parent company to S.E.M. SpA for euro 56,652, to Caltanet SpA for euro 16,969 and to Leggo SpA for euro 1,567.
The payables to subsidiaries amounting to euro 27.631 million principally include an interest bearing loan received from the subsidiary Finced Srl. The balance also includes the tax consolidation for the subsidiaries Il Mattino SpA and Emera SpA.

In the income statement, the account Services includes costs, equal to euro 46 thousand, for the utilisation of IT systems from Vianini Lavori SpA, euro 42 thousand for property services from Mantegna ’87 Srl and euro 65 thousand for the recharge of personnel from Sud Est Scarl.
The account Rent, lease and similar costs includes euro 319 thousand relating to the rental of the head office from Ical SpA, a company under common control.
The amount of euro 748 thousand for Interest income from subsidiaries and associated companies relates to interest on loans at market rates to the companies Piemme SpA (euro 249,830) and Emera SpA (euro 498,108).
The Interest and other financial charges from subsidiaries equal to euro 277,230 relate to interest bearing loans received from the subsidiaries S.E.M. SpA and Finced Srl.
The recourse to internal financing within the Group is due to the reciprocal convenience of these operations compared to those made on the credit market, as this eliminates intermediary margins.
Other transactions were not individually significant.

The present financial statements, comprising the Balance Sheet, Income Statement and Notes, represent the financial situation and balance sheet in a true and fair manner as well as the income statement for the year and correspond to the underlying accounting entries.

CASH FLOW STATEMENT

	12.31.2005	12.31.2004
A. NET SHORT-TERM LIQUIDITY AT BEGINNING OF YEAR	**109,310**	**538,317**
B. CASH FLOW FROM (FOR) OPERATING ACTIVITIES		
Net Profit	38,201	19,051
Amortisation and depreciation	3,226	6,408
(Gains) or Losses	(37,719)	–
(Revaluations) or write-downs of fixed assets	–	4,033
Fiscal adjustment	–	(24,015)
Net changes in the provisions for employee leaving indemnities	(14)	(17)
Operating income before changes in working capital	**3,694**	**5,460**
(Increase) Decrease in current account receivables	(168,436)	(231,534)
Increase (Decrease) in trade payables and other payables	26,791	285
(Increase) Decrease in other working capital items	–	163
	(141,645)	**(231,086)**
	(137,951)	**(225,626)**
C. CASH FLOW FROM (FOR) INVESTING ACTIVITIES		
Investments in fixed assets:		
Intangible	–	(70)
Tangible	(3)	(8)
Financial assets:		
Equity investments	–	(177,277)
Disposals of fixed assets	90,337	–
	90,334	**(177,355)**

	12.31.2005	12.31.2004
D. CASH FLOW FROM (FOR) FINANCING ACTIVITIES		
Distribution of profits and amounts available to the BOD	(25,375)	(24,994)
Repayments of loans, net of the short term portion	(1,128)	(1,032)
	(26,503)	**(26,026)**
E. CASH FLOW FOR THE YEAR (B+C+D)	**(74,120)**	**(429,007)**
F. NET SHORT-TERM LIQUIDITY AT THE END OF THE YEAR (A+E)	**35,190**	**109,310**

In thousands of euros

LIST OF EQUITY INVESTMENTS AT 12.31.2005 AS PER ART. 120 OF LEGS.

(Published in accordance with article 126 of the Consob Resolution 11971 of May 14th, 1999)

COMPANY	HEAD OFFICE	SHARE CAPITAL	CURRENCY
B2WIN SpA	Rome	1,000,000.00	Euro
Caltanet SpA	Rome	5,414,463.00	Euro
Cedfin Srl	Rome	10,200.00	Euro
Corriere Adriatico SpA	Ancona	102,000.00	Euro
Edi.Me. Sport Srl in liquidazione	Naples	10,200.00	Euro
Emera SpA	Rome	2,496,000.00	Euro
Euroqube SA	Belgium	84,861,115.53	Euro
Finced Srl	Rome	10,000.00	Euro
Il Mattino SpA	Rome	500,000.00	Euro
Il Messaggero SpA	Rome	36,900,000,00	Euro
Leggo SpA	Rome	1,000,000.00	Euro
Noisette Servicos de Consultoria Lda	Portugal	5,000,00	Euro
Piemme SpA	Rome	104,000.00	Euro
Quotidiano di Puglia SpA	Rome	1,020,000.00	Euro
S.E.M. Società Editrice Meridionale SpA	Rome	2,481,600.00	Euro
Sviluppo Quotidiani Srl	Rome	45,900.00	Euro

OWNERSHIP		
Held direct	Indirect through	
–	Caltanet SpA	99.000%
	Leggo SpA	1.000%
98.778%	Cedfin Srl	1.222%
99.995%	S.E.M. SpA	0.005%
51.000%	Cedfin Srl	49.000%
–	Il Mattino SpA	99.500%
–	Il Messaggero SpA	100.000%
–	Caltanet SpA	14.820%
99.990%	Cedfin Srl	0.010%
99.999%	Cedfin Srl	0.001%
99.999%	Cedfin Srl	0.001%
90.000%	–	–
–	Cedfin Srl	98.000%
	Leggo SpA	2.000%
–	Il Messaggero SpA	100.000%
85.000%	–	–
0.001%	Emera SpA	99.999%
–	Il Mattino SpA	16.667%

report of the board of statutory auditors

TO THE SHAREHOLDERS' MEETING OF CALTAGIRONE EDITORE IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998 AND ARTICLE 2429, PARAGRAPH 3 OF THE CIVIL CODE

Dear Shareholders,

for the year ended December 31st, 2005, we have performed verifications in compliance with the requirements of law and the regulations issued by Consob relating to supervision controls and the activities of the Board of Statutory Auditors and taking into account the "Principles of conduct for Statutory Auditors" recommended by the Italian Accounting Profession (Consigli nazionali dei Dottori Commercialisti e dei Ragionieri).
In particular, also in accordance with the instructions contained in Consob communication No. DEM/1025564 of April 6th, 2001, the Board of Statutory Auditors report to the shareholders the following:
The Board of Statutory Auditors verified the compliance with law and company by-laws.
During 2005, the Board of Statutory Auditors met 3 times. We attended 5 meetings of the Board of Directors and we received from the Directors, during these meetings, information on the activities undertaken and on the most important economic and financial operations carried out by the company, its subsidiaries and other holdings.
The most important operations of an economic and financial nature undertaken in 2005 are illustrated in sufficient detail and exhaustively described in the directors' report on operations.
As already described in the directors' report on operations, the company sold its entire holding in Rcs Media Group SpA, which resulted in a gain of Euro 37.72 million.
Moreover, the company, in compliance with the Finance Act (Legislative Decree No. 344 of December 12th, 2003), has formalised the "tax consolidation" with Il Mattino SpA and Piemme SpA as a holding company, in relation to the National Consolidation Tax regime for the three year period 2004-2006 and from the year 2005 with Emera SpA, S.E.M. SpA and Finced Srl.
The Board of Statutory Auditors also report to the shareholders that, during the year, the following subsidiaries changed their name:

- Edi.Me. SpA to Il Mattino SpA;
- Sigma Editoriale SpA to Leggo SpA;

- Società Editoriale Adriatica SpA to Corriere Adriatico SpA;
- Il Mattino S.E.M. SpA to S.E.M. Società Editrice Meridionale SpA;
- Alfa Editoriale Srl to Quotidiano di Puglia SpA, also changing its legal form.

In the opinion of the Board of Statutory Auditors, the transactions undertaken are in compliance with law and the company by-laws, were in the interests of the Company and were not imprudent, risk related, in potential conflict of interest, contrary to the deliberations made by the Shareholders' Meeting or such as to compromise the integrity of the company assets.

The Board of Statutory Auditors did not note the existence of atypical or unusual transactions with third parties, group companies or related parties.

In relation to intra-group operations and those with related parties, we note that they were described in full in the directors' report on operations.

The Board noted that there were no transactions contrary to the interests of the Company and/or of the Group or not appropriate, and that the transactions were at normal market conditions.

The disclosures in the directors' report on operations and in the parent company financial statements and consolidated financial statements, concerning the principal intra-group operations and with related parties, are adequate, taking into account the structure of the Company and the Group.

The audit firm KPMG SpA issued, on April 11th, 2006, its report on the parent company and consolidated financial statements which do not report any exceptions.

The Board of Statutory Auditors and the Audit Firm met during the year, for the reciprocal exchange of information and data, in accordance with article 150, paragraph 3 of Legislative Decree No. 58/98. During these meetings, no significant matters arose.

During the year, the Company did not assign other appointments to the audit firm or to parties related to the audit firm.

No critical aspects arose in relation to the independence of the audit firm.

During the year, it was not necessary to convene the shareholders meeting and/or the board of statutory auditors.

The Board reports to the shareholders that no notifications were received as per article 2408 of the civil code nor petitions by shareholders.

The Board of Statutory Auditors did not provide opinions in accordance with law during the year.

The Board also acquired knowledge and supervised, in relation to its responsibilities, the compliance with correct administration principles through the information received from departmental managers and meetings with the head of internal control.

The Board in the same manner acquired knowledge and supervised, in relation to its responsibilities, on the adequacy of the organisation structure of the Company.

The Board reviewed the adequacy of the internal control system and the administrative and accounting system, in addition to the reliability of the latter system to correctly represent operational events. In relation to this, information was received from departmental managers in order to obtain clarifications and further detailed information.

The internal control system, due to the nature of the activities undertaken by the Company and the range of operations undertaken by Caltagirone Editore SpA, both directly and through subsidiary companies, appears adequate and does not require corrective actions.

The Board believes that the Company has given adequate instructions to its subsidiary companies in accordance with article 114 of Legislative Decree No. 58 of 1998.
The Board was also able to exchange information with the corresponding boards of the subsidiaries. In relation to this, no important matters arose.
The Company prepared the consolidated financial statements at December 31st, 2005 in accordance with IAS/IFRS and has developed organisation processes for the preparation, in accordance with these standards, of the parent company financial statements for the year 2006.
In accordance with point 19 of the Technical Regulations in relation to minimum security, Attachment B of the Legislative Decree of June 30th, 2003, No. 196: “Code relating to the protection of personal data”, the Company has prepared the programmed security document.
In conclusion, in relation to the supervision and control activities undertaken, the Board reports that no significant matters arose which require reporting to the supervisory boards or in the present report.
Therefore, in accordance with the above matters, and in accordance with article 153, paragraph 2 of Legislative Decree No. 58/98, the Board expresses a favourable opinion with regard to the proposed approval of the financial statements as at December 31st, 2005 and to the proposals made by the Board of Directors.

The Board of Statutory Auditors

Giampiero Tasco
Carlo Schiavone
Mario Sica

CALTAGIRONE EDITORE

subsidiaries financial statements

assets

	12.31.2005	12.31.2004
A. RECEIVABLES DUE FROM SHAREHOLDERS´ FOR UNPAID CAPITAL	**–**	**–**
B. FIXED ASSETS		
I. Intangible fixed assets		
5) Goodwill	83,543,441	87,175,764
7) Other	215,346	350,202
Total intangible fixed assets	**83,758,787**	**87,525,966**
II. Tangible fixed assets		
1) Land and buildings	336,426	355,222
2) Plant and machinery	687,832	1,080,530
3) Industrial and commercial equipment	14,799	16,185
4) Other fixed assets	1,062,183	1,211,189
Total tangible fixed assets	**2,101,240**	**2,663,126**
III. Financial fixed assets		
1) Equity investments:		
a) subsidiary companies	67,387,862	67,387,862
c) other companies	444,440	444,440
Total equity investments	67,832,302	67,832,302
2) Receivables:		
– due over one year		
d) others	108,189	116,780
Total receivables	108,189	116,780
Total financial fixed assets	**67,940,491**	**67,949,082**
TOTAL B. FIXED ASSETS	**153,800,518**	**158,138,174**

	12.31.2005	12.31.2004
C. CURRENT ASSETS		
I. Inventory		
1) Raw, ancillary and consumable materials	1,763,547	1,614,360
Total inventory	**1,763,547**	**1,614,360**
II. Receivables		
1) Trade receivables:		
– due within one year	1,141,373	3,374,508
2) Subsidiary companies:		
– due within one year	22,774,037	24,929,154
3) Group companies:		
– due within one year	813,653	315,316
4) Holding companies:		
– due within one year	–	1,015,360
4 bis) Taxes receivable:		
– due within one year	1,487,047	1,772,352
4 ter) Deferred tax assets:		
	2,781,854	6,886,187
5) Others:		
– due within one year	240,922	256,743
– due over one year	416,353	558,561
Total others	**657,275**	**815,304**
Total receivables	**29,655,239**	**39,108,181**
III. Current financial fixed assets		
IV. Cash and cash equivalents		
1) Banking and postal deposits	4,272,178	1,051,730
2) Cheques on hand	41,751	–
3) Cash and cash equivalents	1,909	1,193
Total cash and cash equivalents	**4,315,838**	**1,052,923**
TOTAL C. CURRENT ASSETS	**35,734,624**	**41,775,464**
D. PREPAYMENTS AND ACCRUED INCOME	**1,015,970**	**872,653**
TOTAL ASSETS	**190,551,112**	**200,786,291**

In euros

liabilities

	12,31.2005	12.31.2004
A. SHAREHOLDERS´ EQUITY		
I. Share capital	**36,900,000**	**36,900,000**
II. Share premium reserve	**-**	**-**
III. Revaluation reserve	**-**	**-**
IV. Legal reserve	**3,311,698**	**-**
V. Statutory reserves	**-**	**-**
VI. Reserve for treasury shares in portfolio	**-**	**-**
VII.Other reserves	**62,112**	**62,112**
VIII.Retained earnings	**62,922,268**	**-**
IX. Profit for the year	**10,568,484**	**66,903,966**
TOTAL A. SHAREHOLDERS´ EQUITY	**113,764,562**	**103,866,078**
B. PROVISIONS FOR RISKS AND CHARGES		
2) Taxes including deferred tax liabilities	17,319,987	16,595,825
3) Others	3,873,427	3,873,427
TOTAL B. PROVISIONS FOR RISKS AND CHARGES	**21,193,414**	**20,469,252**
C. EMPLOYEE LEAVING INDEMNITY	**20,286,322**	**19,566,436**

	12.31.2005	12.31.2004
D. PAYABLES		
4) Bank payables:		
– due within one year	4,169,723	2,657,237
5) Other lenders:		
– due within one year	534,418	518,098
– due over one year	833,356	1,367,774
Total other lenders	1,367,774	1,885,872
7) Trade payables:		
– due within one year	14,834,253	14,488,372
9) Payables to subsidiary companies:		
– due within one year	34,756	21,499,999
10) Payables to Group companies:		
– due within one year	610,060	2,768,581
12) Tax payables:		
– due within one year	2,662,271	4,910,297
13) Payables to social security institutions:		
– due within one year	3,229,579	3,171,942
14) Other payables:		
– due within one year	8,392,849	5,496,676
– due over one year	5,549	5,549
Total other payables	8,398,398	5,502,225
TOTAL D. PAYABLES	**35,306,814**	**56,884,525**
E. ACCRUALS AND DEFERRED INCOME	**–**	**–**
TOTAL LIABILITIES	**190,551,112**	**200,786,291**
MEMORANDUM ACCOUNTS		
Guarantees given (direct or indirect) in favour of third parties:		
– sureties given in favour of third parties	10,123	132,781
– pledges to Inst. Bancario di Napoli	25,822,845	25,822,845
Sureties received:		
– from third parties	61,975	61,975
Assets held by third parties:		
– paper in deposit at warehouses and printers	1	1
– equipment at printers	1	1
TOTAL MEMORANDUM ACCOUNTS	**25,894,945**	**26,017,603**

In euros

I L M E S S A G G E R O S P A

income statement

	2005	2004
A. VALUE OF PRODUCTION		
1) Revenues from sales and supply of services	136,694,005	138,764,191
5) Other revenues and income, with separate indication of quota of grants:		
– Other revenues	1,586,585	2,786,029
– Operating grants	1,228,883	1,214,356
Total other revenues and income	2,815,468	4,000,385
TOTAL A. VALUE OF PRODUCTION	**139,509,473**	**142,764,576**
B. COSTS OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods	(16,405,479)	(15,527,985)
7) Cost of services	(38,008,510)	(39,198,574)
8) Rents, leases and similar costs	(11,431,767)	(11,666,537)
9) Personnel costs:		
a) salaries and wages	(29,725,525)	(29,304,720)
b) social security charges	(9,901,958)	(9,311,685)
c) employee leaving indemnity	(2,561,375)	(2,455,161)
e) other costs	(2,200,038)	(1,720,283)
Total personnel	(44,388,896)	(42,791,849)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(3,876,662)	(3,928,221)
b) depreciation of tangible assets	(879,411)	(831,958)
Total amortisation, depreciation and write-downs	(4,756,073)	(4,760,179)
11) Changes in raw materials, supplies and consumable stores	149,187	(126,213)
14) Other operating costs	(4,370,047)	(850,579)
TOTAL B. COSTS OF PRODUCTION	**(119,211.585)**	**(114,921,916)**
DIFFERENCE (A-B) BETWEEN VALUE AND COST OF PRODUCTION	**20,297,888**	**27,842,660**

	2005	2004
C. FINANCIAL INCOME AND CHARGES		
16) Other financial income:		
d) income other than the above:		
1) subsidiaries	10,835	–
2) group companies	–	4,153
4) other	48,391	17,648
Total other financial income	59,226	21,801
17) Interest and other financial charges:		
a) subsidiaries	(123,199)	(123,696)
b) group companies	(83,249)	(250,408)
c) parent companies	–	(338,178)
d) other	(247,914)	(371,599)
Total interest and other financial charges	(454,362)	(1,083,881)
17 bis) Foreign exchange gains and losses	(287)	(346)
TOTAL C. FINANCIAL INCOME AND CHARGES	**(395,423)**	**(1,062,426)**
D. ADJUSTMENT TO FINANCIAL ASSETS	**–**	**–**
E. EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
a) gains on disposals	38,000	15,919
b) other extraordinary income	304,963	67,408,884
Total income	342,963	67,424,803
21) Expenses:		
a) losses on asset sales	–	(1,184)
b) taxes relating to prior years	(446,054)	(13,530,405)
c) other extraordinary charges	–	(2,469,082)
Total expenses	(446,054)	(16,000,671)
TOTAL E. EXTRAORDINARY INCOME AND CHARGES	**(103,091)**	**51,424,132**
PROFIT BEFORE TAXES	**19,799,374**	**78,204,366**
20) Income taxes		
a) current taxes	(4,080,685)	(2,825,000)
b) deferred tax charge	–	(8,790,422)
c) deferred tax income	(5,150,205)	315,022
Total income taxes	(9,230,890)	(11,300,400)
NET PROFIT/(LOSS) FOR THE YEAR	**10,568,484**	**66,903,966**

In euros

assets

	12.31.2005	12.31.2004
A. RECEIVABLES DUE FROM SHAREHOLDERS´ FOR UNPAID CAPITAL	**–**	**–**
B. FIXED ASSETS		
I. Intangible fixed assets		
7) Other	264,473	169,452
Total intangible fixed assets	**264,473**	**169,452**
II. Tangible fixed assets		
4) other assets	495,220	562,946
Total tangible fixed assets	**495,220**	**562,946**
TOTAL B. FIXED ASSETS	**759,693**	**732,398**

	12.31.2005	12.31.2004
C. CURRENT ASSETS		
II. Receivable		
1) Trade receivables:		
– due within 12 months	71,344,652	75,595,180
3) Group companies:		
– due within 12 months	92,247	42,211
4) Holding companies:		
– due within 12 months	43,996	373,821
4-bis) Tax receivables	1,000,000	–
4-ter) Deferred tax assets	2,675,101	2,534,904
5) Others		
– due within 12 months	127,002	66,348
– due beyond 12 months	181,968	204,596
Total others	308,970	270,944
Total receivable	**75,464,966**	**78,817,060**
IV. Cash and cash equivalents		
1) Cash at bank and post office	333,820	119,518
3) Cash and cash equivalents	313,493	242,299
Total cash and cash equivalents	**647,313**	**361,817**
TOTAL C. CURRENT ASSETS	**76,112,279**	**79,178,877**
D. PREPAYMENTS AND ACCRUED INCOME	**332,049**	**374,092**
TOTAL ASSETS	**77,204,021**	**80,285,367**

In euros

P I E M M E   S P A

liabilities

	12.31.2005	12.31.2004
A. SHAREHOLDERS´ EQUITY		
I. Share capital	**104,000**	**104,000**
II. Share premium reserve	**–**	**–**
III. Revaluation reserve	**–**	**–**
IV. Legal reserve	**20,800**	**20,800**
V. Statutory reserves	**–**	**–**
VI. Reserve for treasury shares in portfolio	**–**	**–**
VII.Other reserves	**–**	**–**
VIII.Retained earnings	**5,262,975**	**984,191**
IX. Profit for the year	**5,441,805**	**4,278,783**
TOTAL A. SHAREHOLDERS´ EQUITY	**10,829,580**	**5,387,774**
B. PROVISIONS FOR RISKS AND CHARGES		
3) Other	558,797	494,741
TOTAL B. PROVISIONS FOR RISKS AND CHARGES	**558,797**	**494,741**
C. EMPLOYEE LEAVING INDEMNITY	**3,767,879**	**3,442,369**

	12.31.2005	12.31.2004
D. PAYABLES		
3) Bank payables:		
– due within one year	655,922	2,166,953
6) Trade payables:		
– due within one year	5,428,542	5,391,116
9) Group companies:		
– due within one year	22,823,708	16,367,336
10) Holding companies :		
– due within one year	26,218,724	39,600,614
11) Tax authorities :		
– due within one year	2,962,842	3,493,716
12) Payables to social security institutions:		
– due within one year	597,743	592,256
13) Other payables:		
– due within one year	2,189,741	2,313,798
TOTAL D. PAYABLES	**60,877,222**	**69,925,789**
E. ACCRUALS AND DEFERRED INCOME	**1,170,543**	**1,034,694**
TOTAL LIABILITIES	**77,204,021**	**80,285,367**
MEMORANDUM ACCOUNTS		
3) Commitments, risks and other memorandum accounts:		
c) Secured guarantees to third parties	94,888	53,248
f) Other		
– discounting effects	1,637,880	599,983
TOTAL MEMORANDUM ACCOUNTS	**1,732,768**	**653,231**

In euros

P I E M M E   S P A

income statement

	2005	2004
A. VALUE OF PRODUCTION		
1) Revenues from sales and supply of services	173,796,895	172,657,357
5) Other revenues and income	1,344,713	1,292,415
TOTAL A. VALUE OF PRODUCTION	**175,141,608**	**173,949,772**
B. COSTS OF PRODUCTION		
6) Purchase advertising space:	(135,838,372)	(134,934,724)
7) Services:	(16,314,953)	(16,299,065)
8) Rent, lease and similar costs:	(1,408,088)	(1,411,391)
9) Personnel costs:		
a) salaries and wages	(5,908,830)	(6,057,865)
b) social security contributions	(1,936,607)	(1,797,711)
c) employee leaving indemnity	(526,252)	(505,502)
Total personnel costs	(8,371,689)	(8,361,078)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible assets	(159,584)	(361,226)
b) depreciation of tangible assets	(233,212)	(289,125)
d) write down of current assets	(2,405,000)	(2,405,000)
Total amortisation, depreciation and write-downs	(2,797,796)	(3,055,351)
14) Other operating costs	(76,212)	(64,668)
TOTAL B. COSTS OF PRODUCTION	**(164,807,110)**	**(164,126,277)**
DIFFERENCE (A-B) BETWEEN VALUE AND COSTS OF PRODUCTION	**10,334,498**	**9,823,495**

	2005	2004
C. FINANCIAL INCOME AND CHARGES		
16) Other financial income:		
d) income other than above :		
– other	89,200	198,808
Total other financial income	89,200	198,808
17) Interest and other financial charges from:		
c) group companies	(43,062)	(5,991)
d) holding companies	(249,830)	(377,438)
e) other	(321,178)	(296,921)
Total interest and other financial charges	(614,070)	(680,350)
TOTAL C. FINANCIAL INCOME AND CHARGES	**(524,870)**	**(481,542)**
D. ADJUSTMENT TO FINANCIAL ASSETS	**–**	**–**
E. EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
a) gains on disposals	–	225
b) other extraordinary income	112,878	33,143
Total income	112,878	33,368
21) Charges:		
a) losses on asset sales	(61,973)	(3,252)
b) taxes relating to prior years	(47,398)	–
c) other extraordinary charges	(28,953)	(40,283)
Total charges	(138,324)	(43,535)
TOTAL E. EXTRAORDINARY INCOME AND CHARGES	**(25,446)**	**(10,167)**
PROFIT BEFORE TAXES	**9,784,182**	**9,331,786**
22) Income taxes:		
a) current taxes	(4,416,658)	(5,162,784)
b) deferred tax income	74,281	109,781
Total income taxes	(4,342,377)	(5,053,003)
NET PROFIT FOR THE YEAR	**5,441,805**	**4,278,783**

In euros

assets

	12.31.2005	12.31.2004
A. RECEIVABLES DUE FROM SHAREHOLDERS´ FOR UNPAID CAPITAL	**–**	**–**
B. FIXED ASSETS		
I. Intangible fixed assets		
1) Research, development and advertising costs	12,123	24,552
2) Concessions, licences, trademarks and similar rights	95,033	57,122
4) Newspaper titles	43,018,150	44,500,000
Total intangible fixed assets	**43,125,306**	**44,581,674**
II. Tangible fixed assets		
1) Land and buildings	7,868,576	8,122,325
2) Plant and machinery	10,782,379	12,815,624
3) Industrial and commercial equipment	2,266	2,542
4) Other fixed assets	688,897	517,351
Total tangible fixed assets	**19,342,118**	**21,457,842**
III. Financial fixed assets		
1) Equity investments		
a) subsidiary companies	1,163	7,288
d) other companies	371,751	371,808
Total equity investments	372,914	379,096
2) Receivables		
– payable over one year		
a) subsidiary companies	12,914	12,914
Total receivables	12,914	12,914
Total financial fixed assets	**385,828**	**392,010**
TOTAL B. FIXED ASSETS	**62,853,252**	**66,431,526**

	12.31.2005	12.31.2004
C. CURRENT ASSETS		
I. Inventories		
1) Raw, ancillary and consumable materials	662,340	913,288
Total inventories	**662,340**	**913,288**
II. Receivable		
1) Trade receivables:		
– due within one year	1,579,816	2,059,095
– due over one year	621	621
Total trade receivables	1,580,437	2,059,716
2) Holding companies:		
– due within one year	1,077,888	369,528
3) Group companies:		
– due within one year	9,908,040	10,212,517
4 bis) Tax receivables:		
– due within one year	5,543,664	15,979,014
– due over one year	447,541	559,696
4 ter) Deferred tax assets	776,000	847,000
5) Others:		
– due within one year	188,375	139,681
– due over one year	54,901	35,040
Total others	243,276	174,721
Total receivable	**19,576,846**	**30,202,192**
IV. Cash and cash equivalents		
1) Banking and postal deposits	59,620	208,729
Total cash and cash equivalents	**59,620**	**208,729**
TOTAL C. CURRENT ASSETS	**20,298,806**	**31,324,209**
D. PREPAYMENTS AND ACCRUED INCOME	**333,626**	**255,066**
TOTAL ASSETS	**83,485,684**	**98,010,801**

In euros

I L M A T T I N O S P A

liabilities

	12.31.2005	31.12.2004
A. SHAREHOLDERS´ EQUITY		
I. Share capital	**500,000**	**500,000**
II. Share premium reserve	**–**	**–**
III. Revaluation reserve	**2,711,834**	**2,711,834**
IV. Legal reserve	**107,681**	**107,681**
V. Statutory reserves	**–**	**–**
VI. Reserve for treasury shares in portfolio	**–**	**–**
VII.Other reserves	**10,642,334**	**10,642,334**
VIII.Accumulated losses	**(173,777)**	**(1,472,713)**
IX. Profit for the year	**755,789**	**1,298,936**
TOTAL A. SHAREHOLDERS´ EQUITY	**14,543,861**	**13,788,072**
B. PROVISIONS FOR RISKS AND CHARGES		
1) Provision for risks	2,763,000	2,110,740
2) Taxes including deferred tax liabilities	1,900,900	1,658,000
TOTAL B. PROVISIONS FOR RISKS AND CHARGES	**4,663,900**	**3,768,740**
C. EMPLOYEE LEAVING INDEMNITY	**12,411,337**	**11,827,948**

	12.31.2005	12.31.2004
D. PAYABLES		
4) Bank payables:		
– due within one year	3,466,477	5,081,406
5) Other lenders:		
– due within one year	952,443	911,612
– due over one year	5,441,647	6,394,091
Total other lenders	**6,394,090**	**7,305,703**
7) Trade payables:		
– due within one year	5,468,696	5,174,924
11) Subsidiaries:		
– due within one year	221,328	31,328
12) Tax payables:		
– due within one year	1,045,621	1,039,047
13) Payables to social security institutions:		
– due within one year	1,056,295	1,136,612
14) Other payables:		
– due within one year	3,528,416	3,601,033
15) Group companies		
– due within one year	691,103	39,779
– due over one year	26,085,000	40,635,000
Total Group companies	**26,776,103**	**40,674,779**
TOTAL D. PAYABLES	**47,957,026**	**64,044,832**
E. ACCRUALS AND DEFERRED INCOME	**3,909,560**	**4,581,209**
TOTAL LIABILITIES	**83,485,684**	**98,010,801**
MEMORANDUM ACCOUNTS		
Guarantees given (direct or indirect) in favour of third parties:		
- mortgage on new building	10,123	17,172,190
- sureties given in favour of third parties	25,822,845	1,904,774
Sureties received		
– from third parties	61,975	1,522,094
TOTAL MEMORANDUM ACCOUNTS	**25,894,943**	**20,599,058**

In euros

income statement

	2005	2004
A. VALUE OF PRODUCTION		
1) Revenues from sales and supply of services	52,342,394	54,918,073
5) Other revenues and income, with separate indication of quota of grants:		
a) other revenues	295,000	337,123
b) operating grants	1,324,876	1,400,363
Total other revenues and income	1,619,876	1,737,486
TOTAL A. VALUE OF PRODUCTION	**53,962,270**	**56,655,559**
B. COSTS OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods	(6,079,739)	(7,296,942)
7) Cost of services	(15,030,206)	(15,156,806)
8) Rents, leases and similar costs	(853,484)	(3,829,454)
9) Personnel costs:		
a) salaries and wages	(15,522,766)	(15,286,845)
b) social security charges	(5,266,779)	(5,225,911)
c) employee leaving indemnity	(1,278,419)	(1,257,163)
e) other costs	(516,897)	(353,935)
Total personnel costs	(22,584,861)	(22,123,854)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(1,565,424)	(187,145)
b) depreciation of tangible assets	(3,340,768)	(3,259,547)
d) write-down of current asset accounts	–	(63,930)
Total amortisation, depreciation and write-downs	(4,906,192)	(3,510,622)
11) Changes in raw materials, supplies and consumable stores	(250,948)	527,665
12) Other provisions	(58,367)	(1,026,329)
14) Other operating costs	(444,270)	(464,378)
TOTAL B. COSTS OF PRODUCTION	**(50,208,067)**	**(52,880,720)**
DIFFERENCE (A-B) BETWEEN VALUE AND COSTS OF PRODUCTION	**3,754,203**	**3,774,839**

	2005	2004
C. FINANCIAL INCOME AND CHARGES		
16) Other financial income		
d) Income over than the above:		
3) group companies	–	204,786
4) other	83,484	151,314
Total other financial income	83,484	356,100
17) Interest and other financial charges:		
1) group companies	(656,823)	(21,831)
2) holding companies	–	(31,328)
4) other	(412,648)	(392,932)
Total interest and other financial charges	(1,069,471)	(446,091)
TOTAL C. FINANCIAL INCOME AND CHARGES	**(985,987)**	**(89,991)**
D. ADJUSTMENT TO FINANCIAL ASSETS		
19) Write-downs:		
a) of equity investments	(6,182)	–
Total write-downs	(6,182)	–
TOTAL D. ADJUSTMENT TO FINANCIAL ASSETS	**(6,182)**	**–**
E. EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
a) gains on disposals	–	1,210
b) other extraordinary income	318,730	466,837
Total income	318,730	468,047
21) Charges:		
a) losses on asset sales	–	(18,395)
c) other extraordinary charges	(302,269)	(469,628)
Total charges	(302,269)	(488,023)
TOTAL E. EXTRAORDINARY INCOME AND CHARGES	**16,461**	**(19,976)**
PROFIT BEFORE TAXES	**2,778,495**	**3,664,872**
22) Income taxes:		
a) current taxes	(1,036,061)	(929,464)
b) deferred tax charge	(1,105,000)	(1,645,000)
c) deferred tax income	118,355	208,528
Total income taxes	(2,022,706)	(2,365,936)
NET PROFIT FOR THE YEAR	**755,789**	**1,298,936**

In euros

assets

	12.31.2005	12.31.2004
A. RECEIVABLES DUE FROM SHAREHOLDERS´ FOR UNPAID CAPITAL	**–**	**–**
B. FIXED ASSETS		
I. Intangible fixed assets		
1) Formation, start-up and similar costs	–	421
2) Research, development and advertising costs	34,116	136,412
5) Goodwill	5,845	7,014
7) Other	126,184	162,834
Total intangible fixed assets	**166,145**	**306,681**
II. Tangible fixed assets		
2) Plant and machinery	21,290	20,545
3) Industrial and commercial equipment	63,233	78,186
4) Other fixed assets	90,511	127,283
Total tangible fixed assets	**175,034**	**226,014**
III. Financial fixed assets		
1) Equity investments:		
b) group companies	10,000	10,000
Total equity investments	10,000	10,000
2) Receivables:		
d) other		
– due over one year	1,801	875
Total receivables	1,801	875
Total financial fixed assets	**11,801**	**10,875**
TOTAL B. FIXED ASSETS	**352,980**	**543,570**

	12.31.2005	12.31.2004
C. CURRENT ASSETS		
II. Receivables		
1) Trade receivables:		
– due within one year	50,134	84,396
3) Group companies:		
– due within one year	6,622,654	4,712,993
4) Holding companies:		
– due within one year	–	139,099
4 bis) Taxes receivable:		
– due within one year	130,476	237,991
5) Others:		
– due within one year	90,033	42,988
Total receivables	**6,893,297**	**5,217,467**
IV. Cash and cash equivalents		
1) Banking and postal deposits	8,034	246,619
3) Cash and cash equivalents	1,260	1,543
Total Cash and cash equivalents	**9,294**	**248,162**
TOTAL C. CURRENT ASSETS	**6,902,591**	**5,465,629**
D. PREPAYMENTS AND ACCRUED INCOME	**36,793**	**309,823**
TOTAL ASSETS	**7,292,364**	**6,319.022**

In euros

L E G G O   S P A

liabilities

	12.31.2005	12.31.2004
A. SHAREHOLDERS´ EQUITY		
I. Share capital	1,000,000	1,000,000
II. Share premium reserve	–	–
III. Revaluation reserve	–	–
IV. Legal reserve	64,187	–
V. Statutory reserves	–	–
VI. Reserve for treasury shares in portfolio	–	–
VII.Other reserves	–	–
VIII.Retained earnings	974,936	(244,627)
IX. Profit for the year	284,438	1,283,750
TOTAL A. SHAREHOLDERS´ EQUITY	2,323,561	2,039,123
B. PROVISIONS FOR RISKS AND CHARGES	–	–
C. EMPLOYEE LEAVING INDEMNITY	380,198	282,437

	12.31.2005	12.31.2004
D. PAYABLES		
4) Bank payables:		
– due within one year	363,179	1,087
7) Trade payables:		
– due within one year	3,057,534	3,337,826
11) Subsidiaries:		
– due within one year	1,567	1,567
12) Tax payables:		
– due within one year	135,974	259,843
13) Payables to social security institutions:		
– due within one year	122,357	100,896
14) Other payables:		
– due within one year	45,938	36,528
15) Group companies:		
– due within one year	862,056	259,715
TOTAL D. PAYABLES	**4,588,605**	**3,997,462**
E. ACCRUALS AND DEFERRED INCOME	**–**	**–**
TOTAL LIABILITIES	**7,292,364**	**6,319,022**

In euros

L E G G O   S P A

income statement

	2005	2004
A. VALUE OF PRODUCTION		
1) Revenues from sales and supply of services	19,014,352	16,821,124
5) Other revenues and income, with separate indication of quota of grants		
– Other revenues	394,512	187,384
– Operating grants	80,322	93,123
Total other revenues and income	474,834	280,507
TOTAL A. VALUE OF PRODUCTION	**19,489,186**	**17,101,631**
B. COSTS OF PRODUCTION		
6) Raw, ancillary and consumable materials and goods	(3,787,002)	(3,338,459)
7) Cost of services	(11,126,006)	(10,386,764)
8) Rents, lease and similar costs	(1,789,768)	(1,647,635)
9) Personnel costs:		
a) salaries and wages	(1,488,796)	(1,382,754)
b) social security charges	(407,687)	(359,681)
c) employee leaving indemnity	(120,157)	(107,775)
e) other costs	(38,752)	(31,858)
Total personnel costs	(2,055,392)	(1,882,068)
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(143,474)	(149,253)
b) depreciation of tangible assets	(122,277)	(141,518)
Total amortisation, depreciation and write-downs	(265,751)	(290,771)
14) Other operating costs	(54,506)	(110,540)
TOTAL B. COSTS OF PRODUCTION	**(19,078,425)**	**(17,656,237)**
DIFFERENCE (A-B) BETWEEN VALUE AND COST OF PRODUCTION	**410,761**	**(554,606)**

	2005	2004
C. FINANCIAL INCOME AND CHARGES		
15) Investment income:		
c) other	–	2,050,116
Total investment income	**–**	**2,050,116**
16) Other financial income:		
a) from securities classified under fixed assets:		
2) group companies	36,606	16,699
4) other	326	–
d) income other than the above::		
4) other	–	1.420
Total other financial income	**36,932**	**18.119**
17) Interest and other financial charges:		
b) group companies	–	(4,153)
c) holding companies	(1,567)	(116,893)
d) other	(15,165)	(11,515)
Total interest and other financial charges	**(16,732)**	**(132,561)**
TOTAL C. FINANCIAL INCOME AND CHARGES	**20,200**	**1,935,674**
D. ADJUSTMENT TO FINANCIAL ASSETS	**–**	**–**
E. EXTRAORDINARY INCOME AND CHARGES		
20) Income:		
d) other extraordinary income	303	–
Total income	**303**	**–**
21) Charges:		
d) other extraordinary charges	(28,526)	(27,318)
Total charges	**(28,526)**	**(27,318)**
TOTAL E. EXTRAORDINARY INCOME AND CHARGES	**(28,223)**	**(27,318)**
PROFIT BEFORE TAXES	**402,738**	**1,353,750**
22) Income taxes		
a) current taxes	(118,300)	(70,000)
Total income taxes	**(118,300)**	**(70,000)**
NET PROFIT FOR THE YEAR	**284,438**	**1,283,750**

In euros

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