Equity Research

Europe

Italy
Media

1 November 2002

HdP

Media is the name of the game

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Deutsche Bank

Italy
Media

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HdP

Media is the name of the game

Rating Initiated
Buy

Price as at 30 October 2002
EURO 2.10

Target Price
EURO 2.74

Ticker/Code
HPI.MI

Year end 31 Dec	Sales (Euro m)	EBITDA (Euro m)	EBITA (Euro m)	Net Profit	EPS Adj.	P/E (x)	EV/EBITDA	P/NAV
2001	3,357.2	116.2	17.0	-60.6	n.m.	n.m.	19.1	1.48
2002E	3,180.0	119.1	59.8	2.3	0.00	n.m.	15.4	0.79
2003E	3,294.5	183.8	120.5	59.0	0.08	26.6	15.3	n.a.
2003E	3,401.2	208.9	143.8	69.7	0.09	19.8	12.6	n.a.

Shares outstanding (m)	**760.6**	Float (%)	**53.9**
52-week High/Low:	**Euro 5.46/Euro 1.73**	Market Cap: (Euro m)	**35**

On 25 October 2002 the HdP (the holding company) and RCS Editori (publishing group) Boards of Directors announced the merger of the two corporate structures. The new HdP/RCS Group, which we expect to be called Rizzoli, will be a full operating company concentrated solely on the media business. As a consequence we think that the so-called "holding company discount" is no longer justified. We initiate our coverage on the stock with a BUY recommendation and target price of Euro 2.74 per share, indicating upside potential of 30%.

- Even if we apply a 10% holding discount, due to the fact that the disposal of the fashion business is not yet fully complete, we obtain an NAV per ordinary share of Euro 2.46, still 17% above current levels.

- We undertaken a detailed divisional analysis of RCS, which for this company we believe to be unique in the market, in order to arrive at our valuation. We believe the most appropriate valuation methodology is discounted cashflow as it takes into account projected significant margin improvements, which are only partially captured within a sum-of-the-parts valuation. Our discounted cashflow analysis implies a fair value for RCS of Euro 1,431.8m (Euro 1.70 per ordinary share, or 70% of our implied group valuation).

- The new "Rizzoli" entity will be Italy's biggest listed publishing company with five main business units: newspapers, magazines, advertising, books and radio.

- Targeted savings of Euro 47.2m (just 2% sales) are expected to be achieved by 2005 in the Italian operations alone. We believe these targets to be readily achievable as they simply reflect the elimination of duplicate corporate functions and management layers across the entire group. We forecast that RCS can achieve EBITDA of Euro 169.7m in 2005 (as against Euro 105m in 2001), reaching an EBITDA margin of 7% as against a stated management target of 8%.

- In our opinion there could be further scope for cost saving in the international operations "estimated at Euro 30m" which we have currently excluded from our valuation. This could add a further Euro 0.25 "or around 10%" to our base case valuation.

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Deutsche Bank AG

HDP

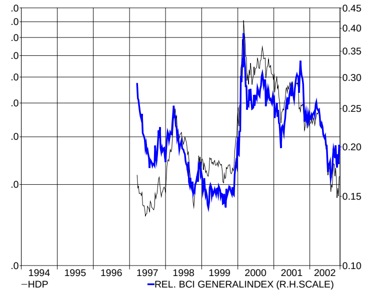
31-Dec

Media Buy | **EUR 2.1**

Per Share Data	1997	1998	1999	2000	2001	2002E	2003E
EPS (Before Amort. of Goodwill)	0.2	0.1	0.1	0.1	-0.1	0.0	0.1
Goodwill per Share	0.0	0.1	0.1	0.1	0.1	0.0	0.0
CEPS	0.6	0.2	0.2	0.2	0.1	0.1	0.2
Net DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	1.5	1.8	1.8	1.8	1.5	1.5	1.4
Valuation							
P / E (x)	9.1	23.6	28.4	69.9	nm	676.4	26.6
P / CE (x)	3.2	10.5	9.8	23.0	34.4	22.4	10.0
Yield (%)	1.7	1.1	1.7	0.7	0.0	0.0	0.0
P / BV (x)	1.2	1.5	1.3	3.0	2.7	1.4	1.4
EV / Sales (%)	39.0	52.0	49.4	106.2	84.3	58.6	55.6
EV / Adj. EBDIT (x)	5.7	26.0	8.5	20.1	32.3	19.9	11.7
EV / EBITn (x)	6.3	38.0	9.0	22.5	41.7	24.9	13.3
EV / Adj. EBIT (x)	7.9	nm	14.7	33.9	114.2	51.2	19.0
EV / EBI (x)	8.1	nm	nm	425.0	nm	nm	33.6
EV / Free Cash Flow (x)	nm	11.7	nm	73.9	46.0	36.3	25.7
EV / Capital Employed (x)	0.9	1.0	0.9	2.0	1.4	0.9	0.9
Avg. Adjusted No. of Shares (m)	760.6	760.6	760.6	760.6	760.6	760.6	760.6
Avg. Market Cap. (m)	1,352	1,999	1,799	4,103	3,099	1,571	1,571
Enterprise Value (m)	1,332	1,654	1,558	3,567	2,829	1,864	1,833

The share price used for the market cap. and valuations is the average over that financial year, except in the current year and afterwards.

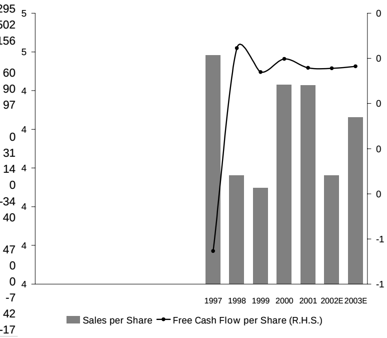
Price and Price Relative



Rel. Perf.: -1m: 2.4% -3m: 12.9% -12m: -22.5%

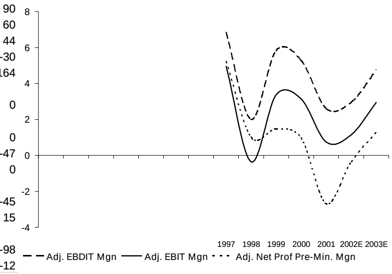
P&L (EUR m)	1997	1998	1999	2000	2001	2002E	2003E
Turnover	3,416	3,180	3,155	3,358	3,357	3,180	3,295
Personnel Costs	553	583	572	574	586	523	502
Adjusted EBDIT	233	64	184	177	87	94	156
Depreciation	64	75	77	72	63	58	60
EBIT	161	-20	97	97	17	29	90
Adjusted EBIT	169	-11	106	105	25	36	97
Net Interest Result	0	0	0	0	0	0	0
Amortisation of Goodwill	25	40	44	41	50	30	31
Associates (Reported Pre-Tax)	39	38	16	-8	1	6	14
Other Financial Items	0	0	0	0	0	0	0
Exceptional Items (Reported Pre-T	-9	113	100	82	-128	32	-34
Pre-Tax Profit	166	91	169	131	-160	36	40
Income Tax	18	36	112	94	51	60	47
Associates (Reported Post-Tax)	0	0	0	0	0	0	0
Exceptional Items (Reported Post-	0	0	0	0	0	0	0
Stated Net Profit Pre-Min.	148	54	58	37	-210	-24	-7
Adj. Net Profit Pre-Min.	178	32	47	32	-90	-11	42
Minorities	30	-53	-17	-27	-30	-13	-17

Sales and Free Cash Flow per Share



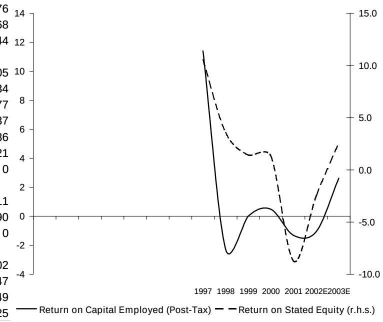
Cash Flow (EUR m)	1997	1998	1999	2000	2001	2002E	2003E
EBIT	161	-20	97	97	17	29	90
Depreciation	64	75	77	72	63	58	60
Increase (+) Decrease (-) in Provis	210	45	54	56	99	17	44
Increase (-) Decrease(+) in NWC	-852	149	-79	-5	30	47	-30
Operating Cash Flow	-416	249	150	220	209	150	164
Proceeds from Share Issues	1,065	98	15	5	12	-0	0
Interest Paid (-) Received (+)	0	0	0	0	0	0	0
Tax Paid	-18	-36	-112	-94	-51	-60	-47
Dividends Paid	0	-23	-23	-31	-31	0	0
Capex	-89	-72	-53	-78	-97	-39	-45
Net Other Investments	0	-11	42	453	1	80	15
Other Cash Flow Related Items	413	-341	-30	-704	-229	-69	-98
Change in Net Debt (-) Cash (+)	956	-136	-11	-228	-185	62	-12

Margin Trends (%)



Balance Sheet (EUR m)	1997	1998	1999	2000	2001	2002E	2003E
Net Working Capital	852	702	781	893	893	846	876
of which Inventories	513	439	438	448	474	459	468
Net Financial Debt (-) Cash (+)	-34	-169	-181	-409	-594	-532	-544
Gross Tangible Fixed Assets	817	866	895	661	733	723	705
Net Tangible Fixed Assets	409	402	395	290	333	339	334
Goodwill	63	309	288	390	538	508	477
Gross Depreciable Intangible Fixe	209	227	170	98	113	131	137
Net Depreciable Intangible Fixed A	26	32	26	26	41	67	86
Participations & Associates	328	482	507	628	432	336	321
Other LT Assets	0	0	0	0	0	0	0
Pension Provisions	134	142	147	132	130	116	111
Other Long-Term Provisions	178	186	209	233	296	280	290
Other LT Liabilities	0	0	0	0	0	0	0
Stated Shareholder's Equity	1,171	1,334	1,376	1,390	1,139	1,104	1,102
Minorities	160	97	84	62	77	64	47
Total Net Worth	1,331	1,430	1,460	1,452	1,216	1,168	1,149
S'holder's Equity After G-will Wri	1,108	1,025	1,087	1,000	601	596	625

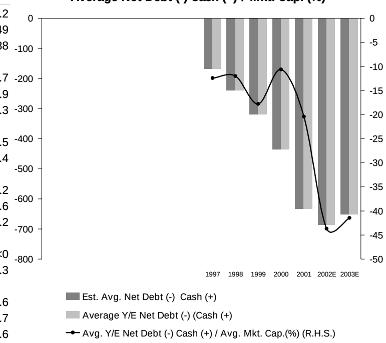
Returns on Capital (%)



Key Ratios	1997	1998	1999	2000	2001	2002E	2003E
Personnel Costs / Sales	16.2	18.3	18.1	17.1	17.4	16.5	15.2
Headcount (Average of the Year)	12568	12740	12696	11983	11059	10849	10849
Value Added / Employee in EUR	62603	50765	59538	62670	60863	56878	60688
Adj. EBDIT Mgn	6.8	2.0	5.8	5.3	2.6	3.0	4.7
Adj. EBIT Mgn	5.0	-0.4	3.4	3.1	0.7	1.1	2.9
Adj. Net Prof. Pre-Min. Mgn	5.2	1.0	1.5	1.0	-2.7	-0.3	1.3
Depreciation / Sales	1.7	2.0	2.1	1.9	1.6	1.5	1.5
Capex / Sales	2.6	2.2	1.7	2.3	2.9	1.2	1.4
Inventories / Sales	15.0	13.8	13.9	13.3	14.1	14.4	14.2
Net Working Capital / Sales	24.9	22.1	24.8	26.6	26.6	26.6	26.6
Free Cash-Flow / Sales (Post-Tax)	-15.3	4.4	-0.5	1.4	1.8	1.6	2.2
Interest Cover (x)	<0	<0	<0	<0	<0	<0	<0
Net Debt (-) Cash (+) / Equity	-2.5	-11.8	-12.4	-28.2	-48.9	-45.6	-47.3
Return on Stated Equity	10.5	3.6	1.4	1.3	-8.7	-2.5	2.6
Return on Adjusted Equity	13.4	7.9	6.0	5.6	-7.6	0.4	9.7
Return on Cap. Employed (Post-Ta	11.4	-2.3	0.0	0.5	-1.3	-1.1	2.6
Average Age of Tangible Fixed As	7.1	7.2	7.4	5.9	7.5	8.0	7.4

Source: Company Data, Deutsche Bank Estimates.

Average Net Debt (-) Cash (+) / Mkt. Cap. (%)



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Updated: 29-Oct-02

Investment case

On 25 October 2002 HdP's (the holding company) and RCS Editori's (publishing group) Boards of Directors announced the merger of the two corporate structures, making the new HdP/RCS Group, that we expect to be called Rizzoli, a full operating company focused on the media business. As a consequence we think that the so-called "holding company discount" is no longer justified. We initiate our coverage on the stock with a BUY recommendation and target price of Euro 2.74 per share, indicating potential upside of 30%. Even if we apply a 10% holding discount, due to the fact that disposal of the fashion business has yet to be completed, we obtain a NAV per ordinary share of Euro 2.46, still 17% above current levels.

HdP was created in March 1997 as a holding company operating in three main business areas: media (RCS), luxury goods (GFT NET) and sportswear (Fila). In early 2001, due to rising losses within its fashion activities, pressure from HdP's main shareholders precipitated a change in strategic focus – namely for HdP to become a pure multimedia company, disposing of all the fashion businesses. This refocusing process has now almost come to an end with only two assets, Fila and Joseph Abboud, left to be sold.

The new "Rizzoli" entity will be Italy's biggest listed publishing company with five main business units: newspapers, magazines, advertising, books and radio. Three top managers will run the group: Mr. Franco Tatò, the chairman, Mr. Maurizio Romiti, the CEO, and Mr. Gaetano Mele, managing director in charge of running the business units.

A cost reduction plan has been put in place to improve the profitability of RCS, which remains low by international standards – we estimate EBITA margins are some 600 basis points below those of its main peers. Targeted savings of Euro 47.2m (just 2% sales) are to be achieved by 2005 in the Italian operations alone. We believe these targets to be readily achievable as they simply reflect the elimination of duplicate corporate functions and management layers across the entire group, such as administration, finance and general services. Since 1996, the cash generated by RCS Editori has been systematically distributed to the holding company to subsidise the development of the fashion business, rather than being re-invested in the media activities. We think this treatment of free cashflow could have been a demotivating factor for the management of RCS. We forecast RCS to achieve EBITDA of Euro 169.7m in 2005 (as against Euro 105m in 2001), reaching an EBITDA margin of 7% as against a stated management target of 8%.

In our opinion there could be further scope for cost saving in the international operation "estimated at Euro 30m" which we have currently excluded from our valuation. This could add a further Euro 0.25 or around 10% to our base case valuation.

We have undertaken a detailed divisional analysis of RCS, which for this company we believe tobe unique in the market, in order to arrive at our valuation. We believe the most appropriate valuation methodology to be discounted cashflow as it takes into account projected significant margin improvements, which are only partially captured within a sum-of-the-parts valuation. Our discounted cashflow analysis implies a fair value for RCS of Euro 1,431.8m (Euro 1.70 per ordinary share, or 70% of our implied group valuation).

Contents

Valuation

On 25 October 2002 the HdP and RCS Editori Boards of Directors announced the merger of the two corporate structures, making the new HdP/RCS Group, which we expect to be called Rizzoli, a full operating company concentrating solely on the media business.

As a consequence we believe that the so-called "holding discount" that the market usually applies to a listed holding company will be no longer justified. Therefore we initiate our coverage on the stock with a BUY recommendation and target price of Euro 2.74 per share, with potential upside of 30%.

Even if we apply a 10% holding discount, in recognition that the disposal process of the fashion and sportswear business is not yet fully completed, we obtain a NAV per ordinary share of Euro 2.46, still indicating 17% upside potential.

The main risk we see to our target price not being reached would be if the approved capital increase of Fila is not be enough to sustain the turnaround of the company or if the asset is not disposed.

With the merger not effective until the beginning of 2003, we still consider HdP (Holding di Partecipazioni Industriali) to be a holding company and so use the appropriate methodology to derive a valuation. The method we have used is the standard equity method.

As our valuation tool we rely on NAV, which is shareholders' equity, adjusted for taxed capital gains on the portfolio. Although we prefer this methodology to a Sum-of-the-Parts (SoP), since it does not require knowledge of the financial position of the holding company and is more accurate in the calculation of the tax effect on capital gains, we have nonetheless also included in our valuation a Sum-of-the-Parts (SoP) analysis.

We believe the "holding discount" - the difference between NAV and the market capitalisation of the holding company - is based on several parameters. Should these parameters change over time, there could be room for an increase/decrease of the discount to NAV applied by the market and, by inference a sell/buy opportunity may arise.

Although investors are aware that the market generally values holding companies at a discount to NAV, we consider it useful to recall the reasons that can lie behind a holding discount.

1) A large portion of stakes in listed shareholdings in the portfolio ('holding company discount' in the strict sense).

2) The portfolios contain companies operating in differing sectors of the economy (portfolio diversification discount or 'conglomerate discount').

3) A large proportion of minority shareholdings (minority holding discount) in the portfolio.

4) Existence of a controlling shareholder or group of shareholders (strong discount).

5) A high debt/NAV ratio, at a time when the market has a negative view of a portfolio.

6) Existence of a disparity in the capital gains tax rate between holding companies (19% or 36%) and personal income (12.5%).

7) Reduced transparency due to factors such as a second level of unlisted sub-holding companies, cross-shareholdings, outstanding convertible bonds and/or warrants, or a high level of unrealised capital gain (transparency discount).

8) Past actions that indicate a lack of concern for minority shareholders, such as:

- capital increases by issuing saving shares only;
- capital increases by issuing saving shares at a lower discount to ordinary shares than that applied by the market;
- buybacks of ordinary shares, in the presence of outstanding saving shares at a significant discount to ordinary shares;
- transfers of holdings between the controlling shareholder and the actual holding company;
- an unattractive dividend policy (low pay-out ratio);

Contrary to general assumptions, we would highlight that there are also situations that may justify a premium to the NAV. We have identified the main premium factors as follows:

1) A high debt/NAV ratio, at a time when the market has a positive view of a company's portfolio.

2) Strategies to create value for the shareholders (buybacks, cancellation of shares, good newsflow, conversion of saving shares into ordinary shares, valorisation of the shareholding portfolio).

3) Higher flexibility than operating companies in terms of changing strategy.

4) A large proportion of majority shareholding stakes (rather than minority interests) within the portfolio.

5) The absence of a shareholder or group of shareholders with an absolute majority of the capital. This should render the holding company a potential takeover target.

6) Market perception of the holding company as the sole vehicle through which to enter into a specific sector (through an unlisted shareholding) with a positive outlook.

Hdp valuation

HdP's NAV valuation

According to our NAV valuation we derive a fair price for HdP of Euro 2.74 per ordinary share, implying 30.1% upside from the current price. Were we to apply a 10% holding discount, we would still obtain a NAV per ordinary share of Euro 2.46, indicating 17.1% upside potential.

Table 1: HdP NAV (as at 30 October 2002)

Shareholdings	Sector	% of categ.	Valuation method	Price/ Multiple	Mkt. Value (Euro m)	% of tot. assets	C. gains (Euro m)	Holding leverage
DADA	ISP	15.43	Market	5.260	12.7	0.6	-9.8	0.01
B. INTESA	Banking	0.89	Market	1.705	90.1	3.9	-85.4	0.04
POLIGRAFICI EDITORIALE	Media	10.00	Market	1.159	15.3	0.7	-13.3	0.01
PIRELLI & C.	Holding	5.44	Market	1.339	45.0	2.0	-2.4	0.02
PIRELLI & C. (conv. bonds)	Holding	0.50	Market	1.339	4.2	0.2	-3.0	0.00
FILA HOLDING	Textile	71.93	Market	0.890	-	0.0	-120.1	-
Joyce Boutique Holding	Textile	9.75	Market	0.013	2.0	0.1	-1.8	
HDP (treasury stocks)	Holding	3.00	Market	2.105	46.2	2.0	-28.4	0.02
Total listed shareholdings					**202.8**	**8.8**	**-254.4**	
GFT	Textile		Cost		42.6	1.9	-	0.02
RCS EDITORI S.p.a.	Publishing		DCF	1.70	1,431.8	62.4	1,281.8	0.57
EUROFLY SERVICE	Transport		Cost		2.9	0.1	-	0.00
SPER S.p.A.	Media		Cost		45.9	2.0	-	0.02
H3G	Telecom		Cost		33.0	1.4	-	0.01
Other shareholdings			Cost		8.4	0.4	-	0.00
Total not listed shareholdings					**1,564.6**	**68.2**	**1,281.8**	
Realised capital gains					-	0.0	-	
Real estates					118.5	5.2		
Other assets					408.8	17.8		
Total assets					**2,294.7**	**100.0**	**1,027.4**	
Taxes on capital gains 19%							-195.2	
Losses carried forward							150.0	
Equity shareholders as of 30/06/02							**1,065.7**	
Dilution effect							-	
Net Asset Value (NAV)							2,047.9	
Mkt. (discount) premium on NAV (%)							**-23.1**	
Potential upside (downside) to NAV (%)							**30.1**	

Source: Company data, Deutsche Bank estimates

Table 2: HdP fair NAV valuation (as at 30 October 2002)

	(Euro m)	Ord. Share (Euro)	Sav. share (Euro)
Net Asset Value (NAV)	**2,047.9**	**2.74**	**1.54**
DB fair discount (premium) 0%			
Fair NAV	**2,047.9**	**2.74**	**1.54**
Market Cap	1,573.9	2.11	1.18
Fair upside (downside) %		30.1	30.1

Source: Deutsche Bank estimates

All HdP's stakes in listed companies have been valued at market price, while for the minor unlisted companies we have used the cost methodology.

In particular, in the case of **Fila,** in which HdP has a 71.93% holding, we estimate that HdP will participate in the capital increase, spending Euro 105.5m. We have taken a conservative view and attributed a zero value to this company (also applicable after the capital increase). The expected loss on this asset is thus Euro 120.1m, equal the book value of Fila on HdP accounts (equal to Euro 14.6m), plus the money spent for the capital increase (Euro 105.5m).

In the case of **RCS**, we view the most appropriate valuation methodology as discounted cashflow since it takes into consideration projected improvements in margins, which are partially included in our sum-of-the-parts valuation of RCs. We estimate a 2005 EBITA margin of 7% compared with the 8% target given by the company (in 2001 RCS Group registered an EBITA margin of 5.2%). Our discounted cashflow analysis implies a fair value for RCS of Euro 1,431.8m (see our valuation on RCS on the next page).

HdP's sum-of-the-parts-valuation (SOP)

According to our SOP valuation we derive a fair price for HdP of Euro 2.81 per share, implying 33.8% upside from the current price. Even with application of a 10% holding discount, we still obtain a NAV per ordinary share of Euro 2.53, indicating 20.4% upside potential. The listed companies have been valued at their market price, while for the unlisted assets we used their book value.

Table 3: **HdP SOP (as at 30 October 2002)**

SHAREHOLDINGS	Sector	% of categ.	Valuation method	Price/ Multiple	Mkt. Value (Euro m)	% of tot. assets
DADA	ISP	15.43	Market	5.260	12.7	0.6
B. INTESA	Banking	0.89	Market	1.705	90.1	4.3
POLIGRAFICI EDITORIALE	Media	10.00	Market	1.159	15.3	0.7
PIRELLI & C.	Holding	5.44	Market	1.339	45.0	2.2
PIRELLI & C. (conv. bonds)	Holding	0.50	Market	1.339	4.2	0.2
FILA HOLDING	Textile	71.93	Market	0.890	19.6	0.9
Joyce Boutique Holding	Textile	9.75	Market	0.013	2.0	0.1
HDP (treasury stocks)	Holding	3.00	Market	2.105	46.2	2.2
Total listed shareholdings					**222.4**	**10.7**
GFT	Textile		EV/EBITA		34.3	1.6
EUROFLY SERVICE	Transport		Cost		2.9	0.1
RCS EDITORI S.p.a.	Publishing		DCF		1,431.8	68.6
SPER S.p.A.	Media		Cost		45.9	2.2
H3G	Telecom		Cost		33.0	1.6
Other shareholdings			Cost		3.7	0.2
Total not listed shareholdings					1,551.6	74.4
Real estates					118.5	5.7
Other assets					194.0	9.3
Total assets					**2,086.5**	**100.0**
Taxes on capital gains 19%					-238.2	
Losses carried forward					150.0	
HdP S.p.A. net cash (Debt)					107.1	
Net Asset Value (NAV)					**2,105.5**	
Mkt. (discount) premium on NAV					**-25.2**	
Potential upside (downside) to NAV					**33.8**	

Source: Company data, Deutsche Bank estimates

Table 4: **HdP fair SOP valuation (as at 30 October 2002)**

	(Euro m)	Ord. Share (Euro)	Sav. share (Euro)
Sum-of-the-parts-valuation (SOP)	**2,105.5**	**2.82**	**1.58**
DB fair discount (premium) 0%			
Fair SOP	**2,105.5**	**2.82**	**1.58**
Market Cap	1,573.9	2.82	1.18
Fair upside (downside) %		33.8	33.8

Source: Deutsche Bank estimates

For **GFT NET**, our valuation is based on 2002E EV/Sales and EV/EBITA for Joseph Abboud, the only remaining asset of GFT NET. We valued Joseph Abboud at Euro 64.1m using the average 2002 multiples of Hugo Boss and Escada. We estimate the net cash deriving from the entire GFT NET assets disposal at Euro 34.3m. At the end of H1 2002 GFT NET's net debt was equal to Euro 45.0m. In July the company announced the transfer of Facis to Mediconf for Euro 14.2m and at the beginning of September the disposal of Tianjin Jin Tak, a Chinese company, for Euro 1m.

Table 5: **Net value of GFT NET**

	Euro m
GFT NET's net debt at 30/6/2002	45.0
Disposal of Facis	14.2
Disposal of Tianjin Jin Tak	1.0
Valuation of Joseph Abboud	64.1
Net cash from all GFT NET disposals	34.3

Source: Deutsche Bank estimates

For our HdP sum-of-the-parts valuation, we value **RCS** using a DFC methodology.

From **HdP's net cash** at 30 June 2002, equal to Euro 214.8m, we subtracted Euro 2.2 m for the acquisition of a 1.31% stake in Poligrafici Editoriale. On 1 October 2002 HdP announced the increase of its stake in Poligrafici to 10% from 8.69% at the end of H1 2002. We also deducted Euro 105.5m for the Fila capital increase.

RCS valuation

We used two different methodologies to derive a value for RCS: discounted cashflow and a sum-of-the-parts (SOP) valuation based on peer group multiples.

We attach a greater weight to our DCF valuation because it takes into account the anticipated margin improvement in 2003E-2005E, which is only partially included in the RCS prospective 2003 EBITDA values used for the multiples basis valuation.

RCS's DCF valuation

Our discounted cashflow analysis implies a fair value for RCS of Euro 1,431.8m.

Our main assumptions are: WACC of 7.91%, a 4.87% risk-free rate, a 4% equity risk premium, a beta of 1.12 and a 3% perpetuity growth rate.

Table 6: **RCS Group free cashflow calculation (Euro m)**

	2002E	2003E	2004E	2005E	2006E	2007E
EBIT	100.8	130.4	147.6	169.7	184.5	200.3
Taxes	-39.3	-50.9	-57.6	-66.2	-72.0	-78.1
Tax rate (39.0%)	39.0	39.0	39.0	39.0	39.0	39.0
NOPLAT	61.5	79.6	90.0	103.5	112.5	122.2
Depreciation & other provisions	60.0	64.3	67.4	66.8	69.7	72.7
Operating Cash Flow	121.4	143.9	157.5	170.3	182.2	194.8
Capex	-45.0	-47.0	-50.0	-52.0	-54.0	-56.0
Change in Net Working Capital	-11.6	-29.3	-19.5	-23.8	-22.7	-24.8
Free Operating Cash Flow (FOCF)	64.8	67.6	88.0	94.5	105.5	114.1

Source: Deutsche Bank estimates

Table 7: **RCS Group DCF analysis**

DCF ANALYSIS	
Perpetual Growth Rate (%)	3.00
WACC (%)	7.91
Terminal Value as of 31/12/05	1,983.7
Discounting Rate of Terminal Value	0.74
Discounted Terminal Value	1,466.4
Cumulated DFOCF	258.4
Financial assets as of 31/12/01	81.5
Enterprise Value (Euro m)	1,806.4
Net Financial Debt as of 31/12/02 (Euro m)	-311.4
Minorities market value (Euro m)	-63.2
Equity Value (Euro m)	1,431.8

Source: Deutsche Bank estimates

Compared to Gruppo Editoriale L'Espresso's valuation, we used a lower beta and lower perpetuity growth rate (Espresso beta 1.17x and growth rate 4%), been RCS less exposed to the advertising market. Indeed, in 2002 RCS advertising revenues should account for just 36.4% of total revenues vs. 55% for Espresso. Furthermore, RCS is present in the more stable books and part-works market, which on our estimates account for 32.2% of 2002 company revenues.

RCS's sum-of-the-parts analysis

We divided the RCS group into eight main divisions: advertising, books, newspapers, free press, Unedisa (the Spanish publishing company), Italian magazines, international magazines and outdoor.

Table 8: **RCS Group comparable valuation (Euro m)**

Divisions		2003E EBITDA	2003E Multiple	Ownership (%)	Multiples valuation
Advertising	EBITDA	30.8	9.0	100.0	277.6
Books	EBITDA	61.7	9.0	100.0	555.0
Newspapers (Italy)	EBITDA	91.3	7.8	100.0	712.2
Free press	Sales	25.8	0.8	90.0	18.1
Unedisa (52.9%)	EBITDA	12.3	6.9	52.9	84.7
Magazines (Italy)	EBITDA	17.8	9.0	70.0	112.3
Magazines (Abroad - 50%)	EBITDA	6.0	9.0	50.0	54.2
Outdoor	EBITDA	8.0	10.7	34.0	29.3
Intercompany	EBITDA	-31.2	7.2	90.0	-201.9
Net Debt - December 2002					-311.4
Total group value					**1,330.1**

Source: Deutsche Bank estimates

As can be seen from the peers multiples valuation (Tab. 8), RCS has an extremely balanced portfolio. The newspaper division, which is the most important, accounts only for 38.3% of the total gross valuation.

For our valuation of each RCS division, we used European peer multiples. For the **advertising division** we applied a 2003 multiple of 9x, which is the average of the European advertising agencies.

The **book business** unit is composed of the trade book division, itself made up of the Italian trade activities and Flammarion (a French book publisher acquired in 2000), the Italian education books activities and partworks. We estimated that 22% of the EBITDA of the book business unit comes from educational books, which has a stronger growth and higher cashflow generation. We value the Education segment at 10.7x 2003E EV/EBITDA, the average of Pearson, Reed Elsevier and McGraw-Hill. For the trade and partworks division we used a multiple of 8.7x 2003E, or around 2 points less than Education, being typically more competitive and less cash generative.

We valued the **Italian newspaper** division on a multiple of 7.8x, the average EV/EBITDA value of the Daily Mail, Johnston press, Trinity Mirror, Prisa and Knight-Ridder. For the free press (this division is called City), we could only use an EV/Sales multiple since we estimate that the division will break even at the EBIT level between 2004 and 2005. Therefore we used the EV/Sales multiple of Wegener, the lowest among the listed European newspaper companies. Finally for the 52.9% of Unedisa we have applied the prospective 2003 EV/EBITDA multiple of Prisa.

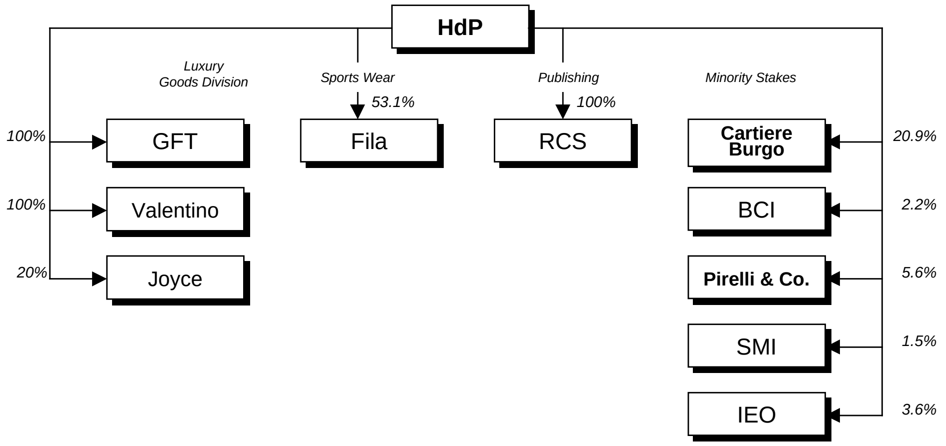
For the **magazine division**, we used the EV/EBITDA multiple of EMAP; in this segment RCS has a market share of 14% and ranks second after Mondadori, which has a market share of 40%. Compared to the Italian leader, RCS has international exposure in the magazine division thanks to its 50-50% joint venture with the German publisher Burda.

Finally, for the recently constituted **outdoor division**, we used the average multiples of JCDecaux, which partners RCS in the Italian outdoor advertising.

Introduction

HdP was created as a holding company in March 1997 as a result of a demerger of all the industrial assets of the former Gemina. The rationale behind the deal was to make a clean break from the financial business, the main cause of Gemina's heavy losses between 1994 and 1996. In the same period RCS was also loss making.

Figure 1: **HdP group structure in 1998**

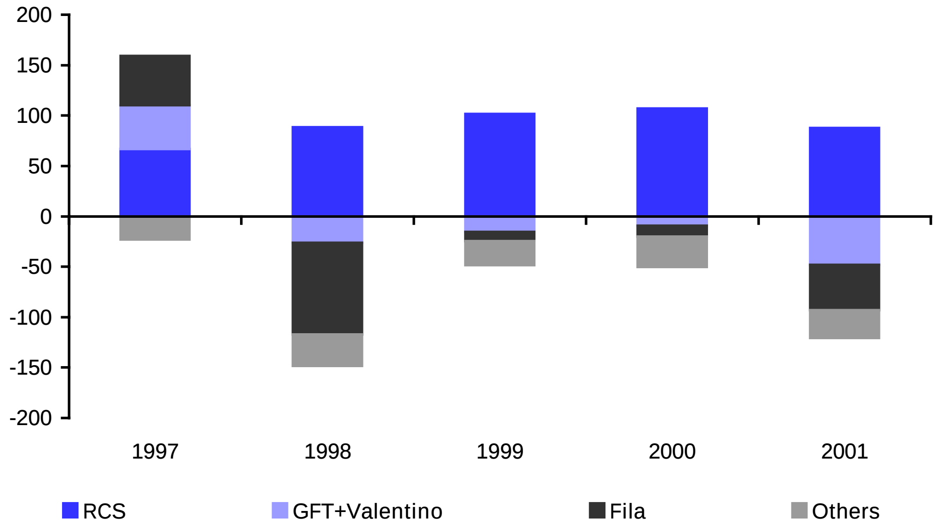


Source: Company data

Since its creation, HdP has operated in three main business areas: media (RCS), luxury goods (GFT & Valentino) and sportswear (Fila). The original mission was to create a multi-brand luxury goods group using the cashflow produced by the media division.

Each activity's contribution to group revenues and operating profits has changed over time, reflecting the volatility of some businesses and changes in the group' asset base.

Figure 2: **HdP divisional EBIT contribution (Euro m)**

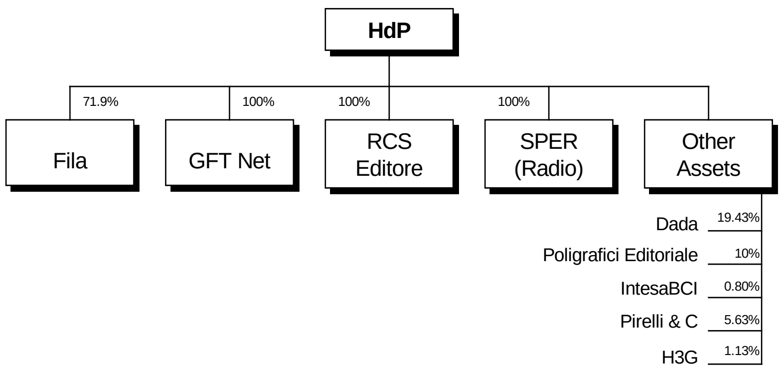


Source: Company data

As a result of the difficulties in restructuring the textile division (luxury goods & sportswear) and in becoming a multi-brand fashion company, compounded by accumulated losses in the 1998-2001 period, HdP's shareholders precipitated a change in strategic focus, namely for HdP to become a pure multimedia company, and dispose of all the textile activities.

In the last two years, the company has been disinvesting its fashion/formal apparel and sportswear businesses. This process has almost come to an end and now only two such assets are left: Fila and Joseph Abboud. We estimate that by the end of Q1 2003 the disposal process could be complete.

Figure 3: **HdP: current group structure**

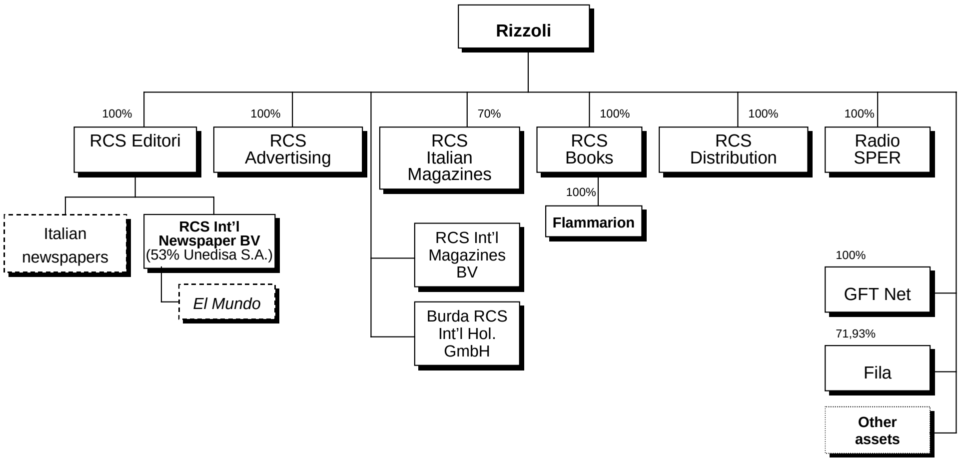


Source: Company data

On 25 October the HdP and RCS Editori Boards of directors announced the merger of the two corporate structures, making the new HdP/RCS Group a full operating company focused only on the media business.

As a consequence the "unlucky" HdP (Holding of Industrial Participation) company name will disappear, probably substituted, we hope, by the world-famous publishing brand Rizzoli.

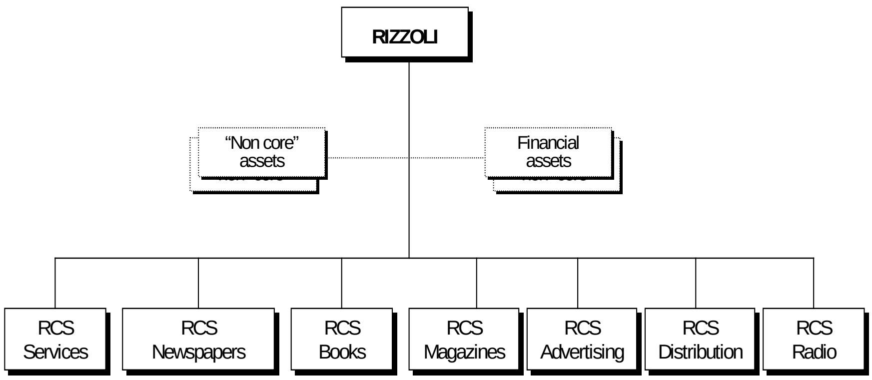
Figure 4: New "Rizzoli" group structure after the Hdp-RCS merger



Source: Company data; Deutsche bank estimates

The new entity will be Italy's biggest directly listed publishing company. The company's main business units will include newspapers, magazines, advertising, books (trade, education and partworks) and radio.

Figure 5: Proposed new "Rizzoli" company



Source: Company data

In respect of the radio business unit, at the end of December 2001 HdP reached agreement with *Il Sole 24 Ore*, the leading Italian financial newspaper, to acquire the Radio Italia Network and the radio network syndication CNR. At present HdP owns the asset, but once the merger between HdP and RCS is completed, this radio division will form part of the new group.

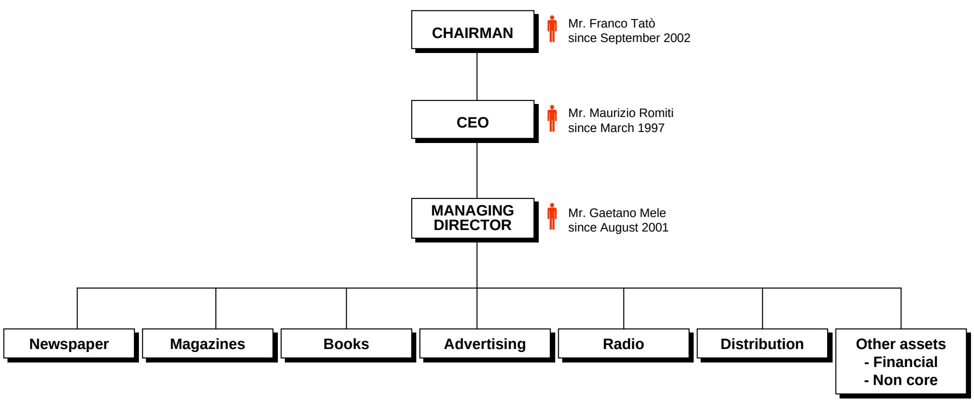
The new group will also have other two separate entities, one called "non-core assets", which will include all the assets in the process of being disposed of, such as Fila and GFT NET (Joseph Abboud). The other entity, "Financial assets", will include the 15.4% stake in DADA, the 10% of Poligrafici Editoriale, 51% of Immobiliare Solferino, 0.8% of Intesa BCI, 5.37% of Pirelli & C. and 1.1% holding in H3G.

Following the merger of HdP and RCS Group, three top managers will run the new company: Mr. Franco Tatò, currently chairman of HdP (as from September 2002), will be the chairman. He will be responsible for legal issues and corporate governance. Before joining HdP Mr. Tatò was chairman of ENEL, the Italian electric company, for almost five years. Previously he has been CEO of the Mondadori Group and of the German group Mannesmann-Kienzle; he has also been a top manager for the Olivetti group.

The CEO will be Mr. Maurizio Romiti, currently CEO of HdP. He will be responsible for strategy and the monitoring of the company performance, and investor and industrial relations.

The new group will also have a managing director, Mr. Gaetano Mele, who has been managing director of the RCS Group since August 2001. Mr. Mele will be in charge of management of the business units and service functions.

Figure 6: **The new Rizzoli: top management organisation**



Source: Company data

The new organisation structure should strengthen and valorise the key role of the core business units (newspapers, magazines, books, advertising, distribution and radios) through:

1. Elimination of duplicate corporate functions and management layers across the entire group. At present the HdP/RCS group has over 190 companies.

2. A more streamlined system of governance.

3. Consistency between businesses and business units.

The new organisation structure will be more focused and visibility in terms of the performance of individual business units will be greater. The aim is also to centralise staff functions at corporate level, while day-to-day operational matters will be the province of the individual business units.

Together with the new organisational structure, a significant cost reduction plan has been outlined, to improve the efficiency and effectiveness of the new group.

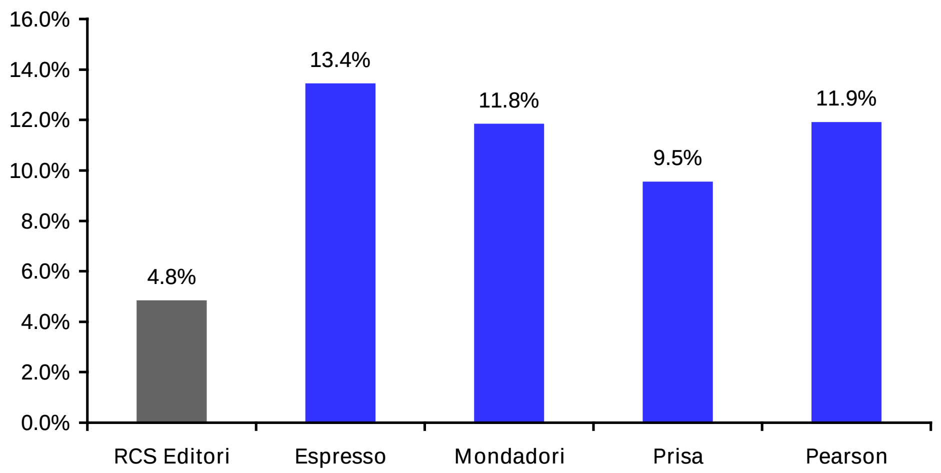
The cost reduction programme will centre on the group's main Italian activities with a view to achieving total cost savings of Euro 47.2m up to 2005, with the first positive effects showing in the 2003 accounts. As part of the cost saving plan, there will be a 10% reduction in the Italian headcount, which at the end of 2001 amounted to 3,190 people. A further cost cutting programme is planned for those companies not yet included in the plan and in which the group has a controlling stake.

In our view the proposed significant restructuring and new business organisation is necessary to bring about an improvement in HdP/RCS profitability. Not only this, but it shows a real commitment on the part of the new group to the media activities and in our opinion will motivate each business unit manager to increasing group profits.

Given the actual structure of HdP SpA and RCS Editori, we believe that the targeted savings can be achieved. In particular, looking at RCS alone (because of the limited structural costs of the HdP parent company), we consider that RCS can achieve a 2005 EBITDA of Euro 169.7m versus the Euro 105.3m obtained in 2001. On this basis, our prospective 2005 EBITDA margin is 7% versus the 8% company target.

In the recent presentation the RCS management recognised and quantified at 200 basis points at least, the lower profitability of the RCS Group compared to its main European peers. According to management the higher number of corporate functions and multiplication of staff functions were the main cause of a lower-than-average sector EBITA margin.

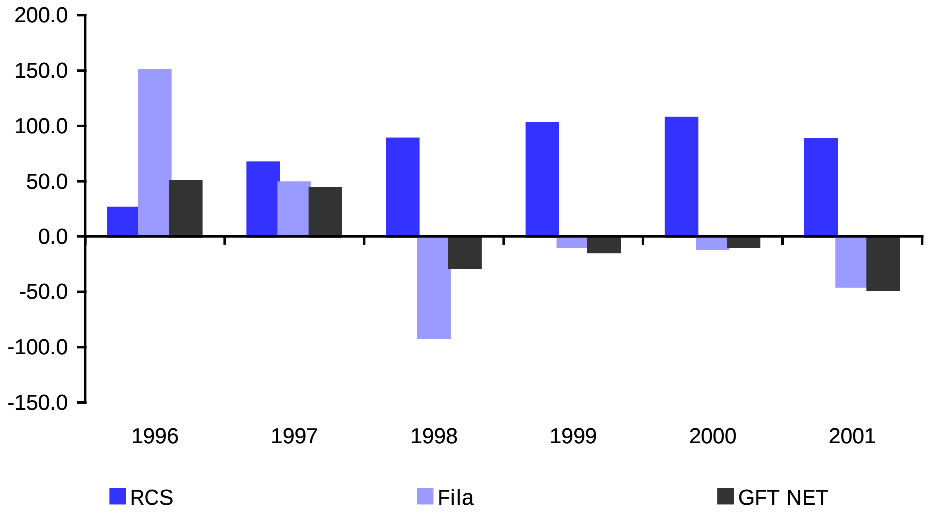
Figure 7: **2002 EBITA margin of main RCS European peers**



Source: Deutsche Bank estimates

Since 1996, when HdP was created, every year, systematically, the cash generated by RCS Editori has been distributed to the holding company in order to finance and develop the textile and apparel business rather than being invested back into the core media business. We think that this treatment of free cashflow could have been a demotivating factor for the management of RCS and for lower company profitability relative to its peers.

Figure 8: **1996-2001 RCS, Fila and GFT NET EBIT**



Source: Company data

Table 9: **1993-2001 RCS, Fila and GFT performance (Euro m)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001
RCS Editori									
Net sales	1,457.4	1,452.3	1,303.5	1,251.6	1,353.0	1,429.3	1,547.3	1,753.9	2,015.0
EBIT	10.3	-174.0	-246.9	25.8	66.8	88.3	102.5	107.0	87.7
Net Profit	-31.0	-230.3	-376.5	0.8	36.3	60.4	92.1	96.4	3.2
Fila									
Net sales	391.5	516.5	764.4	1,105.2	1,306.1	1,000.3	908.6	1,004.4	980.3
EBIT	42.9	62.0	89.9	150.1	48.9	-91.2	-9.3	-10.8	-45.1
Net Profit	26.9	35.1	51.6	91.8	28.5	-128.0	-58.7	-71.6	-139.7
GFT NET									
Net sales	761.3	770.6	852.2	731.4	766.3	771.1	725.3	559.7	361.4
EBIT	16.5	44.9	49.6	49.9	43.5	-28.2	-14.1	-9.3	-48.0
Net Profit	-101.2	-16.0	9.3	26.4	22.6	-51.9	-104.8	-29.0	-79.6

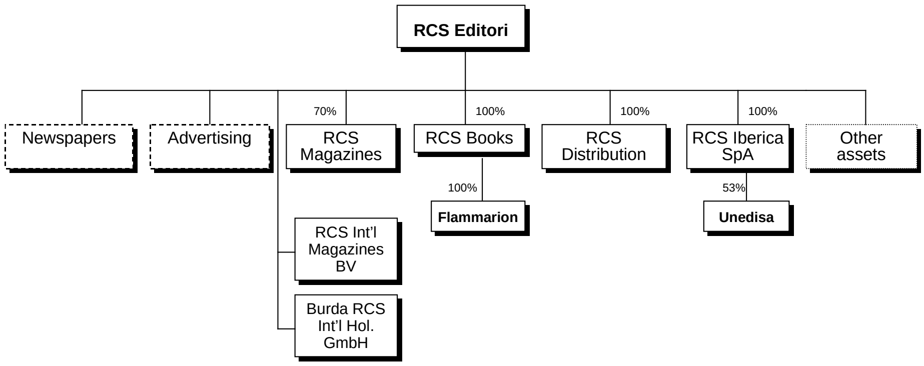
Source: Company data

RCS – Rizzoli Corriere della Sera

The RCS Editori Group (Rizzoli Corriere della Sera) is the biggest Italian publisher and the most internationalised publishing company in Italy.

In 2001 RCS Editori reported sales of Euro 2,015m, an increase of 14.9% on 2000. 2001 EBITDA declined by 8.5% to Euro 160.7m, while EBITA was Euro 100.8m, with a margin of 4.8% versus 5.2% posted in 2000. Net profit was Euro 3.2m versus Euro 96.4m reported in 2000.

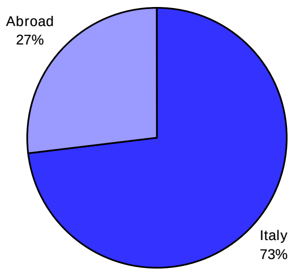
Figure 9: **RCS Group current structure**



Source: Company data

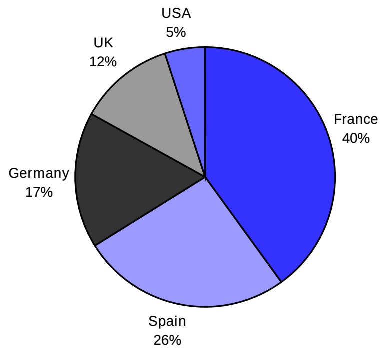
In 2001, 27% of sales were realised abroad.

Figure 10: **Breakdown of consolidated revenues – by geographical area (in %)**



Source: Company data

Figure 11: **Breakdown of consolidated rev. – by geographical area, excluding Italy (in %)**



Source: Company data

RCS Editori Group comprises four main divisions: newspapers, magazines, advertising and books.

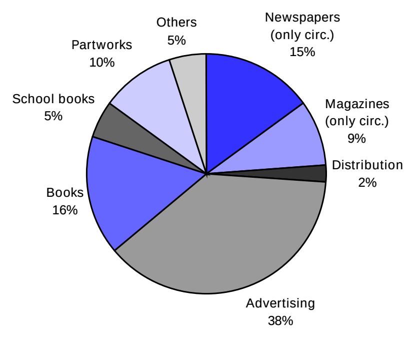
The **newspaper business** unit is composed of four main assets, of which two stand out: the leading Italian newspaper *Corriere della Sera* and the top Italian sports daily *La Gazzetta dello Sport*. In September 2001 RCS entered the Italian free press market with its *City* brand, with the first issue launched in Milan on 3 September 2001. Abroad, RCS owns 53% of the Spanish publishing company Unedisa, which prints the second most important daily newspaper *El Mundo*. We forecast an EBITA margin of 15.6% in 2004 (versus 14.8% registered in 2001) for the Italian newspaper division. The free press business should see EBITDA breakeven between 2003 and 2004, while for Undeisa we estimate a 2004 EBITA margin of 10.1%. We expect the newspaper division to strengthen its leadership position and try to close the profitability gap to its European peers.

The RCS **magazine division** controls the Italian business, and has a 14% market share in the Italian magazine market and 50% stake in the joint venture *Burda RCS International Holding*, a company set up by RCS and Burda to explore publishing opportunities in European and Far East markets. We think that the magazine division's strategy for the 2002-2003 period will focus on restyling and repositioning the existing portfolio and increasing its limited profitability.

Among the Italian publishers, **RCS Pubblicità** ranks first in terms of advertising market share with 8.6% of the total advertising market. In 2001 RCS Publicità registered a turnover of Euro 661.5m and is active in the newspaper market, the magazine market, the free press, the radio market and outdoor advertising. We expect RCS Pubblicità to concentrate on increasing its market share in the Italian advertising market, thanks to its product range, which is broader than that of its peers.

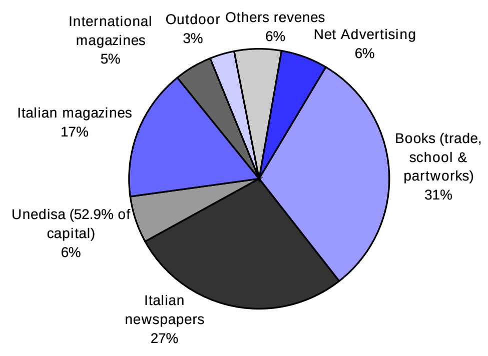
The **books division**, RCS Libri, publishes trade, classics, school, university and professional books. It also produces partworks both in Italy and the leading European countries. Abroad its main assets are Flammarion, a French publisher acquired in 2000, and RCS Rizzoli Corporation, a company handling the bookshops (Rizzoli Bookstores) and publishing activities under the Rizzoli and Universe brands. We forecast that the RCS book division achieves total sales of Euro 770m in 2005 (Euro 621m obtained in 2001). We expect the eventual integration of the numerous book company identities to lead to significant improvements in margins.

Figure 12: **RCS – breakdown of revenues – by product (in %)**



Source: Company data

Figure 13: **RCS – breakdown of revenues – by division (in %)**



Source: Company data; Deutsche Bank estimates

For 2002 we forecast RCS sales of Euro 2,110.6m, up 4.7% on 2001. The advertising division, as well as books and newspapers, should show positive growth compared to 2001, thanks to activities acquired in 2002 or the full consolidation of assets acquired in 2001. We forecast a 2.9% decline in EBITDA to Euro 160.7m, and margin of 7.6%. EBITA should decrease by 4.3%

at Euro 100.8m with a margin of 4.8% vs. 5.2% registered in 2001. Net profit should be Euro 45.5m, in part due to Euro 23m on the extraordinaries line.

In 2005 we estimate total sales of Euro 2,415m for the RCS Group, EBITA of Euro 169.7m and a margin of 7% vs. an 8% target given by the company in the May 2002 presentation.

Table 10: **RCS Group: revenues breakdown by division (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %	2005E	YoY %
Total sales	2,015.0	2,110.6	4.7	2,217.4	5.1	2,315.4	4.4	2,414.6	4.3
- Net Advertising	117.5	127.8	8.7	137.4	7.5	144.0	4.8	150.8	4.8
- Books	621.0	678.6	9.3	700.7	3.3	734.4	4.8	770.2	4.9
- Newspapers	551.4	573.1	3.9	587.4	2.5	609.3	3.7	627.3	3.0
- City	1.5	13.6	806.7	25.8	89.7	28.5	10.5	31.9	11.9
- Unedisa	116.4	122.1	4.9	125.3	2.6	130.9	4.5	136.9	4.5
- Magazines Italy	334.1	302.1	-9.6	312.8	3.6	324.0	3.6	335.5	3.6
- Magazines Internat.	96.4	94.2	-2.3	97.2	3.1	100.2	3.1	103.4	3.1
- Outdoor	59.7	85.2	42.7	92.4	8.5	100.3	8.5	108.8	8.5
- Others revenues	117.0	114.0	-2.6	138.4	21.4	143.8	3.9	149.9	4.3

Source: Company data, Deutsche Bank estimates

Table 11: **RCS Group: revenues breakdown by product (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %	2005E	YoY %
Total sales	2,015.0	2,110.6	4.7	2,217.4	5.1	2,315.4	4.4	2,414.6	4.3
Italian circulation rev.	419.6	444.1	5.8	454.8	2.4	468.0	2.9	479.0	2.4
- Newspapers	239.7	283.1	18.1	289.3	2.2	297.8	3.0	304.0	2.1
- Magazines	148.1	128.4	-13.3	132.1	2.9	136.0	2.9	139.9	2.9
- Third party distribution	31.8	32.6	2.5	33.4	2.5	34.2	2.5	35.1	2.5
Italian advertising sales	661.5	678.7	2.6	734.3	8.2	774.0	5.4	814.7	5.3
- Newspapers	360.8	341.1	-5.5	363.9	6.7	382.0	5.0	399.1	4.5
- Magazines	208.8	181.1	-13.3	188.7	4.2	196.6	4.2	204.9	4.2
- Free press	1.9	17.4	817.7	33.1	89.7	36.5	10.5	40.9	11.9
- Outdoor	59.7	85.2	42.7	92.4	8.5	100.3	8.5	108.8	8.5
- Blei	18.4	38.6	109.8	40.3	4.3	42.0	4.3	43.8	4.3
- Other revenues	11.9	15.2	27.7	15.9	4.3	16.5	4.3	17.2	4.3
International Magazines	96.4	94.2	-2.3	97.2	3.1	100.2	3.1	103.4	3.1
- Circulation	35.9	58.0	61.6	60.1	3.5	62.2	3.5	64.4	3.5
- Advertising	60.5	36.2	-40.2	37.1	2.5	38.0	2.5	39.0	2.5
Unedisa	116.4	122.1	4.9	125.3	2.6	130.9	4.5	136.9	4.5
- Circulation	64.6	69.5	7.6	71.3	2.5	73.4	3.0	75.6	3.0
- Advertising	51.8	52.5	1.4	54.0	2.8	57.5	6.5	61.2	6.5
Books	329.4	337.1	2.3	345.1	2.4	353.3	2.4	361.7	2.4
- Italy	101.2	102.8	1.6	105.0	2.1	107.2	2.1	109.4	2.1
- International	228.2	234.2	2.7	240.1	2.5	246.1	2.5	252.3	2.5
School books	99.1	109.6	10.6	117.8	7.5	126.7	7.5	136.2	7.5
Partworks	192.5	222.3	15.5	237.8	7.0	254.5	7.0	272.3	7.0
- Italy	101.3	111.9	10.5	119.2	6.5	127.0	6.5	135.2	6.5
- International	91.2	110.4	21.0	118.6	7.5	127.5	7.5	137.1	7.5
Other revenues	100.1	102.6	2.5	105.2	2.5	107.8	2.5	110.5	2.5

Source: Company data, Deutsche Bank estimates

Table 12: **2001-2005 RCS Group main figures (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %	2005E
Total sales	2,015.0	2,110.6	4.7	2,217.4	5.1	2,315.4	4.4	2,414.6
EBITDA	165.5	160.7	-2.9	194.7	21.2	215.0	10.4	236.5
- EBITDA margin %	8.2	7.6	-7.3	8.8	15.3	9.3	5.8	9.8
Depreciation	60.2	60.0	-0.4	64.3	7.3	67.4	4.8	66.8
EBITA	105.3	100.8	-4.3	130.4	29.4	147.6	13.2	169.7
- EBITA margin %	5.2	4.8		5.9		6.4		7.0
Goodwill	17.6	21.1	19.6	21.1	0.1	21.1	-0.2	20.8
EBIT	87.7	79.7	-9.1	109.3	37.1	126.6	15.8	148.9
- EBIT margin %	4.4	3.8		4.9		5.5		6.2

Source: Company data, Deutsche Bank estimates

Table 13: **RCS Group P & L (Euro m)**

	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E
Total sales	1,228.9	1,278.6	1,429.3	1,545.3	1,753.9	2,015.0	2,110.6	2,217.4	2,315.4	2,414.6
Cost of goods sold	-842.0	-877.8	-980.9	-1,062.9	-1,251.2	-1,487.2	-1,577.4	-1,640.9	-1,709.8	-1,779.0
Personnel costs	-270.3	-270.9	-285.4	-301.9	-321.7	-362.3	-372.4	-381.8	-390.5	-399.1
EBITDA	116.5	129.9	163.0	180.5	181.0	165.5	160.7	194.7	215.0	236.5
Depreciation	-87.1	-68.5	-69.3	-72.1	-64.0	-60.2	-60.0	-64.3	-67.4	-66.8
EBITA	29.4	61.4	93.7	108.4	117.0	105.3	100.8	130.4	147.6	169.7
Goodwill amortization	-2.8	-2.6	-5.5	-6.7	-10.0	-17.6	-21.1	-21.1	-21.1	-20.8
Other income (costs)	-9.5	2.3	3.3	1.0	2.2	-11.5	1.8	1.9	2.0	2.1
Net Financial income (charges)	-24.8	-12.5	-5.3	-2.4	-4.5	-11.1	-11.7	-10.7	-9.2	-7.8
Extraordinary Items	13.1	-1.8	9.5	74.9	46.5	-5.3	23.0	0.0	0.0	0.0
Pre-tax Profit (loss)	5.4	46.9	95.6	175.2	151.2	59.8	92.8	100.5	119.3	143.1
Tax	-3.2	-4.6	-30.5	-75.0	-48.7	-47.9	-40.6	-40.0	-43.9	-51.2
Tax-rate	59.6	9.8	31.9	42.8	32.2	80.1	43.8	39.8	36.8	35.8
Minorities	-1.4	-5.9	-4.7	-8.2	-6.2	-8.7	-6.7	-8.2	-9.1	-9.7
Net Profit	0.8	36.4	60.4	92.1	96.4	3.2	45.5	52.3	66.3	82.2

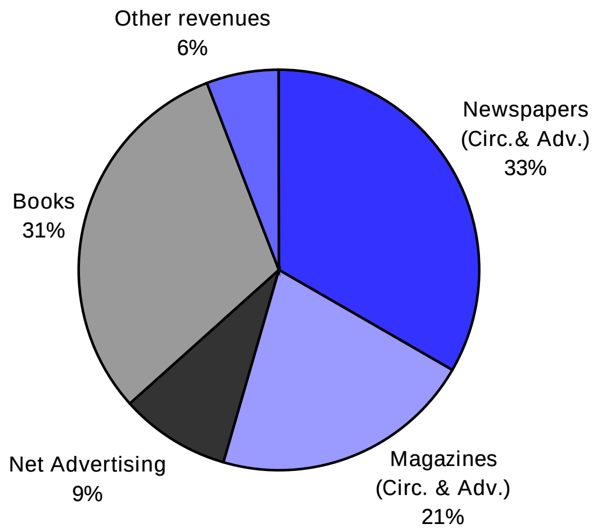
Source: Company data, Deutsche Bank estimates

RCS newspaper business unit

The newspaper business unit is composed of four assets, of which two are of greater importance: the leading Italian newspaper *Corriere della Sera*, and leading Italian sports daily *La Gazzetta dello Sport*. Since September 2001 RCS has also participated in the Italian free press market with its *City* publication. Abroad RCS owns 53% of the Spanish publishing company Unedisa, which prints the second most important daily newspaper in Spain, *El Mundo*.

In 2001 the RCS newspaper division posted total revenues of Euro 669.3m, accounting for the 33% of group sales.

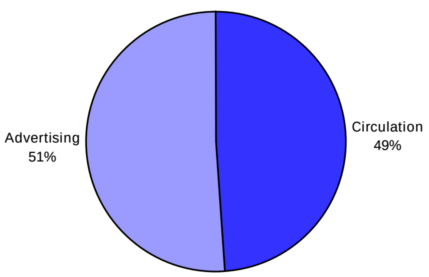
Figure 14: **RCS Group: 2001 divisional revenues breakdown (%)**



Source: Company data, Deutsche Bank estimates

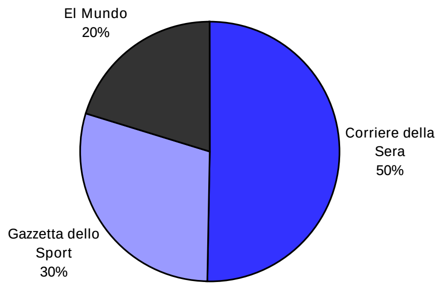
Splitting the RCS newspaper divisional revenues by circulation and advertising, we estimate that in 2002 advertising revenues should come to Euro 356.1m (51% of the total newspaper division revenues) and that circulation revenues should account for Euro 342.4m.

Figure 15: **2002Newspaper division: revenues breakdown %**



Source: Deutsche Bank estimates

Figure 16: **2002Newspaper: circulation revenues breakdown by single newspaper (%)**



Source: Deutsche Bank estimates

Corriere della Sera and *La Gazzetta dello Sport*

RCS publishes "*Corriere della Sera*", Italy's top-selling national daily newspaper with an average 714,397 copies sold in 2001. The group also publishes the leading sports daily *"La Gazzetta dello Sport"*, which had a daily circulation of around 441,000 in 2001.

In the Italian publishing arena the major competitor to the RCS group is the Espresso group.

In 2000, the RCS group titles accounted for 19.0% of the Italian newspaper market in terms of copies circulated, and a 19.8% share of readership. With an average daily circulation of 1.156m copies in 2001, RCS ranks second in Italian newspaper publishing, head to head with the Espresso group, which sold 1.159m copies. In national readership, RCS is the Italian leader with a 19.8% market share, ahead of Espresso group with 19.5%.

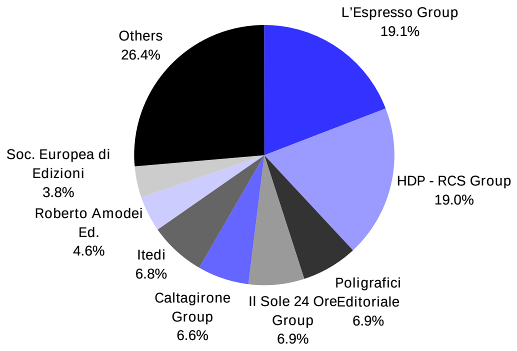
Table 14: **2001Italian major newspapers**

Group	Newspapers Owned	Average Circulation	Share of nat. circulation (%)	Average daily readers 2001	Share of nat. readership (%)	Readers per copy sold
L'Espresso Group		1,159	19.1	5,825	19.5	5.0
	La Repubblica	651	10.7	2,673	8.9	4.1
	Espresso local dailies	508	8.4	3,152	10.6	6.2
RCS Group		**1,156**	**19.0**	**5,940**	**19.8**	**5.1**
	Corriere della Sera	714	11.8	2,825	9.4	4.0
	La Gazzetta dello Sport	441	7.3	3,115	10.4	7.1
Poligrafici Editoriale		419	6.9	2,482	8.3	5.9
	Il Giorno	86	1.4	411	1.4	4.8
	Il Resto del Carlino	184	3.0	1,135	3.8	6.2
	La Nazione	150	2.5	936	3.1	6.2
Il Sole 24 Ore Group		417	6.9	1,421	4.7	3.4
	Il Sole 24 Ore	417	6.9	1,421	4.7	3.4
Caltagirone Group		398	6.6	2,170	7.2	5.4
	Il Messaggero	291	4.8	1,350	4.5	4.6
	Il Mattino	107	1.8	820	2.7	7.7
Itedi		414	6.8	1,645	5.5	4.0
	La Stampa	414	6.8	1,645	5.5	4.0
Roberto Amodei Ed.		277	4.6	1,706	5.7	6.2
	Corriere dello Sport Stadio	277	4.6	1,706	5.7	6.2
SEE		228	3.8	839	2.8	3.7
	Il Giornale	228	3.8	839	2.8	3.7
Others		1,606	26.4	7,965	26.6	5.0
Total Italian Market		6,074.3	100	29,993	100.0	4.9

Source: FIEG 2001; ADS 2001; Audipress 2001

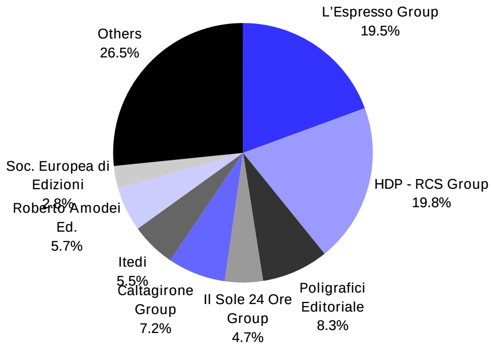
The two leading daily titles compete in the national newspaper sector (*Corriere della Sera* owned by RCS vs. *La Repubblica* owned by Espresso).

Figure 17: **Italian newspaper market by circulation %**



Source: FIEG 2001

Figure 18: **Italian newspaper market by readership %**



Source: Audipress 2001

Under the present Media cross-ownership law, no single publisher can control more then 20% of total national running (copies printed). Espresso and RCS have almost reached that limit with 19.1% and 19%, respectively. In 2001 the top two daily newspaper publishers accounted for a 38.1% and 39.3% respective share of national readership, while the top five publishers had 58.7% and 59.8% respectively.

Table 15: **Italian newspaper market in 2001**

	Average Circulation	Share of national circulation (%)	Average daily readers	Share of national Readership (%)
Top 2	2,315	38.1	9,099	39.3
Top 5	3,549	58.4	17,838	59.5
Others	2,525	41.6	12,155	40.2
Total Italian Market	6,074	100	29,993	100

Source: FIEG, ADS, Deutsche Bank estimates

Taking the Italian newspaper market as a whole, the highest selling titles are *Corriere* and *La Repubblica*. The third is *La Gazzetta dello Sport*, owned by the RCS group, selling 0.441m copies daily and with the highest national readership, 3.115m readers or a 10.4% market share.

Corriere della Sera

In 2001 *Corriere della Sera* had a circulation of 714,397 copies and a readership of 2.825m per day. Compared with La Repubblica, its main competitor, Corriere is perceived as more independent, while the Espresso national newspaper has a clear centre-left political orientation.

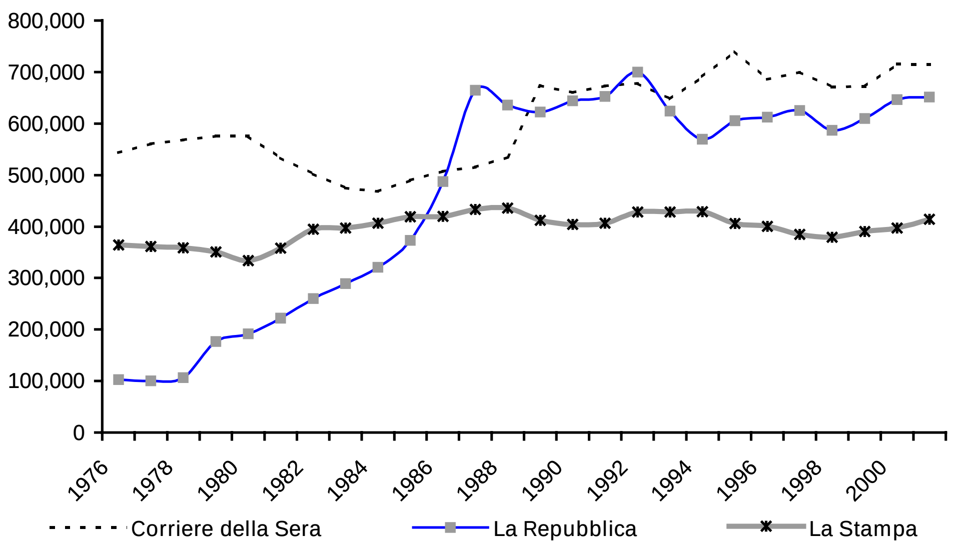
The RCS national newspaper leads both in terms of copies sold (0.714m compared to 0.651m) and of national readership (2.825m copies compared to 2.673m copies for the Espresso national newspaper). The third-highest selling national daily is *La Stampa*, owned by the Fiat Group, with a circulation of 0.413m copies.

Table 16: **2001 Italian major newspapers**

Title	Type of newspaper	Avg. Circulation (x000)	Share of national circulation (%)	Avg. daily readers (x000)	Share of national readership (%)
Corriere della Sera	National	714.4	11.8	2,825	9.4
La Repubblica	National	651.3	10.7	2,673	8.9
La Gazzetta dello Sport	Sports	441.2	7.3	3,115	10.4
Il Sole 24 Ore	Financial	417.1	6.9	1,515	5.1
La Stampa	National	413.7	6.8	1,820	6.1
Il Messaggero	Multi-regional	291.3	4.8	1,365	4.6
Corriere dello Sport Stadio	Sportive	276.9	4.6	1,559	5.2
Il Giornale	National	228.2	3.8	904	3.0
Il Resto del Carlino	Multi-regional	183.5	3.0	1,069	3.6
La Nazione	Multi-regional	150.0	2.5	865	2.9
Il Gazzettino	Multi-regional	135.8	2.2	739	2.5
Il Secolo XIX	Regional	122.2	2.0	592	2.0
Tuttosport	Sportive	136.8	2.3	868	2.9
Il Mattino	Regional	107.2	1.8	774	2.6
Avvenire	National	92.2	1.5	229	0.8
Il Giorno	Local	85.6	1.4	386	1.3
Il Tirreno	Regional	90.8	1.5	575	1.9
Italia Oggi	Financial	79.3	1.3	179	0.6
L'Unione Sarda	Regional	68.2	1.1	282	0.9
Il Giornale di Sicilia	Regional	69.7	1.1	430	1.4
La Sicilia	Local	65.4	1.1	448	1.5
La Nuova Sardegna	Local	63.3	1.0	327	1.1
La Gazzetta del Sud	Multi-regional	61.0	1.0	387	1.3
La Gazzetta del Mezzogiorno	Regional	62.8	1.0	557	1.9
Others		1,066.7	17.6	5,510	18.4
Total		6,074.3	100.0	29,993	100.0

Source: FIEG 2001; Audipress 2001

Figure 19: **Circulation of the Italian leading national newspaper (by unit)**



Source: FIEG 2001, ADS 2001

RCS strategy for its national newspaper has been twofold:

- A brand extension strategy with the introduction of supplements.
- To become more local, launching a series of local supplements to the national edition.

RCS started to implement its strategy of brand extension in 1987. In an effort to gain market share, most national newspaper publishers have started to include supplements and inserts at a low price and often even for free.

At the end of 1996 RCS launched *Io Donna,* a weekly supplement for women, to go out with Corriere. This initiative was followed by its national competitor La Repubblica. Recently La Repubblica decided to sell its female supplement "D la Repubblica delle Donne" on Saturday rather than on Tuesday in order for it to come out on the same day as Corriere's supplement.

Other key Corriere supplements and examples of brand extension include Sette and TV Sette, which accompany the newspaper on Thursday. Io Donna and Sette/TV Sette enabled RCS to raise the cover price from the standard Euro 0.90 to Euro 1.20.

Table 17: **Corriere supplements**

Magazine Title	Subject	Distribution day	Premium price	Launched
Corriere Economia/Corriere Soldi	Business / Finance	Monday Tuesday	Free	2000
ViviMilano/TrovoCasa	Milan City Guide/Real Estate mkt	Wednesday	Free	1987
Sette/TV Sette	Newsmagazine, Family & TV guide	Thursday	Euro 0.30	1987/1992
Corriere Lavoro	Job offers	Friday	Free	1994
Io Donna	Women	Saturday	Euro 0.30	1996
CorriereSalute	Health	Sunday	Free	1999

Source: RCS Group

After La Repubblica's success with its "La biblioteca di Repubblica" promotion, a series of 50 pieces of contemporary literature, distributed on Tuesdays as an optional supplement for an additional Euro 4.90, Corriere has decided to follow suit with a similar promotion.

In addition, starting from September 2002, Corriere has launched a series of videos of blockbuster movies distributed every Monday and Friday as an optional supplement to the newspaper for an additional Euro 3.50.

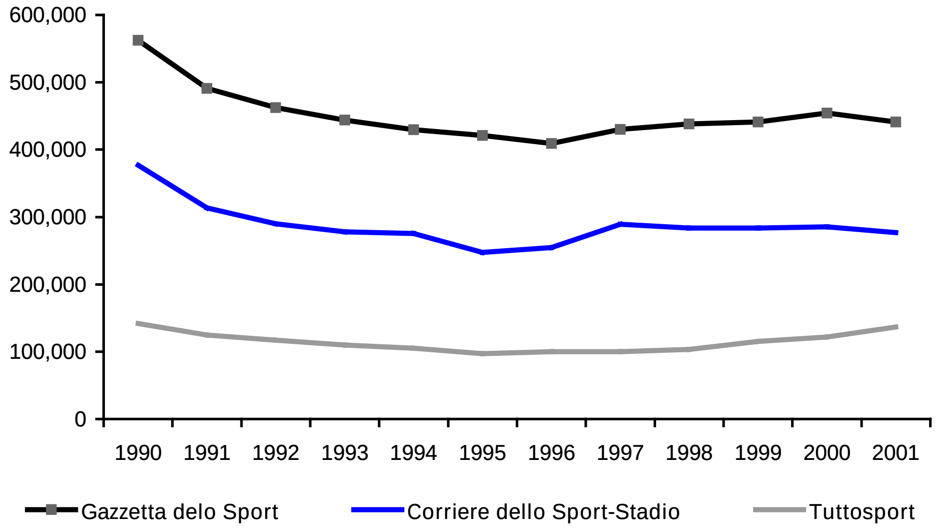
We estimate that the book and movie promotions will completely offset the decline registered in 2002 by *Corriere* in terms of advertising revenues.

RCS's other approach has been to introduce local sections in order to become a national newspaper with a strong local flavour. This strategy led to the 1997 launches of *Il Corriere del Mezzogiorno* in the Capania and Puglia regions and *Il Corriere di Como*, which are free supplements to *Corriere*.

La Gazzetta dello Sport

La Gazzetta dello Sport appeared for the first time on 3 April 1896, a few days before the inauguration of the Olympic Games in Athens, the first of the modern era. By 2001 *La Gazzetta dello Sport* had an average circulation of 441,000 copies and was the most read newspaper with 3.115m readers. This newspaper is the leader in the sports segment by a wide margin and Italy's third best selling national daily. There are two daily competitors to La Gazzetta dello Sport: *Il Corriere dello Sport Stadio* with an average circulation of 277,000 copies and *Tuttosport* with 137,000 copies sold. Compared to *La Gazzetta dello Sport*, which has full coverage of all sports, the other two are focused more on football news, with *Corriere dello Sport* providing more information on the Lazio & Roma teams, while *Tuttosport* has more news on Juventus FC.

Figure 20: **Circulation of the Italian leading sport newspapers (by units)**



Source: FIEG 2001, ADS 2001

Recently Mondadori and Mediaset launched a new 64-page full colour Monday magazine "*Controcampo*", focusing purely on football and in particular weekend games. In our opinion this new magazine will mostly affect the Monday circulation of *Corriere dello Sport* and *Tuttosport*, rather than that of *La Gazzetta dello Sport*. In a recent analysts' presentation, the CEO of the newspaper division of RCS, Mr. Enrico Greco, was also of this view. Furthermore, in conjunction with the launch of *Controcampo,* La Gazzetta started a 6-week videocassette promotion, selling for an additional Euro 3.50 the best 150 world-wide goals.

La Gazzetta dello Sport, like *Corriere,* has brought out a series of supplements. The best-known of these is SportWeek, sold with the newspaper every Saturday (for Euro 1.20 vs. the Euro 0.90 cover price on other days).

Financial figures for *Corriere* and *La Gazzetta*

Thanks to the increase in the cover price effected in December 2001 and the books and movie cassettes promotion, we estimate that the RCS newspaper division will be able to offset the decline registered in advertising revenues in full. In 2002 we forecast total net sales of Euro 573.1m (up 3.9% on 2001), with advertising sales declining by 7% and circulation revenues increasing by 18.1%.

For 2003 total net revenues we expect a further increase of 2.5%, obtained thanks to 2.8% growth in advertising revenues and a more limited 2.2% increase in circulation. In 2003 we estimate a more limited recovery for the newspaper, magazine and radio market compared to TV. We detailed our forecast on the Italian advertising market in a note published on 4 October 2002 (*Italian advertising – TV is the only early cyclical*).

We did not include in our estimates any further increase in the newspaper cover price (at present the cover price of " Corriere della Sera" and other main national competitor "La Repubblica" is Euro 0.90).

We estimate the RCS Editori national newspaper division will report 2002 EBITDA of Euro 87.7m (+7.5% vs. 2001), with a margin of 15.3%. As for L'Espresso group and in particular for the La Repubblica division, we estimate that the decline in advertising sales and offset by the the increase in circulation revenues will result in a positive impact at the EBITDA level.

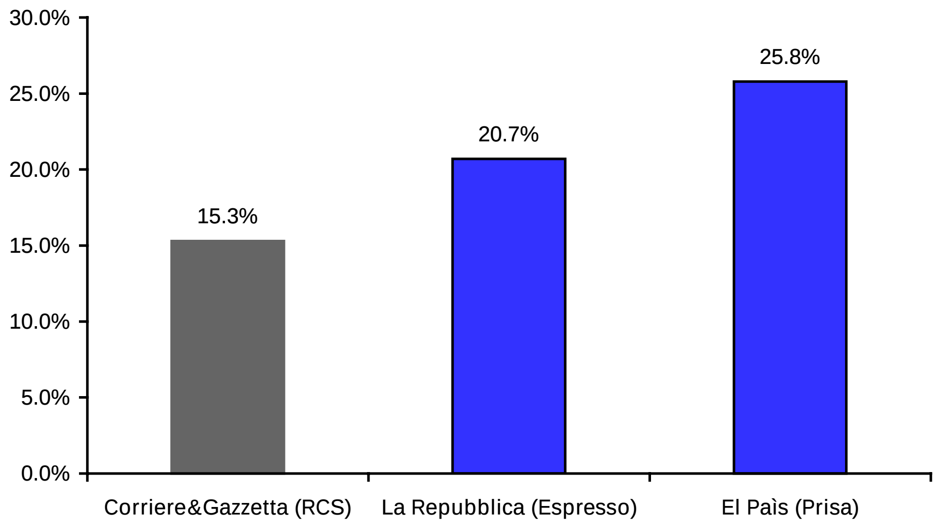
Table 18: **RCS Editori national newspaper division (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total net sales	551.4	573.1	3.9	587.4	2.5	609.3	3.7
Advertising	311.7	290.0	-7.0	298.1	2.8	311.5	4.5
Circulation revenues	239.7	283.1	18.1	289.3	2.2	297.8	3.0
EBITDA	81.6	87.7	7.5	91.3	4.1	95.1	4.2
- EBITDA margin %	14.8	15.3		15.5		15.6	
Depreciation	12.3	13.1	6.5	13.1	0.0	13.1	0.0
EBITA	69.3	74.6	7.6	78.2	4.8	82.0	4.9
- EBITA margin %	12.6	13.0		13.3		13.5	
Goodwill	0.0	0.0		0.0		0.0	
EBIT	69.3	74.6	7.6	78.2	4.8	82.0	4.9
- EBITA margin %	12.6	13.0		13.3		13.5	

Source: Deutsche Bank estimates

Compared to La Repubblica and El Pais, the EBITDA margin of the RCS newspaper division is clearly lower (Fig. 21). For La Repubblica we estimate a 2002 EBITDA margin of 20.7% and 25.8% for El Pais. Since we can identify no major cost differences between Corriere&Gazzetta and La Repubblica, we believe there is a clear opportunity for RCS to grow its newspaper profitability.

Figure 21: **2002 EBITDA margin: a comparison among leading newspapers**



Source: Deutsche Bank estimates

Free Press - City

Three publishing companies are active in the Italian free press market: Metro International, RCS Group and Caltagirone Group.

The Metro Group launched the first free daily paper in Rome on 3 July 2000 and in 2000 total group turnover was Euro 1.7m. For 2001 we estimate that the group's ad revenues should be around Euro 11.4m. The second group to enter the free press market was Caltagirone Editore with the Leggo brand name. The first issue was *Leggo Roma,* launched on 5 March 2001.

The third group to enter this market was RCS with the brand name City. The first issue was launched in Milan on 3 September 2001, which now has an average circulation of 250,000 copies. *City* is the only daily that is allowed to be distributed inside the Milan underground system. In November 2001 *City* launched its Florence and Bologna edition with an average circulation of 120,000 copies.

Table 19: **Italy's free newspaper market**

Title	First issue	Town	Circulation	Publisher	Gross advertising sales (Euro m) 2001	2002E	2003E
Metro	03/07/00	Rome	230,000	Metro International	9.2	13(1)	15(1)
	30/10/00	Milan	220,000				
Leggo	05/03/01	Rome	230,000	Caltagirone Editore	7	14.3(1)	18(1)
	21/05/01	Milan	220,000				
	15/10/01	Turin	80,000				
	12/11/01	Naples	60,000				
	26/11/01	Florence-Bologna	120,000				
	13/05/02	Venezia-Padova-Verona	150,000				
City	03/09/01	Milan	250,000	RCS	1.9	17.4(2)	25.8(2)
	26/11/01	Florence-Bologna	120,000				
	12/02/02	Naples	80,000				
	03/04/02	Rome	220,000				
	08/04/02	Bari-Padova	100,000				

Source: Company data; (1) .Com estimates; (2) Deutsche Bank estimates

In the first four months of 2002 both Caltagirone Editore and RCS launched a free newspaper in more major Italian cities, including Verona, Venezia and Padova. At present Caltagirone has the highest circulation with 860,000 copies followed by City with 770,000 certified copies and Metro with 450,000.

We view the launch of free press dailies in the major Italian cities as a potential threat to low quality local newspapers. Indeed, in Turin, the local daily *Paese Sera* ceased publication after the launch of Leggo led to a strong and immediate fall in its ad revenues and circulation.

We estimate total revenues of Euro 13.6m in 2002 for RCS' free press division, with a negative EBITDA of Euro 8m versus the Euro 4.5m loss registered last year. We expect *City* to achieve EBITDA breakeven in 2004 and EBIT breakeven in 2005.

Table 20: **City: free press division P&L (Euro m)**

	2001	2002E	2003E	2004E
Revenues	1.5	13.6	25.8	28.5
Total costs	6.0	21.6	27.9	28.3
EBITDA	-4.5	-8.0	-2.1	0.2
Depreciation	0.2	0.5	0.9	1.1
EBIT	-4.7	-8.5	-3.0	-0.9

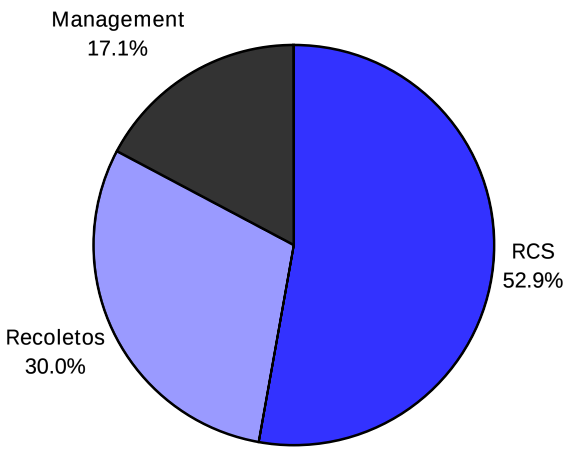
Source: Company data, Deutsche Bank estimates

Unedisa – *El Mundo*

RCS's main foreign market in the dailies sector is Spain, through RCS Iberica, which it controls entirely. RCS Iberica has a 53% share in Unidad Editorial (Unedisa), which prints the Spanish daily *El Mundo*.

The major shareholders of Unedisa are RCS with a 52.9% stake, Recoletos, a leading Spanish publisher controlled by Pearson, and the management/founders with 17.1%. Recoletos acquired 30% of Unedisa in April 1999 for Euro 63.1m.

Figure 22: **Unedisa: main shareholders**

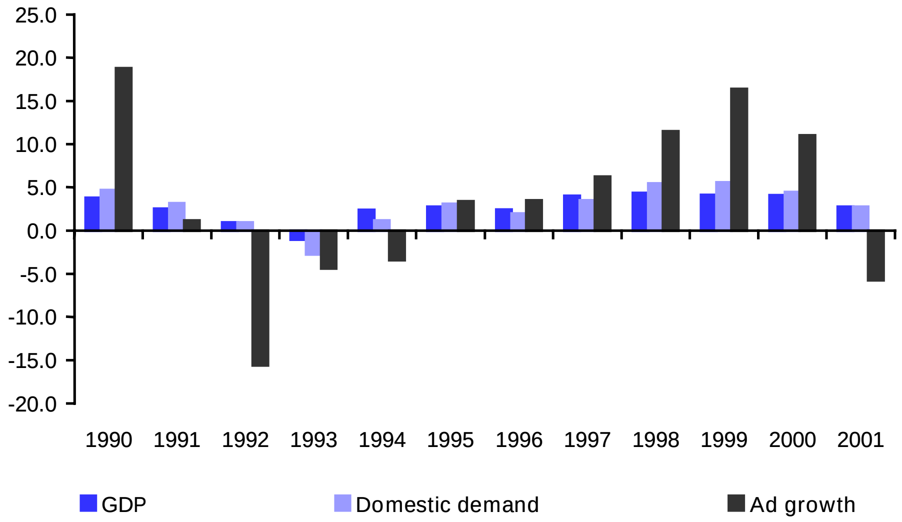


Source: Company data

The Spanish advertising market

Spanish advertising is very sensitive to economic growth and consumer demand, as shown in Figure 23. Spain has been one of Europe's fastest-growing economies over the past five years. GDP growth averaged 3.8% from 1996 to 2001 compared with just 2.6% for Euroland. Moreover, the Spanish advertising market showed 6.9% CAGR nominal from 1995 to 2001 in absolute terms despite a sharp fall in 2001 (see Figure 24). We expect the Spanish advertising market to continue to grow faster than the European average, since we also expect higher-than-average growth for the Spanish economy over 2002-04. On a structural basis, we believe that demand for print media and radio advertising has been supported by saturation of the television market and a consequent 'spillover' to other media.

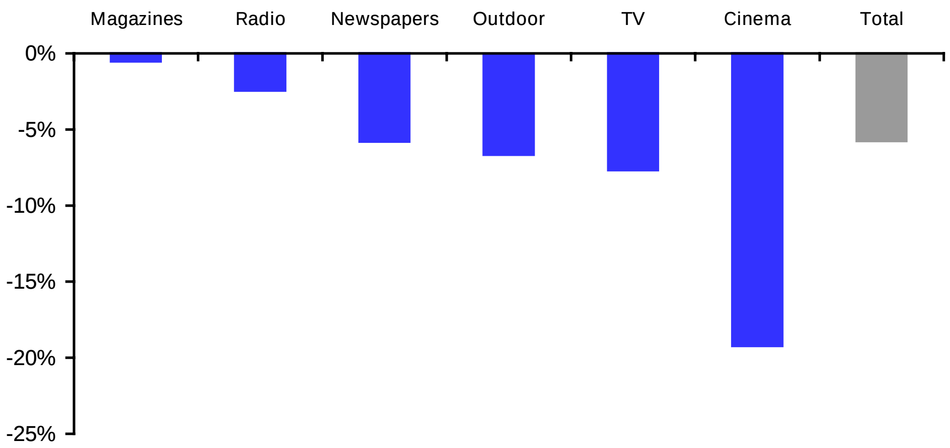
Figure 23: **Spanish GDP, domestic demand and advertising growth**



Source: INE, Zenith Media

As in most Western economies, Spain's advertising downturn in 2001 was led by a sharp fall in telecoms, IT and Internet advertising spend together with a general slowdown in the domestic economy. According to Zenith, total advertising spend in Spain fell by 6% in 2001 from Euro 5,602m to Euro 5,280m, newspapers and TV being strongly affected with contractions of 6% and 8% respectively (see Figure 24).

Figure 24: **Advertising spend decline in Spain in 2001 (%)**



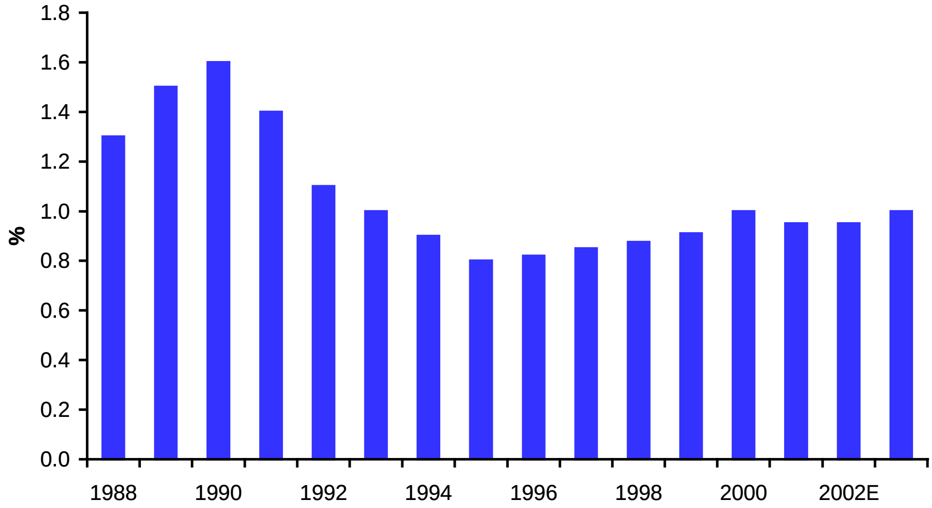
Source: Zenith

The Spanish advertising market is characterised by:

- **Advertising as a % of GDP in line with the European average**
- **Highest share of radio advertising in Europe**
- **Very high TV advertising & low contributions from newspapers**

Spanish advertising spend as a proportion of GDP peaked at 1.6% in 1990 and showed a steady increase from 1995 to 2000. In 2001 the advertising market experienced a strong contraction that reduced its share of GDP (see Figure 25).

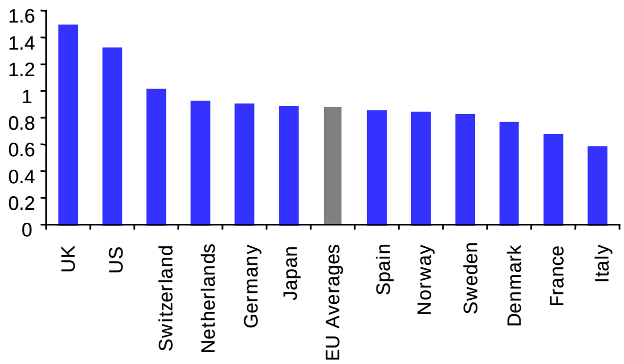
Figure 25: **Spanish advertising spend as % of GDP**



Source: Zenith

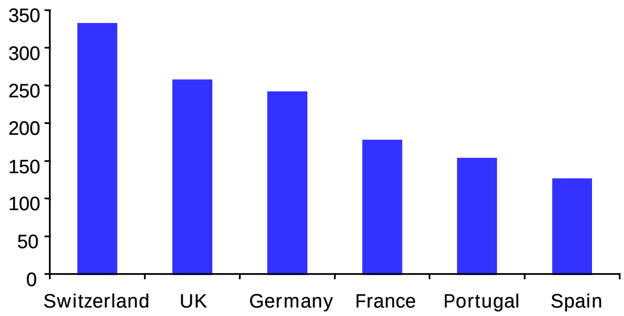
Spanish advertising spend as a proportion of GDP is lower than in the UK and US, but in line with many other European countries (see Figure 26). The differences between Spain and other countries in terms of advertising spend per capita (Figure 27) also relate to its lower GDP per capita. We expect Spanish advertising spend to remain stable or increase slightly as a proportion of total GDP. However, since our Spanish GDP growth estimates are higher than those for the European average, we also expect higher-than-average growth in advertising spend.

Figure 26: **Advertising expenditure as % of GDP in 2000**



Source: Zenith Media

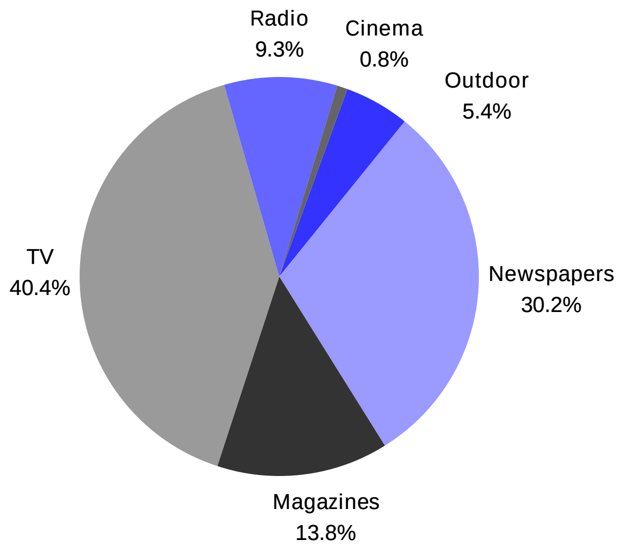
Figure 27: **Advertising expenditure per capita in 2000 (Euro)**



Source: Zenith Media

The breakdown of the Spanish advertising market by revenue is shown in Figure 28. In common with other Southern European markets, advertising spend is dominated by television. Around 40% of advertising revenues in 2001 were derived from TV (vs 52% in Italy, 57% in Portugal).

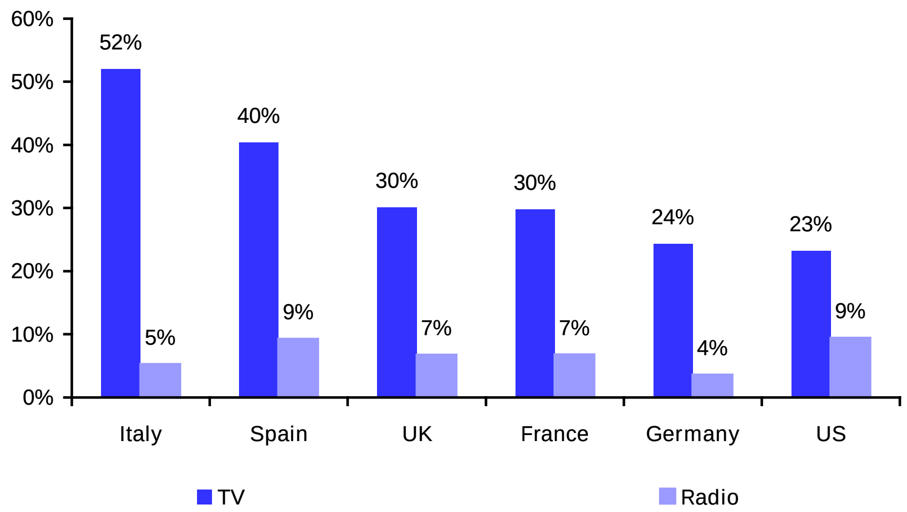
Figure 28: **Spain: Share of adspend by medium (%), 2001**



Source: Zenith

Radio's 9.3% share of the total media market in Spain is the highest of all the major European markets.

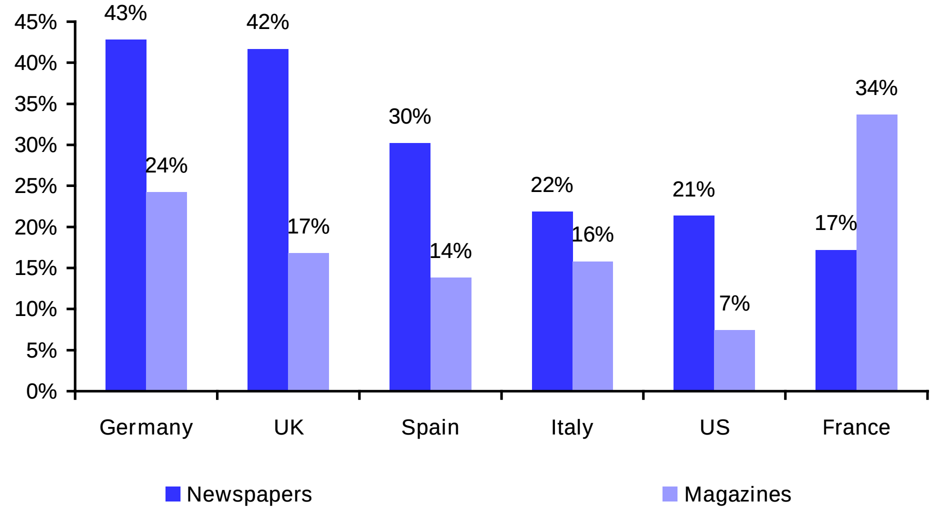
Figure 29: **Europe: Broadcast advertising as % of total adspend, 2001**



Source: Zenith

Conversely, Spanish print advertising spend (newspapers and magazines) is below the European average. Newspaper advertising spend is shown in Figure 30. We believe that newspapers should continue to benefit from spillover demand from TV advertising, given their high readership reach and coverage.

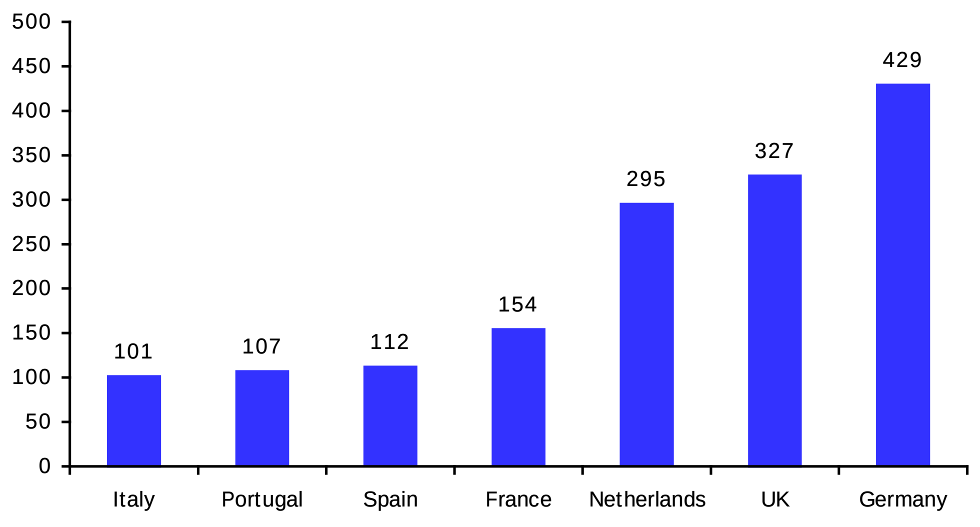
Figure 30: **Europe: Print advertising as % of total adspend (2001)**



Source: Zenith

Circulation of daily newspapers in Spain is 112 per 1,000 inhabitants, relative to a European average of 218. Historically, low newspaper readership in Spain has been reflected in a relatively low aggregate daily reach of newspapers of just 38% of the adult population. This is a common feature of the southern European markets of Spain, Portugal and Italy. In more mature newspaper markets, such as Germany, the UK and the Netherlands, newspaper reach is over 70% (source: Media Edge).

Figure 31: **Daily newspaper circulation per 1,000 inhabitants, 2000**

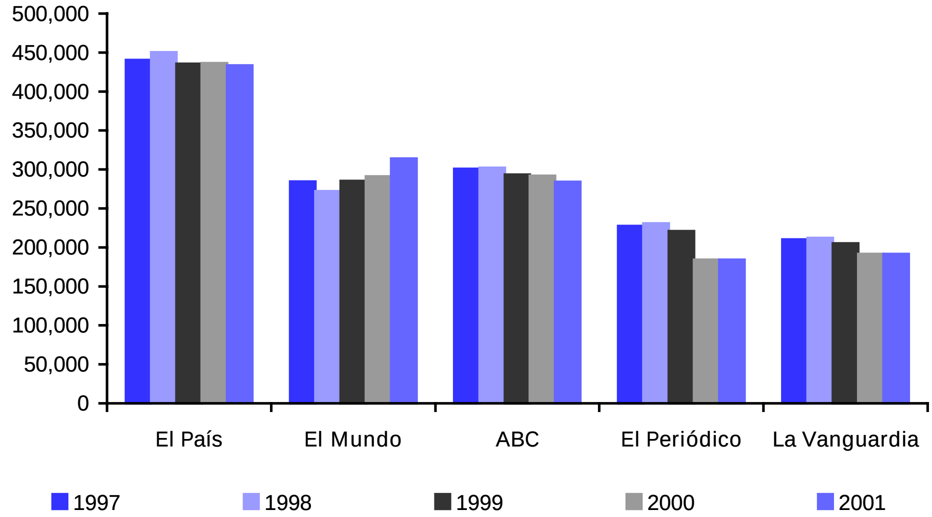


Source: Media Edge

Unedisa

Unedisa publishes *El Mundo*, Spain's second general Spanish newspaper after *El Pais* (Prisa) in terms of average daily readership and circulation. *El Mundo* was created in 1989, since when it has positioned itself strongly in the area of investigative journalism, with a strong rivalry with *El Pais. El Mundo* has national coverage, with 14 regional editions and eight supplements. It has also been a pioneer in the use of new illustration techniques.

Figure 32: **Daily circulation of Spanish general interest newspapers**



Source: Company data, OJD

El Mundo

El Mundo has been the only major newspaper to increase its circulation since 1998, despite increases in the cover price. At present the cover price is Euro 1 (raised from Euro 0.75 in September 2000 and Euro 0.9 in March 2002). Furthermore El Mundo's management was the first to launch book promotions.

Recoletos has followed a strategy of co-operation with El Mundo, currently consisting of the joint publication of supplements *("Expansion y Empleo*" and "*Nueva Economía*"), and joint distribution and negotiation of paper supply agreements. In future both groups want to co-operate in the areas of advertising sales, broader content sharing and to launch joint projects in Radio, TV and telecoms, such as Local Multi-Point Distribution Systems (LMDS).

Elmundo.es

Unedisa established this Internet portal back in 1995. At the end of 2001, elmundo.es had over 60 million page views and was the first on-line newspaper for web pages visited. El Mundo has developed a search engine called Ariadna and an ISP in association with Comunitel called Mundo Free. El Mundo has also launched several vertical portals in the book, travel, health, business and wine segments, among others.

El Mundo Television

El Mundo Televisión is a production company that sells content to Antena 3, Tele 5 and different Spanish national channels including TVE. The company produces TV programmes both independently and in association with other TV production companies.

RCS Editore consolidates Unedisa proportionally. For 2002 we estimate that Unedisa will increase revenues by 4.9% to Euro 230.3m. EBITDA should decline by 4.4% to Euro 21.6m, mainly due to higher promotional spending.

Table 21: **Unedisa main figures (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total Net sales	219.6	230.3	4.9	236.4	2.6	247.0	4.5
EBITDA	22.6	21.6	-4.4	23.2	7.2	24.9	7.7
- EBITDA margin %	10.3	9.4		9.8		10.1	
Depreciation	13.4	14.8		15.0		15.2	
EBITA	9.2	6.8	-26.1	8.2	20.0	9.7	19.4
- EBITA margin %	4.2	3.0		3.5		3.9	
Goodwill	0.5	0.2		0.2		0.2	
EBIT	8.7	6.6	-24.1	8.0	20.6	9.5	19.9
- EBIT margin %	4.0	2.9		3.4		3.9	

Source: Company data, Deutsche Bank estimates

On this basis, in the RCS accounts Unedisa's 2002 total net sales will be equal to Euro 112.1, of which circulation will increase by 7.6% and advertising revenues by 1.4%. We expect Unedisa to register a consistent recovery of the advertising revenues only from 2004. We forecast 2002 EBITDA to reach Euro 11.4m, with a margin of 9.4%.

Table 22: **Unedisa main figures consolidated at 52.9% (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total Net sales	116.4	122.1	4.9	125.3	2.6	130.9	4.5
- circulation	64.6	69.5	7.6	71.3	2.5	73.4	3.0
- advertising	51.8	52.5	1.4	54.0	2.8	57.5	6.5
EBITDA	11.3	11.4	1.3	12.3	7.2	13.2	7.7
- EBITDA margin %	9.7	9.4		9.8		10.1	
Depreciation	6.7	7.8		8.0		8.1	
EBITA	4.6	3.6	-21.7	4.3	20.0	5.2	19.4
- EBITA margin %	4.0	3.0		3.5		3.9	
Goodwill	0.3	0.1		0.1		0.1	
EBIT	4.4	3.5	-19.6	4.2	20.6	5.1	19.9
- EBIT margin %	3.7	2.9		3.4		3.9	

Source: Company data, Deutsche Bank estimates

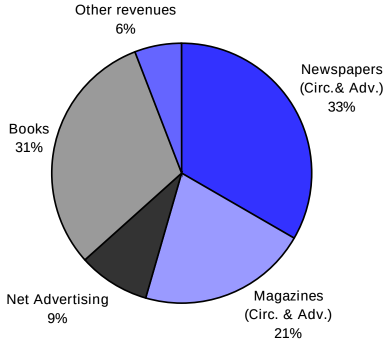
As with the RCS national newspaper division, Unedisa's profitability is lower than that of the main southern European national newspaper companies. Like Corriere and La Gazzetta, Unedisa's EBITDA margin is clearly lower than its main Spanish competitor El Paìs (9.4% in 2002 vs. 25.8% for the Spanish leading newspaper). In future we expect the management to focus more on cost control and in increasing the Unedisa group EBITDA margin.

RCS magazine business unit

The RCS Group operates in the Italian magazine market through RCS Periodici (RCS Magazines), which is 70% controlled by RCS Editori (the remaining 30% is held by the German publisher Burda). In the international markets RCS operates through Burda RCS International Holding, of which the Italian company controls the 50%.

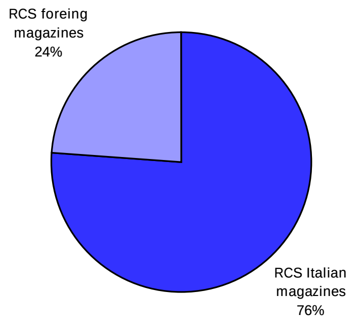
In 2001 the RCS magazine business unit posted total revenues of Euro 430.5m, accounting for 21% of total group sales. Splitting the RCS magazine divisional revenues by circulation and advertising, we estimate that in 2002 Italian magazine divisional sales should be Euro 302.1m (equal to 76% business unit total sales), while foreign magazine revenues should account for Euro 94.2m.

Figure 33: **RCS Group: 2001 divisional revenues breakdown (%)**



Source: Company data; Deutsche Bank estimates

Figure 34: **2002 breakdown between Italian and foreign magazines revenues (%)**

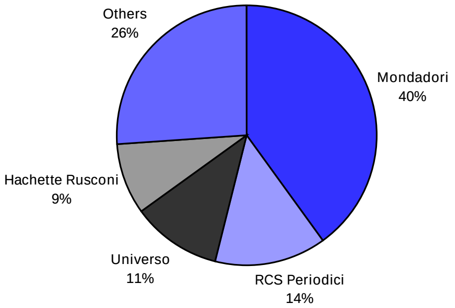


Source: Deutsche Bank estimates

Italian magazine division – RCS Periodici

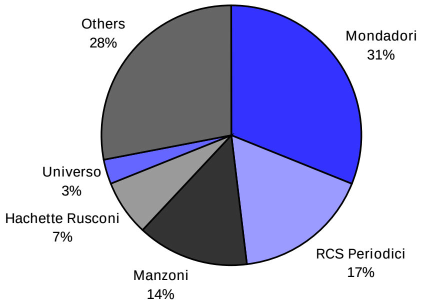
RCS Periodici is the second largest publisher of magazines in Italy after Mondadori, with market shares in circulation and advertising of 14% and 17% respectively. Market leader Mondadori has a 40% share in circulation; other important competitors are Universo with 11% of the market and Rusconi-Hachette with 9%.

Figure 35: **Italian magazine market - copies sold (2001)**



Source: ADS 2001

Figure 36: **Italian magazine ad market - value (2001)**



Source: AC Nielsen

RCS Periodici's portfolio has at least one publication targeted on every market segment. The group concentrates particularly on women's, family, gossip, interior design and childcare magazines. It publishes more than 30 titles and its top selling ones are:

1. Oggi, a weekly family magazine with an average circulation of 7743,000 copies in 2001.

2. Il Mondo, a weekly financial magazine sold on Friday together with *Corriere della Sera* for an extra of Euro 0.90. In 2001 the average circulation was 100,000 copies.

3. Novella 2000, a weekly society news and gossip magazine with an average circulation of 179,000 copies.

4. Max, the highest selling monthly current affairs and entertainment magazine for young people.

5. Anna, a leader of women's weekly top segment with an average circulation of 303,000 copies.

6. Newton, a science monthly with an average circulation of 171,000 copies.

7. Amica, now a top-end women's monthly magazine.

In the second half of 2000 RCS acquired all the publishing and direct marketing activities of Sfera Editore, a company in operation since 1983 in the magazine sector and specialising in childcare and cosmetics publications. Thanks to this acquisition RCS has gained the leadership in several segments, such as top quality women's magazine, family magazines and those on children, cosmetics and furnishings.

RCS Periodici also has an equal joint venture with De Agostini (Darp – De Agostini Rizzoli Periodici), which publishes a number of titles, of which the most important ones are in the travel segment (*Dove* and *Gulliver*).

At the end of January 2002 RCS agreed to sell its stake in EDIF, a joint venture between RCS and Hachette that was publishing two monthly magazine in Italy: Elle and Elle Décor. As a consequence, RCS re-styled and repositioned its weekly medium-end women's magazine *Amica* as a top-end monthly women's magazine.

In October 2002 RCS decided not to renew the contract with Cairo Communication for the concession of the advertising collection for the magazines *Anna*, *Oggi*, *Salve*, *Novella 2002* and *Visto*, due to expire on 31 December 2002.

Forecasts for the Italian magazine division

In 2002 we expect the RCS Italian magazine division to register a total sales decline of 9.6% due to a 12.4% decrease in advertising and fall in circulation of 13.3%. The decrease in circulation is mainly due to the disposal of EDIF, for which turnover amounted to Euro 20m and EBIT to Euro 4.5m.

For 2003 we expect total net revenues to rise 3.6%, thanks to forecast growth in advertising revenues of 4.2% and a more limited 2.9% increase in circulation.

Table 23: **RCS Italian magazine division (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total sales	334.1	302.1	-9.6	312.8	3.6	324.0	3.6
- Advertising	169.6	148.5	-12.4	154.7	4.2	161.2	4.2
- Circulation	148.1	128.4	-13.3	132.1	2.9	136.0	2.9
- Others	16.4	25.2	53.7	26.0	3.1	26.8	3.1
EBITDA	20.6	16.4	-20.4	17.8	8.7	19.4	9.0
- EBITDA margin %	6.2	5.4		5.7		6.0	
Depreciation	4.1	3.7		3.8		3.8	
EBITA	16.5	12.7	-23.0	14.0	10.5	15.6	11.5
- EBITA margin %	4.9	4.2		4.5		4.8	
Goodwill	8.0	8.0		8.0		8.0	
EBIT	8.5	4.7	-44.7	6.0	28.3	7.6	26.6
- EBIT margin %	2.5	1.6		1.9		2.4	

Source: Deutsche Bank estimates

We estimate that in 2002 the RCS Italian magazine division will report EBITDA of Euro 16.4m (-20.4% vs. 2001), with a margin of 5.4%.

For the last part of 2002 and into 2003, we expect the management to focus on the restyling of the existing magazines and the launch of *Amica*, as a top-end monthly women's magazine. No new launches are expected in 2003.

RCS International magazines – Burda RCS International Holding

The foreign operations of RCS in the magazine division are more significant within the group than those of Mondadori, whose foreign presence amounts to some printing facilities for third parties.

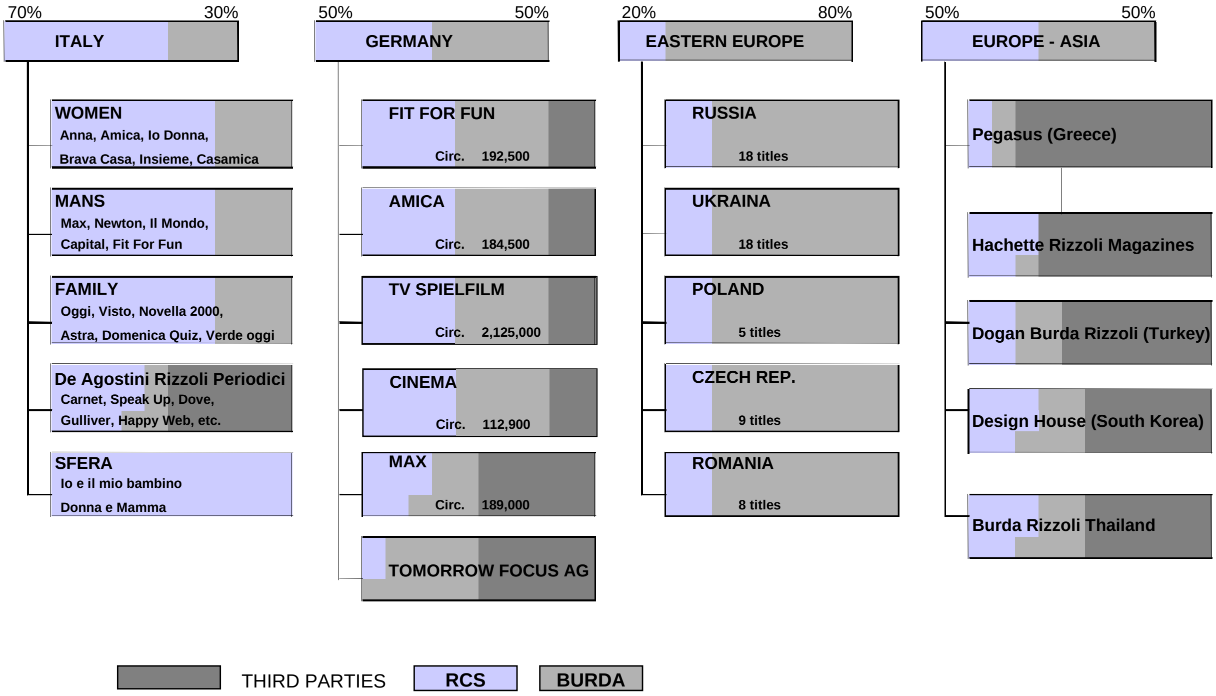
The company's foreign presence expanded in 1995 when the group entered a wide-ranging agreement with the German magazine publisher Burda, which took a 20% (now elevated to 30%) stake in RCS Periodici and a 50% stake in Fabbri Verlag (now Burda Rizzoli Verlag).

RCS Editori owns a 50% share in Burda RCS International Holding, based in Germany, set up by RCS and Burda to explore publishing opportunities in new markets, and a 20% share in the sub-holding Burda Verlag Osteuropa, which publishes a series of titles in Eastern Europe.

In Germany, Burda RCS International Holding controls the publishing companies in the Milchstrasse Group, which publishes some of RCS's most successful titles like *Amica*, *Fit For Fun* and *Max*, but also the bi-weekly magazine *TV Spielfilm* and the monthly *Cinema*.

Through Burda RCS International Holding, RCS is also active in Greece (Pegasus and Hachette Rizzoli Magazines), Turkey, South Korea and Thailand.

Figure 37: **RCS Editori: the magazine division**



Source: Company data

Having registered total net sales for Euro 96.4m in 2001, for 2002 we forecast a 2.3% decline in revenues to Euro 94.2m. In particular, we expect advertising revenues to decline by 4.1% and circulation revenues to increase by 0.8%. On our estimates, 2002 EBITDA should reach Euro 5.7m, thanks to a strong cost-cutting strategy started at the end of 2001.

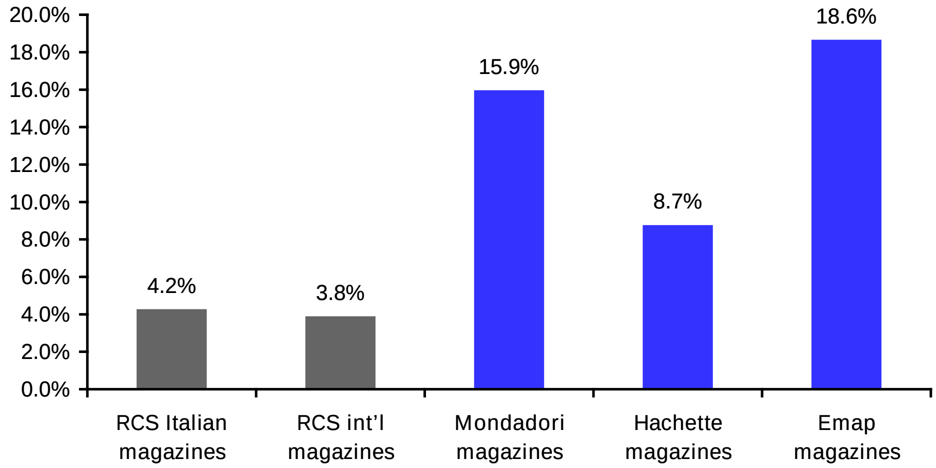
Table 24: **RCS International magazine division (Euro m)***

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total sales	96.4	94.2	-2.3	97.2	3.1	100.2	3.1
- Advertising	60.5	58	-4.1	60.1	3.5	62.2	3.5
- Circulation	35.9	36.2	0.8	37.1	2.5	38.0	2.5
EBITDA	1.8	5.7	216.7	6.0	5.7	6.3	4.8
- EBITDA margin %	1.9	6.1		6.2		6.3	
Depreciation	2	2.1		2.2		2.2	
EBITA	-0.3	3.6	n.m.	3.8	6.2	4.1	7.6
- EBITA margin %	-0.3	3.8		3.9		4.1	
Goodwill	0.0	0.0		0.0		0.0	
EBIT	-0.3	3.6	n.m.	3.8	6.2	4.1	7.6
- EBIT margin %	-0.3	3.8		3.9		4.1	

*Source: Deutsche Bank estimates; * consolidated at 50%*

According to our estimates both the RCS Italian and international magazine divisions will register a lower EBIT margin in 2003 compared to their main European peers. In fact we look for the RCS Italian division to register a 2002 EBIT margin of 4.2%, and the International division 3.8%, versus 15.8% expected for Mondadori, 8.7% for Hachette and 18.6% for Emap.

Figure 38: **2002E EBIT margin: a comparison among European peers**



Source: Deutsche Bank estimates

The company has recently announced that a broader agreement with Burda is under consideration. We estimate that RCS's lower profitability relative to its European peers is partly due to the more limited dimension of the RCS Italian and international magazine divisions and absence of real leadership in any of the magazine markets where the company is present.

RCS advertising division – RCS Pubblicità

The Italian advertising market

After six years of robust and uninterrupted growth and an exceptional performance in 2000 (with investments up 14.5%), the Italian adverting market declined in 2001 by –3.2% and for FY 2002 we are now forecasting a further contraction of 1.9%.

Table 25: **1990-2001 Italian advertising market sub-sectors trend (%)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total ad market	10.9	5.5	5.3	-2.3	-0.2	5.6	8.0	9.8	10.7	11.6	14.5	-3.2
Newspaper	13.0	2.8	2.0	-6.1	-3.8	6.0	8.3	11.5	12.3	14.2	18.2	-5.8
Magazines	3.6	-1.5	7.2	-6.5	-5.4	2.7	4.3	4.8	10.8	10.5	13.6	4.4
TV	13.6	10.2	6.9	1.5	3.4	5.3	8.2	9.3	8.8	10.3	12.4	-4.0
Radio	11.8	5.9	4.3	-2.4	4.3	17.5	17.5	15.1	19.5	16.6	20.6	-11.7
Cinema	8.3	0.0	7.7	0.0	14.3	6.3	6.3	31.6	44.0	16.7	16.7	13.9
Outdoors	4.3	0.0	-2.1	-9.4	-8.7	8.2	8.2	19.5	12.3	11.4	27.1	2.9

Source: Media Key, Zenith, AC Nielsen

As a consequence of the results reported for H1 2002 by the main listed media companies and the Nielsen Media Research advertising data for Jan-July 2002, we cut our estimates for the total Italian advertising market for 2002 and 2003. We now forecast that the Italian advertising market will end 2002 with a decline of 1.8% YoY compared with our previous estimate of a 0.2% decline. In 2003 we look for advertising investment to register a recovery of 4.7% YoY vs. our previous estimate of 6% YoY. The changes are due to a weaker macroeconomic outlook and tougher competition in the not yet consolidated newspaper (publishing) and radio markets. In our opinion this lack of consolidation is the reason why the worst hit areas during the 2001-2002 slowdown in the Italian advertising market have been the newspaper and radio sectors.

Table 26: **2001-2003E Italian advertising market growth by sub-sectors (%)**

	2001	2002E	2003E
Total Advertising market	-3.2	-1.8	4.7
Total Publishing	-2.0	-4.1	3.4
Total TV market	-4.0	0.5	5.7
Total Radio market	-11.7	-6.5	3.5
Outdoors	2.9	-7.5	6.0
Movies	13.9	6.8	6.5

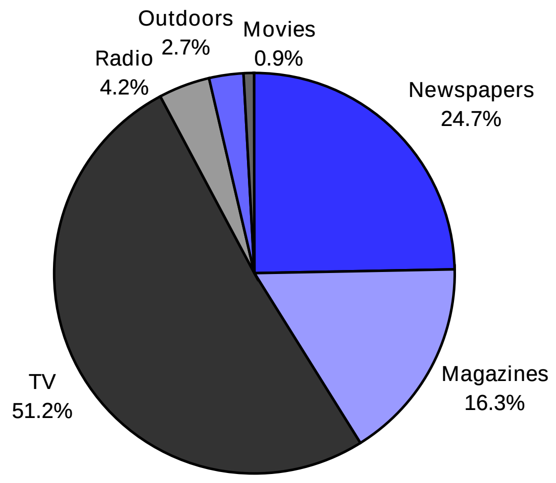
Source: Nielsen Media Research, Deutsche Bank estimates

Structure of the Italian market

The Italian advertising market is characterised by:

- Advertising as a % of GDP is among the lowest of the industrialised countries: in 2001 only 0.63x compared to a European average of 0.84x (source: Zenith).
- Italian advertising spent, in common with other Southern European markets, is dominated by television.

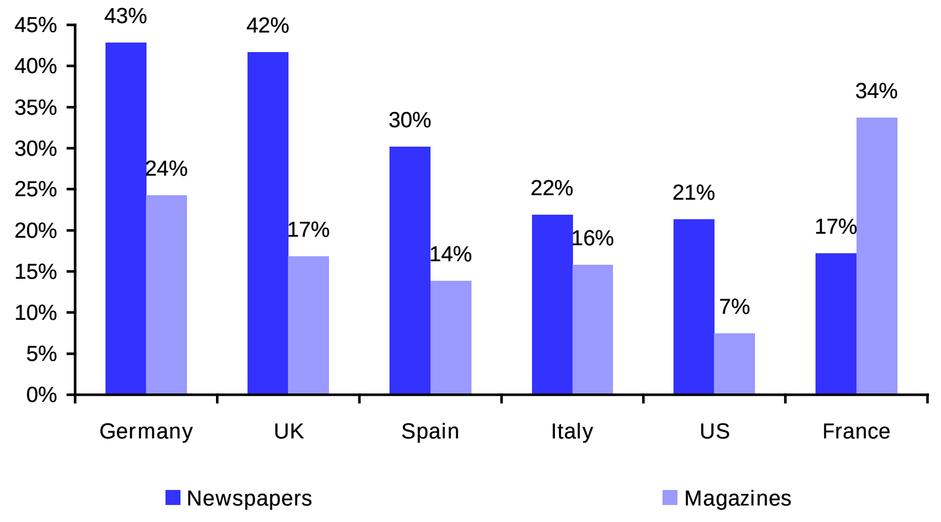
Figure 39: **Italy: share of adspend by medium (%), 2001**



Source: AC Nielsen Research

- As a consequence Italian print advertising – newspaper – is below the European average.
- In our opinion, the below–European-average market share of newspapers is also in part due to the unreliability of newspaper readership surveys compared with highly reliable and precise data on TV audiences.

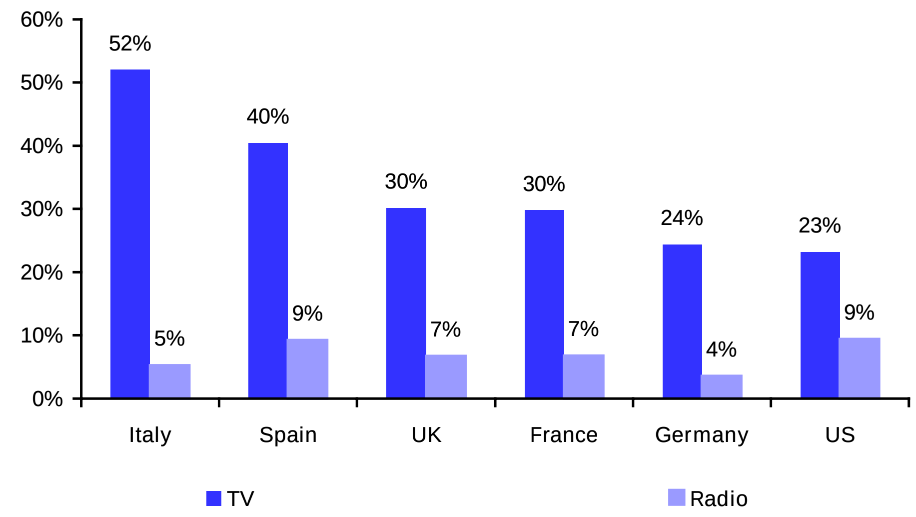
Figure 40: **Europe: Print advertising as % of total adspend (2001)**



Source: Zenith

- Radio's 5% share of the total adspend market in Italy is one of the lowest among all the major European countries. Again, we believe that the reason can be easily found in the highly fragmented radio market.

Figure 32: **Europe: Radio & Broadcast advertising as % of total adspend, 2001**



Source: Zenith

Outlook for 2002 and 2003

We believe that the worst performers in FY 2002 are likely to be the Outdoor and Radio markets with declines of 7.5% YoY and 6.5% YoY, respectively. In 2001 the outdoor advertising was the most used media for the national elections, which took place in May 2001, thus providing an unfavourable basis of comparison for 2002. Hence the strong decline registered in Q1 2002 (-40.2%) will have an impact on the FY 2002 performance. We estimate that newspaper, the second largest sector in term of advertising market share, will post a decrease of 3.7% YoY, with national advertising down 5.8% YoY.

Table 27: **Italian advertising market growth by sub-sectors (%)**

	Q1 2002	Q2 2002	Q3 2002E	Q4 2002E	FY 2002E
Total Advertising	-5.5	-3.0	-1.9	2.9	-1.8
Total Publishing	-8.2	-7.1	-5.8	2.6	-4.1
- Newspapers	-8.1	-6.6	-5.0	3.4	-3.7
- Magazines	-8.3	-6.9	-6.9	0.5	-4.8
TV	-2.3	0.2	2.3	3.3	0.5
Radio	-5.5	-8.4	-7.8	-3.7	-6.5
Outdoors	-40.3	0.2	4.3	5.1	-7.5
Movies	-10.5	16.1	13.2	12.1	6.8

Source: Nielsen Media Research, Deutsche Bank estimates

Due to the weaker-than-expected Italian macroeconomic background, the increase in inflation due to the Euro conversion, the H1 2002 results announced by the listed Italian media companies and the strong competition to the as yet unconsolidated newspaper and radio markets, we have cut our estimates for the total Italian advertising market for 2002 and 2003.

We now forecast that the Italian advertising market will register a 1.8% yoy decline in 2002 (our previous estimate was for –0.2%). In 2003 advertising should register growth of 4.7% YoY vs. our previous estimate of +6%, with only the TV market acting as an early cyclical. We want to underline that the change in our estimate relates mainly to the newspaper, magazine and radio sectors.

In the newspaper and radio segments, many players have cut prices and increased volumes in a move to maintain the same level of revenues as in past years. Simultaneously they have faced strong competition from the TV players who, starting from 2001, have focused not only on the big spenders but also on small accounts (in the past the major or the only investors in the publishing sector). We reiterate that the Italian newspaper and radio sectors are still highly fragmented, with the latter composed of 13 national players and 5 syndicated companies. Accordingly, we now estimate that in 2003 the advertising in publishing sector to increase in 2003 by 3.4% vs. our previous estimate of 5.8%, while radio grows only 3.5% vs. +8.7% previously.

Table 28: **2001-2003E Italian advertising market growth by sub-sectors (%)**

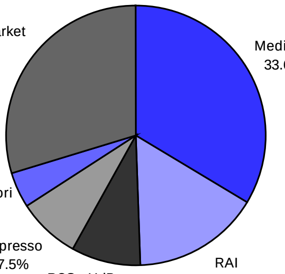
	2001	2002E	2003E
Total Advertising market	-3.2	-1.8	4.7
Total Publishing	-2.0	-4.1	3.4
Newspapers	-5.8	-3.7	3.3
-National advertising	-11.5	-5.8	3.3
-Local advertising	10.5	2.8	3.2
-Classified	-4.3	-5.1	3.3
Magazines	4.4	-4.8	3.7
Total TV market	-4.0	0.5	5.7
-Rai	-11.5	1.3	5.1
-Mediaset	0.5	0.1	6.0
-La7	-16.7	-2.3	4.5
-Mtv / Rete A	0.0	8.7	7.2
Total Radio market	-11.7	-6.5	3.5
Outdoors	2.9	-7.5	6.0
Movies	13.9	6.8	6.5

Source: Nielsen Media Research, Deutsche Bank estimates

RCS advertising business unit – RCS Pubblicità

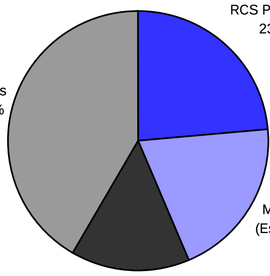
RCS Pubblicità is the group advertising arm and in 2001 was the third largest advertising player in the Italian market with a share of 8.6%. The top two players were the TV companies, Mediaset (Publitalia), with a 33.6% share, and the state-owned Rai (Sipra) with a 16.0% share.

Figure 41: Italian major advertising players in 2001 based on net revenue (%)



Source: Company data; Deutsche Bank estimates

Figure 42: Advertising market share of main publishers in the Italian press mkt (%)



Source: Company data

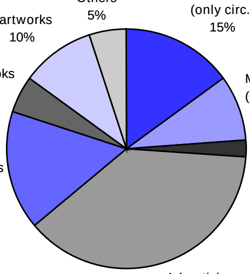
Among the Italian publishers, RCS Pubblicità ranks first in terms of advertising market share in the publishing market, with a 2001 market share of 23.5%. The second largest publishing player is Espresso Group with total sales of Euro 646.9m, while Mondadori ranks third with Euro 421.5m.

Table 29: Italian major advertising sales house in the publishing sector (2001)

Advertising sales house	Owner	Turnover (Euro m)
RCS Pubblicità	RCS Editori	661.5
La Manzoni	Espresso Group	646.9
Mondadori Pubblicità	Mondadori Group	421.5
Publikompass	Itedi (Fiat)	302
24Ore System	Il Sole 24 Group	245
Cairo Communication	Cairo Communication	159
Spe	Poligrafici Editoriale	158
Piemme	Caltagirone Editore	154
Rusconi	Rusconi-Hachette	115

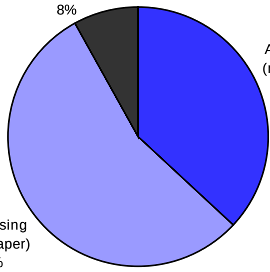
Source: Company data

Figure 43: RCS – breakdown of revenues – by product (%)



Source: Company data

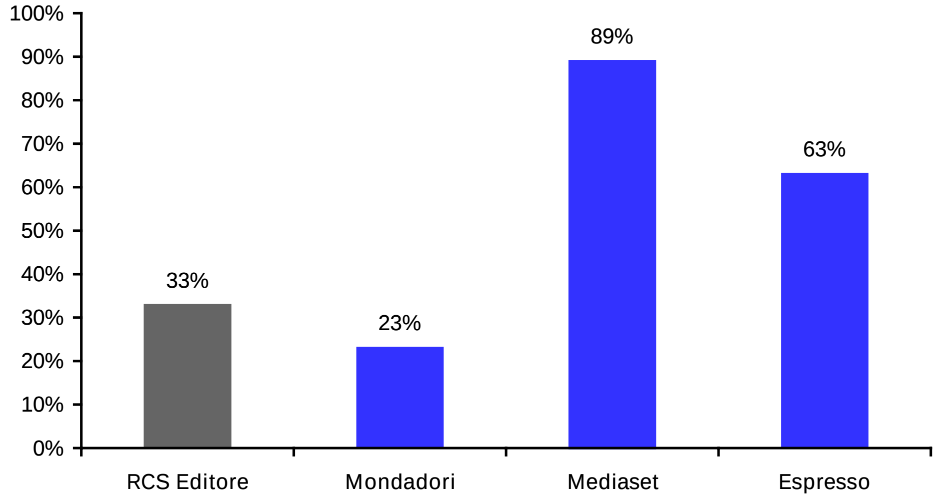
Figure 44: RCS Pubblicità: advertising breakdown by sector weight (%)



Source: Company data

In 2001, RCS's advertising revenues as a percentage of total sales were 38%. Of the total advertising revenues posted in 2001, 55% came from the newspaper sector, 37% from the magazine segment and the rest from the outdoor market. RCS Editori Group is the listed company with the lowest exposure to advertising investment after Mondadori with 23%.

Figure 45: Main Italian media companies: 2001 advertising revenues as % of total sales



Source: Company data, Deutsche Bank estimates

RCS Pubblicità operates through a nation-wide sales network, with its own branches and exclusive agents. In 2001 staff numbers totalled over 450.

RCS Pubblicità also sells advertising for third parties in Italy, such as the International Herald Tribune and its supplement Italy Daily, El Mundo and foreign publications linked to the RCS Group, like Max in Germany.

Following a trend common to all the advertising concessionaires, which aim to offer a comprehensive product range to their clients, in the past two years RCS Pubblicità has diversified into new segments through acquisitions and alliances.

Table 30: Products range of the Italian main advertising sales houses

Concessionaires	TV	Thematic Channels	National Newspapers	Local Newspapers	Free Press	Magazine	Radio	Outdoor
Publitalia (Mediaset)	X	X						
Sipra (RAI)	X	X					X	
RCS Pubblicità		X	X	X	X	X	X	X
La Manzoni (Espresso)		X	X	X		X	X	
Mondadori Pubblicità			X			X		X
Publikompass (Itedi Group)	X	X	X	X		X	X	
24Ore System (Sole 24Ore)		X	X			X	X	
Cairo Communication		X				X		
Spe (Poligrafici Ed. Group)				X		X	X	

Source: Company data, Deutsche Bank estimates

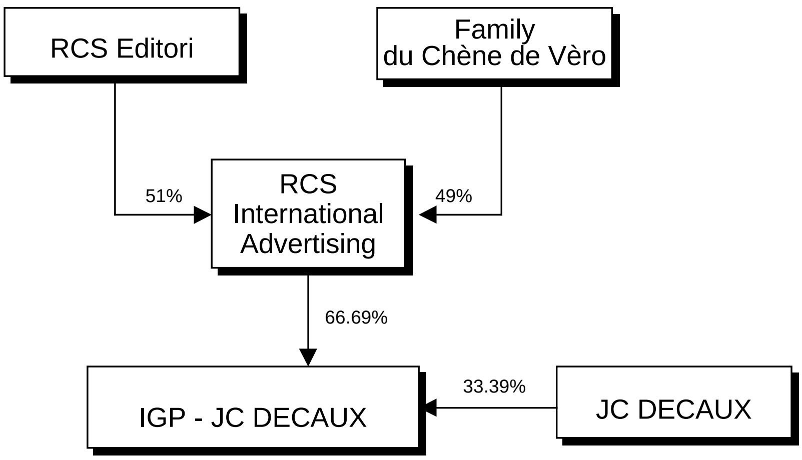
Today RCS Pubblicità is the most diversified advertising sales house active in the Italian advertising market; RCS can offer to its advertising clients the widest product range, covering press to magazines, radio to outdoor and even some TV thematic channels.

In June 2001, RCS acquired a 51% stake in Blei, which buys advertising in foreign media on the part of Italian clients. As leading company, Blei has been active in the advertising sector for Italian companies in foreign media in the last 40 years. The company is the Italian leader in buying advertising internationally in 450 newspapers, 51 television broadcasting networks and 32 radio stations and represents 46% of the foreign advertising market. In 2000 Blei reported net sales of Euro 34.8m, EBIT of Euro 1.9m and a net profit of Euro 1m. The company started to be consolidated in the RCS accounts from H2 2001. This acquisition permitted RCS Pubblicità to become leader in the advertising of Italian companies in foreign media, a market in which it has already been active for years in Italy with the sale of advertising space in *El Mundo* and other magazines published internationally by the group.

Outdoor advertising IGP–JC Decaux

Starting from 1999 with the acquisition of 50% of IGP, the leading company for outdoor advertising, RCS then decided to merge this activity with the Italian branch of JC Decaux, one of the world leaders in the outdoor market. The new company IGP-JC Decaux is 66.65% controlled by the holding company RCS international Advertising, which in turn is 51% controlled by RCS Editori. The du Chène de Vère family owns the remaining 49% of RCS international Advertising.

Figure 46: **IGP-JC Decaux shareholder structure**

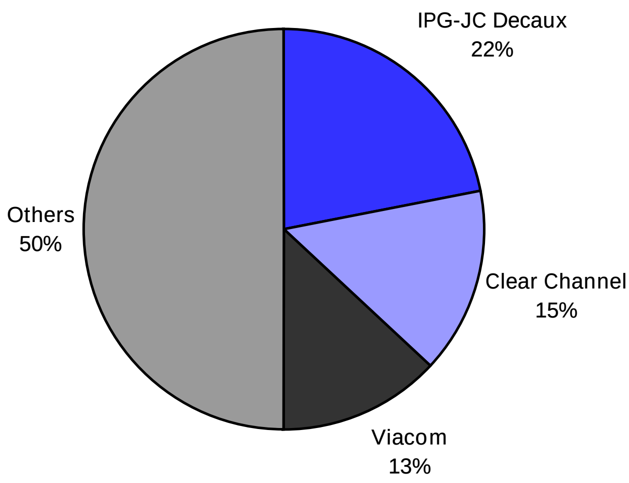


Source: Company data

IGP-JC Decaux is the leader in Italian outdoor advertising with a market share of 22%, followed by Clear Channel with 15% and Viacom with 13%.

The Italian outdoor market remains highly fragmented, with the three main leaders accounting only for 50% for the market. The agreement signed between RCS and JC Decaux gives the latter the option to increase its stake in IGP-JC Decaux to up to 49% in the following three years through capital increases. This will allow IGP-JC Decaux to grow and give it the resources to increase its market share through acquisitions.

Figure 47: **Italian outdoor advertising: competitors market share (%)**



Source: Deutsche Bank estimates

Forecasts for the advertising business unit

For 2002 we are expecting RCS Pubblicità to register a total sales increase of 2.6% to Euro 678.7m, thanks to the full year consolidation of Blei, the strong increase in free press advertising sales and the consolidation of the new outdoor advertising company IGP-JC Decaux. Newspaper and magazine advertising should decline by 5.5% and 13.3% respectively.

In 2003 RCS Pubblicità should post an increase in sales of 8.2% YoY, higher than our estimate for the Italian advertising market (+4.7% YoY). This will be thanks to the strong increase in free press revenues, the direct sales of advertising for the magazines *Anna*, *Oggi*, *Salve*, *Novella 2002* and *Visto*, and to its leadership in the national newspaper and outdoor market. In 2003 we expect the EBITDA margin to expand from the 2.1% we are estimating in 2002, rising to 4.2% in 2003. This 2003 expansion in the EBITDA margin should be achieved in part thanks to the strong restructuring and integration programme taking place in 2002 following the acquisitions made in the years 1999-2001.

Table 31: **RCS Pubblicità: division main figures (Euro m)**

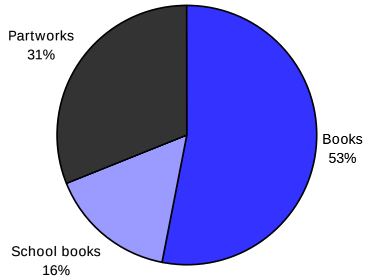
	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Total sales	661.5	678.7	2.6	734.3	8.2	774.0	5.4
- Newspapers	360.8	341.1	-5.5	363.9	6.7	382.0	5.0
- Magazines	208.8	181.1	-13.3	188.7	4.2	196.6	4.2
- Free Press	1.9	17.4	n.m.	33.1	89.7	36.5	10.5
- Outdoor	59.7	85.2	42.7	92.4	8.5	100.3	8.5
- Blei	18.4	38.6	n.m.	40.3	4.3	42.0	4.3
- Other revenues	11.9	15.2	27.7	15.9	4.3	16.5	4.3
EBITDA	28.8	14.0	-51.4	30.8	120.3	35.6	15.5
- EBITDA margin %	4.4	2.1		4.2		4.6	
Depreciation	9.7	8.3		8.6		8.7	
EBITA	18.5	5.0	-73.0	22.2	n.m.	26.9	21.0
- EBITA margin %	2.8	0.7		3.0		3.5	
Goodwill	3.5	6.0		6.0		6.0	
EBIT	15.0	-1.0	n.m.	16.2	n.m.	20.9	28.7
- EBIT margin %	2.3	-0.1		2.2		2.7	

Source: Company data; Deutsche Bank estimates

RCS books' business unit – RCS Libri

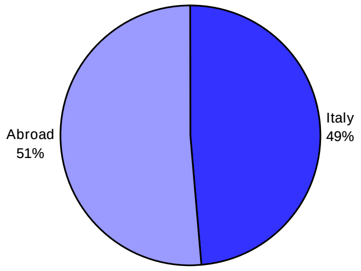
There are three main production divisions of RCS Libri: books (trade), school books and partworks. In 2001 the total revenues of this division amounted to Euro 621m, of which books accounted for 53%.

Figure 48: **RCS Libri: divisional breakdown by revenues (%)**



Source: Company data

Figure 49: **RCS Libri: divisional breakdown by country (%)**



Source: Company data

The book (trade) division

In 2001 the book (trade) division registered consolidated sales of Euro 329.4m, of which Euro 101.2m derived in Italy and Euro 228.2m abroad.

The Italian book (trade) division

RCS Libri is No. 2 in the Italian book sector with a 2001 market share of 18.3% (16.4% in 2000). In 2001, the four major Italian book publishers had a market share of 63.8% vs. 54.3% in 1996.

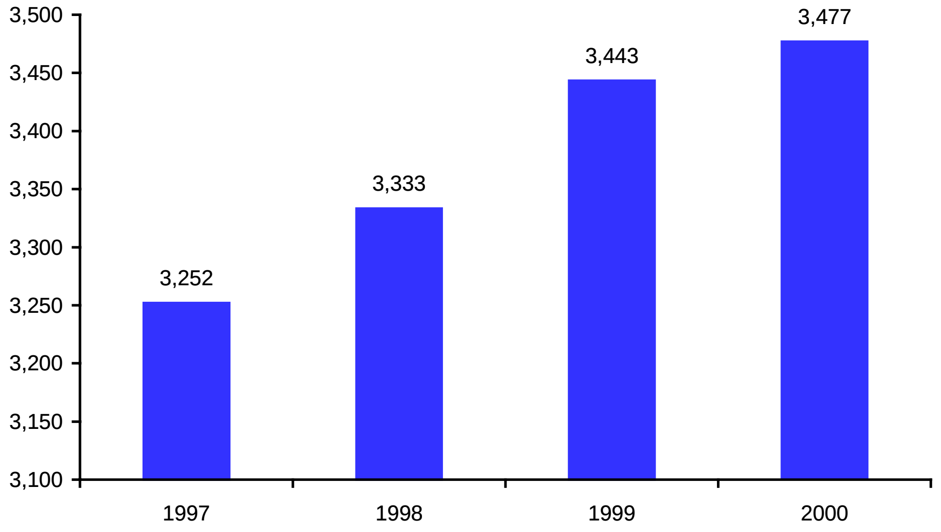
Table 32: **Italian book sector: major players (%)**

	1996	1997	1998	1999	2000	2001
Mondadori Group	32.5	32.4	31.8	31.4	31.0	30.7
Rizzoli Group	12.4	12.0	15.5	16.1	16.4	18.3
Longanesi Group	7.4	7.9	9.6	8.8	9.3	9.5
Feltrinelli	4.5	4.5	5.1	4.8	4.2	5.3
Others	43.2	43.2	38.0	38.9	39.1	36.2

Source: Demoskopea

In recent years the Italian book market has shown a growth trend in line with the economy; in 2001 the increase was limited to 1%.

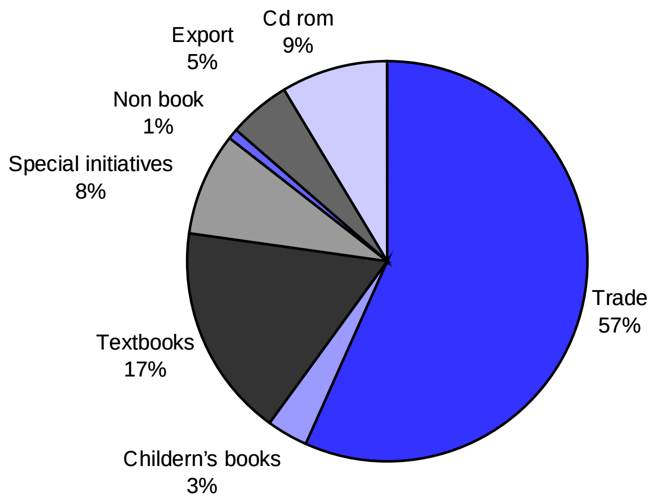
Figure 50: **Italian book market**



Source: AIE 2001

In 1999, the total Italian book market (books and electronic publishing products) was worth Euro 3,443.2m, up 3.3%; in 1998 the increase was 2.5%. The main growth driver was digital format products (+19.8% in 1999 YoY) rather than traditional books, which are growing just above the level of inflation.

Figure 51: **Estimate of market for books and electronic publishing products**



Source: AIE 2000.

In terms of distribution channels, by far the most important are still traditional bookshops, with a 46.8% share; retail chains (supermarkets etc) account for only 4.9%, while distribution via the internet is only just beginning to make an impact (0.1% of the total 1999 market). In recent years the level of competition has risen between large retail stores and traditional bookshops. This has had a beneficial impact on the growth trend of the market. In Italy, the supermarket/hypermarket chain stores still have a market share that lags the European average.

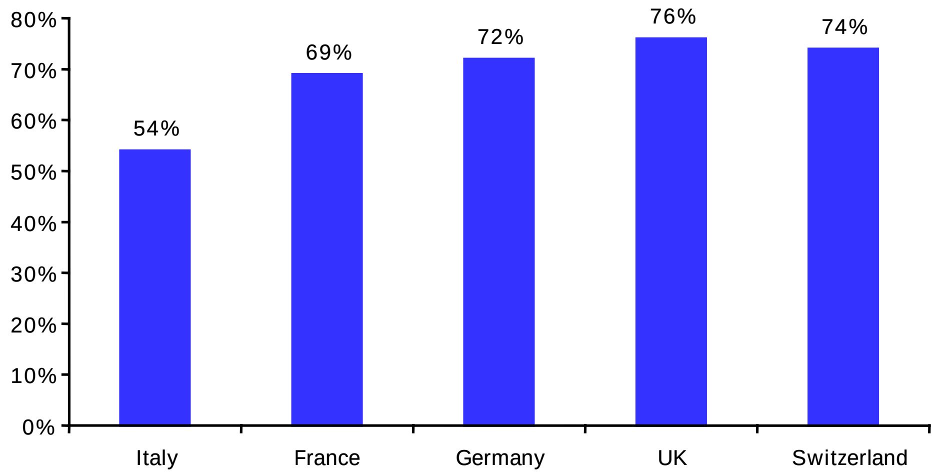
Table 33: **Market share of the book market according to sales channels (%)**

Book shops	46.8
Payments by instalments	12.3
Newsstands	12.2
Mail order	7.2
Export	5.3
Supermarkets/hypermarkets	4.9
Special events	4.9
CD-ROMs	3.9
Sales to public libraries	1.7
Temporary sales outlets	0.4
Museums books shops	0.2
Internet	0.1

Source: AIE 2000

In terms of readers, around 54% of the Italian population reads at least one book per year; included in this estimate are about 13% of readers, the so-called 'light readers', who occasionally read mainly romantic fiction and thrillers or make use of simple handbooks and guidebooks. The 'hard readers', those who read more than three books per year, make up 5-6% of the total population.

Figure 52: **People who read at least one book per year (%) 2000**



Source: AIE 2000

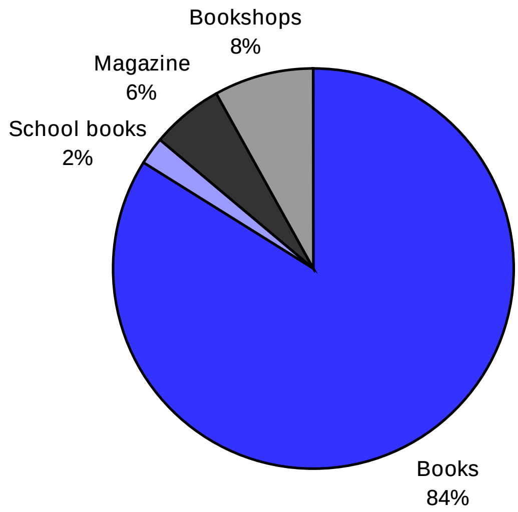
RCS books, fiction and non-fiction, are distributed under several brands of which Rizzoli is the most famous and best-known name world-wide. In addition to the Rizzoli brand, the group controls a number of other brands and publishers including Bompiani, Etas, Fabbri, La Coccinella, La Nuova Idea, La Tribuna, Sansoni, Sonzogno, and Adelphi.

The abroad book (trade) division

From 1962, RCS book activities on the North American market have gradually developed along two main lines: publishing activities in the illustrated book sector and, and the management of its own bookshops. In 2001 the total turnover of the publishing activities was $12.7m, under the Rizzoli Publication and Universe Publishing brand names. Rizzoli Bookstores generated total sales of around $16.9m.

As part of its internationalisation programme, in 2000 RCS Libri acquired Flammarion, the ninth-largest player in the French book market and fifth in fiction and non-fiction. The company also operates in the retail sector, controlling the largest independent bookshop chain in France. Founded in 1876, Flammarion's total turnover in 2001 was Euro 215.9m and EBITDA Euro 21.1m.

Figure 53: **Flammarion: sales breakdown (%)**



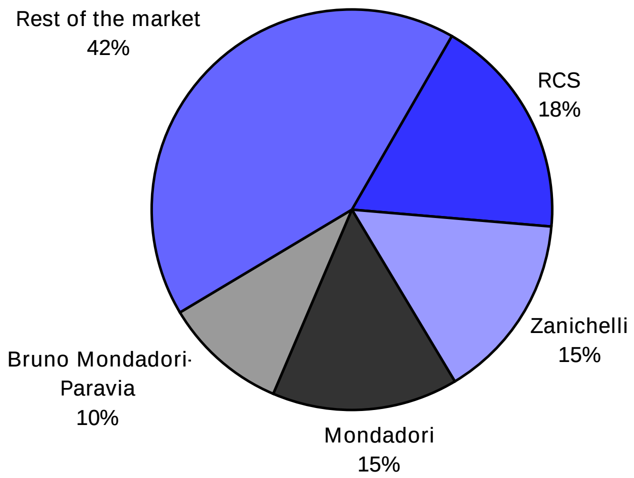
Source: Company data

The Italian school books division

RCS Libri is Italy's top publisher of textbooks, with a market share of 18%, followed by Mondadori and Bruno Mondadori-Paravia with 15% each.

At present, the four leading companies have a market share of approximately 58%. Of the other publishers that operate in the market, only 11 have a market share between 1-6%, (totalling of around 30%). The remaining 17% of the market is shared among 150 niche publishers that produce specific school products or concentrate on particular segments of the market. In our view there is a significant scope for RCS to consolidate the market.

Figure 54: **Market share of the major players in the Educational market(2001)**



Source: AIE 2000; company data, Deutsche Bank estimates

This is the most interesting segment of the book market due to its higher-then-average margins. The textbook market accounts for 17% of the total Italian book market. We are expecting further concentration to take place in the Education sector, due to the increasing investment needed in technology, printing plants, and the prospective increase in demand for digital and web support. RCS's positioning in the Italian textbook market has recently been strengthened with the acquisition of the activities relevant to school books of *Il Sole 24 Ore* Group, present in the market with the brands Calderini and Edagricole.

In 2001 RCS Libri exited the Italian retail segment, selling its network of 37 bookstores to Feltrinelli and retaining just two historical stores in Milan (inside La Galleria Vittorio Emanuele) and in Venice (inside Palazzo Grassi).

Partworks

In 2001 the partworks division registered sales of Euro 195.2m (+9.6% YoY), of which Euro 101.3m was obtained in Italy. Partwork is a niche business and relatively profitable. RCS operates under the Fabbri brand in Italy, Spain, France and UK among the others. In 2001 the Italian market was worth around Euro 400m and RCS Libri ranked number two with a 25-28% market share after De Agostini with around 50%. In the other main European markets, RCS has an 8% market share in Spain, 25% in UK, 7% in France and 14% in Portugal. The company is also present in the Bulgarian, Chinese, German, Hungarian Czech Republic markets.

The outlook & strategies of the books' business unit

We are estimating that the RCS book business unit will post total sales of Euro 678.6m for 2002, up 9.3% on 2001. The strong growth in sales is likely to be mainly obtained thanks to the strong increase in the schoolbook division, due to the acquisition made in 2001 and 2002, and in the partworks segment thanks to some successful launches in Italy and abroad.

For 2002 EBITDA should reach Euro 56.8m (+2.5% vs. 2001); we expect a contraction in the 2002 EBITDA margin on 2001 due to the lower margins of the companies acquired compared to RCS Libri and the strong promotional efforts and investments in the partworks division.

Table 34: **Book division estimates (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Net Sales	621.0	678.6	9.3	700.7	3.3	734.4	4.8
Total Trade books	329.4	337.1	2.3	345.1	2.4	353.3	2.4
- Trade books Italy	101.2	102.8	1.6	105.0	2.1	107.2	2.1
- Trade books abroad	228.2	234.2	2.7	240.1	2.5	246.1	2.5
Education books	99.1	109.6	10.6	117.8	7.5	126.7	7.5
Partworks	192.5	222.3	15.5	237.8	7.0	254.5	7.0
- Partworks (Italy)	101.3	111.9	10.5	119.2	6.5	127.0	6.5
- Partworks (abroad)	91.2	110.4	21.0	118.6	7.5	127.5	7.5
EBITDA	55.4	56.8	2.5	61.7	8.6	67.6	9.6
- EBITDA margin %	8.9	8.4		8.8		9.2	
Depreciation	17.1	17.0		17.2		17.4	
EBITA	38.3	39.8	3.9	44.5	11.7	50.2	12.8
- EBITA margin %	6.2	5.9		6.3		6.8	
Goodwill	11.7	12.8		12.8		12.8	
EBIT	26.6	27.0	1.5	31.7	17.3	37.4	18.0
- EBIT margin %	4.3	4.0		4.5		5.1	

Source: Company data, Deutsche Bank estimates

The EBIT margin of the RCS books business unit seems quite low compared to the Mondadori books division; according to our estimates, in 2002 Mondadori should post a 2002 EBIT margin of 10.4% from 9.8% in 2001. In the case of this RCS business unit we see a possibility to integrate the numerous books corporate identities and obtain significant synergies and improvements in margins.

The Radio business unit

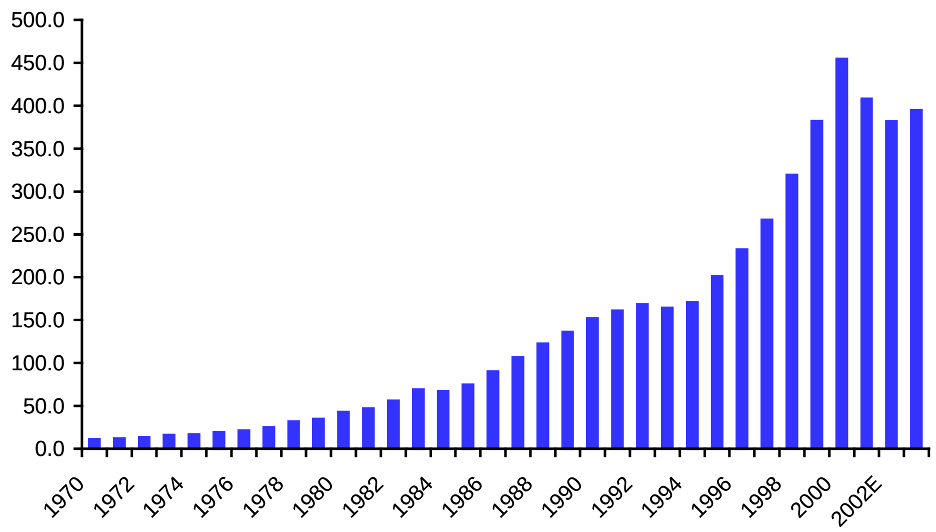
The Italian radio market

The Italian radio market remains highly fragmented (especially at a local level), despite a decline in the number of station networks from more than 5,000 in the mid-80s, to around 1,000 at present. Four of Italy's national station networks are state-owned (Radiouno, Radiodue, Radiotre and Isoradio), 14 are commercial national radio networks, six are syndicated, seven are superstations (supra-regional) and the tail-end is made up of regional and local stations.

The national networks cover the whole of Italy; syndicated networks are formed by a pool of local-regional radio stations, with one station in charge of delivering a specified and limited level of content (mainly national news) to all stations making up the syndicate. Very often the syndicate "head" collects a limited quantity of advertising for the entire pool.

Between 1990 and 2000, Italian radio advertising grew at an average 11.8% a year. In common with other European markets, 2000 was a strong year for Italian radio advertising, which increased by 20.6%. In 2001 the Italian radio advertising decreased by 11.7% and for 2002 we are expecting a further decline of 6.5%.

Figure 55: **Italian radio advertising market (Euro m)**



Source: Media Key, Deutsche Bank estimates

Radio's share of advertising expenditure

Table 35: **Breakdown of Italian advertising (%)**

	1996	1997	1998	1999	2000	2001
Newspaper	21.4	21.7	22.1	22.6	22.9	22.3
Magazines	15.6	14.9	14.9	14.7	14.6	15.7
TV	54.3	54.2	53.3	52.6	52.1	51.7
Radio	4.5	4.7	5.1	5.5	5.7	5.3
Outdoor	3.8	4.0	4.1	4.1	4.0	4.3
Movies	0.4	0.4	0.6	0.6	0.6	0.7
Total	100	100	100	100	100	100

Source: Media Key

Italian radio has increased its share of total advertising expenditure over the past decade. According to Media Key data, in 2001 radio accounted for 5.3% of total advertising, compared to just 3.6% in 1990. Radio has taken market share from television and magazines.

We believe there is scope for Italian radio to increase its reach and its share of total advertising. This can be achieved by improving the quality of the transmission signal, a rationalisation of the frequencies' ownership, better content quality and more targeted and niche radio stations.

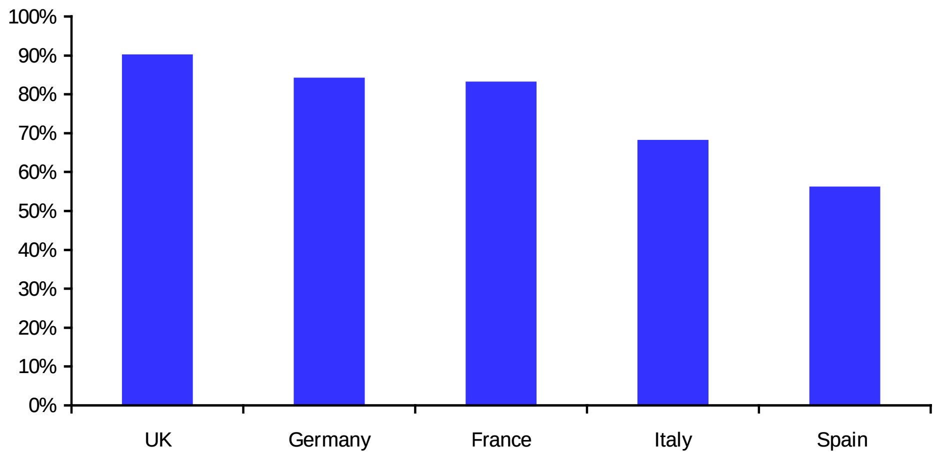
Although radio has increased its share of adspend to 5.3%, it remains relatively low compared to some other major European markets, such as France and Spain, where radio accounts for 7.2% and 8.4% of adspend respectively.

A key driver behind the growth of European radio has been the publication of independent audience measurement data. Audience data is essentially the currency that radio companies use with advertisers and without this data companies are unable to provide reliable details of the reach of networks or to demonstrate the performance of their stations. Authoritative radio listening figures for the Italian market only started being published from 1996, but only from 1998 has audience data been accepted by the Italian Advertisers Association (UPA). Prior to this, it was not possible to analyse the performance of Italian radio stations, which we believe impeded the growth of Italian radio advertising.

Audience penetration

The proportion of people who listen to radio in Italy is among the lowest in Europe, with radio reaching around 68% of the population, compared to an average of 74% across Europe. However, commercial radio listening has been growing. In 2000 the Italian commercial stations accounted for around 53% of total listening compared to 48% in 1997.

Figure 56: **Radio audience penetration 1999 (% of adult population)**



Source: Radio 2000, European Key facts, CLT-UFA, EGM

The Rizzoli's radio business unit: Sper

At the end of February 2002, HdP acquired part of Il Sole 24 Ore's radio activities, grouped under the subsidiary Sper, for a total of Euro 44.5m. The Sper group comprises:

1. Radio Italia Network, one of the leading Italian radio stations with an average audience of more than 2 million daily listeners. The station targets listeners aged between 15-and 28-years old.

2. CNR, a syndication that is composed of 68 regional broacasting stations with more than two million listeners on an average day. The station targets listeners aged between 18- and 35-years old.

3. AGR, a radio press agency.

The consolidated revenues of the Sper Group for the year 2001 amounted to about Euro 26.3m, with a EBIT loss of 4.7m.

Forecasts

We estimate that Sper net revenues will decline by 5.9% in 2002 at Euro 24.7m, of which advertising revenues should decrease by 6.5%. We are expecting the radio division to break even at EBITA level between 2004 and 2005.

Table 36: **Radio division estimates (Euro m)**

	2001	2002E	YoY %	2003E	YoY %	2004E	YoY %
Net revenues	26.3	24.7	-5.9	26.0	5.0	27.9	7.4
- advertising revenues	21.6	20.2	-6.5	21.2	5.2	22.8	7.5
- other revenues	4.7	4.5	-3.4	4.7	4.2	5.1	7.2
EBITDA	-2.0	-3.1	n.m.	-0.9	n.m.	2.1	n.m.
EBITDA Margin %	-7.6	-12.5		-3.5		7.5	
Depreciation	1.9	2.2		2.4		2.5	
EBITA	-3.8	-5.3	n.m.	-3.3	n.m.	-0.4	n.m.
- EBITA Margin %	-14.4	-21.4		-12.7		-1.4	
Goodwill	0.9	0.9		0.9		0.9	
EBIT	-4.7	-6.2	n.m.	-4.2	n.m.	-1.3	n.m.
EBIT Margin %	-17.9	-25.1		-16.2		-4.7	

Source: Company data, Deutsche Bank estimates

We think the current RIN audience share and target is similar to the one reached and targeted by the successful Espresso Group Radio DJ five to ten years ago. So we see the possibility in five to seven years time of RIN reaching the 46% EBITDA margin that we are forecasting for Radio DJ in 2002.

Table 37: **Italian Radio Audience (x000)**

	1998	1999	2000	2001	Q1 2002	Q2 2002
Italian Population	51,240	51,499	51,548	51653	51,800	51,800
Average listeners	35,523	34,971	35,084	34,998	35,599	35,655
RadioUno	8,388	7,997	7,876	7,969	7,984	8,016
RadioDue	6,086	5,684	5,410	5,276	5,337	5,397
Radio DeeJay	4,268	4,657	5,782	5,558	5,249	5,286
Rtl 102.5 Hit Radio	4,161	4,464	4,619	4,398	4,166	4,364
RDS Radio Dimensione Suono	5,057	4,707	4,536	4,051	4,009	4,191
Radio Italia Solo Musica Italiana	4,068	3,802	3,773	4,004	3,930	3,961
Radio 105 Network	3,416	3,362	3,266	3,333	3,246	3,353
Radio Montecarlo	2,189	2,270	2,223	2,245	2,186	2,212
RadioTre	1,845	1,768	1,735	2,011	1,996	2,091
Radio Italia Network (RIN)	1,575	1,339	1,463	2,012	1,997	2,017
Radio Capital	660	902	1,210	1,390	1,416	1,701
Radio Maria	1,734	1,749	1,746	1,667	1,589	1,609
Isoradio	1,212	1,380	1,397	1,441	1,526	1,607
One O One Network	1,177	1,131	1,145	1,108	1,036	1,035
Radio Kiss Kiss Network	1,160	1,050	977	961	1,042	994
Radio Radicale	613	579	533	501	472	478

Source: Audiradio

DADA

HdPnet, the new media company of HdP group, was established on 24 November 2000 by HdP, whose interest equals 60%, together with RCS (20%), Fila (10%) and GFT NET (10%).

HdPnet has been operating since the first months of 2001; in February 2001 it acquired a 30.24% stake in Wall Street Italia, a US company that publishes Wall Street Italia.com and Wall Street Europe.com, two information websites on economics and finance.

At the beginning of October 2002, HdP completed the transfer to DADA of 100% of the shares of HdPnet. The operation took place through a capital increase, with the exclusion of the option right, and with the issue of 2,417,957 new DADA shares – with a value amounting to Euro 9.3 per share.

DADA is one of the leading Italian Internet companies listed on the Italian *Nuovo Mercato* stock exchange. The company focuses on the entire Internet value chain. DAD targets a broad range of customers from residential to big corporate accounts. The company's activities are now centred on three main business areas: ISP/portal (e-community), medium sized accounts ("one2manny") and big accounts ("one2one")

The value attributed in the transaction to HdPnet (the holder of Concento.it portal and active in the production and marketing of publishing contents and in the delivery of services and solutions through the Internet and/or wireless technology) was Euro 22.5m, which, adjusted for the Euro 14.4m in net cash transferred to DADA, translates to an enterprise value of Euro 7.6m and an EV/Sales multiples of 4x. For the whole financial year 2002 HdPnet expects revenues of around Euro 2m.

We are particularly positive about this deal for HdP, because it allows the company to sell its cash-destroying Internet division and be rid of a business in which its know-how was extremely limited. Furthermore HdP has acquired a stake in one of the leading Italian Internet companies, which will contribute to the development of the Rizzoli group on-line media activities.

Additionally, the creation of a new joint venture is currently being studied in order to provide a common advertising sales house for on-line advertising collection deriving from the joint activities of dadAD (internal dealer of DADA) and of RCS Pubblicità.

The shareholder structure of DADA at the end of the operation will be approximately composed as follows: Founding Partners and Management 20%, Monrif Group 20%, HdP 15.4%, PPE 8%, MPS Group 5%; free float 31.6%. The share of DADA received by HdP will be subject to a one-year lock-up period.

Fila

Fila, directly and indirectly, controls 33 companies spread throughout 19 countries. These companies are active in the creation, development and distribution of sportswear and footwear through the Fila, Ciesse and Enyce brands.

In 1988 Fila was taken over by Gemina; in 1993 saw the parent company Fila Holding S.p.A. listed on the New York Stock Exchange, thus reducing its own interest to 53.4%. In 1997 control of Fila passed to HdP, which now holds 71.93% of the share capital.

On 23 September 2002, the extraordinary shareholder meeting approved:

1. The use of reserves and a capital stock reduction (effected by reducing the par value of Fila's stock from Euro 1.3 to Euro 0.5 per share) to address losses.

2. A reserve stock spilt of two ordinary shares with the reduced par value of Euro 0.5 each, into one share with a par value of Euro 1.00.

3. A share capital increase of up to 91,665,618 new ordinary shares with a par value of Euro 1.00 each. Holders will receive the right to purchase 3 ordinary shares or ADSs at a subscription price of Euro 1.60 each for every ordinary share.

HdP has indicated it will fully subscribe its 71.93% portion of the share capital. If the offer is fully subscribed the total capital increase will be equal to Euro 146.7m. HdP's part in the capital increase will be equal to Euro 105.5m. If the other shareholders do not take part in the capital increase, HdP will own 91.11% of Fila and the free float will be reduced to 8.89%.

Table 38: **Fila shareholder capital**

	Total	HdP	Floating
Initial n° of shares	61,110,412	43,956,271	17,154,141
N° of share after stock split	30,555,206	21,978,136	8,577,071
New share issued w. cap. Increase	91,665,618	65,934,407	25,731,212
Total shares after cap. increase	122,220,824	87,912,542	34,308,282
Tot. shs. after cap. incr. (only HdP participating)	96,489,613	87,912,542	8,577,071

Source: Company data; Deutsche Bank estimates

GFT NET: Joseph Abboud is the only remaining asset

In 1999 GFT NET (Gruppo Finanziario Tessile) was the number one manufacturer of branded apparel in Europe and one of the most important in the world.

From 2001, in line with HdP's change of strategy – to focusing only on its media activities – the disposal process of all GFT activities began.

Table 39: **GFT disposals**

Date	Asset disposed	Acquirer	Value (Euro m)
Oct-02	Facis	Mediconf	14.2
Sep-02	Tianjin Jin Tak Garments Co. LTD	Ample Sino Investments	0.4
May-02	Valentino	Marzotto	240
Feb-02	Rivedi	Mariella Burani	3.7
Feb-02	Termination of the license with Calvin Klein		-
Dec-01	Settimo Torinese (real estate property)	n.a.	5.0
Dec-01	Torino - C.so Emilia (real estate property)	n.a.	14.5
Oct-01	Sahza	Mariella Burani	2.9
Sep-01	Bosconero	Cerruti Holding	1.0

Source: Company Data

At present the only remaining asset is Joseph Abboud. Joseph Abboud is one the most famous and successful brands of American menswear and characterised by a strong Anglo-American imprint (in both the materials and colour mix). In June 2000 GFT Net acquired the brands and the licence registered in the name of Joseph Abboud, and of its company Houndstooth Corp. in exchange for a total amount of $65m.

In 2001 Joseph Abboud registered total sales of $76.1m, EBITDA of $32.1m and EBIT of $3.7m. In H1 2002 the company reported an increase in total sales of 6.5% to $40.9m and 60% increase in EBIT from $3.4m in H1 2001 to $5.5m in H1 2002. For the FY 2002 we forecast total revenues of $80.7m and an EBIT of $6m. Based on peer multiples (we used Hugo Boos and Escada), we reach a total valuation for Joseph Abboud of $54.2m, equal to 0.67x 2002E total sales and 9.0x 2002E EBIT.

Table 40: **Joseph About P&L ($ m)**

	2000	YoY %	2001	YoY %	2002E
Total sales	81.0	-6.0	76.1	6.1	80.7
EBITDA	33.4	-3.9	32.1	6.9	34.3
- EBITDA margin %	41.2		42.2		42.5
EBIT	8.3	-55.4	3.7	62.2	6.0
- EBIT margin %	10.2		4.9		7.4

Source: Company data; Deutsche Bank estimates

HdP shareholder pact

HdP is controlled by a shareholder pact representing 44.883% of the ordinary share capital and 43.151% of the total capital.

The syndicate expires on 1 July 2004 and members can withdraw by 30 June 2004. The pact will be automatically renewed for three years if there is no notification otherwise to the HdP Chairman.

The shareholders have pre-emption rights; the transfer prices are settled as a simple average trading price of the 45 days prior to the announcement and the 30 days thereafter.

On 22 May 2002 Mr. Valentino decided to withdraw from the pact and at present he, through Valint BV, owns 8.6m of shares, equal to the 1.178% of the ordinary share capital.

Table 41: **HdP shareholder pact**

Shareholders	Number of shares locked in the shareholder agreement	% of tot ordinary shares
Sicind	74,653,104	10.210
Mediobanca	68,570,274	9.378
Gemina Spa	67,317,576	9.206
Generali	18,584,423	2.542
Italmobiliare	18,553,314	2.537
Italcementi	16,583,905	2.268
Pirelli & C	13,914,758	1.903
IntesaBCI	13,893,516	1.900
Sinpar	13,744,887	1.880
SMEG Intl	8,620,924	1.179
Montedison	7,333,092	1.003
Mittel	6,416,657	0.878
Total shareholders agreement	328,186,430	44.883
Total ordinary shares	731,210,207	
Total savings shares	29,349,593	
Total shares (ord. + sav.)	760,559,800	

Source: Consob; Company data

In the last few months new stable shareholders have appeared. The most important is Premafin, which following the merger between Sai and Fondiaria, now controls 5.11% of HdP's ordinary shares. At the beginning of September Mr. Ligresti, the major shareholder of Premafin, asked to enter the HdP shareholder pact, but the Direction of HdP's Syndicate did not consider the current conditions to be suitable for the enlargement of the pact.

Another main shareholder is the Caltagirone Editore, an Italian listed publishing company, which is controlled by Mr. Francesco Gaetano Caltagirone. At present Caltagirone Editore holds 2.041% of HdP.

Taking into consideration the shares owned by HdP, the total free float is now equal to 44.731% of the ordinary capital.

Table 42: **HdP current shareholders**

Shareholders	N° of ordinary shares owned	% of tot ord. Shares
Total Syndicate Pact	328,186,430	44.883
Valint BV	8,613,969	1.178
Premafin (Sai - Fondiaria)	37,364,842	5.110
HdP (treasury stocks)	15,040,994	2.057
Caltagirone Editore	14,924,000	2.041
Total stable shareholders	404,130,235	55.269
Free float on ordinary shares	327,079,972	44.731

Source: Consob

Appendix

Table 43: **HdP main data (Euro m)**

	1997	1998	1999	2000	2001	2002E	2003E	2004E
Profit & Loss								
Total sales	3,416.3	3,179.9	3,155.1	3,357.7	3,357.2	3,180.0	3,294.5	3,401.2
Cost of goods sold	-2,605.0	-2,505.3	-2,376.9	-2,582.5	-2,655.4	-2,537.7	-2,608.6	-2,687.7
Labour costs	-553.4	-583.0	-572.2	-573.8	-585.6	-523.2	-502.1	-504.6
EBITDA	257.8	91.6	206.1	201.4	116.2	119.1	183.8	208.9
Depreciation & Provisions	-96.6	-111.3	-108.6	-104.2	-99.2	-89.7	-93.8	-95.6
EBITA	161.2	-19.8	97.4	97.2	17.0	59.8	120.5	143.8
Goodwill amortisation	-25.0	-40.2	-44.2	-40.6	-50.0	-30.4	-30.5	-30.5
Other income (costs)	38.7	37.7	15.8	-8.0	1.0	5.7	14.2	16.2
Net Financial income (charges)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary Items	-9.1	112.8	100.2	82.1	-127.5	31.5	-34.0	-10.0
Pre-tax Profit (loss)	153.0	71.7	145.0	107.0	-210.9	12.0	28.4	84.1
Tax	-17.7	-36.4	-111.6	-94.0	-50.7	-60.2	-47.1	-67.7
Tax-rate (%)	11.5	50.8	77.0	87.9	-24.0	500.8	165.6	80.5
Minorities	-29.6	52.5	16.6	26.5	29.5	13.2	17.2	12.4
Stated Net Profit	105.7	87.8	49.9	39.5	-232.1	-35.0	-1.5	28.8
Cash Flow								
Net Profit + Minorities	135.3	35.3	33.4	13.0	-261.6	-48.2	-18.7	16.4
Depreciation & Provisions	96.6	111.3	108.6	104.2	99.2	89.7	93.8	95.6
Goodwill amortisation	25.0	40.2	44.2	40.6	50.0	30.4	30.5	30.5
Change in NWC	-851.7	149.2	-78.9	-5.1	29.9	47.0	-30.4	-28.4
Operational Cash Flow	-594.7	336.0	107.3	152.7	-82.5	118.9	75.3	114.1
Capital expenditure + Fin. inv.	121.3	387.6	40.0	79.5	136.4	-5.1	58.0	61.0
Dividend paid	0.0	23.2	23.2	30.8	31.0	0.0	0.0	0.0
Others	383.3	159.0	70.6	275.9	-52.2	61.6	28.8	24.3
Net cash flow	-1,099.3	-233.7	-26.4	-233.5	-197.7	62.4	-11.5	28.8
Balance Sheet								
Net tangible fixed assets	408.7	402.2	394.7	290.1	333.1	338.9	333.8	333.0
Net intangible fixed assets + Inv.	416.6	823.1	821.2	1,043.3	1,010.2	911.4	884.4	854.4
Total Net fixed assets	825.4	1,225.3	1,215.9	1,333.3	1,343.3	1,250.3	1,218.2	1,187.4
Net working capital	851.7	702.4	781.3	892.9	892.5	845.5	875.9	904.3
Capital invested	1,677.0	1,927.8	1,997.2	2,226.2	2,235.8	2,095.8	2,094.1	2,091.7
(Sev. ind. fund and others)	-311.7	-327.9	-356.7	-365.6	-425.6	-396.2	-401.6	-411.5
Net Capital invested	1,365.3	1,599.8	1,640.5	1,860.6	1,810.2	1,699.6	1,692.5	1,680.1
Net Equity	1,171.2	1,333.8	1,375.5	1,389.5	1,138.8	1,103.8	1,102.3	1,131.2
Minorities	160.3	96.6	84.1	62.0	77.0	63.8	46.6	34.2
Net debt (cash)	33.9	169.5	180.9	409.1	594.4	532.0	543.6	514.8
Tot. shares outstanding (m)	2,925.4	2,925.4	2,925.4	2,925.2	760.6	760.6	760.6	760.6
Market capitalisation	1,343.6	1,999.8	1,799.8	4,097.6	3,038.0	1,553.3	1,553.3	1,553.3
Enterprise value	1,236.1	1,832.4	1,585.2	4,063.4	3,413.1	1,840.2	1,842.2	1,814.4

Source: Company data, Deutsche bank estimates

Table 44: **HdP ratios and momentum (%)**

	1997	1998	1999	2000	2001	2002E	2003E	2004E
Ratios								
EBITDA margin	7.5	2.9	6.5	6.0	3.5	3.7	5.6	6.1
EBIT margin	4.7	-0.6	3.1	2.9	0.5	1.9	3.7	4.2
ROI	11.8	n.m.	5.9	5.2	0.9	3.5	7.1	8.6
ROCE	8.8	n.m.	6.1	6.1	1.1	3.7	7.1	8.2
ROE	17.9	7.4	3.8	2.9	n.m.	n.m.	n.m.	2.6
Debt/Equity	0.03	0.12	0.12	0.28	0.49	0.46	0.47	0.44
Payout	22.0	26.5	61.7	78.5	0.0	0.0	0.0	0.0
Momentum								
Sales growth	n.a.	-6.9	-0.8	6.4	-0.0	-5.3	3.6	3.2
EBITDA growth	n.a.	-64.5	125.1	-2.3	-42.3	2.5	54.3	13.6
EBIT growth	n.a.	n.m.	n.m.	-0.2	-82.5	251.9	101.5	19.3
Net profit growth	n.a.	-17.0	-43.1	-20.9	n.m.	n.m.	n.m.	n.m.
Net profit adj growth	n.a.	-24.1	21.5	-3.7	-80.4	58.2	248.6	17.9
Cash flow growth	n.a.	5.3	-15.3	-9.1	n.m.	n.m.	44.3	26.1
Dividend growth	n.a.	0.0	32.5	0.7	-100.0	n.a.	n.a.	n.a.

Source: Company data, Deutsche bank estimates

Table 45: **RCS main data (Euro m)**

	1997	1998	1999	2000	2001	2002E	2003E	2004E
Profit & Loss								
Total sales	1,278.6	1,429.3	1,545.3	1,753.9	2,015.0	2,110.6	2,217.4	2,315.4
Cost of goods sold	-877.8	-980.9	-1,062.9	-1,251.2	-1,487.2	-1,577.4	-1,640.9	-1,709.8
Labour costs	-270.9	-285.4	-301.9	-321.7	-362.3	-372.4	-381.8	-390.5
EBITDA	129.9	163.0	180.5	181.0	165.5	160.7	194.7	215.0
Depreciation & Provisions	-68.5	-69.3	-72.1	-64.0	-60.2	-60.0	-64.3	-67.4
EBITA	61.4	93.7	108.4	117.0	105.3	100.8	130.4	147.6
Goodwill amortisation	-2.6	-5.5	-6.7	-10.0	-17.6	-21.1	-21.1	-21.1
Other income (costs)	2.3	3.3	1.0	2.2	-11.5	1.8	1.9	2.0
Net Financial income (charges)	-12.5	-5.3	-2.4	-4.5	-11.1	-11.7	-10.7	-9.2
Extraordinary Items	-1.8	9.5	74.9	46.5	-5.3	23.0	0.0	0.0
Pre-tax Profit (loss)	46.9	95.6	175.2	151.2	59.8	92.8	100.5	119.3
Tax	-4.6	-30.5	-75.0	-48.7	-47.9	-40.6	-40.0	-43.9
Tax-rate (%)	9.8	31.9	42.8	32.2	80.1	43.8	39.8	36.8
Minorities	-5.9	-4.7	-8.2	-6.2	-8.7	-6.7	-8.2	-9.1
Net Profit	36.4	60.4	92.1	96.4	3.2	45.5	52.3	66.3
Adj. Net Profit	21.0	43.4	48.0	54.0	34.7	41.0	55.6	64.6
Cash Flow								
Net Profit + Minorities	42.3	65.1	100.3	102.6	11.9	52.2	60.5	75.4
Depreciation & Provisions	68.5	69.3	72.1	64.0	60.2	60.0	64.3	67.4
Goodwill amortisation	2.6	5.5	6.7	10.0	17.6	21.1	21.1	21.1
Change in NWC	59.4	29.7	-60.2	-88.2	-31.1	-11.6	-29.3	-19.5
Operational Cash Flow	172.8	169.5	118.9	88.3	58.6	121.6	116.6	144.4
Capital expenditure + Fin. inv.	36.6	45.3	43.9	94.8	90.8	82.5	86.0	91.0
Dividend paid	0.0	0.0	0.0	116.2	100.0	0.0	0.0	7.5
Others	47.7	35.1	26.6	97.2	36.7	-12.6	-12.3	-11.4
Net cash flow	88.6	89.1	48.3	-219.9	-169.0	51.7	42.9	57.3
Balance Sheet								
Net tangible fixed assets	194.9	186.3	173.4	63.9	104.8	127.7	150.9	175.9
Net intangible fixed assets + Inv.	38.2	65.4	91.3	360.7	331.2	309.8	287.2	264.7
Total Net fixed assets	233.1	251.7	264.8	424.6	436.0	437.5	438.1	440.6
Net working capital	265.1	235.4	295.6	383.8	462.2	473.8	503.1	522.6
Capital invested	498.1	487.1	560.4	808.5	898.2	911.3	941.1	963.2
(Sev. ind. fund and others)	-223.9	-242.1	-267.4	-311.6	-307.5	-320.1	-333.6	-346.0
Net Capital invested	274.2	245.0	293.0	496.9	590.7	591.2	607.6	617.2
Net Equity	61.8	110.1	181.4	236.4	187.1	232.6	284.9	343.7
Minorities	11.4	10.9	15.0	18.8	40.5	47.2	54.2	62.3
Net debt (cash)	201.0	124.0	96.5	241.7	363.1	311.4	268.5	211.2

Source: Company data, Deutsche bank estimates

Table 46: **RCS ratios and momentum (%)**

	1997	1998	1999	2000	2001	2002E	2003E	2004E
Ratios								
EBITDA margin	10.2	11.4	11.7	10.3	8.2	7.6	8.8	9.3
EBIT margin	4.8	6.6	7.0	6.7	5.2	4.8	5.9	6.4
ROI	22.4	38.3	37.0	23.5	17.8	17.0	21.5	23.9
ROCE	15.1	32.9	35.0	60.6	25.3	22.3	25.4	26.2
ROE	86.2	89.1	79.7	72.0	2.3	21.8	22.2	23.2
Debt/Equity	2.74	1.03	0.49	0.95	1.60	1.11	0.79	0.52
Payout	0.0	0.0	126.2	103.7	0.0	0.0	14.3	11.3
Momentum								
Sales growth	4.0	11.8	8.1	13.5	14.9	4.7	5.1	4.4
EBITDA growth	11.5	25.4	10.8	0.2	-8.5	-2.9	21.2	10.4
EBIT growth	108.9	52.6	15.7	7.9	-10.0	-4.3	29.4	13.2
Net profit growth	4333.9	66.1	52.4	4.7	-96.7	1321.6	15.0	26.7
Net profit adj growth	n.m.	106.6	10.6	12.4	-35.7	18.1	35.7	16.1
Cash flow growth	18.4	25.7	26.4	-0.3	-52.4	56.2	8.8	12.4

Source: Company data, Deutsche bank estimates

Disclosures

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